

**CITY OF SONOMA  
CALIFORNIA**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012**

City Council

Ken Brown  
Tom Rouse  
Steve Barbose  
David Cook  
Laurie Gallian

Mayor  
Mayor Pro-Tem  
Council Member  
Council Member  
Council Member

Appointed Officials

City Manager  
Carol Giovanatto

CITY OF SONOMA, CALIFORNIA

ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

---

TITLE	PAGE
<b>FINANCIAL SECTION:</b>	
<i>Independent Auditor's Report</i> .....	1 - 3
<i>Management's Discussion and Analysis</i> .....	4 - 11
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities .....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide	
Statement of Net Assets – governmental activities .....	15
Statement of Revenues, Expenditures, and Changes	
in Fund Balances.....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances	
to the Government-wide Statement of Activities – governmental activities .....	17
Proprietary Funds:	
Statement of Net Assets.....	18
Statement of Revenue, Expenses and Changes in Net Assets .....	19
Statement of Cash Flows .....	20
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities .....	21
Statement of Changes in Fiduciary Net Assets.....	22
Notes to the Basic Financial Statements .....	23 - 50
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
<b>Major Governmental Fund Schedules:</b>	
General Fund Schedule of	
Revenue, Expenditures and Changes in Fund Balances – Budget and Actual .....	51
Community Development Agency Low/Moderate Income Housing Fund Schedule of	
Revenue, Expenditures and Changes in Fund Balances – Budget and Actual .....	52
<b>SUPPLEMENTARY INFORMATION:</b>	
<b>Nonmajor Governmental Funds:</b>	
Combining Balance Sheets .....	53 - 55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	56 - 59
<b>Internal Service Funds:</b>	
Combining Statement of Net Assets .....	60
Combining Statement of Revenue, Expenses and Changes in Net Assets .....	61
Combining Statement of Cash Flows.....	62
<b>Agency Funds:</b>	
Combining Statement of Agency Assets and Liabilities.....	63

**CITY OF SONOMA, CALIFORNIA**

**ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

---

**OTHER INDEPENDENT AUDITOR’S REPORT:**

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.....	64 - 65
Schedule of Findings and Questioned Costs .....	66 – 68
Schedule of Prior Year Findings and Questioned Costs.....	69 – 71

## *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, 2012, 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.

Management did not adopt a methodology for reviewing expenditures and expenses for appropriate cut off between the Sonoma Community Development Agency and the Successor Agency of the Sonoma Community Development Agency in the following major governmental funds, the Community Development Agency Low/Moderate Income Housing Fund, the Community Development Agency Capital Projects Fund, the 2011 Tax Allocation Bonds Capital Projects Fund, the 2011 Tax Allocation Bonds Debt Service Fund, ("CDA Major Funds"), and the fiduciary fund, the Successor Agency of the Sonoma Community Development Agency. Accounting principles generally accepted in the United States of America require that expenditures and expenses are recorded in the period for which the obligations are incurred. The amount by which this departure would affect the liabilities, fund balance or net assets, and expenditures or expenses of the governmental activities, CDA Major Funds, and the fiduciary fund, the Successor Agency of the Sonoma Community Development Agency, is not reasonably determinable.



In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the expenditures and expenses of the CDA Major Funds, the fiduciary fund, the Successor Agency of the Sonoma Community Development Agency been reviewed appropriately as described in the preceding paragraph, the financial statements referred to above

present fairly, in all material respects, the financial position of the governmental activities, the CDA Major Funds, and the fiduciary fund, the Successor Agency of the Sonoma Community Development Agency, as of June 30, 2012, and the respective changes in financial thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, the General Fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows 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 March 27, 2013, 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 as listed on the table of contents 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 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements 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 relations to the financial statements as a whole.

*C. D. Uhlenberg CCP*

March 27, 2013  
Redwood City, California

# *Management's Discussion and Analysis*

*Fiscal Year 2011-2012*

## *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 discuss and analyze the City's financial position and performance. This section acts as a bridge between the audited financial statements and some financial highlights that occurred during the fiscal year; it will 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 and the measurement of these changes.
- Fund financial statements describe how City services are financed in the short term as well as the availability of resources for future spending. Fund financial statements also report the City's operations, but in more detail than the government-wide statements by providing information about the City's most significant funds, focusing on individual operations of the City.
- Notes to the Financial Statements. These should be read in conjunction with the financial statements for clarification on details, significant changes in activity and required disclosures.

### *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 what is known as the full accrual basis of accounting. This accounting methodology is similar to that used in the private sector. This method is inclusive of all funds, rather than focusing on availability of current resources per individual fund.



Taken together, these two statements report the changes in net assets for the City. 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 important that this information is considered together with other non-financial factors such as changes in the City's property tax base, demographic and economic trends, 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 that is separated in the following categories:

**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 sales, property and transient occupancy taxes, interest income, and by specific program revenues such as user fees.

**Business-type Activities** - The City's enterprise activities are reported here for Water and Cemetery Funds. Unlike governmental services, the nature of these services is cost recovery and they are supported by charges paid by users, corresponding to the amount of service they receive.

**Component Unit** - Due to California Assembly Bill ABX1 26, the Sonoma Community Development Agency was dissolved February 1, 2012. Activity through January 31, 2012 is a blended report that includes the City and the former Sonoma Community Development Agency and is reported as one separate legal entity. After the dissolution of the Sonoma Community Development Agency, the remaining assets were placed in the Successor Agency Trust Fund, in accordance with procedures outlined in the Assembly Bill and modified by the California Supreme Court. For the final five months of the fiscal year, the assets of the dissolved agency that were placed in this trust are reported as a fiduciary (private-purpose) fund as part of the City's reporting and a reconciliation of this activity is provided in the footnotes.

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

According to Government Finance Officers Association, a fund is a "set of accounts for the purpose of recording cash and other financial resources, together with all related liabilities" (GFOA, 2012). The result is a report of residual (or net) balances and changes due to financial activity. These reports are for the purpose of separating activity in accordance with compliance requirements and regulations, such as those established by State law or by bond covenants. These funds aid in the administration of resources for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money that is limited by restrictions of use. Fund reporting also assists with meeting City priorities and objectives. So although some funds are set up and reported due to legal responsibilities, others are set up and reported separately in order to assist City leadership with the management of its resources. The fund financial statements provide detailed information about the most significant funds – not the City as a whole.

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 basis of this reporting known as modified accrual measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. This puts the focus on current availability of resources. 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, 2012 were \$35,072,115, a decrease of \$17,571,732 over the prior fiscal year 2010-2011. The primary cause of the reduction related to the dissolution of redevelopment agency as required by California Assembly Bill ABX1 26.
- Total City revenues, including program and general revenues, were \$22,657,370, an increase of \$1,152,242 from the prior year. Total expenses were \$23,988,279, which was a decrease of \$2,675,934 from the prior year.
- Governmental Activities Program Revenues were \$3,821,105 in fiscal year 2011-2012, a decrease of \$155,674 from the prior fiscal year's \$3,976,779.
- Governmental Activities Program Expenses were \$19,992,668 in fiscal year 2011-2012, a decrease of \$2,624,074 from the prior fiscal year's \$22,616,742.
- Program revenues from Business-Type Activities [Proprietary Funds] were \$5,078,319 in fiscal year 2011-2012, an increase of \$1,244,492 from the prior fiscal year.
- General Fund revenues and net other financing sources were \$11,653,183 in fiscal year 2011-2012, an increase of \$352,664 over the prior fiscal year.
- General Fund total expenditures were \$11,838,835 in fiscal year 2011-2012, an increase of \$323,892 from prior fiscal year amounts.
- General fund balance was \$4,847,445 at fiscal year end June 30, 2012, compared with the budgeted fund balance and the prior fiscal year's actual fund balance of \$5,169,326. The fund balance is 40.9% 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>	<b>2012</b>	<b>2011</b>
Current and other assets	7,924,152	35,397,756
Capital Assets	13,183,220	51,802,967
<b>Total Assets</b>	<b>21,107,372</b>	<b>87,200,723</b>
Long-term debt outstanding	728,881	46,031,659
Other Liabilities	1,071,480	3,675,519
<b>Total Liabilities</b>	<b>1,800,361</b>	<b>49,707,178</b>
<b>Net assets:</b>		
Invested in Capital Asset [net of debt]	13,140,039	20,100,679
Restricted for Capital Projects	267,765	423,116
Unrestricted	5,899,207	-6,469,366
<b>Total Net Assets</b>	<b>19,307,011</b>	<b>37,493,546</b>

Total Net Assets decreased approximately \$18,186,535 in fiscal year 2011-2012 as compared to fiscal year 2010-2011 as outlined above, primarily due the dissolution of the Sonoma Community Development Agency.

**Governmental Activities – Revenues**

<b>REVENUES</b>		
<b>Governmental Activities (in US Dollar)</b>		
<i>Revenues by Source</i>	<i>2012</i>	<i>%</i>
<i>Program revenues:</i>		
<b>Charges for Services</b>	<b>3,253,841</b>	<b>85%</b>
<b>Operating contributions &amp; grants</b>	<b>522,990</b>	<b>14%</b>
<b>Capital contributions &amp; grants</b>	<b>44,274</b>	<b>1%</b>
<b>Total Program Revenues</b>	<b>3,821,105</b>	
<i>General revenues</i>		
<b>Taxes and Assessments</b>	<b>13,481,411</b>	<b>95%</b>
<b>Use of money and property</b>	<b>135,782</b>	<b>1%</b>
<b>Other</b>	<b>608,656</b>	<b>4%</b>
<b>Total General Revenues</b>	<b>14,225,849</b>	
<b>Total Revenues, Transfers &amp; Special Items</b>	<b>18,046,954</b>	

The table above shows that all Governmental Activity revenues totaled \$18,046,954 in fiscal year 2011-2012. This is in comparison to \$18,047,714 in fiscal year 2010-2011.

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.

<b>EXPENSES &amp; NET CHANGE</b>			
<b>Governmental Activities (in US Dollar)</b>			
<b>Department</b>	<b>Functions/ Expenses</b>	<b>Program Revenue</b>	<b>Revenue/ (Expenses)</b>
General Government	1,892,197	399,458	(1,492,739)
Public Safety	9,027,869	2,115,737	(6,912,134)
Public Works	2,185,620	790,448	(1,395,172)
Community Development	5,370,099	481,800	(4,888,299)
Culture and Leisure	169,432	33,662	(135,770)
Interest on Long-term debt	1,347,449	-	(1,347,449)
<b>Total Net Cost</b>	<b>19,992,666</b>	<b>3,821,105</b>	<b>(16,171,563)</b>

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 \$19,992,666 in fiscal year 2011-2012. In fiscal year 2010-2011, the City's expense level was \$22,616,742.

### *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.

<b>Business-type Activities</b>			
<i>Net Assets at June 30, 2012 and 2011</i>		<i>(in US Dollar)</i>	
	<b>2012</b>	<b>2011</b>	<b>Increase/(Decrease) from FY 10-11</b>
Cash and other assets	6,199,321	5,191,924	1,007,397
Capital assets	11,914,413	12,281,019	(366,606)
<b>Total Assets</b>	<b>18,113,734</b>	<b>17,472,943</b>	<b>640,791</b>
Long-term debt outstanding	1,793,112	1,840,773	(47,661)
Other Liabilities	555,518	481,869	73,649
<b>Total Liabilities</b>	<b>2,348,630</b>	<b>2,322,642</b>	<b>25,988</b>
<b>Total Net Assets:</b>			
Invested in capital assets, net of debt	9,988,189	10,382,031	(393,842)
Restricted	320,468	320,468	0
Unrestricted	5,456,447	4,447,802	1,008,645
<b>Total Net Assets</b>	<b>15,765,104</b>	<b>15,150,301</b>	<b>614,803</b>

The City's Business-type net assets increased \$614,803 to \$15.8 million in fiscal year 2011-2012, from \$15.2 million in fiscal year 2010-2011.

- ◆ Cash and other assets in fiscal year 2011-2012 were increased by \$1,007,397 in comparison to prior fiscal year.
- ◆ Unrestricted net assets of \$5.5 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, 2012, the City's Governmental Funds reported combined fund balances of \$4.2 million, a decrease of \$24.7 million as compared with last year.

Governmental Fund revenues decreased \$1,477,880 this fiscal year to a total of \$17.5 million as compared to \$19 million.

The Governmental Funds expenditures for fiscal year 2011-2012 were \$21.9 million; approximately \$11 million lower than when compared to the fiscal year 2010-2011. There were two reasons for this decrease. The primary reason was due to the refunding of 1997 Tax

Allocation Bonds and 2000 Tax Allocation Refunding Bonds that occurred in fiscal year 2010-2011 for approximately \$9.7 million. Secondly, the decrease can be attributed to the elimination of the Sonoma Community Development Agency as of February 1, 2012; therefore, these funds only reported seven months of expenditures in fiscal year 2011-2012 versus a full year of expenditures in fiscal year 2010-2011. Additional details regarding the elimination of the Sonoma Community Development Agency can be found in footnote 11 of the financial statements.

**General Fund** – The General Fund ended the year with \$4.8 million fund balance, compared to \$5.2 million, in the prior year. This was in part due to higher expenditures than in the prior year, \$11.8 million in fiscal year 2011-2012 as compared to \$11.5 million in fiscal year 2010-2011, as well as a decrease in investment income as the fixed income market remains at historic lows.

Sales tax, Transient Occupancy Tax and other miscellaneous taxes increased by approximately \$302,798 as compared to the prior year. Property taxes, sales tax and transient occupancy taxes reflected an increase of 4.2% due in part to a market that has slowly moved in a positive direction.

At June 30, 2012, the General Fund balance totaled \$4.8 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 and Community Development Agency (CDA) Capital Projects Funds** – As noted in the financial statements and the footnotes, the Low/Moderate Income Housing Fund was dissolved on February 1, 2012 as required by California Assembly Bill ABX1 26. As outlined in the footnotes, this resulted in report-only accounting losses and the remaining assets were placed in a trust. As of the end of the fiscal year, the Housing assets are in the process of transition to the Sonoma County Housing Authority.

**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 -\$604,041 at June 30, 2012, as compared to \$0.9 million at the end of the prior fiscal year.

### ***PERFORMANCE OF PROPRIETARY [ENTERPRISE & INTERNAL SERVICE] FUNDS***

At June 30, 2012, the City's Proprietary Funds reported combined net assets of \$15.8 million, as compared to combined net assets at June 30, 2011 of \$15.1 million.

**Water Fund** – The Water Fund ended the year with \$15.0 million net assets on June 30, 2012 as compared to the prior fiscal year which ended the year with a \$14.3 million balance. The Water Fund posted Operating revenues of \$4.2 million, compared to \$3.5 in the prior year. Operating expenditures for fiscal year 2011-2012 totaled \$3.5 million in comparison with fiscal year 2010-2011 expenditures of \$3.5 million.

**Cemetery Fund** – The Cemetery Fund ended the year with \$730,274 net assets on June 30, 2012 as compared to fiscal year 2010-2011, which ended the year with a \$806,803 balance. Operating revenues were higher in fiscal year 2011-2012 by \$25,882 from fiscal year 2010-2011, which posted \$344,773 as compared to \$318,891 in fiscal year 2010-2011. Operating expenditures were lower in fiscal year 2011-2012 totaling \$393,530 in comparison with fiscal year 2010-2011 expenditures of \$525,636.

### ***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 Scott Williams, City Accountant at City Hall, No. 1 the Plaza, Sonoma, California, 95476.

**CITY OF SONOMA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 5,356,822	\$ 5,965,992	\$ 11,322,814
Cash and investments - restricted	123,331	320,468	443,799
Interest receivable	29,786	-	29,786
Accounts receivable - net	944,676	552,085	1,496,761
Deposits and other assets	2,027	-	2,027
Total current assets	<u>6,456,642</u>	<u>6,838,545</u>	<u>13,295,187</u>
Noncurrent assets:			
Notes receivable	226,975	-	226,975
Internal balances	639,874	(639,874)	-
Deferred charges - net	41,754	-	41,754
Receivable from Successor Agency			
Due within one year	99,668	-	99,668
Due in more than one year	459,239	-	459,239
Capital assets:			
Nondepreciable	2,901,723	960,472	3,862,195
Depreciable, net of accumulated depreciation	10,281,497	10,953,941	21,235,438
Other noncurrent assets	-	650	650
Total noncurrent assets	<u>14,650,730</u>	<u>11,275,189</u>	<u>25,925,919</u>
Total Assets	<u>\$ 21,107,372</u>	<u>\$ 18,113,734</u>	<u>\$ 39,221,106</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 644,778	\$ 304,691	\$ 949,469
Accrued interest	371	-	371
Deposits payable and other liabilities	216,072	195,827	411,899
Total current liabilities	<u>861,221</u>	<u>500,518</u>	<u>1,361,739</u>
Long-term liabilities:			
Due within one year	210,259	55,000	265,259
Due in more than one year	728,881	1,793,112	2,521,993
Total long-term liabilities	<u>939,140</u>	<u>1,848,112</u>	<u>2,787,252</u>
Total Liabilities	<u>\$ 1,800,361</u>	<u>\$ 2,348,630</u>	<u>\$ 4,148,991</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 13,140,039	\$ 9,988,189	\$ 23,128,228
Restricted for debt service	-	141,300	141,300
Restricted for capital projects	267,765	179,168	446,933
Unrestricted	5,899,207	5,456,447	11,355,654
Total Net Assets	<u>\$ 19,307,011</u>	<u>\$ 15,765,104</u>	<u>\$ 35,072,115</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, 2012**

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
<b>Governmental Activities:</b>							
General government	\$ 1,892,197	\$ 301,825	\$ 97,633	\$ -	\$ (1,492,739)	\$ -	\$ (1,492,739)
Public safety	9,027,869	2,012,130	103,607	-	(6,912,132)	-	(6,912,132)
Public works	2,185,620	468,698	321,750	-	(1,395,172)	-	(1,395,172)
Community development	5,370,099	437,526	-	44,274	(4,888,299)	-	(4,888,299)
Culture and leisure	169,432	33,662	-	-	(135,770)	-	(135,770)
Interest on long-term debt	1,347,449	-	-	-	(1,347,449)	-	(1,347,449)
<b>Total Governmental Activities</b>	<b>19,992,666</b>	<b>3,253,841</b>	<b>522,990</b>	<b>44,274</b>	<b>(16,171,561)</b>	<b>-</b>	<b>(16,171,561)</b>
<b>Business-type Activities:</b>							
Water	3,509,816	4,210,186	-	523,360	-	1,223,730	1,223,730
Cemetery	402,769	344,773	-	-	-	(57,996)	(57,996)
Interest on long-term debt	83,028	-	-	-	-	(83,028)	(83,028)
<b>Total Business-type Activities</b>	<b>3,995,613</b>	<b>4,554,959</b>	<b>-</b>	<b>523,360</b>	<b>-</b>	<b>1,082,706</b>	<b>1,082,706</b>
<b>Total</b>	<b>\$ 23,988,279</b>	<b>\$ 7,808,800</b>	<b>\$ 522,990</b>	<b>\$ 567,634</b>	<b>\$ (16,171,561)</b>	<b>\$ 1,082,706</b>	<b>\$ (15,088,855)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
General property taxes					6,969,768	-	6,969,768
Franchise taxes					378,854	-	378,854
Sales and use taxes					2,610,144	-	2,610,144
Transient occupancy taxes					2,358,718	-	2,358,718
Business license tax					327,360	-	327,360
Real property transfer taxes					80,536	-	80,536
Motor vehicle in lieu taxes					756,031	-	756,031
Investment earnings					135,782	61,576	197,358
Transfers					529,479	(529,479)	-
Miscellaneous					79,177	-	79,177
<b>Total General Revenues and Transfers</b>					<b>14,225,849</b>	<b>(467,903)</b>	<b>13,757,946</b>
<b>Extraordinary item -</b>							
Dissolution of Community Development Agency					(16,534,666)	-	(16,534,666)
<b>Change in Net Assets</b>					<b>(18,480,378)</b>	<b>614,803</b>	<b>(17,865,575)</b>
Net Assets - Beginning					37,493,546	15,150,301	52,643,847
Prior Period Adjustments					293,843	-	293,843
<b>Net Assets - Beginning as Restated</b>					<b>37,787,389</b>	<b>15,150,301</b>	<b>52,937,690</b>
<b>Net Assets - Ending</b>					<b>\$ 19,307,011</b>	<b>\$ 15,765,104</b>	<b>\$ 35,072,115</b>

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

**CITY OF SONOMA**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2012**

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 1,357,179	\$ 956,569	\$ 2,313,748
Cash and investments - restricted	-	123,331	123,331
Interest receivable	29,786	-	29,786
Accounts receivable - net	944,582	-	944,582
Due from other funds	3,105,213	-	3,105,213
Loan and advances to other funds	18,991	-	18,991
Deposits and other assets	1,645	-	1,645
 Total Assets	 \$ 5,457,396	 \$ 1,079,900	 \$ 6,537,296
 <b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>			
Liabilities:			
Accounts payable	\$ 584,144	\$ 49,351	\$ 633,495
Due to other funds	-	1,452,404	1,452,404
Deposits payable and other liabilities	25,807	182,186	207,993
 Total Liabilities	 609,951	 1,683,941	 2,293,892
 Fund Balances (Deficits):			
Unspendable	18,991	-	18,991
Restricted for:			
Capital projects	-	267,769	267,769
Assigned for:			
Capital projects	-	167,820	167,820
Housing	-	431,587	431,587
Public Safety	-	48,685	48,685
Unassigned	4,828,454	(1,519,903)	3,308,551
 Total Fund Balances	 4,847,445	 (604,041)	 4,243,404
 Total Liabilities and Fund Balances	 \$ 5,457,396	 \$ 1,079,900	 \$ 6,537,296

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, 2012**

---

**Fund Balance - Total Governmental Funds** \$ 4,243,404

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	\$ 22,224,856	
Less: accumulated depreciation	<u>(9,041,636)</u>	
		13,183,220

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, which include issuance costs, premiums and discounts, are reported as expenditures of current financial resources in governmental funds when the debt is first issued.

Deferred charges	55,674	
Less: accumulated amortization	<u>(13,920)</u>	
		41,754

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	602,088	
Successor Agency's obligation for City leases payable	(558,907)	
Compensated absences	<u>337,052</u>	
		(380,233)

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. (371)

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. 1,992,262

In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are offset by deferred revenue. 226,975

**Net Assets - Governmental Activities** \$ 19,307,011

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, 2012**

	General Fund	Community Development Agency Low/Moderate Income/Housing Fund	Community Development Agency Capital Projects Fund	2011 Tax Allocation Bonds Capital Projects Fund	2011 Tax Allocation Bonds Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 7,994,914	\$ 1,082,763	\$ 4,330,302	\$ -	\$ -	\$ 31,027	\$ 13,439,006
Fines and penalties	81,668	-	-	-	-	-	81,668
Intergovernmental revenues	104,332	-	44,274	-	-	410,409	559,015
Charges for services	1,955,458	-	-	-	-	-	1,955,458
License, permits and fees	444,923	-	-	-	-	73,531	518,454
Investment earnings (loss)	52,019	378	48,269	19,300	8	15,805	135,779
Rental income	76,718	-	-	-	-	439,343	516,061
Other revenue	285,136	-	19,596	-	7,689	(391)	312,030
<b>Total Revenues</b>	<b>10,995,168</b>	<b>1,083,141</b>	<b>4,442,441</b>	<b>19,300</b>	<b>7,697</b>	<b>969,724</b>	<b>17,517,471</b>
<b>EXPENDITURES</b>							
Current:							
General government	1,607,249	-	-	-	-	-	1,607,249
Public safety	8,748,142	-	-	-	-	31,912	8,780,054
Public works	1,314,012	-	-	-	-	822,532	2,136,544
Community development	-	2,531,013	595,142	-	-	309,561	3,435,716
Culture and leisure	169,432	-	-	-	-	-	169,432
Capital outlay	-	-	114,455	2,698,189	-	22,378	2,835,022
Debt service:							
Principal	-	-	72,250	-	125,000	1,328,322	1,525,572
Interest and fees	-	-	-	-	808,569	624,619	1,433,188
<b>Total Expenditures</b>	<b>11,838,835</b>	<b>2,531,013</b>	<b>781,847</b>	<b>2,698,189</b>	<b>933,569</b>	<b>3,139,324</b>	<b>21,922,777</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(843,667)</b>	<b>(1,447,872)</b>	<b>3,660,594</b>	<b>(2,678,889)</b>	<b>(925,872)</b>	<b>(2,169,600)</b>	<b>(4,405,306)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	775,278	25,000	-	-	1,206,918	2,364,774	4,371,970
Transfers (out)	(117,263)	(597,545)	(2,800,369)	-	-	(212,343)	(3,727,520)
<b>Total Other Financing Sources (Uses)</b>	<b>658,015</b>	<b>(572,545)</b>	<b>(2,800,369)</b>	<b>-</b>	<b>1,206,918</b>	<b>2,152,431</b>	<b>644,450</b>
Extraordinary gain (loss)	-	(2,147,577)	(6,562,629)	2,419,716	(13,510,046)	(1,382,871)	(21,183,407)
<b>NET CHANGES IN FUND BALANCES</b>	<b>(185,652)</b>	<b>(4,167,994)</b>	<b>(5,702,404)</b>	<b>(259,173)</b>	<b>(13,229,000)</b>	<b>(1,400,040)</b>	<b>(24,944,263)</b>
<b>FUND BALANCES - BEGINNING PRIOR PERIOD ADJUSTMENTS</b>	<b>5,169,326</b>	<b>3,921,194</b>	<b>5,709,122</b>	<b>54,609</b>	<b>13,229,000</b>	<b>839,883</b>	<b>28,923,134</b>
	<b>(136,229)</b>	<b>246,800</b>	<b>(6,718)</b>	<b>204,564</b>	<b>-</b>	<b>(43,884)</b>	<b>264,533</b>
<b>FUND BALANCES - BEGINNING AS RESTATED</b>	<b>5,033,097</b>	<b>4,167,994</b>	<b>5,702,404</b>	<b>259,173</b>	<b>13,229,000</b>	<b>795,999</b>	<b>29,187,667</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 4,847,445</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (604,041)</b>	<b>\$ 4,243,404</b>

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, 2012**

---

**Net Change in Fund Balances - Total Governmental Funds** \$ (24,944,263)

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

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

Expenditures for capital asset additions	\$ 1,306,637	
Current year depreciation	<u>(838,877)</u>	467,760

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	535,062	
Repayment of notes payable	30,510	
Repayment of tax allocation bonds	<u>960,000</u>	1,525,572

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.

(25,307)

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	86,986	
Compensated absences	<u>(17,000)</u>	69,986

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.

(1,247)

Extraordinary item - Dissolution of Community Development Agency  
Transfer of Community Development Agency to private trust  
Write-off of deferred charges and compensated absence

5,496,594	
<u>(847,853)</u>	4,648,741

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.

(221,620)

**Change in Net Assets - Governmental Activities** \$ (18,480,378)

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

**CITY OF SONOMA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ 5,965,992	\$ -	\$ 5,965,992	\$ 3,043,074
Cash and investments - restricted	320,468	-	320,468	-
Accounts receivable - net	550,615	1,470	552,085	94
Total current assets	<u>6,837,075</u>	<u>1,470</u>	<u>6,838,545</u>	<u>3,043,168</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	764,168	196,304	960,472	-
Depreciable, net of accumulated depreciation	9,641,142	1,312,799	10,953,941	-
Total capital assets	<u>10,405,310</u>	<u>1,509,103</u>	<u>11,914,413</u>	<u>-</u>
Deposits and other assets	650	-	650	382
Total noncurrent assets	<u>10,405,960</u>	<u>1,509,103</u>	<u>11,915,063</u>	<u>382</u>
Total Assets	<u>\$ 17,243,035</u>	<u>\$ 1,510,573</u>	<u>\$ 18,753,608</u>	<u>\$ 3,043,550</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 292,137	\$ 12,554	\$ 304,691	\$ 11,283
Due to other funds	-	620,883	620,883	1,031,926
Advances from other funds	-	18,991	18,991	-
Deposits payable and other liabilities	84,378	111,449	195,827	8,079
Long term debt - current portion	<u>55,000</u>	<u>-</u>	<u>55,000</u>	<u>-</u>
Total current liabilities	<u>431,515</u>	<u>763,877</u>	<u>1,195,392</u>	<u>1,051,288</u>
Noncurrent liabilities:				
Long term debt - noncurrent portion	1,715,000	-	1,715,000	-
Compensated absences	61,690	16,422	78,112	-
Total noncurrent liabilities	<u>1,776,690</u>	<u>16,422</u>	<u>1,793,112</u>	<u>-</u>
Total Liabilities	<u>\$ 2,208,205</u>	<u>\$ 780,299</u>	<u>\$ 2,988,504</u>	<u>\$ 1,051,288</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 8,635,310	\$ 1,509,103	\$ 10,144,413	\$ -
Restricted for capital projects (expendable)	179,168	-	179,168	-
Restricted for debt service (expendable)	141,300	-	141,300	-
Unrestricted	<u>6,079,052</u>	<u>(778,829)</u>	<u>5,300,223</u>	<u>1,992,262</u>
Total Net Assets	<u>\$ 15,034,830</u>	<u>\$ 730,274</u>	<u>\$ 15,765,104</u>	<u>\$ 1,992,262</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, 2012**

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
<b>OPERATING REVENUES</b>				
Sales and services	\$ 4,056,913	\$ 344,573	\$ 4,401,486	\$ 2,565,868
Miscellaneous	153,273	200	153,473	55,378
 Total Operating Revenues	 <u>4,210,186</u>	 <u>344,773</u>	 <u>4,554,959</u>	 <u>2,621,246</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	909,089	256,029	1,165,118	1,990,592
Services, supplies and maintenance	2,053,776	37,133	2,090,909	351,124
Insurance premiums and claims	-	-	-	443,355
Miscellaneous	172,057	52,274	224,331	4,201
Depreciation and amortization	349,287	48,094	397,381	-
 Total Operating Expenses	 <u>3,484,209</u>	 <u>393,530</u>	 <u>3,877,739</u>	 <u>2,789,272</u>
<b>OPERATING INCOME (LOSS)</b>	 <u>725,977</u>	 <u>(48,757)</u>	 <u>677,220</u>	 <u>(168,026)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	51,836	9,740	61,576	26,531
Interest expense	(83,028)	-	(83,028)	-
 Total Nonoperating Revenues (Expenses)	 <u>(31,192)</u>	 <u>9,740</u>	 <u>(21,452)</u>	 <u>26,531</u>
<b>INCOME (LOSS) BEFORE CONNECTION FEES &amp; TRANSFERS</b>	 694,785	 (39,017)	 655,768	 (141,495)
<b>CONNECTION FEES</b>	523,360	-	523,360	-
<b>TRANSFERS:</b>				
Transfers in	-	45,216	45,216	-
Transfers (out)	(526,813)	(82,728)	(609,541)	(80,125)
<b>CHANGES IN NET ASSETS</b>	691,332	(76,529)	614,803	(221,620)
<b>NET ASSETS - BEGINNING</b>	<u>14,343,498</u>	<u>806,803</u>	<u>15,150,301</u>	<u>2,213,882</u>
<b>NET ASSETS - BEGINNING AS RESTATED</b>	<u>14,343,498</u>	<u>806,803</u>	<u>15,150,301</u>	<u>2,213,882</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 15,034,830</u>	<u>\$ 730,274</u>	<u>\$ 15,765,104</u>	<u>\$ 1,992,262</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, 2012**

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 4,075,092	\$ 344,573	\$ 4,419,665	\$ -
Receipts from interfund services provided	-	-	-	2,571,973
Payments to employees for services	(894,690)	(223,731)	(1,118,421)	(1,855,217)
Payments to suppliers for goods and services	(1,547,070)	113,361	(1,433,709)	(811,500)
Payments for interfund services used	(420,025)	(151,537)	(571,562)	-
Other payments and receipts	(27,954)	(54,894)	(82,848)	50,795
Net Cash Provided by (Used for) Operating Activities	<u>1,185,353</u>	<u>27,772</u>	<u>1,213,125</u>	<u>(43,949)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Cash paid to other funds	(526,813)	(82,728)	(609,541)	(80,125)
Cash received from other funds	-	45,216	45,216	-
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(526,813)</u>	<u>(37,512)</u>	<u>(564,325)</u>	<u>(80,125)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Cash received from connection fees and grants	523,360	-	523,360	-
Purchases of capital assets	(30,775)	-	(30,775)	-
Principal paid on capital debt	(55,000)	-	(55,000)	-
Interest paid on capital debt	(83,028)	-	(83,028)	-
Net Cash Provided by (Used for) Capital Related Financing Activities	<u>354,557</u>	<u>-</u>	<u>354,557</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received	51,836	9,740	61,576	26,531
<b>NET INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	1,064,933	-	1,064,933	(97,543)
<b>CASH AND INVESTMENTS - BEGINNING</b>	<u>5,221,527</u>	<u>-</u>	<u>5,221,527</u>	<u>3,140,617</u>
<b>CASH AND INVESTMENTS - ENDING</b>	<u>\$ 6,286,460</u>	<u>\$ -</u>	<u>\$ 6,286,460</u>	<u>\$ 3,043,074</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 725,977	\$ (48,757)	\$ 677,220	\$ (168,026)
Adjustments to reconcile operating income to cash flows provided by operating activities:				
Depreciation and amortization	349,287	48,094	397,381	-
Change in assets and liabilities:				
Accounts receivable	18,179	-	18,179	6,105
Deposits and other assets	-	-	-	(382)
Accounts payable	86,681	(1,043)	85,638	(17,021)
Due to other funds	-	39,358	39,358	135,375
Compensated absences	14,399	(7,060)	7,339	-
Deposits and other liabilities	(9,170)	(2,820)	(11,990)	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>\$ 1,185,353</u>	<u>\$ 27,772</u>	<u>\$ 1,213,125</u>	<u>\$ (43,949)</u>

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



**CITY OF SONOMA**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2012**

---

	Successor Agency Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and investments	\$ 11,162,984	\$ 2,122,221
Cash and investments - restricted	6,622,167	-
Accounts receivable - net	23,535	302,303
Deposits	102	-
Capital assets, net	37,457,280	-
Assets held for future transfer to the Sonoma County Housing Authority	5,532,712	-
 Total Assets	 \$ 60,798,780	 \$ 2,424,524
<b>LIABILITIES</b>		
Accounts payable	\$ 157,900	\$ 2,232,461
Payable to Sonoma County Housing Authority	1,920,016	-
Interest accrual	179,979	-
Successor Agency's obligation for City leases payable	558,907	-
Deposits payable	3,750	192,063
Long-term Debt:		-
Due in one year	1,046,517	-
Due in more than one year	43,734,146	-
 Total Liabilities	 47,601,215	 \$ 2,424,524
<b>NET ASSETS</b>		
Held in trust for other governments	\$ 13,197,565	

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

**CITY OF SONOMA**  
**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

---

		Successor Agency Private Purpose Trust Fund
<b>ADDITIONS</b>		
Intergovernmental revenues	\$	19,988
Charges for services		47,816
Investment earnings		1,826
Rental income		179,509
Other income		50,693
		299,832
 <b>DEDUCTIONS</b>		
Community development		383,688
Program expenses of former Community Development Agency		1,081,416
Depreciation		252,847
Interest and fiscal agency expenses of former Community Development Agency		1,071,130
		2,789,081
 <b>TRANSFERS</b>		
Net positions transfer in from former Community Development Agency		15,686,813
		15,686,813
<b>CHANGES IN NET ASSETS</b>		13,197,565
<b>NET ASSETS - BEGINNING</b>		-
<b>NET ASSETS - ENDING</b>		\$ 13,197,565

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

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

**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 (prior to the dissolution of the Community Development Agency on February 1, 2012).

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) (for activity through January 31, 2012) 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 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.

On February 1, 2012 the Agency was dissolved pursuant to California Assembly Bill 1X 26. The assets and liabilities of the Agency were transferred to the Successor Agency of the Sonoma Community Development Agency and was no longer considered a blended component unit.

**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.

On February 1, 2012, the SVFRA was dissolved and the City contracted all fire and emergency medical services with the Valley of the Moon Fire Protection District.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

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.

**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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

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.

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

**E. Major Funds**

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

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

The City reported the following major governmental funds:

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

**Community Development Agency Low/Moderate Income Housing Fund** - This fund was 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, until the February 1, 2012 dissolution of the Agency.

**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, until the February 1, 2012 dissolution of the Agency.

**2011 Tax Allocation Bond Capital Project Fund** - This fund accounted for expenditures related to capital projects of the Agency, until the February 1, 2012 dissolution of the Agency.

**2011 Tax Allocation Bond Debt Service Fund** - This fund accounted for the proceeds related to the bond issuance of the Agency, until the February 1, 2012 dissolution of the Agency.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
JUNE 30, 2012

---

The City reported the following 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 (major)**- This fund is used to account for the revenues and expenses of the City's water operations.

**Cemetery Fund (nonmajor)** – This fund is used to account for the revenues and expenses of the City's cemetery.

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** are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains one private purpose trust fund to account for activities of the Successor Agency to the former Community Development Agency. The City also maintains seven agency funds to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds 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. The general exception for this treatment is expenditures for claims, judgments, and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
JUNE 30, 2012

---

*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.

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 statements 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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

**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 the water fund. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

**Interfund Receivables and Payables** - Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either “due to/due from other funds” (amounts due within one year), “advances to/from other funds” (non-current portions of interfund lending/borrowing transactions), or “loans to/from other funds” (long term lending/borrowing transactions as evidenced by loan agreements). Advances and loans to other funds are offset by in the fund balance of the 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.



**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

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.

**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, 2012, there was one 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 has estimated the unfunded liability to be insignificant since the benefit for the last eligible retiree ended in September 2011.

**Compensated Absences** - 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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
JUNE 30, 2012

---

**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.

**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. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

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

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

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

**Fund Equity** - The following classifications describe the relative strength of the spending constraints of the components of fund equity.

*Nonspendable fund balance*—amounts that are not in nonspendable form (such as long-term loans between funds) or are required to be maintained intact.

*Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

*Committed fund balance*—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The City did not have any committed resources as of June 30, 2012.

*Assigned fund balance*—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

*Unassigned fund balance*—amounts that are available for any purpose. Positive amounts are

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

reported only in the general fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In the general fund, the City strives to maintain unassigned fund balances to be used for unanticipated emergencies of approximately \$1,500,000 and a set-aside as business continuance for City services in the event of a major disaster or emergency of approximately \$2,100,000.

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

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

	<b><u>Secured</u></b>	<b><u>Unsecured</u></b>
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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

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 the General Fund

Fund	Excess Expenditures	Explanation
General Fund	\$ 185,652	Primarily due to public work expenditures higher than planned.

**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 fiscal year ended June 30, 2012, the City recorded prior period adjustments primarily related to the reclassification of retainage payable liabilities as paid. The total amount of prior period adjustment recorded was \$293,843 in the government-wide financial statements.

**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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

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	\$ 11,322,814	\$ 13,430,517	\$ 24,753,331
Restricted Cash and Investments	443,746	7,160,403	7,604,149
Total Cash and Investments	<u>\$ 11,766,560</u>	<u>\$ 20,590,920</u>	<u>\$ 32,357,480</u>

**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 and Investments - Restricted** - Restricted cash and investments are required to be held by outside fiscal agents under the provisions of various debt issues or other restrictions. These cash and investments are restricted for debt service requirements.

The City held the following cash and investments at year end:

<u>Investment Type/Cash Deposit</u>	<u>Available for Operations</u>	<u>Restricted</u>	<u>Total</u>
U.S. Treasuries Obligations	\$ 6,004,286	\$ -	\$ 6,004,286
Government Securities Money Market Mutual Funds	-	6,910,328	6,910,328
Local Agency Investment Fund	15,007,841	-	15,007,841
Total Investments	21,012,127	6,910,328	27,922,455
Cash Deposits with Banks	1,040,140	693,821	1,733,961
Certificate of Deposit	2,699,950	-	2,699,950
Cash on Hand	1,114	-	1,114
Total Cash and Investments	<u>\$ 24,753,331</u>	<u>\$ 7,604,149</u>	<u>\$ 32,357,480</u>

**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

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by Federal Depository Insurance.

The City's cash deposits with banks (including CD investment) were \$4,418,653 as of June 30, 2012. Of the bank balance, \$2,672,009 was either insured or guaranteed by the Federal Depository Insurance Corporation (FDIC) and \$1,505,050 was uninsured but collateralized as noted in the preceding paragraph as of June 30, 2012. Differences between the carrying amount and bank balances are from outstanding deposits and checks as of June 30, 2012.

**LAIF 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, 2012, LAIF had approximately \$22 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, 2012 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 shares 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, 2012, the City had \$15,007,841 invested in LAIF, which had invested 3.47% 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 the Pooled Money Investment Account (PMIA). LAIF is a part of PMIA. This factor is the result of dividing all PMIA participants' total aggregate fair value (\$60,588,263,603) by total aggregate amortized cost (\$60,514,457,551) resulting in a factor of 1.001219643.

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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

**Investment Risks**

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:

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

*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.

*Credit Risk*

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. The City's two other investment types, LAIF and money market mutual funds, are not rated.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

*Interest Rate Risk*

This is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the City's debt type investments to this risk, using the segmented time distribution model is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1 Year</u>	<u>1 – 5 Years</u>	<u>6 -10 Years</u>
U.S. Treasuries Obligations	\$ 6,004,286	\$ 5	\$ 5,003,879	\$ 1,000,407
Government Securities Money				
Market Mutual Funds	6,910,328	6,910,328	-	-
Local Agency Investment Fund	15,007,841	15,007,841	-	-
Total Investments	<u>\$ 27,922,455</u>	<u>\$ 21,918,174</u>	<u>\$ 5,003,879</u>	<u>\$ 1,000,407</u>

**NOTE 4 - RECEIVABLES**

**Accounts Receivable**

\$197,787 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.

**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



**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

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).

**NOTE 5 - INTERFUND TRANSACTIONS**

The following tables summarize the City's due to and due from other funds as of June 30, 2012:

<u>Receivable Fund (Due From in)</u>	<u>Payable fund (Due To in)</u>	<u>Amount</u>
General Fund	Nonmajor Proprietary Fund	\$ 620,883
	Nonmajor Governmental Funds	1,452,404
	Internal Service Funds	1,031,926
		<u>\$ 3,105,213</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, 2012:

<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

**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 them to expend, (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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

Transfers between funds during the fiscal year ended June 30, 2012 were as follows:

	Transfers In	Transfers Out
<b>Major Governmental Funds:</b>		
General Fund	\$ 775,278	\$ 117,264
Low/Moderate Income Housing Fund	25,000	597,545
Community Development Agency Capital Projects Fund	-	2,800,369
2011 Tax Allocation Debt Capital Project Fund	1,206,918	-
<b>Major Proprietary Fund:</b>		
Water Fund	-	526,814
<b>Nonmajor Governmental Funds:</b>		
SLESF Law Enforcement Fund	-	100,000
Bond Property Manintenance Fund	-	15,000
Mayssonave Property Fund	-	15,000
Sonoma Creek Senior Housing Fund	-	25,000
Gas Tax Fund	252,505	-
Eastside Estate Fund	-	93
MIS Fund	-	80,125
Municipal Finance Corporation Debt Service Fund	100,537	-
2003 Tax Allocation Bonds Debt Service Fund	1,194,660	-
2008 CREB Bonds Debt Service Fund	72,250	57,250
2010 Tax Allocation Bonds Debt Service Fund	744,824	-
<b>Nonmajor Proprietary Funds:</b>		
Cemetery Fund	45,216	82,728
	\$ 4,417,187	\$ 4,417,187

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 6 - CAPITAL ASSETS**

Changes in capital assets consisted of the following for the fiscal year ended June 30, 2012:

Governmental Activities	Balance June 30, 2011	Additions	Deletions	Transfers	Transfer to Private Purpose Trust Fund	Balance June 30, 2012
Capital assets, not being depreciated:						
Land	\$ 13,502,240	\$ -	\$ -	\$ -	\$ (10,600,515)	\$ 2,901,725
Right of ways	356,028	-	-	-	(356,028)	-
Construction in progress	1,029,989	1,244,205	-	(198,710)	(2,075,484)	-
Total capital assets, not being depreciated	14,888,256	1,244,205	-	(198,710)	(13,032,027)	2,901,725
Capital assets, being depreciated:						
Infrastructure	22,676,786	-	-		(16,634,671)	6,042,115
Buildings and improvements	21,183,915	-	-	198,710	(13,418,803)	7,963,822
Equipment and vehicles	5,629,140	75,504	-	-	(387,449)	5,317,195
Total capital assets, being depreciated	49,489,841	75,504	-	198,710	(30,440,923)	19,323,132
Less accumulated depreciation	(12,575,130)	(838,877)	-	-	4,372,370	(9,041,637)
Total capital assets, being depreciated, net	36,914,711	(763,373)	-	198,710	(26,068,553)	10,281,495
Capital assets, net	<u>\$ 51,802,967</u>	<u>\$ 480,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,100,580)</u>	<u>\$ 13,183,220</u>

Business-type Activities	Balance June 30, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 960,472	\$ -	\$ -	\$ -	\$ 960,472
Construction in progress	60,504	-	-	(60,504)	-
Total capital assets, not being depreciated	1,020,976	-	-	(60,504)	960,472
Capital assets, being depreciated:					
Infrastructure	25,572	-	-	-	25,572
Buildings and improvements	21,143,368	-	-	60,504	21,203,872
Equipment and vehicles	911,680	30,775	-	-	942,455
Total capital assets, being depreciated	22,080,620	30,775	-	60,504	22,171,899
Less accumulated depreciation	(10,820,577)	(397,381)	-	-	(11,217,958)
Total capital assets, being depreciated, net	11,260,043	(366,606)	-	60,504	10,953,941
Capital assets, net	<u>\$ 12,281,019</u>	<u>\$ (366,606)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,914,413</u>

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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	\$ 223,363	\$ -
Public safety	229,149	-
Public works	29,580	-
Community development	356,785	-
Water	-	349,287
Cemetery	-	48,094
	\$ 838,877	\$ 397,381
Total Depreciation	\$ 838,877	\$ 397,381

**NOTE 7 - LONG-TERM OBLIGATIONS**

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

**A. Schedule of Changes in Long-term Debt**

	Balance June 30, 2011	Additions	Reductions	Transfer to Private Purpose Trust Fund	Balance June 30, 2012	Due within one year
<b>Governmental Activities:</b>						
2003 Tax Allocation Bonds	17,255,000	-	465,000	(16,790,000)	-	-
2010 Tax Allocation Bonds	9,970,000	-	370,000	(9,600,000)	-	-
2011 Tax Allocation Bonds	15,750,000	-	125,000	(15,625,000)	-	-
Note Payable - USDA	796,179	-	2,472	(793,707)	-	-
Note Payable - Exchange Bank	2,022,959	-	28,756	(1,994,203)	-	-
Capital Lease Obligation REFA1993	197,900	-	96,800	-	101,100	101,100
Capital Lease Obligation CREBs	939,250	-	438,262	-	500,988	41,749
Compensated Absences	354,052	-	17,000	-	337,052	67,410
Total Governmental Activities Debt	47,285,340	-	1,543,290	(44,802,910)	939,140	210,259
<b>Business-type Activities:</b>						
Certificates of Participation - Water	1,825,000	-	55,000	-	1,770,000	55,000
Compensated Absences	67,558	14,400	3,845	-	78,113	15,623
Total Business-type Activities Debt	1,892,558	14,400	58,845	-	1,848,113	70,623
Total Long-term Obligations	\$ 49,177,898	\$ 14,400	\$ 1,602,135	\$ (44,802,910)	\$ 2,787,253	\$ 280,882

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

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

**B. Tax Allocation Bonds**

**Debt without City Commitment - Successor Agency Private Purpose Trust Fund Debts**

*2003 Tax Allocation Bonds* – In May 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.

*2010 Tax Allocation Refunding Bonds* – In September 2010, the Agency issued \$10,120,000 of tax allocation bonds in order to refund the 1997 Tax Allocation Bonds (“1997 TAB”) and the 2000 Tax Allocation Refunding Bonds (“2000 TAB”). The proceeds were placed into escrow and the 1997 TAB and the 2000 TAB were fully refunded in December 2010 by the escrow agent. The issuance saved the Agency an estimated amount of \$640,000. The cash flow savings is approximately \$1 million or \$50,000 per year. Annual interest rates vary between 2% and 5% per annum. The bonds mature semiannually in increasing amounts on each December 1, through 2030.

*2011 Tax Allocation Bonds* – In February 2011, the Agency issued tax allocation bonds in the amount of \$15,750,000, with a variable interest rate of 2.25% to 6.50% per annum, to provide funds for certain community development projects. The bonds mature semiannually in increasing amounts on each December 1, through 2036.

**C. Notes Payable**

**Notes Payable without City Commitment - Successor Agency Private Purpose Trust Fund Notes Payable**

*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 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.

*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.

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

**D. Capital Lease Obligations**

**Governmental Activities**

*1993 Financing Authority Leases* - The City entered into lease-purchase agreements with the Redwood Empire Financing Authority (the “Authority”) for the purpose of making improvements to City property and buildings, and for the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date of the leases. The Authority issued \$1,430,000 in the Certificates of Participation at 6.00% to obtain the funds needed to make such improvements and acquisitions, and entered into lease agreements with in the City and the 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. When the City entered into the lease-purchase agreement the Agency agreed to provide payments equal to 37% of the total obligation on a yearly basis. The amount of \$57,919 is recorded as receivables from the Successor Agency of the Sonoma Community Development Agency on the government-wide statement of net assets.

The net present values of the 1993 Financing Authority future minimum lease payments were as follows as of June 30, 2012:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	101,100	3,348	104,448
Total	<u>\$ 101,100</u>	<u>\$ 3,348</u>	<u>\$ 104,448</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. During the fiscal year ended June 30, 2012, the City determined that two of the projects were no longer feasible and returned the \$366,012 in proceeds related to those two projects. Principal installments of \$41,749 are made on December 15 of each year, with the final installment due on December 15, 2024. In June 2010, the City entered into CREBs Project Funding Cooperation Agreement with the Agency to provide Agency payments to the City to make the required lease payments. The amount of \$500,988 is recorded as receivables

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

from the Successor Agency of the Sonoma Community Development Agency on the government-wide statement of net assets. The future minimum obligations as of June 30, 2012 were as follows:

Fiscal Year Ending June 30	Total
2013	\$ 41,749
2014	41,749
2015	41,749
2016	41,749
2017	41,749
2018-2022	208,745
2023-2024	83,498
Total minimum lease payments	\$ 500,988

**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:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 55,000	\$ 80,910	\$ 135,910
2014	60,000	78,638	138,638
2015	60,000	76,178	136,178
2016	65,000	73,520	138,520
2017	65,000	320,905	385,905
2018-2022	460,000	223,725	683,725
2023-2027	575,000	101,531	676,531
2028-2032	130,000	3,088	133,088
Total	\$ 1,470,000	\$ 958,495	\$ 2,428,495

**E. 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

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

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 – DEFICIT NET ASSETS AND FUND BALANCES**

The following funds had deficit fund balances or net assets as of June 30, 2012:

Funds	Deficit
<u>Non major Funds:</u>	
Strong Motion Fund	\$ 2,708
Gas Tax Fund	522,205
Bond Property Maintenance Fund	5,780
Economic Stimulus Fund	784,992
Capital Asset Project Fund	63,000
Municipal Finance Corporation Debt Service Fund	110,347
Eastside Estate Fund	30,891
<u>Internal Service Fund:</u>	
Employee Benefits Fund	1,040,384

**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 fire 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, 2012 was 14.248% of annual covered payroll for non-safety (miscellaneous) employees and 39.344% for fire safety employees. The police safety funding is not based on covered payroll as this is an inactive plan and only former employees are being funded. 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, 2012, the City's \$1,224,057 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, 2009 actuarial valuation using the entry age normal cost method or entry age actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) 3.55% 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



**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

**Three-Year Trend Information PERS**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 965,590	100%	-
6/30/2011	1,026,156	100%	-
6/30/2012	1,224,057	100%	-

**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 3.0% at 50 Risk Pool (Fire Safety)**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2009	\$ 9,721,675,347	\$ 8,027,158,724	\$ 1,694,516,623	82.6%	\$ 973,814,168	174.0%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	955,980,815	177.3%
2011	10,951,745,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%

**Actuarial – Miscellaneous 2% at 55 Risk Pool (Non-Safety)**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2009	\$ 3,104,798,222	\$ 2,758,511,101	\$ 346,287,121	88.8%	\$ 742,981,488	46.6%
2010	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%
2011	3,619,835,876	3,203,214,899	416,620,977	88.5%	759,263,518	54.9%

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

**Actuarial – Inactive Agency Risk Pool (Police Safety)**

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2009	\$ 480,513,699	\$ 442,936,897	\$ 37,576,802	92.2%	-	0.0%
2010	509,198,137	466,195,860	43,002,277	91.6%	-	0.0%
2011	677,648,972	608,911,358	68,737,614	89.9%	-	0.0%

**NOTE 10 - RISK MANAGEMENT**

The City is self-insured for the following:

	<u>Per Occurrence</u>
Workers' Compensation:	\$ 1,000,000
General Liability:	\$ 500,000
Property:	\$ 25,000
Auto:	\$ 10,000
Boiler and Machinery:	\$ 5,000

The City is a member of the Redwood Empire Municipal Insurance Fund (REMIF), which is a liability pool consisting of 13 agencies for workers' compensation, property insurance, general liability, auto insurance and boiler and machinery insurance. The purpose of the pool is to provide certain levels of liability coverage, claims administration and loss control support to member agencies. Annually, each agency pays an actuarially-determined premium based on a formula which takes into account various factors. This premium pays for administrative costs and funds liability reserves. Additional cash contributions may be assessed on the basis of adverse loss experience. During the fiscal year ended June 30, 2012, the City paid \$433,668 for current year coverage and for changes in the liability reserves.

*Workers' Compensation:* REMIF purchases insurance through agreements with commercial insurers that covers their members' exposure above \$1,000,000 up to the statutory limits required by the State of California.

*General Liability:* REMIF belongs to the California Joint Powers Risk Management Authority (CJPRM) which is an excess liability pool comprised of REMIF and other local government insurance pools. CJPRM provides coverage from \$500,001 to \$4,500,000. REMIF purchases insurance through agreements with commercial insurers for coverage between \$5,000,001 to \$25,000,000.

*Property:* REMIF purchases insurance through agreements with commercial insurers that covers their members' exposure above \$25,001 up to \$290,000,000

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

Condensed full accrual basis audited financial information of REMIF as of and for the year ended June 30, 2012, is as follows:

Total Assets	\$ 18,010,735
Total Liabilities	<u>14,429,297</u>
Net Assets	<u><u>3,581,438</u></u>
Total Revenues	\$ 8,854,620
Total Expenses	<u>8,805,881</u>
Change in Net Assets	<u><u>48,739</u></u>

**NOTE 11 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY COMMUNITY DEVELOPMENT AGENCY**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Sonoma that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 12, 2012, the City Council elected to become the Successor Agency for the former Community Development Agency in accordance with the Bill as part of City resolution number 01 - 2012.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the governmental – wide financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary loss recognized in the governmental - wide financial statements is reconciled as follows:

**CITY OF SONOMA, CALIFORNIA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

---

Total extraordinary loss reported in governmental funds – increase to net assets of the Successor Agency Trust Fund	\$ 21,183,407
Long term Loan Receivable recorded in the government-wide financial statements – increase to net assets of the Successor Agency Trust Fund	1,125,835
Capital assets recorded in the government-wide financial statements – increase to net assets of the Successor Agency Trust Fund	39,100,579
Accrued bond interest reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund	(361,191)
Successor agency's portion of notes payable to the city reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund	(558,907)
Long-term debt reported in the government-wide financial Statements – decrease to net assets of the Successor Agency Trust Fund	<u>(44,802,910)</u>
Net increase to net assets of the Successor Agency Trust Fund as a result of initial transfers	15,686,813
Unamortized bond issuance cost and premium/discount recorded in the government-wide financial statements – not transferred to the Successor Agency	866,334
Compensated absence reported in the government-wide financial Statements – not transferred to the Successor Agency	(18,480)
Total extraordinary loss reported in the government-wide financial statement of the City	<u>\$ 16,534,666</u>

**NOTE 12 - 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, 2012**

---

**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.

**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.

**NOTE 13 – SUBSEQUENT EVENT**

**Refunding Water Installment Sales Agreement**

In October 2012 the City entered into the 2012 Refunding Water Installment Sales Agreement with the Public Property Financing Corporation of California related to the refunding of \$1,605,000 Sonoma Public Financing Authority 2001 Revenue Bonds, Series A. The interest rate is 3.9% and payments are due through October 1, 2031.

**Taxable Pension Obligation Bonds**

In December 2012, the City issued Taxable Pension Obligation Bonds in the amount of \$2,925,000. Interest rates range from 2.0% to 4.0%. The bonds mature on various dates from June 2013 to June 2021. The bonds were issued to refund the City's outstanding "side fund" obligations to the California Public Employees' Retirement System with respect to the City's Miscellaneous, Safety Police and Safety Fire plans.

***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, 2012**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
<b>REVENUES</b>				
Taxes	\$ 7,625,680	\$ 7,625,680	\$ 7,994,914	\$ 369,234
Fines and penalties	80,900	80,900	81,668	768
Intergovernmental revenues	142,950	142,950	104,332	(38,618)
Charges for services	1,997,100	1,997,100	1,955,458	(41,642)
License, permits and fees	339,300	339,300	444,923	105,623
Investment earnings	160,000	160,000	52,019	(107,981)
Rental income	78,200	78,200	76,718	(1,482)
Other revenue	<u>151,008</u>	<u>151,008</u>	<u>285,136</u>	<u>134,128</u>
 Total Revenues	 <u>10,575,138</u>	 <u>10,575,138</u>	 <u>10,995,168</u>	 <u>420,030</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,247,328	1,247,328	1,607,249	(359,921)
Public safety	8,502,324	8,502,324	8,748,142	(245,818)
Public works	1,318,720	1,318,720	1,314,012	4,708
Culture and leisure	<u>194,200</u>	<u>194,200</u>	<u>169,432</u>	<u>24,768</u>
 Total Expenditures	 <u>11,262,572</u>	 <u>11,262,572</u>	 <u>11,838,835</u>	 <u>(576,263)</u>
 <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	 <u>(687,434)</u>	 <u>(687,434)</u>	 <u>(843,667)</u>	 <u>(156,233)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	889,257	889,257	775,278	(113,979)
Transfers (out)	<u>(201,823)</u>	<u>(201,823)</u>	<u>(117,263)</u>	<u>84,560</u>
 Total Other Financing Sources (Uses)	 <u>687,434</u>	 <u>687,434</u>	 <u>658,015</u>	 <u>(29,419)</u>
 <b>NET CHANGES IN FUND BALANCE</b>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (185,652)</u>	 <u>\$ (185,652)</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, 2012**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
<b>REVENUES</b>				
Taxes	\$ 1,102,000	\$ 1,102,000	\$ 1,082,763	\$ (19,237)
Investment earnings	45,000	45,000	378	(44,622)
Total Revenues	<u>1,147,000</u>	<u>1,147,000</u>	<u>1,083,141</u>	<u>(63,859)</u>
<b>EXPENDITURES</b>				
Current:				
Community development	4,491,487	4,491,487	2,531,013	1,960,474
Total Expenditures	<u>4,491,487</u>	<u>4,491,487</u>	<u>2,531,013</u>	<u>1,960,474</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(3,344,487)</u>	<u>(3,344,487)</u>	<u>(1,447,872)</u>	<u>1,896,615</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	4,300,000	4,300,000	25,000	(4,275,000)
Transfers (out)	(622,563)	(622,563)	(597,545)	25,018
Total Other Financing Sources (Uses)	<u>3,677,437</u>	<u>3,677,437</u>	<u>(572,545)</u>	<u>(4,249,982)</u>
<b>EXTRAORDINARY LOSS</b>	<u>-</u>	<u>-</u>	<u>(2,147,577)</u>	<u>(2,147,577)</u>
<b>NET CHANGES IN FUND BALANCE</b>	<u>\$ 332,950</u>	<u>\$ 332,950</u>	<u>\$ (4,167,994)</u>	<u>\$ (4,500,944)</u>

*Supplementary Information*

**CITY OF SONOMA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
**JUNE 30, 2012**

SPECIAL REVENUE FUNDS

	Strong Motion Fund	Asset Forfeiture Fund	SLESF Law Enforcement Fund	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund
<b>ASSETS</b>						
Cash and investments	\$ -	\$ 3,718	\$ 92	\$ -	\$ 21	\$ 695
Cash and investments - restricted	-	-	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 3,718</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 695</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>						
Liabilities:						
Accounts payable	\$ 81	\$ -	\$ -	\$ -	\$ -	\$ 6,475
Due to other funds	2,627	-	-	-	-	-
Deposits payable and other liabilities	-	-	-	30,891	-	-
Total Liabilities	<u>2,708</u>	<u>-</u>	<u>-</u>	<u>30,891</u>	<u>-</u>	<u>6,475</u>
Fund Balances (Deficits):						
Restricted for:						
Capital projects	-	-	-	-	-	-
Assigned for:						
Capital projects	-	-	-	-	21	-
Housing	-	-	-	-	-	-
Public Safety	-	3,718	92	-	-	-
Unassigned	<u>(2,708)</u>	<u>-</u>	<u>-</u>	<u>(30,891)</u>	<u>-</u>	<u>(5,780)</u>
Total Fund Balances (Deficits)	<u>(2,708)</u>	<u>3,718</u>	<u>92</u>	<u>(30,891)</u>	<u>21</u>	<u>(5,780)</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ 3,718</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 695</u>

(Continued)

**CITY OF SONOMA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
**JUNE 30, 2012**

SPECIAL REVENUE FUNDS

	Strong Motion Fund	Asset Forfeiture Fund	SLESF Law Enforcement Fund	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund
<b>ASSETS</b>						
Cash and investments	\$ -	\$ 3,718	\$ 92	\$ -	\$ 21	\$ 695
Cash and investments - restricted	-	-	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 3,718</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 695</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>						
Liabilities:						
Accounts payable	\$ 81	\$ -	\$ -	\$ -	\$ -	\$ 6,475
Due to other funds	2,627	-	-	-	-	-
Deposits payable and other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,891</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>2,708</u>	<u>-</u>	<u>-</u>	<u>30,891</u>	<u>-</u>	<u>6,475</u>
Fund Balances (Deficits):						
Restricted for:						
Capital projects	-	-	-	-	-	-
Assigned for:						
Capital projects	-	-	-	-	21	-
Housing	-	-	-	-	-	-
Public Safety	-	3,718	92	-	-	-
Unassigned	<u>(2,708)</u>	<u>-</u>	<u>-</u>	<u>(30,891)</u>	<u>-</u>	<u>(5,780)</u>
Total Fund Balances (Deficits)	<u>(2,708)</u>	<u>3,718</u>	<u>92</u>	<u>(30,891)</u>	<u>21</u>	<u>(5,780)</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ 3,718</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 695</u>

(Continued)

**CITY OF SONOMA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
**JUNE 30, 2012**

	CAPITAL PROJECT FUNDS			DEBT SERVICE FUNDS			Total Combining Nonmajor Funds
	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund	Municipal Finance Corporation Debt Service Fund	2008 CREB Bonds Debt Service Fund	
<b>ASSETS</b>							
Cash and investments	\$ 178,021	\$ 187,053	\$ -	\$ -	\$ -	\$ 20	\$ 956,569
Cash and investments - restricted	-	-	-	-	-	-	123,331
<b>Total Assets</b>	<u>\$ 178,021</u>	<u>\$ 187,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 1,079,900</u>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>							
Liabilities:							
Accounts payable	\$ 1,386	\$ 7,266	\$ (39,353)	\$ 27,371	\$ -	\$ -	\$ 49,351
Due to other funds	-	-	824,345	35,629	110,347	-	1,452,404
Deposits payable and other liabilities	8,836	-	-	-	-	-	182,187
<b>Total Liabilities</b>	<u>10,222</u>	<u>7,266</u>	<u>784,992</u>	<u>63,000</u>	<u>110,347</u>	<u>-</u>	<u>1,683,942</u>
Fund Balances (Deficits):							
Restricted for:							
Capital projects	-	179,787	-	-	-	-	267,769
Assigned for:							
Capital projects	167,799	-	-	-	-	-	167,820
Housing	-	-	-	-	-	-	431,587
Public Safety	-	-	-	-	-	-	48,685
Unassigned	-	-	(784,992)	(63,000)	(110,347)	20	(1,519,903)
<b>Total Fund Balances (Deficits)</b>	<u>167,799</u>	<u>179,787</u>	<u>(784,992)</u>	<u>(63,000)</u>	<u>(110,347)</u>	<u>20</u>	<u>(604,042)</u>
<b>Total Liabilities and Fund Balances (Deficits)</b>	<u>\$ 178,021</u>	<u>\$ 187,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 1,079,900</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, 2012**

**SPECIAL REVENUE FUNDS**

	Strong Motion Fund	Asset Forfeiture Fund	SLESF Law Enforcement Fund	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	-	-	102,708	-	-	-
License, permits and fees	733	-	-	-	-	-
Investment earnings	-	33	201	291	67	129
Rental income	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
<b>Total Revenues</b>	<u>733</u>	<u>33</u>	<u>102,909</u>	<u>291</u>	<u>67</u>	<u>129</u>
<b>EXPENDITURES</b>						
Current:						
Public safety	-	-	14,778	-	7,405	-
Public works	825	-	-	32,170	-	11,113
Community development	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
<b>Total Expenditures</b>	<u>825</u>	<u>-</u>	<u>14,778</u>	<u>32,170</u>	<u>7,405</u>	<u>11,113</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(92)</u>	<u>33</u>	<u>88,131</u>	<u>(31,879)</u>	<u>(7,338)</u>	<u>(10,984)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	(100,000)	(93)	-	(15,000)
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>(93)</u>	<u>-</u>	<u>(15,000)</u>
Extraordinary gain (loss)	-	-	-	-	-	-
<b>NET CHANGES IN FUND BALANCES (DEFICITS)</b>	<u>(92)</u>	<u>33</u>	<u>(11,869)</u>	<u>(31,972)</u>	<u>(7,338)</u>	<u>(25,984)</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS</b>	<u>(2,616)</u>	<u>3,685</u>	<u>11,961</u>	<u>1,081</u>	<u>7,359</u>	<u>20,204</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED</b>	<u>(2,616)</u>	<u>3,685</u>	<u>11,961</u>	<u>1,081</u>	<u>7,359</u>	<u>20,204</u>
<b>FUND BALANCES (DEFICITS) - ENDING</b>	<u>\$ (2,708)</u>	<u>\$ 3,718</u>	<u>\$ 92</u>	<u>\$ (30,891)</u>	<u>\$ 21</u>	<u>\$ (5,780)</u>

(Continued)

**CITY OF SONOMA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES (DEFICITS)**  
**FOR THE YEAR ENDED JUNE 30, 2012**

SPECIAL REVENUE FUNDS							
	Mayssonave Property Fund	Schell Drainge Fund	Abandoned Vehicle Fund	Sonoma Creek Senior Housing Fund	Village Green Fund	Gas Tax Fund	Community Development Block Grant Fund
<b>REVENUES</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	-	-	-	-	-	307,701	-
License, permits and fees	-	-	-	-	-	-	-
Investment earnings	461	1,650	6,244	2,102	1,160	-	509
Rental income	1,067	-	-	206,637	231,639	-	-
Other revenue	-	-	-	1,796	(2,187)	-	-
<b>Total Revenues</b>	<u>1,528</u>	<u>1,650</u>	<u>6,244</u>	<u>210,535</u>	<u>230,612</u>	<u>307,701</u>	<u>509</u>
<b>EXPENDITURES</b>							
Current:							
Public safety	-	-	9,729	-	-	-	-
Public works	8,907	-	-	-	-	722,742	45,428
Community development	-	-	-	204,112	105,449	-	-
Capital outlay	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	30,520	-	-
Interest and fees	-	-	-	-	61,499	-	-
<b>Total Expenditures</b>	<u>8,907</u>	<u>-</u>	<u>9,729</u>	<u>204,112</u>	<u>197,468</u>	<u>722,742</u>	<u>45,428</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(7,379)</u>	<u>1,650</u>	<u>(3,485)</u>	<u>6,423</u>	<u>33,144</u>	<u>(415,041)</u>	<u>(44,919)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	-	-	-	-	252,505	-
Transfers (out)	(15,000)	-	-	(25,000)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>252,505</u>	<u>-</u>
Extraordinary gain (loss)	-	-	-	-	(683,546)	-	-
<b>NET CHANGES IN FUND BALANCES (DEFICITS)</b>	<u>(22,379)</u>	<u>1,650</u>	<u>(3,485)</u>	<u>(18,577)</u>	<u>(650,402)</u>	<u>(162,536)</u>	<u>(44,919)</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS</b>	<u>59,235</u>	<u>38,595</u>	<u>48,360</u>	<u>450,164</u>	<u>650,402</u>	<u>(359,669)</u>	<u>155,800</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED</b>	<u>59,235</u>	<u>38,595</u>	<u>48,360</u>	<u>450,164</u>	<u>650,402</u>	<u>(359,669)</u>	<u>55,800</u>
<b>FUND BALANCES (DEFICITS) - ENDING</b>	<u>\$ 36,856</u>	<u>\$ 40,245</u>	<u>\$ 44,875</u>	<u>\$ 431,587</u>	<u>\$ -</u>	<u>\$ (522,205)</u>	<u>\$ 10,881</u>

(Continued)

**CITY OF SONOMA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES (DEFICITS)**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**CAPITAL PROJECT FUNDS**

	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund
<b>REVENUES</b>				
Taxes	\$ -	\$ 31,027	\$ -	\$ -
Intergovernmental revenues	-	-	-	-
License, permits and fees	72,798	-	-	-
Investment earnings	1,345	1,591	-	-
Rental income	-	-	-	-
Other revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>74,143</u>	<u>32,618</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	-	-	-	-
Public works	1,347	-	-	-
Community development	-	-	-	-
Capital outlay	-	22,318	60	-
Debt service:				
Principal	-	-	-	366,013
Interest and fees	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>1,347</u>	<u>22,318</u>	<u>60</u>	<u>366,013</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>72,796</u>	<u>10,300</u>	<u>(60)</u>	<u>(366,013)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Extraordinary gain (loss)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES (DEFICITS)</b>	<u>72,796</u>	<u>10,300</u>	<u>(60)</u>	<u>(366,013)</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS</b>	<u>95,003</u>	<u>169,487</u>	<u>(841,048)</u>	<u>303,013</u>
	<u>-</u>	<u>-</u>	<u>56,116</u>	<u>-</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED</b>	<u>95,003</u>	<u>169,487</u>	<u>(784,932)</u>	<u>303,013</u>
<b>FUND BALANCES (DEFICITS) - ENDING</b>	<u>\$ 167,799</u>	<u>\$ 179,787</u>	<u>\$ (784,992)</u>	<u>\$ (63,000)</u>

(Continued)



**CITY OF SONOMA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES (DEFICITS)**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	DEBT SERVICE FUNDS						Total Combining Nonmajor Funds
	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	2010 Tax Allocation Bonds Debt Service Fund	
<b>REVENUES</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,027
Intergovernmental revenues	-	-	-	-	-	-	410,409
License, permits and fees	-	-	-	-	-	-	73,531
Investment earnings	-	-	2	-	20	-	15,805
Rental income	-	-	-	-	-	-	439,343
Other revenue	-	-	-	-	-	-	(391)
<b>Total Revenues</b>	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>969,724</u>
<b>EXPENDITURES</b>							
Current:							
Public safety	-	-	-	-	-	-	31,912
Public works	-	-	-	-	-	-	822,532
Community development	-	-	-	-	-	-	309,561
Capital outlay	-	-	-	-	-	-	22,378
Debt service:							
Principal	96,790	-	-	465,000	-	370,000	1,328,323
Interest and fees	7,664	-	-	365,695	-	189,761	624,619
<b>Total Expenditures</b>	<u>104,454</u>	<u>-</u>	<u>-</u>	<u>830,695</u>	<u>-</u>	<u>559,761</u>	<u>3,139,325</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(104,454)</u>	<u>-</u>	<u>2</u>	<u>(830,695)</u>	<u>20</u>	<u>(559,761)</u>	<u>(2,169,601)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	100,537	-	-	1,194,659	72,250	744,823	2,364,774
Transfers (out)	-	-	-	-	(57,250)	-	(212,343)
<b>Total Other Financing Sources (Uses)</b>	<u>100,537</u>	<u>-</u>	<u>-</u>	<u>1,194,659</u>	<u>15,000</u>	<u>744,823</u>	<u>2,152,431</u>
Extraordinary gain (loss)	-	(152)	(447)	(513,664)	-	(185,062)	(1,382,871)
<b>NET CHANGES IN FUND BALANCES (DEFICITS)</b>	<u>(3,917)</u>	<u>(152)</u>	<u>(445)</u>	<u>(149,700)</u>	<u>15,020</u>	<u>-</u>	<u>(1,400,041)</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS</b>	<u>(106,430)</u>	<u>152</u>	<u>445</u>	<u>149,700</u>	<u>(15,000)</u>	<u>-</u>	<u>839,883</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,884)</u>
<b>FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED</b>	<u>(106,430)</u>	<u>152</u>	<u>445</u>	<u>149,700</u>	<u>(15,000)</u>	<u>-</u>	<u>795,999</u>
<b>FUND BALANCES (DEFICITS) - ENDING</b>	<u>\$ (110,347)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ (604,042)</u>

(Concluded)

**CITY OF SONOMA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Section 125 MED Fund	Totals
<b>ASSETS</b>										
Current Assets:										
Cash and investments	\$ 263,668	\$ 9,146	\$ 1,068,627	\$ 151,403	\$ -	\$ 1,471,213	\$ 54,711	\$ 23,526	\$ 780	\$ 3,043,074
Accounts receivable - net	-	-	-	-	645	-	(551)	-	-	94
Deposits and other assets	-	-	-	-	-	-	-	-	382	382
<b>Total current assets</b>	<u>263,668</u>	<u>9,146</u>	<u>1,068,627</u>	<u>151,403</u>	<u>645</u>	<u>1,471,213</u>	<u>54,160</u>	<u>23,526</u>	<u>1,162</u>	<u>3,043,550</u>
<b>Total Assets</b>	<u>\$ 263,668</u>	<u>\$ 9,146</u>	<u>\$ 1,068,627</u>	<u>\$ 151,403</u>	<u>\$ 645</u>	<u>\$ 1,471,213</u>	<u>\$ 54,160</u>	<u>\$ 23,526</u>	<u>\$ 1,162</u>	<u>\$ 3,043,550</u>
<b>LIABILITIES</b>										
Current Liabilities:										
Accounts payable	\$ (175)	\$ -	\$ -	\$ -	\$ 9,104	\$ 1,192	\$ -	\$ -	\$ 1,162	\$ 11,283
Due to other funds	-	-	-	-	1,031,926	-	-	-	-	1,031,926
Deposits payable and other liabilities	-	8,079	-	-	-	-	-	-	-	8,079
<b>Total current liabilities</b>	<u>(175)</u>	<u>8,079</u>	<u>-</u>	<u>-</u>	<u>1,041,030</u>	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>1,162</u>	<u>1,051,288</u>
<b>Total Liabilities</b>	<u>(175)</u>	<u>8,079</u>	<u>-</u>	<u>-</u>	<u>1,041,030</u>	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>1,162</u>	<u>1,051,288</u>
<b>NET ASSETS</b>										
Unrestricted	<u>263,843</u>	<u>1,067</u>	<u>1,068,627</u>	<u>151,403</u>	<u>(1,040,385)</u>	<u>1,470,021</u>	<u>54,160</u>	<u>23,526</u>	<u>-</u>	<u>1,992,262</u>
<b>Total Net Assets</b>	<u>\$ 263,843</u>	<u>\$ 1,067</u>	<u>\$ 1,068,627</u>	<u>\$ 151,403</u>	<u>\$ (1,040,385)</u>	<u>\$ 1,470,021</u>	<u>\$ 54,160</u>	<u>\$ 23,526</u>	<u>\$ -</u>	<u>\$ 1,992,262</u>

**CITY OF SONOMA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUE, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Section 125 MED Fund	Totals
<b>OPERATING REVENUES</b>										
Charges for services	\$ 220,954	\$ -	\$ 71,644	\$ 202,200	\$ 1,983,245	\$ 87,825	\$ -	\$ -	\$ -	\$ 2,565,868
Miscellaneous	-	-	13,000	42,378	-	-	-	-	-	55,378
Total Operating Revenues	<u>220,954</u>	<u>-</u>	<u>84,644</u>	<u>244,578</u>	<u>1,983,245</u>	<u>87,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,621,246</u>
<b>OPERATING EXPENSES</b>										
Salaries and benefits	-	-	-	33,401	1,957,191	-	-	-	-	1,990,592
Services, supplies and maintenance	139,078	-	28,955	2,521	1,530	179,040	-	-	-	351,124
Insurance premiums and claims	-	-	-	287,823	155,532	-	-	-	-	443,355
Miscellaneous	-	-	-	-	-	-	4,201	-	-	4,201
Total Operating Expenses	<u>139,078</u>	<u>-</u>	<u>28,955</u>	<u>323,745</u>	<u>2,114,253</u>	<u>179,040</u>	<u>4,201</u>	<u>-</u>	<u>-</u>	<u>2,789,272</u>
<b>OPERATING INCOME (LOSS)</b>	<u>81,876</u>	<u>-</u>	<u>55,689</u>	<u>(79,167)</u>	<u>(131,008)</u>	<u>(91,215)</u>	<u>(4,201)</u>	<u>-</u>	<u>-</u>	<u>(168,026)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>										
Investment earnings	2,203	83	9,419	845	-	13,281	487	213	-	26,531
Total Nonoperating Revenues (Expenses)	<u>2,203</u>	<u>83</u>	<u>9,419</u>	<u>845</u>	<u>-</u>	<u>13,281</u>	<u>487</u>	<u>213</u>	<u>-</u>	<u>26,531</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>84,079</u>	<u>83</u>	<u>65,108</u>	<u>(78,322)</u>	<u>(131,008)</u>	<u>(77,934)</u>	<u>(3,714)</u>	<u>213</u>	<u>-</u>	<u>(141,495)</u>
<b>TRANSFERS:</b>										
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers (out)	(80,125)	-	-	-	-	-	-	-	-	(80,125)
<b>CHANGES IN NET ASSETS</b>	<u>3,954</u>	<u>83</u>	<u>65,108</u>	<u>(78,322)</u>	<u>(131,008)</u>	<u>(77,934)</u>	<u>(3,714)</u>	<u>213</u>	<u>-</u>	<u>(221,620)</u>
<b>NET ASSETS - BEGINNING</b>	<u>259,889</u>	<u>984</u>	<u>1,003,519</u>	<u>229,725</u>	<u>(909,377)</u>	<u>1,547,955</u>	<u>57,874</u>	<u>23,313</u>	<u>-</u>	<u>2,213,882</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 263,843</u>	<u>\$ 1,067</u>	<u>\$ 1,068,627</u>	<u>\$ 151,403</u>	<u>\$ (1,040,385)</u>	<u>\$ 1,470,021</u>	<u>\$ 54,160</u>	<u>\$ 23,526</u>	<u>\$ -</u>	<u>\$ 1,992,262</u>

**CITY OF SONOMA**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Section 125 MED Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>										
Receipts from internal service provided	\$ 220,954	\$ -	\$ 71,644	\$ 202,200	\$ 1,984,237	\$ 86,875	\$ 6,063	\$ -	\$ -	\$ 2,571,973
Payments to employees	-	-	-	(33,401)	(1,821,816)	-	-	-	-	(1,855,217)
Payments to suppliers and users	(142,173)	-	(28,955)	(300,073)	(162,421)	(179,040)	-	-	1,162	(811,500)
Other payments and receipts	-	-	13,000	42,378	-	-	(4,201)	-	(382)	50,795
Net Cash Provided by (Used for) Operating Activities	78,781	-	55,689	(88,896)	-	(92,165)	1,862	-	780	(43,949)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>										
Interest received	2,203	83	9,419	845	-	13,281	487	213	-	26,531
Net Cash Provided by Investing Activities	2,203	83	9,419	845	-	13,281	487	213	-	26,531
<b>NET INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	859	83	65,108	(88,051)	-	(78,884)	2,349	213	780	(97,543)
<b>CASH AND INVESTMENTS - BEGINNING</b>	262,809	9,063	1,003,519	239,454	-	1,550,097	52,362	23,313	-	3,140,617
<b>CASH AND INVESTMENTS - ENDING</b>	<u>\$ 263,668</u>	<u>\$ 9,146</u>	<u>\$ 1,068,627</u>	<u>\$ 151,403</u>	<u>\$ -</u>	<u>\$ 1,471,213</u>	<u>\$ 54,711</u>	<u>\$ 23,526</u>	<u>\$ 780</u>	<u>\$ 3,043,074</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>										
Operating income (loss)	\$ 81,876	\$ -	\$ 55,689	\$ (79,167)	\$ (131,008)	\$ (91,215)	\$ (4,201)	\$ -	\$ -	(168,026)
Adjustments to reconcile operating income to cash flows provided by operating activities:										
Change in assets and liabilities:										
Accounts receivable	-	-	-	-	992	(950)	6,063	-	-	6,105
Other assets	-	-	-	-	-	-	-	-	(382)	(382)
Accounts payable	(3,095)	-	-	(9,729)	(5,359)	-	-	-	1,162	(17,021)
Due to other funds	-	-	-	-	135,375	-	-	-	-	135,375
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>\$ 78,781</u>	<u>\$ -</u>	<u>\$ 55,689</u>	<u>\$ (88,896)</u>	<u>\$ -</u>	<u>\$ (92,165)</u>	<u>\$ 1,862</u>	<u>\$ -</u>	<u>\$ 780</u>	<u>(43,949)</u>

**CITY OF SONOMA**  
**AGENCY FUNDS**  
**COMBINING STATEMENT OF AGENCY ASSETS AND LIABILITIES**  
**JUNE 30, 2012**

	Cultural Fine Arts	Tree Trust	Public Art	Payroll Clearing	Climate Conference	Bid Deposits	Valley of the Moon Fire	Totals
<b>ASSETS</b>								
Cash and investments	\$ 10,613	\$ 12,981	\$ 17,880	\$ 131,734	\$ 87	\$ 37,644	\$ 1,911,282	\$ 2,122,221
Accounts receivable - net	-	-	-	-	-	15,341	286,962	302,303
Total Assets	<u>\$ 10,613</u>	<u>\$ 12,981</u>	<u>\$ 17,880</u>	<u>\$ 131,734</u>	<u>\$ 87</u>	<u>\$ 52,985</u>	<u>\$ 2,198,244</u>	<u>\$ 2,424,524</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 10,613	\$ 12,981	\$ 17,880	\$ 7,433	\$ 87	\$ 24,674	\$ 2,158,793	\$ 2,232,461
Deposits payable and other liabilities	-	-	-	124,301	-	28,311	39,451	192,063
Total Liabilities	<u>\$ 10,613</u>	<u>\$ 12,981</u>	<u>\$ 17,880</u>	<u>\$ 131,734</u>	<u>\$ 87</u>	<u>\$ 52,985</u>	<u>\$ 2,198,244</u>	<u>\$ 2,424,524</u>



**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 Major and Members of City Council  
City of Sonoma, California

We have audited the financial statements of the financial position 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 June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 27, 2013. 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 City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: Findings 12-01, 12-02, and 12-03.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to Management in a separate letter dated March 27, 2013.

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

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

*C. D. Ahlberg LLP*

March 27, 2013  
Redwood City, California

**CITY OF SONOMA, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

---

**Financial Statement Findings**

Finding 12-01/ Material Weakness

CONDITION: We noted during our audit that there appeared to be a lack of process to ensure that closing and non-reoccurring journal entries were properly recorded. We also noted that some schedules required for reporting purposes, the debt schedule roll forward and the capital assets schedules, required additional attention during our audit procedures. The types of adjustments related to closing and non-reoccurring journal entries were as follows:

- Receivable and Payable accounts across funds were not reconciled or reviewed prior to the audit. As a result, many of these accounts were misstated due to prior year accruals not being properly released.
- Prior period adjustments were incorrectly recorded thus misstated current period revenues or expenditures.
- 2008 CREB early repayment
- Former CDA Escrow account

CRITERIA: A well designed internal control system includes the requirement that general ledger accounts are reviewed and reconciled on a regular basis.

CAUSE OF CONDITION: It appears that the City may not be adequately staffed and/or has the correct design to permit review of accounting records.

EFFECT OF CONDITION: Given the budgetary challenges faced by the City, the primary effect is that the system cannot provide accurate information to decision makers in a timely fashion.

RECOMMENDATION: We would recommend requiring regular reconciliation of the general ledger to underlying accounting records to ensure all receivable are followed up on in a timely manner and payable reflect obligations of the City. A review procedure should be put in place to look at expenditure accounts after they have been booked to determine that the expenditure has been charged against the proper account.

CITY RESPONSE: The City has been working on this issue and although there are processes and procedures in place for reconciliation and verification of all accounts, the labor intensive demands of the due diligence reviews and State compliance requirement due to the dissolution of Redevelopment put unanticipated time constraints on professional staff. As with previous years, there are limitations due to the City's financial software. The limitations create difficulties in reporting, asset and project tracking and require labor intensive query methods for extracting data. The City is currently replacing software with anticipated completion late in 2013.

Specifically addressing the need for review, account reconciliation and financial statement analysis has begun with issues dating back to the previous fiscal year end audit, along with revision of workflow performed by the operations staff.



**CITY OF SONOMA, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

---

Finding 12-02/ Material Weakness

**CONDITION:** During our tests of capital expenditures, we determined that the City did not maintain complete records of the construction bids received from vendors.

**CRITERIA:** In order to determine compliance with the City's policies and California statutes regarding bidding, records should be maintained to show that the lowest responsible bidder was selected.

**CAUSE OF CONDITION:** The City did not have a centralized method of maintaining the submitted bids.

**EFFECT OF CONDITION:** The City is unable to demonstrate compliance with its policies.

**RECOMMENDATION:** We recommend that the City maintain the bids submitted by all vendors for a reasonable length of time. We recognize that the City has already drafted new procedures to address this issue.

**CITY RESPONSE:** As a continuation of policy outlined in the previous year, written procedures are in place and all construction bid documents are currently maintained in the City Clerk's files.

Finding 12-03/ Material Weakness

**CONDITION:** The City did not have a system in place to manage the dissolution of the former Community Development Agency. As a result, some former Community Development Agency expenditures were recorded as expenses of the Successor Agency of the former Community Development Agency of the City of Sonoma.

**CRITERIA:** Only allowable costs should be charges against the restricted revenues of the Successor Agency of the former Community Development Agency of the City of Sonoma.

**CAUSE OF CONDITION:** The City does not have a system in place to review how former Community Development Agency expenditures are ultimately charged in the general ledger.

**EFFECT OF CONIDITION:** Restricted revenues were used for former Community Development Agency expenditures.

**QUESTIONED COSTS:** Not determined.

**RECOMMENDATION:** A review procedure should be put in place to look at expenditure accounts after they have been booked to determine that the expenditure has been charged against the proper account.

**CITY OF SONOMA, CALIFORNIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

---

CITY RESPONSE: The City acknowledges this issue and as noted above, the labor intensive demands of the due diligence reviews and State compliance requirement due to the dissolution of Redevelopment put unanticipated time constraints on professional staff.

**CITY OF SONOMA, CALIFORNIA**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

---

**Financial Statement Findings**

Finding 11-01/ Material Weakness

CONDITION: During our audit, we noted the following conditions with respect to the maintenance and status of the general ledger records:

- Receivable and Payable accounts across funds were not reconciled or reviewed prior to the audit. As a result, many of these accounts were misstated due to prior year accruals not being properly released or current period activity not properly posted.
- City construction projects were charged against the Agency funds.
- Transfers between funds were not reconciled and compared to the budget to ensure that all of the approved transfers were booked.

CRITERIA: A well designed internal control system includes the requirement that general ledger accounts are reviewed and reconciled on a regular basis.

CAUSE OF CONDITION: It appears that the City may not be adequately staffed and/or has the correct design to permit review of accounting records.

EFFECT OF CONDITION: Given the budgetary challenges faced by the City, the primary effect is that the system cannot provide accurate information to decision makers in a timely fashion.

RECOMMENDATION: We would recommend requiring regular reconciliation of the general ledger to underlying accounting records to ensure all receivable are followed up on in a timely manner and payable reflect obligations of the City. A review procedure should be put in place to look at expenditure accounts after they have been booked to determine that the expenditure has been charged against the proper account. Transfers between funds should be periodically reviewed for reasonableness against the budget.

CITY RESPONSE: During the fiscal year 2010-11 the City's Finance Department experienced a long term vacancy in the position of City Accountant resulting in a delay in reconciliations. The City recognizes the vacancy resulted in additional work by the current City Accountant to resolve prior conditions. The City now has in place processes and procedures for reconciliation and verification of all accounts. A secondary issue related to this finding is the deficiency of the City's accounting software. The software has limitations on reporting, asset and project tracking which require labor intensive query methods for extracting data. The City will be replacing software in FY 2012-13.

While it is acknowledged that material weakness was discovered during the audit, the above cited examples demonstrate that the City has been working since April 2011 through the present time with a strategic plan for the department to address these needs. Specifically addressing the need for review, account reconciliation and financial statement analysis has begun with issues dating back to the previous fiscal year end audit, along with revision of workflow performed by the operations staff.

CURRENT STATUS: Similar to current year Finding 12-01.

**CITY OF SONOMA, CALIFORNIA**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

---

Finding 11-02/ Material Weakness

**CONDITION:** During our tests of capital expenditures, we determined that the City did not maintain complete records of the construction bids received from vendors.

**CRITERIA:** In order to determine compliance with the City's policies and California statutes regarding bidding, records should be maintained to show that the lowest responsible bidder was selected.

**CAUSE OF CONDITION:** The City did not have a centralized method of maintaining the submitted bids.

**EFFECT OF CONDITION:** The City is unable to demonstrate compliance with its policies.

**RECOMMENDATION:** We recommend that the City maintain the bids submitted by all vendors for a reasonable length of time. We recognize that the City has already drafted new procedures to address this issue.

**CITY RESPONSE:** Written procedures have been set in place and all construction bid documents will be maintained in the City Clerk's files. Inadvertently, department staff returned unsuccessful bidder documents and bid bonds to the Company submitting the bid.

**CURRENT STATUS:** Finding repeated at current year Finding 12-02.

Finding 11-03/ Compliance

**CONDITION:** During our compliance testing related to the Sonoma Community Development Agency, we determined that City capital projects were incorrectly charged against the Agency. We also observed an instance where we were unable to find evidence showing that the project was permissible as an Agency project due to the length of time between the project's approval by the CDA Board and the actual expenditure,

**CRITERIA:** Only allowable costs should be charged against the restricted revenues of the Sonoma Community Development Agency.

**CAUSE OF CONDITION:** The City does not have a system in place to review how projects are ultimately charged in the general ledger.

**EFFECT OF CONDITION:** Restricted revenues were used for general City expenditures.

**QUESTIONED COSTS:** None. The City moved the questioned costs to the City's Capital Project Fund.

**CITY OF SONOMA, CALIFORNIA**  
**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

---

**RECOMMENDATION:** A review procedure should be put in place to look at expenditure accounts after they have been booked to determine that the expenditure has been charged against the proper account.

**CITY RESPONSE:** The City has procedures in place to assure reconciliation of all accounts. During the fiscal year 2010-11 the City's Finance Department experienced a long term vacancy in the position of City Accountant resulting in a delay in reconciliations. While it is acknowledged that material weakness was discovered during the audit, the above cited examples demonstrate that the City has been working since April 2011 through the present time with a strategic plan for the department to address these needs. Specifically addressing the need for review, account reconciliation and financial statement analysis has begun with issues dating back to the previous fiscal year end audit, along with revision of workflow performed by the operations staff.

Additionally, the City Engineer's office is assigning account codes to individual invoices for internal reconciliation purposes. Management has reviewed the questioned costs and found them eligible CDA budgeted costs.

**CURRENT STATUS:** Finding no longer applicable due to dissolution of the Sonoma Community Development Agency.