

**CITY OF SONOMA
CALIFORNIA**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

City Council

Tom Rouse
David Cook
Ken Brown
Steve Barbose
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, 2013

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CITY OF SONOMA, CALIFORNIA

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Financial Section



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Management removed cash assets and did not record operational transactions in the Successor Agency Private Purpose Trust Fund related to the Village Green II property. We were unable to obtain sufficient audit evidence about the timing of the transfer of the Village Green II cash and operational transactions because there was disagreement between management, the USDA and the Sonoma County Community Development Commission interpretation of the law to dissolve California redevelopment agencies. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Opinions

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of funding progress for pension benefit plans 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.

Other Information

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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining 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 relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

C. G. Uhlenberg LLP

Redwood City, California
April 7, 2014

Management's Discussion and Analysis

Fiscal Year 2012-2013

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 Position 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 Position 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 Position 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 position for the City. Net position, 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 position 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 Position 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, and General Services. 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 and EMS revenue.

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. 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

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 position 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 position and the Statement of Activities.

FINANCIAL HIGHLIGHTS

- The City's total net position at June 30, 2013 was \$33,608,524, a decrease of \$1,463,594 over the prior fiscal year 2011-12. The primary cause of the reduction related to the net result of increase in current assets less issuance of new liabilities [Pension Obligation Bond].
- Total City revenues, including program and general revenues, were \$18,859,010, a decrease of \$3,798,363 from the prior year. Total expenses were \$21,161,387, which was a decrease of \$2,826,898 from the prior year.
- Governmental Activities Program Revenues were \$3,515,743 in fiscal year 2012-2013, a decrease of \$305,362 from the prior fiscal year's \$3,821,105.
- Governmental Activities Program Expenses were \$16,767,120 in fiscal year 2012-13, a decrease of \$3,225,548 from the prior fiscal year's \$19,992,668.
- Program revenues from Business-Type Activities [Proprietary Funds] were \$5,253,982 in fiscal year 2012-13, an increase of \$175,663 from the prior fiscal year.
- General Fund revenues and net other financing sources were \$16,356,796 in fiscal year 2012-2013, an increase of \$4,703,613 over the prior fiscal year.
- General Fund total expenditures were \$15,652,675 in fiscal year 2012-2013, an increase of \$3,813,842 from prior fiscal year amounts.
- General fund balance was \$6,460,194 at fiscal year end June 30, 2013, compared with the budgeted fund balance and the prior fiscal year's actual fund balance of \$4,847,445. The fund balance is 41.3% of total General Fund expenditures.

Citywide Financial Statements – Governmental Activities

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

<i>(in US Dollar)</i>	2013	2012
Current and other assets	9,095,096	7,924,152
Capital Assets	13,174,460	13,183,220
Total Assets	22,269,559	21,107,372
Long-term debt outstanding	3,149,368	728,881
Other Liabilities	1,852,475	1,071,480
Total Liabilities	5,001,843	1,800,361
Net Position:		
Invested in Capital Asset [net of debt]	12,715,221	13,140,039
Restricted for Capital Projects	135,054	267,765
Unrestricted	4,417,438	5,899,207
Total Net Position	17,267,713	19,307,011

Total net position decreased approximately \$2,039,298 in fiscal year 2012-13 as compared to fiscal year 2011-12 as outlined above, primarily due the loss of redevelopment.

Governmental Activities – Revenues

REVENUES		
<i>Governmental Activities</i>	<i>(in US Dollar)</i>	
<i>Revenues by Source</i>	2013	%
<i>Program revenues:</i>		
<i>Charges for Services</i>	3,208,333	91%
<i>Operating contributions & grants</i>	307,410	9%
<i>Capital contributions & grants</i>	0	0%
<i>Total Program Revenues</i>	3,515,743	
<i>General revenues</i>		
<i>Taxes and Assessments</i>	9,895,385	95%
<i>Use of money and property</i>	14,998	1%
<i>Other</i>	462,913	4%
<i>Total General Revenues</i>	10,373,296	
<i>Total Revenues, Transfers & Special Items</i>	13,889,039	

The table above shows that all Governmental Activity revenues totaled \$13,889,039 in fiscal year 2012-13. This is in comparison to \$18,046,954 in fiscal year 2011-2012.

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

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

Governmental Activities – Expenses

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

EXPENSES & NET CHANGE			
<i>Governmental Activities</i>			<i>(in US Dollar)</i>
Department	Functions/ Expenses	Program Revenue	Revenue/ (Expenses)
General Government	2,473,531	435,079	(2,038,452)
Public Safety	11,350,853	2,169,129	(9,181,724)
Public Works	2,393,459	653,318	(1,740,141)
Community Development	218,749	206,369	(12,380)
Culture and Leisure	175,499	51,848	(123,651)
Debt interest and issuance costs	155,029	-	(155,029)
Total Net Cost	16,767,120	3,515,743	(13,251,377)

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 \$16,767,120 in fiscal year 2012-13. In fiscal year 2011-12, the City's expense level was \$19,992,666.

Citywide Financial Statements – Business-type Activities

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

Business-type Activities			
<i>Net position at June 30, 2013 and 2012</i>			<i>(in US Dollar)</i>
	2013	2012	Increase/(Decrease) from FY 11-12
Cash and other assets	6,582,123	6,199,321	382,802
Capital assets	11,962,646	11,914,413	29,892
Total Assets	18,544,769	18,113,734	431,035
Long-term debt outstanding	1,613,286	1,793,112	(179,826)
Other Liabilities	590,672	555,518	35,154
Total Liabilities	2,203,958	2,348,630	(144,672)
Total Net position:			
Invested in capital assets, net of debt	10,221,074	9,988,189	232,885
Restricted	185,178	320,468	(135,290)
Unrestricted	5,934,559	5,456,447	478,112
Total Net position	16,340,811	15,765,104	575,707

The City's Business-type net position increased \$575,707 to \$16.3 million in fiscal year 2012-13, from \$15.8 million in fiscal year 2011-12.

- ◆ Cash and other assets in fiscal year 2012-13 were increased by \$382,802 in comparison to prior fiscal year.
- ◆ Unrestricted net position of \$5.9 million represent liquid assets available to finance day-to-day operations and other expenditures approved by City Council.

FUND FINANCIAL STATEMENTS

Performance of Governmental Funds

At June 30, 2013, the City's Governmental Funds reported combined fund balances of \$5.1 million, an increase of \$1 million as compared with last year.

Governmental Fund revenues decreased \$3,670,823 this fiscal year to a total of \$13.8 million as compared to \$17.5 million.

The Governmental Funds expenditures for fiscal year 2012-13 were \$17.2 million; approximately \$4.7 million lower than when compared to the fiscal year 2011-12. There were two reasons for this decrease. The decrease can be primarily attributed to the elimination of the Sonoma Community Development Agency.

General Fund – The General Fund ended the year with \$6.4 million fund balance, compared to \$4.8 million, in the prior year. This was in part due to higher revenues and proceeds from longterm debt.

Sales tax, Transient Occupancy Tax and other miscellaneous taxes increased by approximately \$2 million as compared to the prior year. Property taxes, sales tax and transient occupancy taxes reflected an increase of 21% due in part to a market that has slowly moved in a positive direction.

At June 30, 2013, the General Fund balance totaled \$6.4 million. The Council has designated approximately \$2.2 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. This resulted in report-only accounting losses in fiscal year 11-12 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 \$292,322 at June 30, 2013, as compared to (\$604,041) at the end of the prior fiscal year.

PERFORMANCE OF PROPRIETARY [ENTERPRISE & INTERNAL SERVICE] FUNDS

At June 30, 2013, the City's Proprietary Funds reported combined net position of \$16.3 million, as compared to combined net position at June 30, 2012 of \$15.8 million.

Water Fund – The Water Fund ended the year with \$15.6 million net position on June 30, 2013 as compared to the prior fiscal year which ended the year with a \$15.0 million balance. The Water Fund posted Operating revenues of \$4.7 million, compared to \$4.2 in the prior year. Operating expenditures for fiscal year 2012-13 totaled \$3.9 million in comparison with fiscal year 2011-12 expenditures of \$3.5 million.

Cemetery Fund – The Cemetery Fund ended the year with \$694,503 net position on June 30, 2013 as compared to fiscal year 2011-12, which ended the year with a \$730,274 balance. Operating revenues were higher in fiscal year 2012-13 by \$63,953 from fiscal year 2011-12, which posted \$408,726 as compared to \$344,773 in fiscal year 2011-12. Operating expenditures were higher in fiscal year 2012-13 totaling \$436,361 in comparison with fiscal year 2011-12 expenditures of \$393,530.

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 Carol Giovanatto, City City Manager at City Hall, No. 1 the Plaza, Sonoma, California, 95476.

CITY OF SONOMA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 6,198,327	\$ 6,192,927	\$ 12,391,254
Cash and investments - restricted	118,102	185,178	303,280
Interest receivable	7,870	6,244	14,114
Accounts receivable - net	1,605,159	834,022	2,439,181
Deposits and other assets	69,501	-	69,501
Total current assets	<u>7,998,959</u>	<u>7,218,371</u>	<u>15,217,330</u>
Noncurrent assets:			
Internal balances	636,898	(636,898)	-
Receivable from Successor Agency			
Due within one year	41,749	-	41,749
Due in more than one year	417,490	-	417,490
Capital assets:			
Nondepreciable	2,977,391	1,044,207	4,021,598
Depreciable, net of accumulated depreciation	10,197,069	10,918,439	21,115,508
Other noncurrent assets	-	650	650
Total noncurrent assets	<u>14,270,597</u>	<u>11,326,398</u>	<u>25,596,995</u>
Total Assets	<u><u>\$ 22,269,556</u></u>	<u><u>\$ 18,544,769</u></u>	<u><u>\$ 40,814,325</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,057,277	\$ 339,381	\$ 1,396,658
Accrued interest	-	-	-
Deposits payable and other liabilities	270,598	191,291	461,889
Unamortized bond premium	109,881	-	109,881
Total current liabilities	<u>1,437,756</u>	<u>530,672</u>	<u>1,968,428</u>
Due within one year	414,719	60,000	474,719
Due in more than one year	3,149,368	1,613,286	4,762,654
Total long-term liabilities	<u>3,564,087</u>	<u>1,673,286</u>	<u>5,237,373</u>
Total Liabilities	<u><u>\$ 5,001,843</u></u>	<u><u>\$ 2,203,958</u></u>	<u><u>\$ 7,205,801</u></u>
NET POSITION			
Invested in capital assets, net of related debt	\$ 12,715,221	\$ 10,357,646	\$ 23,072,867
Restricted for capital projects	135,054	185,178	320,232
Unrestricted	4,417,438	5,797,987	10,215,425
Total Net Position	<u><u>\$ 17,267,713</u></u>	<u><u>\$ 16,340,811</u></u>	<u><u>\$ 33,608,524</u></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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 2,473,531	\$ 435,079	\$ -	\$ -	\$ (2,038,452)	\$ -	\$ (2,038,452)
Public safety	11,350,853	2,084,891	84,238	-	(9,181,724)	-	(9,181,724)
Public works	2,393,459	430,146	223,172	-	(1,740,141)	-	(1,740,141)
Community development	218,749	206,369	-	-	(12,380)	-	(12,380)
Culture and leisure	175,499	51,848	-	-	(123,651)	-	(123,651)
Debt interest and issuance costs	155,029	-	-	-	(155,029)	-	(155,029)
Total Governmental Activities	16,767,120	3,208,333	307,410	-	(13,251,377)	-	(13,251,377)
Business-type Activities:							
Water	3,869,772	4,726,122	-	119,133	-	975,483	975,483
Cemetery	427,438	408,727	-	-	-	(18,711)	(18,711)
Debt interest and issuance costs	97,057	-	-	-	-	(97,057)	(97,057)
Total Business-type Activities	4,394,267	5,134,849	-	119,133	-	859,715	859,715
Total	\$ 21,161,387	\$ 8,343,182	\$ 307,410	\$ 119,133	\$ (13,251,377)	\$ 859,715	\$ (12,391,662)
General Revenues:							
Taxes:							
General property taxes					1,544,204	-	1,544,204
Franchise taxes					370,686	-	370,686
Sales and use taxes					3,845,116	-	3,845,116
Transient occupancy taxes					2,974,285	-	2,974,285
Business license tax					265,617	-	265,617
Real property transfer taxes					90,219	-	90,219
Motor vehicle in lieu taxes					805,258	-	805,258
Investment earnings					14,998	27,103	42,101
Transfers					311,114	(311,114)	-
Miscellaneous					151,799	-	151,799
Total General Revenues and Transfers					10,373,296	(284,011)	10,089,285
Extraordinary item -							
Distribution from Successor Agency					908,630	-	908,630
Disallowed debt from Successor Agency					(57,919)	-	(57,919)
Change in Net Position					(2,027,370)	575,704	(1,451,666)
Net Position - Beginning					19,307,011	15,765,107	35,072,118
Prior Period Adjustments					(11,928)	-	(11,928)
Net Position - Beginning as Restated					19,295,083	15,765,107	35,060,190
Net Position - Ending					\$ 17,267,713	\$ 16,340,811	\$ 33,608,524

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

CITY OF SONOMA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General Fund	Gas Tax Fund	Economic Stimulus Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 2,153,502	\$ -	\$ -	\$ 731,672	\$ 2,885,174
Cash and investments - restricted	-	-	-	118,102	118,102
Interest receivable	4,920	-	-	392	5,312
Accounts receivable - net	1,590,056	-	-	-	1,590,056
Due from other funds	3,766,810	-	-	-	3,766,810
Loan and advances to other funds	18,991	-	-	-	18,991
Deposits and other assets	(182)	-	-	-	(182)
Total Assets	\$ 7,534,097	\$ -	\$ -	\$ 850,166	\$ 8,384,263
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ 990,851	\$ 26,593	\$ -	\$ 4,157	\$ 1,021,601
Due to other funds	-	747,237	824,345	371,500	1,943,082
Deposits payable and other liabilities	83,052	-	-	182,187	265,239
Total Liabilities	1,073,903	773,830	824,345	557,844	3,229,922
Fund Balances (Deficits):					
Unspendable	18,991	-	-	-	18,991
Restricted for:					
Capital projects	-	-	-	135,054	135,054
Assigned for:					
Capital projects	-	-	-	148,210	148,210
Debt Service	-	-	-	21	21
Housing	-	-	-	369,148	369,148
Public Safety	-	-	-	42,653	42,653
Unassigned	6,441,203	(773,830)	(824,345)	(402,764)	4,440,264
Total Fund Balances	6,460,194	(773,830)	(824,345)	292,322	5,154,341
Total Liabilities and Fund Balances	\$ 7,534,097	\$ -	\$ -	\$ 850,166	\$ 8,384,263

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 POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Fund Balance - Total Governmental Funds \$ 5,154,341

Amounts reported for Governmental Activities in the Statement of Net Position 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	\$ 22,670,184	
Less: accumulated depreciation	<u>(9,495,724)</u>	
		13,174,460

Bond premiums or discounts associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The amounts are reported as other financing sources or uses of current financial resources in governmental funds when the debt is first issued.

Bond Premium	(117,206)	
Less: accumulated amortization	<u>7,325</u>	
		(109,881)

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	(459,239)	
Successor Agency's obligation for City leases payable	459,239	
Pension obligation bonds payable	(2,790,000)	
Compensated absences	<u>(314,848)</u>	
		(3,104,848)

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 position of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position.

	<u>2,153,641</u>
Net Position - Governmental Activities	<u>\$ 17,267,713</u>

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, 2013

	General Fund	Gas Tax Fund	Economic Stimulus Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 9,996,085	\$ -	\$ -	\$ 64,851	\$ 10,060,936
Fines and penalties	91,239	-	-	-	91,239
Intergovernmental revenues	124,773	214,535	-	82,491	421,799
Charges for services	2,289,023	-	-	-	2,289,023
License, permits and fees	388,845	-	-	10,709	399,554
Investment earnings (loss)	9,534	-	-	5,464	14,998
Rental income	116,178	-	-	317,155	433,333
Other revenue	202,220	-	-	(66,453)	135,767
Total Revenues	13,217,897	214,535	-	414,217	13,846,649
EXPENDITURES					
Current:					
General government	2,253,139	-	-	-	2,253,139
Public safety	11,295,416	-	-	11,222	11,306,638
Public works	1,729,782	818,843	-	8,221	2,556,846
Community development	-	-	-	218,809	218,809
Culture and leisure	184,693	-	-	-	184,693
Capital outlay	75,628	-	-	221,714	297,342
Debt service:					
Principal	-	-	-	277,839	277,839
Interest and fees	-	-	-	48,707	48,707
Bond insurance costs	114,018	-	-	-	114,018
Total Expenditures	15,652,676	818,843	-	786,512	17,258,031
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,434,779)	(604,308)	-	(372,295)	(3,411,382)
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt	2,925,000	-	-	-	2,925,000
Premium on issuance of long-term debt	117,206	-	-	-	117,206
Transfers in	660,288	352,685	-	94,045	1,107,018
Transfers (out)	(563,596)	-	-	(160,000)	(723,596)
Total Other Financing Sources (Uses)	3,138,898	352,685	-	(65,955)	3,425,628
Extraordinary gain (loss)	908,630	-	-	-	908,630
NET CHANGES IN FUND BALANCES	1,612,749	(251,623)	-	(438,250)	922,876
FUND BALANCES - BEGINNING PRIOR PERIOD ADJUSTMENTS	4,847,445	(522,207)	(784,992)	703,254	4,243,500
	-	-	(39,353)	27,318	(12,035)
FUND BALANCES - BEGINNING AS RESTATED	4,847,445	(522,207)	(824,345)	730,572	4,231,465
FUND BALANCES - ENDING	\$ 6,460,194	\$ (773,830)	\$ (824,345)	\$ 292,322	\$ 5,154,341

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, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 922,876
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	\$ 445,326
Current year depreciation	<u>(454,087)</u>
	(8,761)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of New Position	
Proceeds from the issuance of Pension Obligation Bonds	(2,925,000)
Proceeds from Bond Premium	<u>(117,206)</u>
	(3,042,206)
Long-term receivable proceeds provide current financial resources to governmental funds	(226,975)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	
Repayment of capital lease obligations	142,839
Receipt of Successor Agency's obligation for City leases payable	(41,749)
Repayment of pension obligation bonds	<u>135,000</u>
	236,090
Deferred charges represent costs associated with the issuance of long-term debt. The costs were 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.	
	(41,754)
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	371
Compensated absences	<u>22,204</u>
	22,575
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.	
	7,325
Former Community Development Agency debt service that was disallowed and returned to the City for payment.	
	(57,919)
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.	
	161,379
Change in Net Position - Governmental Activities	\$ <u>(2,027,370)</u>

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

CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 6,192,927	\$ -	\$ 6,192,927	\$ 3,313,153
Cash and investments - restricted	185,178	-	185,178	-
Interest receivable	5,297	947	6,244	2,558
Accounts receivable - net	834,002	20	834,022	15,103
Total current assets	<u>7,217,404</u>	<u>967</u>	<u>7,218,371</u>	<u>3,330,814</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	847,903	196,304	1,044,207	-
Depreciable, net of accumulated depreciation	<u>9,649,241</u>	<u>1,269,198</u>	<u>10,918,439</u>	<u>-</u>
Total capital assets	10,497,144	1,465,502	11,962,646	-
Deposits and other assets	650	-	650	69,683
Total noncurrent assets	<u>10,497,794</u>	<u>1,465,502</u>	<u>11,963,296</u>	<u>69,683</u>
Total Assets	<u>\$ 17,715,198</u>	<u>\$ 1,466,469</u>	<u>\$ 19,181,667</u>	<u>\$ 3,400,497</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 330,901	\$ 8,480	\$ 339,381	\$ 35,676
Due to other funds	-	617,907	617,907	1,205,821
Advances from other funds	-	18,991	18,991	-
Deposits payable and other liabilities	82,297	108,994	191,291	5,359
Long term debt - current portion	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>-</u>
Total current liabilities	<u>473,198</u>	<u>754,372</u>	<u>1,227,570</u>	<u>1,246,856</u>
Noncurrent liabilities:				
Long term debt - noncurrent portion	1,545,000	-	1,545,000	-
Compensated absences	<u>50,692</u>	<u>17,594</u>	<u>68,286</u>	<u>-</u>
Total noncurrent liabilities	<u>1,595,692</u>	<u>17,594</u>	<u>1,613,286</u>	<u>-</u>
Total Liabilities	<u>\$ 2,068,890</u>	<u>\$ 771,966</u>	<u>\$ 2,840,856</u>	<u>\$ 1,246,856</u>
NET POSITION				
Invested in capital assets, net of related debt	\$ 8,892,144	\$ 1,465,502	\$ 10,357,646	\$ -
Restricted for capital projects (expendable)	185,178	-	185,178	-
Unrestricted	<u>6,568,986</u>	<u>(770,999)</u>	<u>5,797,987</u>	<u>2,153,641</u>
Total Net Position	<u>\$ 15,646,308</u>	<u>\$ 694,503</u>	<u>\$ 16,340,811</u>	<u>\$ 2,153,641</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 POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
OPERATING REVENUES				
Sales and services	\$ 4,705,147	\$ 408,727	\$ 5,113,874	\$ 2,124,688
Miscellaneous	20,975	-	20,975	7,095
Total Operating Revenues	<u>4,726,122</u>	<u>408,727</u>	<u>5,134,849</u>	<u>2,131,783</u>
OPERATING EXPENSES				
Salaries and benefits	1,229,204	299,112	1,528,316	1,244,582
Services, supplies and maintenance	2,090,868	67,609	2,158,477	186,890
Insurance premiums and claims	-	-	-	399,749
Miscellaneous	248,366	26,039	274,405	16,058
Depreciation and amortization	<u>354,523</u>	<u>43,601</u>	<u>398,124</u>	<u>-</u>
Total Operating Expenses	<u>3,922,961</u>	<u>436,361</u>	<u>4,359,322</u>	<u>1,847,279</u>
OPERATING INCOME (LOSS)	<u>803,161</u>	<u>(27,634)</u>	<u>775,527</u>	<u>284,504</u>
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	22,998	4,105	27,103	11,295
Interest expense	<u>(97,057)</u>	<u>-</u>	<u>(97,057)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(74,059)</u>	<u>4,105</u>	<u>(69,954)</u>	<u>11,295</u>
INCOME (LOSS) BEFORE CONNECTION FEES & TRANSFERS	<u>729,102</u>	<u>(23,529)</u>	<u>705,573</u>	<u>295,799</u>
CONNECTION FEES	<u>119,133</u>	<u>-</u>	<u>119,133</u>	<u>-</u>
TRANSFERS:				
Transfers in	279,344	91,100	370,444	-
Transfers (out)	<u>(516,105)</u>	<u>(103,341)</u>	<u>(619,446)</u>	<u>(134,420)</u>
CHANGES IN NET POSITION	<u>611,474</u>	<u>(35,770)</u>	<u>575,704</u>	<u>161,379</u>
NET POSITION - BEGINNING	<u>15,034,834</u>	<u>730,273</u>	<u>15,765,107</u>	<u>1,992,262</u>
NET POSITION - ENDING	<u>\$ 15,646,308</u>	<u>\$ 694,503</u>	<u>\$ 16,340,811</u>	<u>\$ 2,153,641</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, 2013

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 4,421,760	\$ 410,178	\$ 4,831,938	\$ -
Receipts from interfund services provided	-	-	-	2,109,679
Payments to employees for services	(1,240,202)	(300,916)	(1,541,118)	(1,073,549)
Payments to suppliers for goods and services	(1,233,216)	65,699	(1,167,517)	(562,246)
Payments for interfund services used	(818,888)	(137,382)	(956,270)	-
Other payments and receipts	(229,472)	(28,494)	(257,966)	(78,122)
Net Cash Provided by (Used for) Operating Activities	899,982	9,085	909,067	395,762
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash paid to other funds	(516,105)	(103,341)	(619,446)	(134,420)
Cash received from other funds	279,344	91,100	370,444	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(236,761)	(12,241)	(249,002)	(134,420)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Cash received from connection fees and grants	119,133	-	119,133	-
Purchases of capital assets	(446,356)	-	(446,356)	-
Principal paid on capital debt	(1,770,000)	-	(1,770,000)	-
Proceeds from refunding of debt	1,605,000	-	1,605,000	-
Interest paid on capital debt	(97,057)	-	(97,057)	-
Net Cash Provided by (Used for) Capital Related Financing Activities	(589,280)	-	(589,280)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	17,701	3,157	20,858	8,737
Net Cash Provided by Investing Activities	17,701	3,157	20,858	8,737
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	91,642	1	91,643	270,079
CASH AND INVESTMENTS - BEGINNING	6,286,463	(1)	6,286,462	3,043,074
CASH AND INVESTMENTS - ENDING	\$ 6,378,105	\$ -	\$ 6,378,105	\$ 3,313,153
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 803,161	\$ (27,634)	\$ 775,527	\$ 284,504
Adjustments to reconcile operating income to cash flows provided by operating activities:				
Depreciation and amortization	354,523	43,601	398,124	-
Change in assets and liabilities:				
Accounts receivable	(283,387)	1,451	(281,936)	(15,009)
Deposits and other assets	-	-	-	(69,301)
Accounts payable	38,764	(4,074)	34,690	24,393
Due to other funds	-	(2,976)	(2,976)	173,895
Compensated absences	(10,998)	1,172	(9,826)	(2,862)
Deposits and other liabilities	(2,081)	(2,455)	(4,536)	142
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 899,982	\$ 9,085	\$ 909,067	\$ 395,762

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

CITY OF SONOMA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	Successor Agency Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments	\$ 4,589,399	\$ 2,348,158
Cash and investments - restricted	6,589,909	-
Accounts receivable - net	75	260,745
Deposits	102	-
Capital assets, net	34,914,596	-
Assets held for future transfer to the Sonoma County Housing Authority	<u>3,827,273</u>	<u>-</u>
Total Assets	<u>\$ 49,921,354</u>	<u>\$ 2,608,903</u>
LIABILITIES		
Accounts payable	\$ 195,203	\$ 1,953,747
Payable to Sonoma County Housing Authority	1,920,016	-
Interest accrual	177,800	-
Successor Agency's obligation for City leases payable	459,239	-
Deposits payable	3,750	655,156
Long-term Debt:		
Due in one year	1,074,091	-
Due in more than one year	<u>42,658,456</u>	<u>-</u>
Total Liabilities	<u>46,488,555</u>	<u>\$ 2,608,903</u>
NET POSITION		
Held in trust for other governments	<u>\$ 3,432,799</u>	

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

CITY OF SONOMA
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Successor Agency Private Purpose Trust Fund
ADDITIONS	
Intergovernmental revenues	\$ 3,428,770
Investment earnings	27,711
Other income	(23,460)
Total additions	3,433,021
DEDUCTIONS	
Program expenses of former Community Development Agency	811,909
Depreciation	664,038
Interest and fiscal agency expenses of former Community Development Agency	2,596,760
Total deductions	4,072,707
TRANSFERS	
Transfer of disallowed former Community Development Agency debt to City	57,919
Transfer of assets to Sonoma County for distribution	(5,564,657)
Transfer of assets to the Successor Housing Agency	(3,616,344)
Total Transfers	(9,123,082)
CHANGES IN NET POSITION	(9,762,768)
NET POSITION - BEGINNING	13,195,566
NET POSITION - ENDING	\$ 3,432,798

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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 Sonoma Community Housing Corporation (Corporation) and the Sonoma Public Financing Authority (Authority) serve all the citizens of the City. The Corporation is governed by two members of the City Council and two city employees. The Authority is governed by a board comprised of members of the City's elected council. The Corporation was created as a public benefit corporation to provide affordable public housing. The Corporation activities are reported in a special revenue fund.

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, and Emergency Dispatch for Fire and Emergency Medical Services (REDCOM). The City has no obligation other than to pay for a pro rata share of certain operating costs, no entitlement, and no residual interests in the other jointly governed organizations.

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

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.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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

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

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

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

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.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

Gas Tax Fund – This capital project fund accounts for the City’s receipt of its share of gas tax revenue and expenditures on street projects.

Economic Stimulus Fund – The capital project fund accounts for the City’s expenditures related to economic stimulus funding.

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.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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 *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 position 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.

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.

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

Receivables and Payables - Property, sales, and use taxes related to the current fiscal year are generally accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and state grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide Statement of Net Position. 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.

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

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

The City has assigned the useful lives listed below to capital assets:

Buildings	25-50 years
Improvements	25-50 years
Machinery and equipment	8-30 years
Furniture and fixtures	5-12 years
Software	5-7 years
Infrastructure	5-60 years

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

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

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.

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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, 2013, there was one elected members who retired that was 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.

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 Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Issuance costs are generally expensed in the period incurred.

In the governmental fund financial statements, bond premiums and discounts 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 Position - Net position is the excess of all the City's assets over all its liabilities, regardless of fund. Net position is divided into three captions. These captions apply only to net position, 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 position 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 position 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.

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Unrestricted describes the portion of net position 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, 2013.

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 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.

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

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

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

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

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

Excess of Expenditures Over Appropriations in Individual Funds - The City incurred the following excess of expenditures over appropriation in the following governmental-type funds:

Fund	Excess Expenditures	Explanation
General	\$ 2,885,432	Accounting treatment for use of Pension Obligation Bond proceeds
Gas Tax	\$ 163,267	Higher than expected street project expenditures
Sonoma Creek Senior Housing	\$ 75,631	Higher than expected maintenance costs

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

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Implemented New Accounting Pronouncements - In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This statement provides financial reporting guidance for deferred outflows and deferred inflows of resources, originally introduced and defined in Concepts Statement No. 4, Elements of Financial Statements, as a consumption of net assets applicable to a future reporting period and an acquisition of net assets applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. With the implementation of GASB 63 during current year, the City changed its Statement of Net Assets to the Statement of Net Position.

In June 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement established accounting and financial and reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 requires debt issuance costs (except prepaid insurance costs) to be recognized as an expense in the period incurred. Previously, these costs were amortized over the life of the related debt issuance. The City implemented GASB 65 in the fiscal year 2013 and the impact to the financial statements was not significant.

New Accounting Pronouncements - Management has evaluated new accounting pronouncements and determined that GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and amendment of GASB Statement No. 27* (GASB 68) will have an impact on the City's financial statements. The provisions of this statement are required to be implemented in fiscal year 2015. This statement provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's assets available for paying benefits, there is a net pension liability. Governments will now be required to report that amount as a liability in their basic financial statements. In addition, GASB 68 required that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

NOTE 2 - EXTRAORDINARY ITEM PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2013, the City received a residual distribution of \$908,630 from the County of Sonoma related to the dissolution of the City of Sonoma Community Development Agency. This is considered to be a one-time inflow of revenue.

During the fiscal year ended June 30, 2013, the City recorded prior period adjustments primarily related to the recognition that of payable liabilities as paid in previous periods. The total amount of prior period adjustment recorded was about \$12,000 in the government-wide financial statements.

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NOTE 3 - CASH AND INVESTMENTS

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

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

	City	Fiduciary Funds	Totals
Cash and Investments Available for Operation	\$ 12,391,254	\$ 6,937,557	\$ 19,328,811
Restricted Cash and Investments	303,280	6,589,909	6,893,189
Pooled cash held for future transfer to the Sonoma County Housing Authority	-	142,312	142,312
Total Cash and Investments	<u>\$ 12,694,534</u>	<u>\$ 13,527,466</u>	<u>\$ 26,364,312</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. 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.

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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>
Government Securities Money			
Market Mutual Funds	-	6,775,087	6,775,087
Certificate of Deposit	7,162,399	-	7,162,399
Local Agency Investment Fund	<u>11,458,574</u>	<u>-</u>	<u>11,458,574</u>
Total Investments	18,620,973	6,775,087	25,396,060
Cash Deposits with Banks	852,350	118,102	970,452
Cash on Hand	<u>800</u>	<u>-</u>	<u>800</u>
 Total Cash and Investments	 <u>\$ 19,474,123</u>	 <u>\$ 6,893,189</u>	 <u>\$ 26,367,312</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 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 \$8,132,851 as of June 30, 2013. Of the bank balance, \$6,780,501 was either insured or guaranteed by the Federal Depository Insurance Corporation (FDIC) and \$602,350 was uninsured but collateralized as noted in the preceding paragraph as of June 30, 2013. \$750,000 of a \$1,000,000 certificate of deposit held by an U.S. Government Agency was uninsured and uncollateralized. Differences between the carrying amount and bank balances are from outstanding deposits and checks as of June 30, 2013.

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, 2013, 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,

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2013 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, 2013, the City had \$11,458,574 invested in LAIF, which had invested 1.96% of the pool investments funds in Structured Notes and Asset-Backed Securities. The City valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 1.000273207. The fair value of the City's position in the pool is materially equivalent to the value of the pool shares.

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.

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%

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Custodial Credit Risk

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

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 other investment types, LAIF money market mutual funds and certificates of deposit are not rated.

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>
Government Securities Money			
Market Mutual Funds	\$ 6,775,087	\$ 6,775,087	\$ -
Certificate of Deposit	7,162,399	455,460	6,706,939
Local Agency Investment Fund	11,458,574	11,458,574	-
Total Investments	<u>\$ 25,396,060</u>	<u>\$ 18,689,121</u>	<u>\$ 6,706,939</u>

NOTE 4 - RECEIVABLES

Accounts Receivable

\$187,501 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.

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NOTE 5 - INTERFUND TRANSACTIONS

The following tables summarize the City's due to and due from other funds as of June 30, 2013:

<u>Receivable Fund (Due From in)</u>	<u>Payable fund (Due To in)</u>	<u>Amount</u>
General Fund	Major Governmental Funds	\$ 1,571,582
	Nonmajor Governmental Funds	371,500
	Nonmajor Proprietary Fund	617,907
	Internal Service Funds	1,205,821
		<u>\$ 3,766,810</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, 2013:

<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 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.

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Transfers between funds during the fiscal year ended June 30, 2013 were as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 660,288	\$ 563,596
Gas Tax Fund	352,685	-
Major Proprietary Fund:		
Water Fund	279,344	516,105
Nonmajor Governmental Funds:		
SLESF Law Enforcement Fund	-	100,000
Bond Property Maintenance Fund	-	5,000
Mayssonave Property Fund	-	5,000
Sonoma Creek Senior Housing Fund	-	50,000
Capital Asset Project Fund	35,682	-
Municipal Finance Corporation Debt Service Fund	58,363	-
Nonmajor Proprietary Funds:		
Vehicle Replacement Fund	-	21,000
MIS Fund	-	113,420
Cemetery Fund	91,100	103,341
	<u>\$ 1,477,462</u>	<u>\$ 1,477,462</u>

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NOTE 6 - CAPITAL ASSETS

Changes in capital assets consisted of the following for the fiscal year ended June 30, 2013:

Governmental-type Activities	Balance June 30, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 2,901,724	\$ -	\$ -	\$ -	\$ 2,901,724
Construction in progress	-	269,016	-	(193,349)	75,667
Total capital assets, not being depreciated	2,901,724	269,016	-	(193,349)	2,977,391
Capital assets, being depreciated:					
Infrastructure	6,228,906	-	-	193,349	6,422,255
Buildings and improvements	7,777,032	-	-	-	7,777,032
Equipment and vehicles	5,317,196	176,310	-	-	5,493,506
Total capital assets, being depreciated	19,323,134	176,310	-	193,349	19,692,793
Less accumulated depreciation	(9,041,637)	(454,087)	-	-	(9,495,724)
Total capital assets, being depreciated, net	10,281,497	(277,777)	-	193,349	10,197,069
Capital assets, net	\$ 13,183,221	\$ (8,761)	\$ -	\$ -	\$ 13,174,460

Business-type Activities	Balance June 30, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 960,472	\$ -	\$ -	\$ -	\$ 960,472
Construction in progress	-	446,356	-	(362,621)	83,735
Total capital assets, not being depreciated	960,472	446,356	-	(362,621)	1,044,207
Capital assets, being depreciated:					
Infrastructure	25,573	-	-	-	25,573
Buildings and improvements	21,203,871	-	-	362,621	21,566,492
Equipment and vehicles	942,455	-	-	-	942,455
Total capital assets, being depreciated	22,171,899	-	-	362,621	22,534,520
Less accumulated depreciation	(11,217,957)	(398,124)	-	-	(11,616,081)
Total capital assets, being depreciated, net	10,953,942	(398,124)	-	362,621	10,918,439
Capital assets, net	\$ 11,914,414	\$ 48,232	\$ -	\$ -	\$ 11,962,646

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

Program/Function	Governmental Activities	Business-type Activities
General government	\$ 226,121	\$ -
Public safety	200,869	-
Public works	27,097	-
Water	-	354,523
Cemetery	-	43,601
	<u> </u>	<u> </u>
Total Depreciation	<u>\$ 454,087</u>	<u>\$ 398,124</u>

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, 2012	Additions	Reductions	Balance June 30, 2013	Due within one year
Governmental Activities:					
Capital Lease Obligation REFA1993	\$ 101,100	\$ -	\$ 101,100	\$ -	\$ -
Capital Lease Obligation CREBs	500,988	-	41,749	459,239	41,749
Pension Obligation Bond	-	2,925,000	135,000	2,790,000	310,000
Compensated Absences	337,052	-	22,204	314,848	62,970
Total Governmental Activities Debt	<u>939,140</u>	<u>2,925,000</u>	<u>300,053</u>	<u>3,564,087</u>	<u>414,719</u>
Business-type Activities:					
2001 Revenue Bonds, Series A	1,770,000	-	1,770,000	-	-
2012 Refunding Water Installment Sale Agreement	-	1,605,000	-	1,605,000	60,000
Compensated Absences	78,113	1,172	10,999	68,286	13,657
Total Business-type Activities Debt	<u>1,848,113</u>	<u>1,606,172</u>	<u>1,780,999</u>	<u>1,673,286</u>	<u>73,657</u>
Total Long-term Obligations	<u>\$ 2,787,253</u>	<u>\$ 4,531,172</u>	<u>\$ 2,081,052</u>	<u>\$ 5,237,373</u>	<u>\$ 488,376</u>

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

B. Governmental Activities

Capital Lease Obligations

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. This was paid in full during the year ended June 30, 2013.

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 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 \$459,239 is recorded as receivables from the Successor Agency of the Sonoma Community Development Agency on the government-wide statement of next assets. The future minimum obligations as of June 30, 2013 were as follows:

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

<u>Fiscal Year Ending June 30</u>	<u>Total</u>
2014	\$ 41,749
2015	41,749
2016	41,749
2017	41,749
2018	41,749
2019-2023	208,745
2024	41,749
	<hr/>
Total minimum lease payments	\$ <u>459,239</u>

Pension Obligation Bond

In December 2012, the City issued Taxable Pension Obligation Bonds in the amount of \$2,925,000 to refund its obligation to make certain payments to PERS in respect of retired public safety and miscellaneous employees under the Side Fund program of PERS which amortizes such obligations over a fixed period of time. Since the June 30, 2003 PERS valuation, when a pension plan has fewer than 100 members, PERS includes such members in a risk pool with other public agency plans. At the time the City entered the risk pools, it had an existing unfunded actuarial accrued liability (the "Prior UAAL"), and the Prior UAAL was put into side funds for the City to pay outside of the risk pool. The side fund functions like a loan. The current annual interest rate imputed by PERS to side funds is 7.5%. The bonds were issued for the purposes of refunding the unpaid Prior UAAL of the City's side funds created by PERS when the City entered the risk pool. Debt service will be funded from the revenue of the general fund. The final payment will be on June 1, 2021. The interest rates vary from 2% to 4%. The bond was issued at a premium of \$117,000 which will be amortized in the government-wide financial statements over the life of the bonds. Annual debt service requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 310,000	\$ 98,700	\$ 408,700
2015	320,000	90,950	410,950
2016	330,000	81,350	411,350
2017	340,000	70,625	410,625
2018	350,000	58,725	408,725
2019-2021	1,140,000	92,400	1,232,400
Total	<hr/> \$ 2,790,000	<hr/> \$ 492,750	<hr/> \$ 3,282,750

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

C. Business-Type Activities

2012 Refunding Water Installment Sale

The Sonoma Public Financing Authority (the "Authority") issued its \$2,250,000 principal amount of 2001 Revenue Bonds, Series A (the "2001 Bonds") to assist the City on financing certain improvements to the water system. Repayment of the 2001 Bonds is secured by installment payments to be pay by the City to the Authority. In October 2012, in order to achieve savings in interest costs, the City prepaid in full the installment payments and, thereby, refunded the 2001 Bonds. The City funded this prepayment by selling and then buying back the water improvements to the Public Property Financing Corporation of California (the "Corporation"). The Corporation assigned and transferred its rights to receive the installment payments to City National Bank. Annual debt service requirements are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 60,000	\$ 61,425	\$ 121,425
2015	60,000	59,085	119,085
2016	65,000	56,648	121,648
2017	65,000	54,112	119,113
2018	70,000	51,480	121,480
2019-2023	390,000	213,525	603,525
2024-2028	460,000	131,040	591,040
2029-2032	435,000	34,613	469,613
Total	\$ 1,605,000	\$ 661,928	\$ 2,266,928

D. Compensated Absences

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

E. 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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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.

NOTE 8 – DEFICIT NET POSITION AND FUND BALANCES

The following funds had deficit fund balances or net position as of June 30, 2013:

<u>Fund</u>	<u>Deficit (in dollars)</u>
Gas Tax	773,830
Economic Stimulus	824,345
Strong Motion	2,689
SLESF Law Enforcement	17,370
Eastside Estate	30,797
Bond Property Maintenance	15,127
Municipal Finance Corporation	159,432
2012 Pension Obligation	180,349
Employee Benefits	1,197,369

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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% 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, 2013 was 14.360% of annual covered payroll for non-safety (miscellaneous) employees. The 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, 2013, the City's \$684,423 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, 2010 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 growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-Year Trend Information PERS

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2011	\$ 1,026,156	100%	-
6/30/2012	\$ 1,224,057	100%	-
6/30/2013	\$ 684,423	100%	-

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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 June 30 valuation date.

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
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%
2012	\$ 4,175,139,166	\$ 3,686,598,343	\$ 488,540,823	88.3%	\$ 757,045,663	64.5%

Actuarial – Inactive Agency Risk Pool (Safety)

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
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%
2012	\$ 839,968,292	\$ 743,174,027	\$ 96,794,265	88.5%	-	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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

June 30, 2013, 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

Condensed full accrual basis audited financial information of REMIF as of and for the year ended June 30, 2012 (the latest available), 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>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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.

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 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.

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.

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.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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, 2013

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 9,536,585	\$ 9,536,585	\$ 9,996,085	\$ 459,500
Fines and penalties	85,200	85,200	91,239	6,039
Intergovernmental revenues	225,742	225,742	124,773	(100,969)
Charges for services	1,816,000	1,773,300	2,289,023	515,723
License, permits and fees	421,612	421,612	388,845	(32,767)
Investment earnings	130,000	130,000	9,534	(120,466)
Rental income	98,272	98,272	116,178	17,906
Other revenue	57,500	57,500	202,220	144,720
Total Revenues	<u>12,370,911</u>	<u>12,328,211</u>	<u>13,217,897</u>	<u>889,686</u>
EXPENDITURES				
Current:				
General government	1,717,061	1,717,063	2,253,139	(536,076)
Public safety	9,048,721	9,048,721	11,295,416	(2,246,695)
Public works	1,573,560	1,606,560	1,729,782	(123,222)
Culture and leisure	168,900	168,900	184,693	(15,793)
Capital outlay	226,000	226,000	75,628	150,372
Debt service:				
Bonds issuance costs	-	-	114,018	(114,018)
Total Expenditures	<u>12,734,242</u>	<u>12,767,244</u>	<u>15,652,676</u>	<u>(2,885,432)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(363,331)</u>	<u>(439,033)</u>	<u>(2,434,779)</u>	<u>(1,995,746)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	2,925,000	2,925,000
Premium on issuance of long-term debt	-	-	117,206	117,206
Transfers in	565,154	565,154	660,288	95,134
Transfers (out)	(201,823)	(201,823)	(563,596)	(361,773)
Total Other Financing Sources (Uses)	<u>363,331</u>	<u>363,331</u>	<u>3,138,898</u>	<u>2,775,567</u>
Extraordinary gain	-	-	908,630	908,630
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ (75,702)</u>	<u>\$ 1,612,749</u>	<u>\$ 1,688,451</u>

Supplementary Information

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2013

SPECIAL REVENUE FUNDS

	Strong Motion Fund	Asset Forfeiture Fund	SLESF Law Enforcement Fund	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund
ASSETS						
Cash and investments	\$ -	\$ 3,728	\$ -	\$ 94	\$ 22	\$ -
Cash and investments - restricted	-	-	-	-	-	-
Interest receivable	-	3	8	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 3,731</u>	<u>\$ 8</u>	<u>\$ 94</u>	<u>\$ 22</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 475
Due to other funds	2,689	-	17,378	-	-	14,652
Deposits payable and other liabilities	-	-	-	30,891	-	-
Total Liabilities	<u>2,689</u>	<u>-</u>	<u>17,378</u>	<u>30,891</u>	<u>-</u>	<u>15,127</u>
Fund Balances (Deficits):						
Restricted for:	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Assigned for:	-	-	-	-	22	-
Capital projects	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Housing	-	-	-	-	-	-
Public Safety	-	3,731	-	-	-	-
Unassigned	(2,689)	-	(17,370)	(30,797)	-	(15,127)
Total Fund Balances (Deficits)	<u>(2,689)</u>	<u>3,731</u>	<u>(17,370)</u>	<u>(30,797)</u>	<u>22</u>	<u>(15,127)</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ -</u>	<u>\$ 3,731</u>	<u>\$ 8</u>	<u>\$ 94</u>	<u>\$ 22</u>	<u>\$ -</u>

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2013

SPECIAL REVENUE FUNDS

	Mayssonave Property Fund	Schell Drainage Fund	Abandoned Vehicle Fund	Sonoma Creek Senior Housing Fund	Community Development Block Grant Fund
ASSETS					
Cash and investments	\$ 28,346	\$ 183,207	\$ 39,968	\$ 252,262	\$ 10,910
Cash and investments - restricted	-	-	-	118,102	-
Interest receivable	26	152	34	-	9
Total Assets	<u>\$ 28,372</u>	<u>\$ 183,359</u>	<u>\$ 40,002</u>	<u>\$ 370,364</u>	<u>\$ 10,919</u>
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 1,080	\$ 1,216	\$ -
Due to other funds	-	-	-	-	-
Deposits payable and other liabilities	-	142,460	-	-	-
Total Liabilities	-	142,460	1,080	1,216	-
Fund Balances (Deficits):					
Restricted for:					
Capital projects	28,372	40,899	-	-	10,919
Assigned for:					
Capital projects	-	-	-	-	-
Debt Service	-	-	-	-	-
Housing	-	-	-	369,148	-
Public Safety	-	-	38,922	-	-
Unassigned	-	-	-	-	-
Total Fund Balances (Deficits)	<u>28,372</u>	<u>40,899</u>	<u>38,922</u>	<u>369,148</u>	<u>10,919</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 28,372</u>	<u>\$ 183,359</u>	<u>\$ 40,002</u>	<u>\$ 370,364</u>	<u>\$ 10,919</u>

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2013

	CAPITAL PROJECT FUNDS		DEBT SERVICE FUNDS			
	Capital Improvement Program Fund	Measure M Fund	Municipal Finance Corporation Debt Service Fund	2008 CREB Bonds Debt Service Fund	2012 Pension Obligation Bond	Total Combining Nonmajor Funds
ASSETS						
Cash and investments	\$ 158,281	\$ 54,833	\$ -	\$ 21	\$ -	731,672
Cash and investments - restricted	-	-	-	-	-	118,102
Interest receivable	129	31	-	-	-	392
Total Assets	<u>\$ 158,410</u>	<u>\$ 54,864</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ 850,166</u>
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Accounts payable	\$ 1,386	\$ -	\$ -	\$ -	\$ -	\$ 4,157
Due to other funds	-	-	156,432	-	180,349	371,500
Deposits payable and other liabilities	8,836	-	-	-	-	182,187
Total Liabilities	<u>10,222</u>	<u>-</u>	<u>156,432</u>	<u>-</u>	<u>180,349</u>	<u>\$ 557,844</u>
Fund Balances (Deficits):						
Restricted for:						
Capital projects	-	54,864	-	-	-	135,054
Assigned for:						
Capital projects	148,188	-	-	-	-	148,210
Debt Service	-	-	-	21	-	21
Housing	-	-	-	-	-	369,148
Public Safety	-	-	-	-	-	42,653
Unassigned	-	-	(156,432)	-	(180,349)	(402,764)
Total Fund Balances (Deficits)	<u>148,188</u>	<u>54,864</u>	<u>(156,432)</u>	<u>21</u>	<u>(180,349)</u>	<u>292,322</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 158,410</u>	<u>\$ 54,864</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ 850,166</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, 2013

SPECIAL REVENUE FUNDS

	Strong Motion Fund	Asset Forfeiture Fund	SLESF Law Enforcement Fund	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	-	-	82,491	-	-	-
License, permits and fees	303	-	-	-	-	-
Investment earnings	-	14	47	-	-	-
Rental income	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total Revenues	303	14	82,538	-	-	-
EXPENDITURES						
Current:						
Public safety	-	-	-	-	-	-
Public works	285	-	-	-	-	-
Community development	-	-	-	-	-	4,347
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	285	-	-	-	-	4,347
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18	14	82,538	-	-	(4,347)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	(100,000)	-	-	(5,000)
Total Other Financing Sources (Uses)	-	-	(100,000)	-	-	(5,000)
NET CHANGES IN FUND BALANCES (DEFICITS)	18	14	(17,462)	-	-	(9,347)
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	(2,707)	3,717	92	(30,797)	22	(5,780)
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	(2,707)	3,717	92	(30,797)	22	(5,780)
FUND BALANCES (DEFICITS) - ENDING	\$ (2,689)	\$ 3,731	\$ (17,370)	\$ (30,797)	\$ 22	\$ (15,127)

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2013

	SPECIAL REVENUE FUNDS				
	Mayssonave Property Fund	Schell Drainage Fund	Abandoned Vehicle Fund	Sonoma Creek Senior Housing Fund	Community Development Block Grant Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues	-	-	-	-	-
License, permits and fees	106	653	2,684	-	39
Investment earnings	-	-	-	317,155	-
Rental income	-	-	2,584	(110,786)	-
Other revenue	-	-	-	-	-
Total Revenues	<u>106</u>	<u>653</u>	<u>5,268</u>	<u>206,369</u>	<u>39</u>
EXPENDITURES					
Current:					
Public safety	-	-	11,222	-	-
Public works	3,589	-	-	218,809	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total Expenditures	<u>3,589</u>	<u>-</u>	<u>11,222</u>	<u>218,809</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,483)</u>	<u>653</u>	<u>(5,954)</u>	<u>(12,440)</u>	<u>39</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers (out)	(5,000)	-	-	(50,000)	-
Total Other Financing Sources (Uses)	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES (DEFICITS)	<u>(8,483)</u>	<u>653</u>	<u>(5,954)</u>	<u>(62,440)</u>	<u>39</u>
FUND BALANCES (DEFICITS) - BEGINNING	<u>36,855</u>	<u>40,246</u>	<u>44,876</u>	<u>431,588</u>	<u>10,880</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	<u>36,855</u>	<u>40,246</u>	<u>44,876</u>	<u>431,588</u>	<u>10,880</u>
FUND BALANCES (DEFICITS) - ENDING	<u>\$ 28,372</u>	<u>\$ 40,899</u>	<u>\$ 38,922</u>	<u>\$ 369,148</u>	<u>\$ 10,919</u>

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURE
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2013

CAPITAL PROJECT FUNDS

	Capital Improvement Program Fund	Measure M Fund	Capital Asset Project Fund
REVENUES			
Taxes	\$ (1,258)	\$ 66,109	\$ -
Intergovernmental revenues	-	-	-
License, permits and fees	10,406	-	-
Investment earnings	1,809	112	-
Rental income	-	-	-
Other revenue	-	-	-
	<u>10,957</u>	<u>66,221</u>	<u>-</u>
Total Revenues			
EXPENDITURES			
Current:			
Public safety	-	-	-
Public works	-	-	-
Community development	-	-	-
Capital outlay	30,569	191,145	-
Debt service:			
Principal	-	-	-
Interest and fees	-	-	-
	<u>30,569</u>	<u>191,145</u>	<u>-</u>
Total Expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(19,612)</u>	<u>(124,924)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	35,682
Transfers (out)	-	-	-
	<u>-</u>	<u>-</u>	<u>35,682</u>
Total Other Financing Sources (Uses)			
NET CHANGES IN FUND BALANCES (DEFICITS)	<u>(19,612)</u>	<u>(124,924)</u>	<u>35,682</u>
FUND BALANCES (DEFICITS) - BEGINNING	<u>167,800</u>	<u>179,788</u>	<u>(63,000)</u>
PRIOR PERIOD ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>27,318</u>
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	<u>167,800</u>	<u>179,788</u>	<u>(35,682)</u>
FUND BALANCES (DEFICITS) - ENDING	<u>\$ 148,188</u>	<u>\$ 54,864</u>	<u>\$ -</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, 2013

	<u>DEBT SERVICE FUNDS</u>			
	Municipal Finance Corporation Debt Service Fund	2008 CREB Bonds Debt Service Fund	2012 Pension Obligation Bond	Total Combining Nonmajor Funds
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 64,851
Intergovernmental revenues	-	-	-	82,491
License, permits and fees	-	-	-	10,709
Investment earnings	-	-	-	5,464
Rental income	-	-	-	317,155
Other revenue	-	41,749	-	(66,453)
Total Revenues	-	41,749	-	414,217
EXPENDITURES				
Current:				
Public safety	-	-	-	11,222
Public works	-	-	-	8,221
Community development	-	-	-	218,809
Capital outlay	-	-	-	221,714
Debt service:				
Principal	101,090	41,749	135,000	277,839
Interest and fees	3,358	-	45,349	48,707
Total Expenditures	104,448	41,749	180,349	786,512
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(104,448)	-	(180,349)	(372,295)
OTHER FINANCING SOURCES (USES)				
Transfers in	58,363	-	-	94,045
Transfers (out)	-	-	-	(160,000)
Total Other Financing Sources (Uses)	58,363	-	-	(65,955)
NET CHANGES IN FUND BALANCES (DEFICITS)	(46,085)	-	(180,349)	(438,250)
FUND BALANCES (DEFICITS) - BEGINNING	(110,347)	21	-	703,254
PRIOR PERIOD ADJUSTMENTS	-	-	-	27,318
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	(110,347)	21	-	730,572
FUND BALANCES (DEFICITS) - ENDING	\$ (156,432)	\$ 21	\$ (180,349)	\$ 292,322

(Concluded)

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2013

	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
ASSETS										
Current Assets:										
Cash and investments	\$ 373,520	\$ 9,171	\$ 1,184,061	\$ 96,778	\$ -	\$ 1,572,247	\$ 53,784	\$ 23,592	\$ -	\$ 3,313,153
Accounts receivable - net	18,379	-	-	-	2,441	-	(5,717)	-	-	15,103
Interest Receivable	232	8	953	38	-	1,262	45	20	-	2,558
Deposits and other assets	62,505	-	-	-	6,865	-	-	-	313	69,683
Total current assets	454,636	9,179	1,185,014	96,816	9,306	1,573,509	48,112	23,612	313	3,400,497
Total Assets	\$ 454,636	\$ 9,179	\$ 1,185,014	\$ 96,816	\$ 9,306	\$ 1,573,509	\$ 48,112	\$ 23,612	\$ 313	\$ 3,400,497
LIABILITIES										
Current Liabilities:										
Accounts payable	\$ 4,248	\$ -	\$ -	\$ 2,167	\$ 5,543	\$ 21,048	\$ 2,670	\$ -	\$ -	\$ 35,676
Due to other funds	-	-	-	-	1,205,508	-	-	-	313	1,205,821
Deposits payable and other liabilities	-	8,079	-	-	-	-	-	-	-	8,079
Total current liabilities	4,248	8,079	-	2,167	1,211,051	21,048	2,670	-	313	1,249,576
Noncurrent liabilities:										
Due in more than one year	1,514	-	-	-	(4,376)	617	(475)	-	-	(2,720)
Total noncurrent liabilities	1,514	-	-	-	(4,376)	617	(475)	-	-	(2,720)
Total Liabilities	5,762	8,079	-	2,167	1,206,675	21,665	2,195	-	313	1,246,856
NET POSITION										
Unrestricted	448,874	1,100	1,185,014	94,649	(1,197,369)	1,551,844	45,917	23,612	-	2,153,641
Total Net Position	\$ 448,874	\$ 1,100	\$ 1,185,014	\$ 94,649	\$ (1,197,369)	\$ 1,551,844	\$ 45,917	\$ 23,612	\$ -	\$ 2,153,641

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	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
OPERATING REVENUES										
Charges for services	\$ 406,811	\$ -	\$ 133,700	\$ 125,243	\$ 1,310,601	\$ 148,333	\$ -	\$ -	\$ -	\$ 2,124,688
Miscellaneous	-	-	7,095	-	-	-	-	-	-	7,095
Total Operating Revenues	406,811	-	140,795	125,243	1,310,601	148,333	-	-	-	2,131,783
OPERATING EXPENSES										
Salaries and benefits	(3,533)	-	-	-	1,250,040	(1,925)	-	-	-	1,244,582
Services, supplies and maintenance	112,954	-	-	-	-	73,936	-	-	-	186,890
Insurance premiums and claims	-	-	-	182,202	217,547	-	-	-	-	399,749
Miscellaneous	-	-	7,626	-	-	-	8,432	-	-	16,058
Total Operating Expenses	109,421	-	7,626	182,202	1,467,587	72,011	8,432	-	-	1,847,279
OPERATING INCOME (LOSS)	297,390	-	133,169	(56,959)	(156,986)	76,322	(8,432)	-	-	284,504
NONOPERATING REVENUES (EXPENSES):										
Investment earnings	1,062	33	4,218	206	-	5,502	189	85	-	11,295
Total Nonoperating Revenues (Expenses)	1,062	33	4,218	206	-	5,502	189	85	-	11,295
INCOME (LOSS) BEFORE TRANSFERS	298,452	33	137,387	(56,753)	(156,986)	81,824	(8,243)	85	-	295,799
TRANSFERS:										
Transfers (out)	(113,420)	-	(21,000)	-	-	-	-	-	-	(134,420)
CHANGES IN NET POSITION	185,032	33	116,387	(56,753)	(156,986)	81,824	(8,243)	85	-	161,379
NET POSITION - BEGINNING	263,842	1,067	1,068,627	151,402	(1,040,383)	1,470,020	54,160	23,527	-	1,992,262
NET POSITION - ENDING	\$ 448,874	\$ 1,100	\$ 1,185,014	\$ 94,649	\$ (1,197,369)	\$ 1,551,844	\$ 45,917	\$ 23,612	\$ -	\$ 2,153,641

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	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
CASH FLOWS FROM OPERATING ACTIVITIES:										
Receipts from internal service provided	\$ 388,432	\$ -	\$ 133,700	\$ 125,243	\$ 1,308,805	\$ 148,333	\$ 5,166	\$ -	\$ -	\$ 2,109,679
Payments to employees	5,047	-	-	-	(1,080,834)	1,925	-	-	313	(1,073,549)
Payments to suppliers and users	(108,531)	-	-	(180,035)	(221,108)	(54,080)	2,670	-	(1,162)	(562,246)
Other payments and receipts	(62,505)	-	(531)	-	(6,865)	617	(8,907)	-	69	(78,122)
Net Cash Provided by (Used for) Operating Activities	222,443	-	133,169	(54,792)	(2)	96,795	(1,071)	-	(780)	395,762
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:										
Cash paid to other funds	(113,420)	-	(21,000)	-	-	-	-	-	-	(134,420)
Net Cash Provided by (Used for) Noncapital Financing Activities	(113,420)	-	(21,000)	-	-	-	-	-	-	(134,420)
CASH FLOWS FROM INVESTING ACTIVITIES:										
Interest received	830	25	3,265	168	-	4,240	144	65	-	8,737
Net Cash Provided by Investing Activities	830	25	3,265	168	-	4,240	144	65	-	8,737
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	109,853	25	115,434	(54,624)	(2)	101,035	(927)	65	(780)	270,079
CASH AND INVESTMENTS - BEGINNING	263,667	9,146	1,068,627	151,402	2	1,471,212	54,711	23,527	780	3,043,074
CASH AND INVESTMENTS - ENDING	\$ 373,520	\$ 9,171	\$ 1,184,061	\$ 96,778	\$ -	\$ 1,572,247	\$ 53,784	\$ 23,592	\$ -	\$ 3,313,153
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:										
Operating income (loss)	\$ 297,390	\$ -	\$ 133,169	\$ (56,959)	\$ (156,986)	\$ 76,322	\$ (8,432)	\$ -	\$ -	\$ 284,504
Adjustments to reconcile operating income to cash flows provided by operating activities:										
Change in assets and liabilities:										
Accounts receivable	(18,379)	-	-	-	(1,796)	-	-	-	-	(15,009)
Other assets	(62,505)	-	-	-	(6,865)	-	5,166	-	-	(69,301)
Accounts payable	4,423	-	-	2,167	(3,561)	19,856	-	-	69	(1,162)
Due to other funds	-	-	-	-	173,582	-	2,670	-	(1,162)	24,393
Compensated absences	1,514	-	-	-	(4,376)	-	-	-	313	173,895
Deposits & other liabilities	-	-	-	-	-	617	(475)	-	-	(2,862)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	222,443	-	133,169	(54,792)	(2)	96,795	(1,071)	-	(780)	395,762

CITY OF SONOMA
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2013

	Cultural Fine Arts	Tree Trust	Public Art	Payroll Clearing	Climate Conference	Bid Deposits	Valley of the Moon Fire	Totals
ASSETS								
Cash and investments	\$ 10,642	\$ 14,018	\$ 17,929	\$ 181,022	\$ 88	\$ 77,157	\$ 2,047,302	\$ 2,348,158
Accounts receivable - net	-	-	-	-	-	(1,168)	261,913	260,745
Total Assets	<u>\$ 10,642</u>	<u>\$ 14,018</u>	<u>\$ 17,929</u>	<u>\$ 181,022</u>	<u>\$ 88</u>	<u>\$ 75,989</u>	<u>\$ 2,309,215</u>	<u>\$ 2,608,903</u>
LIABILITIES								
Accounts payable	\$ 10,642	\$ 14,018	\$ 17,929	\$ (17,158)	\$ 88	\$ 19,705	\$ 1,908,523	\$ 1,953,747
Deposits payable and other liabilities	-	-	-	198,180	-	56,284	400,692	655,156
Total Liabilities	<u>\$ 10,642</u>	<u>\$ 14,018</u>	<u>\$ 17,929</u>	<u>\$ 181,022</u>	<u>\$ 88</u>	<u>\$ 75,989</u>	<u>\$ 2,309,215</u>	<u>\$ 2,608,903</u>



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *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, 2013 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 April 7, 2014. 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 13-01 and 13-02.



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*.

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. G. Uhlenberg LLP

April 7, 2014
Redwood City, California

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Financial Statement Findings

Finding 13-01/ 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.
- Expenditures were coded incorrectly and needed to be moved between accounts
- Prior period adjustments were incorrectly recorded thus misstated current period revenues or expenditures.
- Journal entries were booked incorrectly, or not at all, as there is no close process to ensure all adjustments are 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.

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 dissolution of Redevelopment have continued to place an extraordinary burden on a limited Finance staff. In addition, the City undertook the conversion from a 35 year old financial software system to a new state of the art cloud-based software system. During the conversion, the Finance Department experienced both absences of long-term staff due to medical absences as well as the resignation of the Department Supervisor. Immediate steps were taken to restructure the Department, employ an interim professional Accountant, establish a new Department Head position of Finance Director with the focus on establishing a standalone Finance Department. In all prior years, the Finance Department was combined as a sub-set of Administration. The transition to a fully-functional

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Finance Department has been completed with both a new Finance Director hired and the Accountant position filled as a City employee. All finance functions will be managed in-house in the Finance Department with complete oversight for all processes, procedures and reconciliations on a monthly basis.

Finding 13-02/ Material Weakness

CONDITION: We noted that several funds, including the Gas Tax Fund, Economic Stimulus Fund and the Employee Benefit Internal Service Fund, have large negative fund balances or net positions. This condition may cause the users of the financial statement that focus on the General Fund have a distorted view of the available General Fund balance.

CRITERIA: Fund balances should generally be positive as it represents that the correct amount of resources are being allocated to each program or function. Large negative fund balances could indicate that certain unfunded general fund expenditures are being recorded in other funds incorrectly.

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: The General Fund Balance may be overstated. We do note that the government-wide financial statement combine the balance of all governmental and internal service funds net position so the impact is only seen at the fund level.

RECOMMENDATION: We recommend that if there is no source of current revenue to eliminate large negative fund balances that these funds be funded with transfers from the General Fund to more accurately report the position of the General Fund balance.

CITY RESPONSE: The conversion of all funds has been completed to the new software and a complete review and reconciliation of all funds will be accomplished during the new fiscal year. Restructuring of funds may be necessary as a result of further investigation and determination of cause of negative fund positions.

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

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 PRIOR YEAR FINDINGS AND QUESTIONED COSTS

STATUS: Similar to current year finding 13-01.

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.

STATUS: Appears to be address in the current process.

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.

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 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.

STATUS: Not applicable to current year as it was a one-time transition event.