

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

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
WITH INDEPENDENT AUDITORS' REPORT
THEREON**

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**COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF SONOMA
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FOR THE YEAR ENDED JUNE 30, 2010**

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C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Community Development Agency of the City of Sonoma (the "Agency"), a component unit of the City of Sonoma, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund information of Community Development Agency of the City of Sonoma, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing 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 13 and 32 through 34 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.

C. D. Yalenberg LLP

December 9, 2010
Redwood City, California

Management's Discussion and Analysis

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

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

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

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

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

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

- Firehouse Village (30 affordable rental units)
- Sonoma Creek Senior Housing (34 senior rental units)
- Casa Primera (13 first-time homebuyer affordable units)
- Palm Court (18 privately developed first-time home buyer affordable units)
- Marcy Court (16 first-time homebuyer affordable units)
- Sonoma Commons Phase I & Phase II (first-time home buyer affordable units)
- Cabernet (7 senior affordable rental units)
- Maysonnave Apartments (10 senior affordable units)
- Village Green II Senior Apartments (34 senior affordable units)
- Wildflower Self-Help Housing Project (first-time home buyer affordable units)
- Valley Oaks/Sonoma Hwy Affordable Rental Housing Project

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

CDA Capital Fund for fiscal year 2009-10 included significant activity to complete major projects funded through tax increment proceeds. These projects include the business improvement loans, historic preservation easement, installation of police facility emergency generator, ADA Accessibility Improvements, numerous sidewalk and street resurfacing projects.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

FISCAL 2010 FINANCIAL HIGHLIGHTS

Agency revenues experienced 5.5% growth primarily due to program revenue and investment earnings. Property tax increment, the Agency's primary revenue source, experienced flat growth at \$5.7 million in fiscal years 2008-09 and 2009-10.

- The assets of the Agency exceeded its liabilities at June 30, 2010, by \$22.6 million (net assets).
- The Agency's total net assets increased by \$239,495 from the prior year which is due to a decrease in cash and other assets based on the undertaking and/or completion of capital projects.
- As of June 30, 2010 the Agency's governmental funds reported combined ending fund balances of about \$11.9 million, a decrease of over \$1.2 million from the prior year's combined fund balance of \$13.1 million. The change is due to a decrease in the Capital Improvement Projects Fund.
- The Agency's total outstanding debt decreased by approximately \$726,000 during the current fiscal year. The decrease was chiefly due to the principal payments on outstanding bonds and financings.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

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

Basic Financial Statements

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

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

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

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

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

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

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

Governmental Fund financial statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Agency-wide Financial Statements. In 2009-10, the Agency has five Major Governmental Funds: Capital Projects Fund, Low/Moderate Housing Fund, Sonoma Creek Senior Housing Fund, Village Green II Housing Fund and Debt Service Fund.

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

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

Governmental Activities

Governmental Net Assets presents total program assets and liabilities and the resulting allocation of the Agency's net assets. Table 1 below summarizes the Agency's Statement of Net Assets as of June 30, 2010.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

The Agency's governmental net assets amounted to \$22.6 million at June 30, 2010. The Agency's net assets at June 30, 2010 are comprised of the following:

- Cash and investments comprised \$11.5 million of pooled cash and investments available for operations. Substantially all of these amounts were held in the City's cash and investments pool as described in Note 3 to the financial statements.

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

Assets	2010	2009
Cash and other assets	\$ 14,108,520	\$ 14,321,163
Capital assets	39,012,045	39,364,864
Total Assets	\$ 53,120,565	\$ 53,686,027
Liabilities		
Long - term debt	\$ 29,478,762	\$ 30,197,507
Other liabilities	997,383	1,083,595
Total Liabilities	\$ 30,476,145	\$ 31,281,102
Net Assets:		
Invested in capital assets, net of related debt	\$ 8,768,802	\$ 8,395,572
Restricted	2,038,875	4,026,020
Unrestricted	11,836,743	9,983,333
Total Net Assets	\$ 22,644,420	\$ 22,404,925

- Long-term debt of \$30.243 million, of which \$29.479 million is due in future years and \$764 thousand, is due currently.
- The \$8.8 million of 'Invested in capital assets, net of related debt' describes the portion of Net Assets that represents the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.
- Restricted net assets total \$2 million, of which approximately \$1.8 million is restricted for low and moderate income housing purposes. The restrictions on these funds were placed there by Redevelopment law and cannot be changed by the Agency.
- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The Agency had no unrestricted net assets at June 30, 2010 due to restrictions imposed by tax allocation bonds to be used for capital projects.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

Changes in Governmental Net Assets

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

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

	<u>2010</u>	<u>2009</u>
Revenues		
Program Revenues		
Charges for services	\$ 616,907	\$ 618,560
Operating Grants and Contributions	31,280	-
Capital Grants and Contributions	430,570	-
General Revenues and Special Item		
Property tax increments	5,704,507	5,723,487
Investment earnings	305,099	225,126
Miscellaneous	128,067	272,291
Total Revenues	<u>7,216,430</u>	<u>6,839,464</u>
Expenses		
Community Redevelopment	5,070,281	2,453,653
Interest and Fees	1,480,958	1,479,309
Total Expenses	<u>6,551,239</u>	<u>3,932,962</u>
Increase (Decrease) in Net Assets Before Transfers	665,191	2,906,502
Transfers	<u>(425,696)</u>	<u>(183,255)</u>
Increase (Decrease) in Net Assets	<u>239,495</u>	<u>2,723,247</u>
Net Assets - Beginning	<u>22,404,925</u>	<u>19,681,678</u>
Net Assets - Ending	<u>\$ 22,644,420</u>	<u>\$ 22,404,925</u>

As Table 2 above shows, \$1.1 million (15%) of the Agency's 2010 Governmental revenue is program revenue and \$6.1 million (85%) came from general revenues such as taxes and interest. Program revenues were comprised of charges for services, which include reimbursements for expenses incurred in providing services, operating grants and contributions, and capital grants and contributions. General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

Net Revenue (Expense) of Governmental Activities

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

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

	2010	2009
Redevelopment Projects	\$ (5,070,281)	\$ (2,453,653)
Charges for service	616,907	618,560
Interest	(1,480,958)	(1,479,309)
Total Net Cost of Service	\$ (5,934,332)	\$ (3,314,402)

BUDGET HIGHLIGHTS

During the year, the Agency made no revisions to its budget. The budget continues to maintain the Economic Development Program at a base level, in order to continue the critical work needed at this time in terms of assisting local businesses and monitoring the local economy. The budget preserves funding for Economic Development Partnership and the Sonoma Valley Visitors Bureau to maintain a strong local market effort which is essential through the lingering recession.

The State of California has an enormous budget crisis that cannot and will not be solved quickly. In the past the State has looked at city funds as a way to help bridge the gap between its revenues and expenditures. California voters passed measures to restrict State raids of local government funds, but loopholes allowed the State to take redevelopment funds. In fiscal year 2009-10 the State "borrowed" \$226,975 of property taxes from the City of Sonoma and took \$1,920,016 from the Agency. For fiscal year 2010-11 the State is taking another \$394,918 from the Agency.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

THE AGENCY'S FUND FINANCIAL STATEMENTS

Table 4 below summarizes the fund balances of Governmental Funds. The Low/Moderate Income Housing Fund balance of \$2,635,519 includes \$1,920,016 reserved for the loan to the Capital Improvement Fund. On February 17, 2010 the Agency's Board approved a resolution authorizing the borrowing in accordance with the requirements in Health and Safety Code 33690(c)(2) which requires the Agency to repay the amount in full to the Low/Moderate Income Housing Fund, without interest, not later than June 30, 2015. The loan was essential to assist the Agency in meeting its Supplemental Educational Revenue Augmentation Fund (SERAF) payment obligation to the State.

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

Governmental Funds	2010	2009	Increase (Decrease)
Village Green Housing Fund	\$ 644,057	\$ 545,313	\$ 98,744
Sonoma Creek Senior Housing Fund	484,852	521,151	(36,299)
Low/Moderate Income Housing Fund	2,635,519	3,527,088	(891,569)
Capital Improvement Projects Fund	7,339,074	7,739,852	(400,778)
Debt Service Funds	778,897	763,246	15,651
Total fund balances	<u>\$ 11,882,399</u>	<u>\$ 13,096,650</u>	<u>\$ (1,214,251)</u>

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

CAPITAL ASSETS

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

**Table 5
Capital Assets
June 30, 2010
(In Whole Dollars)**

	2010	2009
Land - Nondepreciable	\$ 12,050,515	\$ 12,833,700
Buildings and Improvements	13,178,965	13,178,965
Improvements other than Buildings	356,028	356,028
Infrastructure	15,719,356	14,987,173
Equipment and Vehicles	387,449	72,250
Construction In Progress	727,629	755,050
 Total Capital Assets	 42,419,942	 42,183,166
 Less: Accumulated Depreciation	 (3,407,897)	 (2,818,302)
 Capital Assets - Net	 \$ 39,012,045	 \$ 39,364,864

Analyses of Major Governmental Funds

Special Revenue Fund

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

Low and Moderate Income Housing Fund

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

Capital Projects Fund.

This Fund accounts for capital project expenses of the Agency. During fiscal year 2009-2010, the Agency's capital project expenses were for expenses related to numerous reconstruction projects to streets and roads in various locations throughout the project area including installing pavement, gutters, and other improvements to meet the Americans with Disabilities Act.

Debt Service Fund

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

**Table 6
Outstanding Debt
June 30, 2010
(In Whole Dollars)**

	2010	2009
1997 Tax Allocation Bonds	\$ 1,935,000	\$ 2,035,000
2000 Tax Allocation Refunding Bonds	7,715,000	7,860,000
2003 Tax Allocation Bonds	17,705,000	18,145,000
Notes Payable: USDA	799,203	803,036
Notes Payable: Exchange Bank	2,070,560	2,116,160
Compensated Absences	18,480	10,097
Total Outstanding Debt	<u>\$ 30,243,243</u>	<u>\$ 30,969,293</u>

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

- City of Sonoma has experienced a moderate increase in population of approximately one percent per year.
- Inflationary trends tend to reflect the regional indices.
- The Agency's property assessed valuation for all project areas increased 2% in the current fiscal year. For fiscal year 2010-11 the assessed valuation decreased by approximately 0.25% and modest growth under the 2% cap is anticipated in future years. The County Assessor continues to process Proposition 8 reductions in assessed value for fiscal year 2010-11 for residential and commercial properties. These combined unprecedented elements can cause a decline in the future flow of property tax and tax increment revenues.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2009-10**

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 10,567,201
Cash and investments - restricted	922,409
Accounts receivable (net of allowance for uncollectible)	495,571
Interest receivable	2,171
Prepaid assets	20,535
Deferred charges (net of accumulated amortization)	974,796
Notes Receivable	1,125,837
Capital assets (net)	<u>39,012,045</u>
 Total Assets	 <u><u>\$ 53,120,565</u></u>
LIABILITIES	
Accounts payable	\$ 121,738
Interest payable	107,414
Deposits payable	3,750
Noncurrent liabilities:	
Due within one year	764,481
Due in more than one year	<u>29,478,762</u>
 Total Liabilities	 <u><u>\$ 30,476,145</u></u>
NET ASSETS	
Invested in capital assets (net of related debt)	\$ 8,768,802
Restricted for:	
Low and moderate income housing	1,844,412
Debt service	194,463
Unrestricted	<u>11,836,743</u>
 Total Net Assets	 <u><u>\$ 22,644,420</u></u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF ACTIVITIES
JUNE 30, 2010

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets
Redevelopment	\$ 5,070,281	\$ 616,907	\$ 31,280	\$ 430,570	\$ (3,991,524)
Interest and fees	1,480,958	-	-	-	(1,480,958)
Total Governmental Activities	\$ 6,551,239	\$ 616,907	\$ 31,280	\$ 430,570	(5,472,482)
General Revenues, and Transfers:					
Tax allocation increment					5,704,507
Investment earnings					305,099
Miscellaneous					128,067
Transfers to the City of Sonoma					(425,696)
Total General Revenues, and Transfers					5,711,977
Change in Net Assets					239,495
Net Assets - Beginning					22,404,925
Net Assets - Ending					\$ 22,644,420

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2010**

	SPECIAL REVENUE FUNDS					Total Government Funds
	Village Green Housing Fund	Sonoma Creek Senior Housing Fund	Low/Moderate Income Housing Fund	Capital Improvement Projects Fund	Debt Service Funds	
ASSETS						
Cash and investments	\$ 117,809	\$ 272,957	\$ 739,638	\$ 8,861,485	\$ 575,312	\$ 10,567,201
Cash and investments -restricted	514,835	213,111	-	-	194,463	922,409
Accounts receivable - net	-	-	9,593	485,978	-	495,571
Interest receivable	-	-	-	2,171	-	2,171
Loan to other funds	-	-	1,920,016	-	-	1,920,016
Prepaid items	11,413	-	-	-	9,122	20,535
TOTAL ASSETS	\$ 644,057	\$ 486,068	\$ 2,669,247	\$ 9,349,634	\$ 778,897	\$ 13,927,903
LIABILITIES						
Accounts payable	\$ -	\$ 1,216	\$ 33,728	\$ 86,794	\$ -	\$ 121,738
Loan from other funds	-	-	-	1,920,016	-	1,920,016
Deposits payable	-	-	-	3,750	-	3,750
TOTAL LIABILITIES	-	1,216	33,728	2,010,560	-	2,045,504
Reserved for loan to other funds	-	-	1,920,016	-	-	1,920,016
Reserved for debt service	-	-	-	-	778,897	778,897
Reserved for low and moderate income housing	644,057	484,852	715,503	-	-	1,844,412
Unreserved and undesignated	-	-	-	7,339,074	-	7,339,074
TOTAL FUND BALANCES	644,057	484,852	2,635,519	7,339,074	778,897	11,882,399
TOTAL LIABILITIES & FUND BALANCES	\$ 644,057	\$ 486,068	\$ 2,669,247	\$ 9,349,634	\$ 778,897	\$ 13,927,903

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Fund Balances - Governmental Funds \$ 11,882,399

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

Capital assets (net) used in governmental activities are not current assets or financial resources and therefore, are not reported in the Governmental Funds Balance Sheet. 39,012,045

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. 974,796

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)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet (30,243,243)

In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are not reported in the Governmental Funds Balance Sheet 1,125,837

Net Assets of Governmental Activities \$ 22,644,420

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

	SPECIAL REVENUE FUNDS					Total Governmental Funds
	Village Green Housing Fund	Sonoma Creek Senior Housing Fund	Low/Moderate Income Housing Fund	Capital Improvement Projects Fund	Debt Service Funds	
REVENUES						
Tax allocation increment	\$ -	\$ -	\$ 1,140,901	\$ 4,563,606	\$ -	5,704,507
Intergovernmental revenues	-	-	-	461,850	-	461,850
Investment earnings	13,936	11,509	60,310	211,508	7,836	305,099
Rental income	396,339	201,668	-	18,900	-	616,907
Other revenues	30,988	2,895	-	94,184	-	128,067
Total Revenues	441,263	216,072	1,201,211	5,350,048	7,836	7,216,430
EXPENDITURES						
Current:						
Community Development	156,652	202,371	405,192	2,943,861	-	3,708,076
Capital Outlay	-	-	2,061	1,000,104	-	1,002,165
Debt service:						
Principal payments	49,433	-	-	-	685,000	734,433
Interest and fiscal charges	136,434	-	-	-	1,298,040	1,434,474
Total Expenditures	342,519	202,371	407,253	3,943,965	1,983,040	6,879,148
Excess (Deficiency) of Revenues over Expenditures	98,744	13,701	793,958	1,406,083	(1,975,204)	337,282
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	50,000	-	1,990,855	2,040,855
Transfers out	-	(50,000)	(609,690)	(1,806,861)	-	(2,466,551)
Total Other Financing Sources (Uses)	-	(50,000)	(559,690)	(1,806,861)	1,990,855	(425,696)
Net Changes in Fund Balances	98,744	(36,299)	234,268	(400,778)	15,651	(88,414)
Beginning fund balances	545,313	521,151	3,527,088	7,739,852	763,246	13,096,650
Restatement to beginning fund balance	-	-	(1,125,837)	-	-	(1,125,837)
Beginning fund balances as restated	545,313	521,151	2,401,251	7,739,852	763,246	11,970,813
Ending fund balances	\$ 644,057	\$ 484,852	\$ 2,635,519	\$ 7,339,074	\$ 778,897	\$ 11,882,399

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

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

NET CHANGES IN FUND BALANCES	\$ (88,414)
<p>Amounts reported for governmental activities in the Statement of Activities are different from those reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because of the following:</p>	
<p>Impairment loss of property held for sale does not affect the governmental fund balances, but is treated as expenses in the Statement of Activities.</p>	
Loss from impairment of land held for sale	(783,185)
<p>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.</p>	
Capital additions	1,019,961
Depreciation expense not reported in the governmental funds	(589,595)
<p>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.</p>	
Repayment of tax allocation bonds	685,000
Repayment of notes payable	49,433
<p>Deferred charges represent costs associated with the issuance of long-term debt .</p>	
<p>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.</p>	
	(46,484)
<p>The amounts below included in the Statement of Activities do not provide (or require the use of) current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):</p>	
Interest payable	1,162
Compensated absences	(8,383)
<u>Government Wide Changes in Net Assets</u>	<u>\$ 239,495</u>

Notes to Financial Statements

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

1. DESCRIPTION OF THE AGENCY

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

GASB requires that the financial statements described below be presented.

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

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

Fund Financial Statements - The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

B. Major Funds

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

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

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

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

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

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

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

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

C. Basis of Accounting

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

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Agency considers all revenues reported in the governmental funds to be available if the

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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*.

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

The Agency may fund programs with a combination of cost-reimbursement grants, categorical block grants and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

D. Cash and Investments

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

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

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

E. Interfund Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due to/due from

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

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.

F. 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 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 Agency 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 Agency 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 Agency 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.

G. Long-Term Obligations

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

H. Tax Increment

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

I. Property Held for Resale

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

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

J. Budgets and Budgetary Accounting

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

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

Formal budgetary integration is employed as a management control device.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

K. Expenditures over Appropriation

For the current fiscal year, the Agency incurred the following excess of expenditures over appropriations in General Fund and major special revenue funds:

Fund	Expenditure Category	Excess Expenditure	Explanation
Sonoma Creek Senior Housing Fund	Community development	\$ 119,876	Under budgeted long-term building expenses, maintenance expenses, and other permit and fees
Village Green Housing Fund	Community development	\$ 41,400	Under budgeted maintenance expenses, building rental expenses, professional expenses, and other permit and fees
Village Green Housing Fund	Interest and fiscal charges	\$ 36,150	Subsidized amount was budgeted to reduce expenditures but was recorded as revenue

L. Use of Estimates

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

3. CASH AND INVESTMENTS

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

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

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

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

4. INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables

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 as disclosed in Note 10.

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.

In general, the effect of interfund activities has been eliminated for the government-wide financial statements. Net transfers to the City for the fiscal year ended June 30, 2010 was \$425,696.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2010</u>
Capital assets, not being depreciated:					
Land	\$12,833,700	\$ -	\$ -	\$ (2,233,185)	\$10,600,515
Land held for resale	-	-	783,185	2,233,185	1,450,000
Right of ways	356,028	-	-	-	356,028
Construction in progress	755,050	1,019,961	-	(1,047,382)	727,629
Total capital assets, not being depreciated	13,944,778	1,019,961	783,185	(1,047,382)	13,134,172
Capital assets, being depreciated:					
Infrastructure	14,987,173	-	-	732,183	15,719,356
Buildings and improvements	13,178,965	-	-	-	13,178,965
Equipment and vehicles	72,250	-	-	315,199	387,449
Total capital assets, being depreciated	28,238,388	-	-	1,047,382	29,285,770
Less accumulated depreciation	(2,818,302)	(589,595)	-	-	(3,407,897)
Total capital assets, being depreciated, net	25,420,086	(589,595)	-	1,047,382	25,877,873
Capital assets, net	\$39,364,864	\$ 430,366	\$ 783,185	\$ -	\$39,012,045

During the year ended June 30, 2010, the Agency determined to terminate its redevelopment plan on five parcels of land. These parcels were reclassified as assets held for sale and thus were valued at lower of cost or net realizable value. The Agency recognized an impairment loss of \$783,185 from the evaluation and recorded the loss in community redevelopment expenses on the Statement of Activities.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Depreciation expense of \$589,595 was charged to redevelopment expenses in the Statement of Activities.

6. LONG-TERM NOTES RECEIVABLE

Long-term notes receivable of \$1,125,837 represent monies loaned to home buyers in connection with a home ownership assistance program, shared appreciation second mortgages, secured by real property, with repayment due upon sale of real property. If no sale or transfer occurs within 30 years after the date of the notes, the notes shall be automatically forgiven.

7. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt activity of the Agency for the fiscal year ended June 30, 2010:

	Balance June 30, 2009	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
Compensated Absences	10,097	8,383	-	18,480	2,798
Total Governmental Activities Debt	<u>\$ 30,969,293</u>	<u>\$ 8,383</u>	<u>\$ 734,433</u>	<u>\$ 30,243,243</u>	<u>\$ 764,481</u>

1997 Tax Allocation Bonds

On July 10, 1997, the Agency issued tax allocation bonds in the amount of \$2,885,000, with a variable interest rate, to provide funds for certain projects of the Agency. The bonds mature semiannually in increasing amounts on each December 1, through 2022. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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
2021-2023	390,000	52,284	442,284
Total	<u>\$ 1,935,000</u>	<u>\$ 796,971</u>	<u>\$ 2,731,971</u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

2000 Tax Allocation Refunding Bonds

On June 28, 2000, the Agency issued \$8,895,000 of Tax Allocation Refunding Bonds with interest rates ranging from 4.75% to 5.70%, to advance refund \$2,085,000 of outstanding 1991 Senior Housing Certificates of Participation. As a result, the \$2,085,000 of outstanding Certificates of Participation are considered to be defeased and the liability for those certificates have been removed from the Agency's financial statements. The bonds mature semiannually in increasing amounts on each December 1, through 2030. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	155,000	430,288	585,288
2012	160,000	422,848	582,848
2013	165,000	415,008	580,008
2014	170,000	406,758	576,758
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>\$ 6,216,188</u>	<u>\$ 13,931,188</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 1.45% to 4.45% per annum, to provide funds for certain community development projects. The bonds mature semiannually in increasing amounts on each December 1, through 2033. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	450,000	741,159	1,191,159
2012	465,000	727,659	1,192,659
2013	480,000	713,709	1,193,709
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>\$ 11,167,569</u>	<u>\$ 28,872,569</u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

2005 USDA Loan

In April of 2005, the Agency obtained an \$821,423 loan from the U.S. Department of Agriculture to assist the Agency in purchasing and operating the Village Green Apartments II low/moderate income housing rental project. The loan is fully amortized over 30 years at an interest rate of 5.625%. The loan is secured by an interest in the property and rental income and is subordinated to an existing loan with Exchange Bank. The outstanding balance as of June 30, 2010 was \$799,202 and the future minimum obligations as of June 30, 2010 as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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 Exchange Bank Loan

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 \$2,033,206 and the future minimum annual debt commitments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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>

9. NET ASSETS AND FUND BALANCES

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO 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 Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

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

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

Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of fund balance that has been appropriated for expenditure or is legally segregated for a specific future use. As of June 30, 2010, portions of fund balance had been reserved because of the following:

Loan to Other Funds reserves indicate advances and loans to other funds which are not available for appropriation and not expendable available financial resources.

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

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

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

10. 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 from 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.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

11. COMMITMENTS AND CONTINGENCIES

Construction in Progress

At June 30, 2010, the Agency had uncompleted construction contracts. The remaining commitment on the construction contracts were approximately \$6,766.

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.

12. CHANGE IN FINANCIAL STATEMENT PRESENTATION

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.

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
VILLAGE GREEN HOUSING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Rental income	\$ 390,000	\$ 390,000	\$ 396,339	\$ 6,339
Investment earnings	-	-	13,936	13,936
Other revenues	3,300	3,300	30,988	27,688
Total Revenues	393,300	393,300	441,263	47,963
EXPENDITURES				
Current:				
Community development	115,252	115,252	156,652	(41,400)
Debt service:				
Principal	58,258	58,258	49,433	8,825
Interest and fiscal charges	100,284	100,284	136,434	(36,150)
Total Expenditures	273,794	273,794	342,519	(68,725)
Excess (Deficiency) of Revenues Over Expenditures	119,506	119,506	98,744	(20,762)
OTHER FINANCING SOURCES (USES)				
Transfers in(out)	(23,800)	(23,800)	-	23,800
Total Other Financing Sources (Uses)	(23,800)	(23,800)	-	23,800
Net Change in Fund Balance	\$ 95,706	\$ 95,706	98,744	\$ 3,038
Fund Balance - Beginning			545,313	
Fund Balance - Ending			<u>\$ 644,057</u>	

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
SONOMA CREEK SENIOR HOUSING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Rental income	\$ -	\$ -	\$ 201,668	\$ 201,668
Investment earnings	-	-	11,509	11,509
Other revenues	-	-	2,895	2,895
Total Revenues	-	-	216,072	216,072
EXPENDITURES				
Current:				
Community development	82,495	82,495	202,371	(119,876)
Total Expenditures	82,495	82,495	202,371	(119,876)
Excess (Deficiency) of Revenues Over Expenditures	(82,495)	(82,495)	13,701	96,196
OTHER FINANCING SOURCES (USES)				
Transfers in	132,495	132,495	-	132,495
Transfers out	(50,000)	(50,000)	(50,000)	-
Total Other Financing Sources (Uses)	82,495	82,495	(50,000)	(132,495)
Net Change in Fund Balance	\$ -	\$ -	(36,299)	\$ (36,299)
Fund Balance - Beginning			521,151	
Fund Balance - Ending			\$ 484,852	

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
BUDGET AND ACTUAL
LOW/MODERATE INCOME HOUSING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Property tax increment revenue	\$ 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 Change in Fund Balance	<u>\$ 662,225</u>	<u>\$ 662,225</u>	234,268	<u>\$ (427,957)</u>
Fund Balance - Beginning			3,527,088	
Restatement to Fund Balance - Beginning			<u>(1,125,837)</u>	
Fund Balance - Beginning as Restated			<u>2,401,251</u>	
Fund Balance - Ending			<u>\$ 2,635,519</u>	

Other Independent Auditor's Report



C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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

We have audited the financial statements of the Community Development Agency of the City of Sonoma ("The Agency") as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements 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 the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 10-01.

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

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

C. G. Uhlenberg LLP

December 9, 2010
Redwood City, California

Findings and Recommendations

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding 10 - 01

Condition: The Agency did not obtain household income information through annual reporting process to monitor affordable housing to low and moderate income household.

Criteria: According to the *Health & Safety Code §33418*, agencies shall require property owners or managers of such housing to submit an annual report to the agency. For rentals, this report must include the rental rate and income and family size of occupants. The income information shall be supplied by the tenant in a certified statement on a form provided by the agency. This statute also requires that information obtained by the agency in this regard be reported annually to the Department of Housing and Community Development and to the State Controller's Office.

Cause of Condition: The Agency did not have sufficient staff to require the renters to resubmit their qualification application each year.

Effect of Condition: The Agency was unable to ensure the affordable housing units were provided to low- and moderate- income household.

Recommendation: The Agency should require the property owners or managers to submit the tenants' household income information with the annual reports.

City Response: The Agency acknowledges the wording in Health & Safety Code 33418. Additional wording will be added to the Yearly Reporting Form sent to Landlords. The Agency, however, does not have sufficient staff to re-qualify the individual tenants and will reply solely on the reporting of the landlord.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Financial Statement Findings

Finding 09 - 01/Material Weakness

Condition: The City was not able to complete reconciliation for cash and investment for the year ended June 30, 2009 until March 2010. The Agency's cash and investments are deposited with the City's cash and investment pool.

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

Cause of Condition:

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

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

Questioned Costs: None noted

Recommendation:

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

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

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 Agency's financial statements are subject to a potential misstatement of the value of investments.

Questioned Costs: None noted

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

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

Status: The City has implemented appropriate control.

Finding 09 - 03/Significant Control Deficiency

Condition: The Agency did not perform GASB 34 conversion for governmental funds to prepare governmental-wide financial statements.

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

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

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

Questioned Costs: None noted

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

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

Status: The City has implemented appropriate control.