

CITY OF SONOMA
Audited Financial Statements
June 30, 2017

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CITY OF SONOMA
 Comprehensive Annual Financial Report
 For the Year Ended June 30, 2017

TABLE OF CONTENTS i

FINANCIAL SECTION

Independent Auditor’s Report 1
 Management’s Discussion and Analysis..... 3

Basic Financial Statements

Government-Wide Financial Statements:

Statement of Net Position 15
 Statement of Activities 16

Fund Financial Statements:

Governmental Funds:

Balance Sheet 18
 Reconciliation of the Governmental Funds Balance Sheet with
 the Statement of Net Position..... 19
 Statement of Revenues, Expenditures, and Changes in Fund
 Balances 20
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities 21
 Statement of Revenues, Expenditures and Changes in Fund
 Balances – Budget and Actual:
 General Fund..... 22

Proprietary Funds:

Statement of Net Position 23
 Statement of Revenues, Expenses and Changes in Fund Net
 Position 24
 Statement of Cash Flows..... 25

Fiduciary Funds:

Statement of Fiduciary Net Position..... 26
 Statement of Changes in Fiduciary Net Position 27

Notes to Basic Financial Statements..... 28

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Proportionate Share of the Net Pension Liability and
 Schedule of Contributions – City Miscellaneous Plans (Unaudited)..... 63
 Schedule of the Proportionate Share of the Net Pension Liability and
 Schedule of Contributions – Safety Fire Plans (Unaudited) 64

CITY OF SONOMA
 Comprehensive Annual Financial Report
 For the Year Ended June 30, 2017

SUPPLEMENTAL INFORMATION

Non-major Governmental Funds

Combining Balance Sheet.....	65
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	66

Special Revenue Funds

Combining Balance Sheet.....	67
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	69

Capital Project and Debt Service Funds

Combining Balance Sheet.....	71
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	72

Internal Service Funds

Combining Statement of Net Position – Internal Service Funds.....	73
Combining Statement of Revenues, Expenses and Changes in Fund Net Position – Internal Service Funds	75
Combining Statement of Cash Flows – Internal Service Funds.....	77

Agency Funds

Combining Statement of Assets and Liabilities – All Agency Funds.....	79
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	81



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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Sonoma, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sonoma, California (City), as of and for the year ended June 30, 2017, 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

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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 audit opinions.

Opinions

In our opinion, 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

To the City Council
City of Sonoma, California

the aggregate remaining fund information of the City of Sonoma, California, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Fire District Operations Special Revenue Fund, Storm Drainage Special Revenue Fund and CDBG Loan Development Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Correction of Errors

As discussed in Note M, correction of errors were made during the current year. Accordingly, adjustments have been made to Net Position and Fund Balance as of July 1, 2016 to correct these errors.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 14 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. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

Richardson & Company, LLP

April 29, 2019

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

This narrative of the City of Sonoma's financial performance provides an overview and analysis of the City's financial activities for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying Transmittal Letter, the Basic Financial Statements, and the accompanying notes to the financial statements.

FINANCIAL HIGHLIGHTS

- ◆ As of June 30, 2017, total assets and deferred outflows of the City exceeded its total liabilities and deferred inflows by \$60.0 million (net position). The portion of net position that may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net position) was \$3.0 million. The portion of net position that was restricted and may only be used for specific purposes was \$0.7 million. The remaining \$56.3 million was invested in capital assets.
- ◆ Overall, City-wide revenue from all governmental and business-type activities was \$22.8 million, an increase of \$0.8 million from the previous fiscal year. City-wide expenditures from all governmental and business-type activities was \$22.7 million, an increase of \$3.3 million the previous fiscal year.
- ◆ As of June 30, 2017, the City's governmental funds reported combined ending fund balances of \$9.1 million. Of the combined fund balances, 92% (\$9.0 million) is available to meet the City's current and future needs (committed and unassigned balances).
- ◆ The General Fund reported a total fund balance of \$8.4 million at the end of the 2016-17 fiscal year. This represents a decrease in fund balance of \$0.1 million, or 1% from the previous fiscal year. Of the total fund balance, \$4.1 million, or 48%, was unassigned or available for spending at the City's discretion. (mention the bFB restatement)
- ◆ As of June 30, 2017, the committed amount in the General Fund of \$4.3 million represents amounts committed for operations (\$1.5 million) and unanticipated emergencies (\$2.8 million). See Note H.
- ◆ The City's net pension liability increased by \$2.9 million to \$12.5 million. This obligation remains larger than the sum of all other bond and long-term liabilities combined. For more information on the net pension liability, please refer to Note I of the Basic Financial Statements.
- ◆ The City ended the fiscal year with \$0.7 million reported in the proprietary enterprise funds (the amount of net position available for use, including unrestricted net position, but excluding the investment in capital assets net of related debt).

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in three major parts:

- 1) **Introductory section**, which includes the Transmittal Letter and general information;
- 2) **Financial section**, which includes the Management's Discussion and Analysis (this part), the Basic Financial Statements, which include the Government-wide and the Fund Financial Statements along with the notes to these financial statements and Combining and Individual Fund Financial Statements and Schedules; and,
- 3) **Statistical section**, which includes detailed information as a context for understanding what the information in the financial statements, and footnotes says about the City's overall financial health.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements are comprised of the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Government-wide Financial Statements

The Government-wide Financial Statements provide a broad overview of the City's activities as a whole and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on a full accrual basis, similar to that used by commercial enterprises. The Statement of Activities provides information about the City's revenues and expenses, also on a full accrual basis, with emphasis on measuring the net revenues and expenses of City programs. The Statement of Activities explains in detail the change in net position for the year.

All of the City's activities are grouped into Governmental Activities and Business-type activities, as explained below. All of the amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

- ◆ **Governmental activities** – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works, community

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

development, and parks and recreation. These services are supported by general City revenues such as taxes and by specific program revenues such as development related permit fees.

- ◆ ***Business-type activities*** – All of the City's enterprise activities are reported here and include the Water and Cemetery activities. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the Governmental Fund Financial Statements is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statement. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Governmental Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them as one total. Instead, each major fund is presented individually, with all nonmajor funds summarized and presented only in a single column. Subordinate schedules present the detail of these nonmajor funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

For the fiscal year ended June 30, 2017, the City's major funds include the General Fund, Water Enterprise Fund and Cemetery Enterprise Fund.

For the fiscal year ended June 30, 2017, the City adopted annual appropriated budgets for all governmental funds.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

Proprietary funds. The City maintains Enterprise-type and Internal Service proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-wide Financial Statements. The City uses enterprise funds to account for Water and Cemetery activities. Internal service funds are an accounting methodology used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for benefits, information technology assets, long term building maintenance, and vehicle replacement.

Proprietary funds provide the same type of information as the Government-wide Financial Statements, only in more detail. The proprietary fund financial statements provide separate information for all of these activities.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes to the Basic Financial Statements can be found on pages 28-62 of this report. Required Supplementary Information follows the notes on pages 63-64.

Combining and Individual Fund Financial Statements and Schedules. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the Required Supplementary Information. Combining and individual fund statements can be found on pages 65-78 of this report.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$60.0 million as of June 30, 2017. The Summary of Net Position as of June 30, 2017, and 2016, follows:

	Governmental Activities		Business-type Activities		Totals	
	2017	2016*	2017	2016*	2017	2016*
Current and other assets	\$ 15,462,760	\$ 13,374,152	\$ 4,910,783	\$ 4,311,035	\$ 20,373,543	\$ 17,685,187
Capital assets	41,912,448	42,304,776	16,139,588	15,943,146	58,052,036	58,247,922
Total Assets	57,375,208	55,678,928	21,050,371	20,254,181	78,425,579	75,933,109
Total Deferred Outflows	2,251,067	2,184,794	237,130	-	2,488,197	2,184,794
Long-term liabilities	12,750,417	11,577,866	3,236,505	1,426,908	15,986,922	13,004,774
Other liabilities	2,094,172	2,204,714	1,051,139	380,819	3,145,311	2,585,533
Total Liabilities	14,844,589	13,782,580	4,287,644	1,807,727	19,132,233	15,590,307
Total Deferred Inflows	1,669,024	2,850,163	91,739	-	1,760,763	2,850,163
Net position:						
Net investment in capital assets	40,130,205	40,140,784	16,139,588	14,588,146	56,269,793	54,728,930
Restricted	769,953	-	-	-	769,953	-
Unrestricted	2,212,504	1,090,195	768,530	3,858,308	2,981,034	4,948,503
Total Net Position	\$ 43,112,662	\$ 41,230,979	\$ 16,908,118	\$ 18,446,454	\$ 60,020,780	\$ 59,677,433

* Not restated

Total assets increased by \$2.5 million or 3% to \$78.4 million. An increase of \$2.7 million in current and other assets was partially offset by a slight decrease of \$0.2 million in capital assets. The increase in current assets was mainly the result of increased cash and investments in the governmental activities funds.

Total liabilities increased by \$3.5 million or 23% to \$19.1 million. The significant changes in liabilities include an increase in the City's net pension liability of \$2.9 million and an increase in year end accrued liabilities in the business activities funds.

Restricted net position of governmental activities was \$0.8 million and includes funding restricted for public safety, public works, and community development activities.

The City had \$3.0 million of unrestricted net position as of June 30, 2017, which is a decrease of \$2.0 million. A decrease in the net position of the business-type activities of \$3.1 million was partially offset by an increase of \$1.1 million in the net position of governmental activities.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The change in net position for the fiscal years ended June 30, 2017, and 2016, follows:

	Governmental Activities		Business-type Activities		Totals	
	2017	2016*	2017	2016*	2017	2016*
Revenues:						
Program revenues:						
Charges for services	\$ 2,870,074	\$ 2,493,779	\$ 4,576,303	\$ 4,295,886	\$ 7,446,377	\$ 6,789,665
Grants and contributions:						
Operating	588,659	863,433	-	-	588,659	863,433
Capital	205,044	-	-	-	205,044	-
General revenues:						
Property taxes, levied						
for general purposes	2,953,222	2,542,448	-	-	2,953,222	2,542,448
Transient occupancy taxes	3,732,212	3,751,167	-	-	3,732,212	3,751,167
Sales and use taxes	3,200,422	3,117,310	-	-	3,200,422	3,117,310
Measure J	2,334,963	2,075,392	-	-	2,334,963	2,075,392
Franchise taxes	494,353	487,517	-	-	494,353	487,517
Other taxes	316,003	891,359	-	-	316,003	891,359
State motor vehicle in-lieu	958,963	909,297	-	-	958,963	909,297
Investment earnings	72,259	37,996	43,164	199,104	115,423	237,100
Other general revenues	100,728	301,200	354,350	-	455,078	301,200
Total Revenues	17,826,902	17,470,898	4,973,817	4,494,990	22,800,719	21,965,888
Expenses:						
Governmental activities:						
General government	3,775,008	2,087,870	-	-	3,775,008	2,087,870
Public safety	10,368,608	9,923,145	-	-	10,368,608	9,923,145
Public works	2,240,618	1,952,562	-	-	2,240,618	1,952,562
Community development	1,379,657	1,194,216	-	-	1,379,657	1,194,216
Parks and recreation	596,400	320,177	-	-	596,400	320,177
Interest and fiscal charges	77,019	82,168	-	-	77,019	82,168
Business-type activities:						
Water	-	-	3,891,204	3,551,916	3,891,204	3,551,916
Cemetery	-	-	297,997	-	297,997	-
Interest on long-term debt	-	-	67,324	266,871	67,324	266,871
Total Expenses	18,437,310	15,560,138	4,256,525	3,818,787	22,693,835	19,378,925
Excess (Deficiency) of revenues over						
expenditures before transfers	(610,408)	1,910,760	717,292	676,203	106,884	2,586,963
Transfers	572,207	586,914	(572,207)	(586,914)	-	-
Change in Net Position	(38,201)	2,497,674	145,085	89,289	106,884	2,586,963
Restatement	1,919,884	-	(1,683,421)	-	236,463	-
Net position, beginning of year	41,230,979	38,733,305	18,446,454	18,357,165	59,677,433	57,090,470
NET POSITION, JUNE 30	\$ 43,112,662	\$ 41,230,979	\$16,908,118	\$ 18,446,454	\$ 60,020,780	\$ 59,677,433

* Not restated

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues

The City's total revenues for governmental and business-type activities were \$22.8 million for the fiscal year ended June 30, 2017. Approximately 86% of the City's key revenues are generated from five major sources.

The following discusses variances in key revenues from the prior fiscal year:

1. **Charges for Services** - Annual receipts for the fiscal year ended June 30, 2017 increased \$0.6 million from \$6.8 million to \$7.4 million.
2. **Property Taxes** - Annual receipts for the fiscal year ended June 30, 2017 increased by \$0.4 million or 16% from \$2.5 million to \$2.9 million. This increase reflects the continued strong real estate market within the City of Sonoma.
3. **Transient Occupancy Taxes** – Revenue from the City's Transient Occupancy Tax remained stable at \$3.7 million.
4. **Sales and Use Taxes**- Revenues increased by \$0.1 million in 2017 from \$3.1 million to \$3.2 million.
5. **Measure J** – Revenue from the Measure J sales tax increased by \$0.2 million (12%) from \$2.1 million to \$2.3 million.

Expenses

Governmental and business-type activity expenses of the City for the year totaled \$22.7 million. Governmental activity expenses totaled \$18.4 million or 81% of total expenses. Business-type activities expenses totaled \$4.3 million during the fiscal year. Public safety costs represented 56% of total governmental activities expenses.

Governmental Activities

The following table shows the cost of each of the City's major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of the programs. The total cost of services and the net cost of services for the fiscal year ended June 30, 2017, was as follows:

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

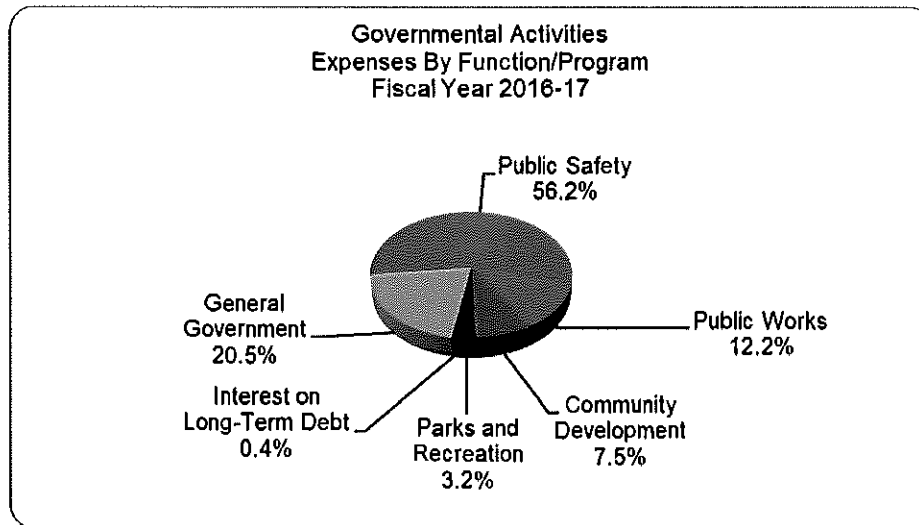
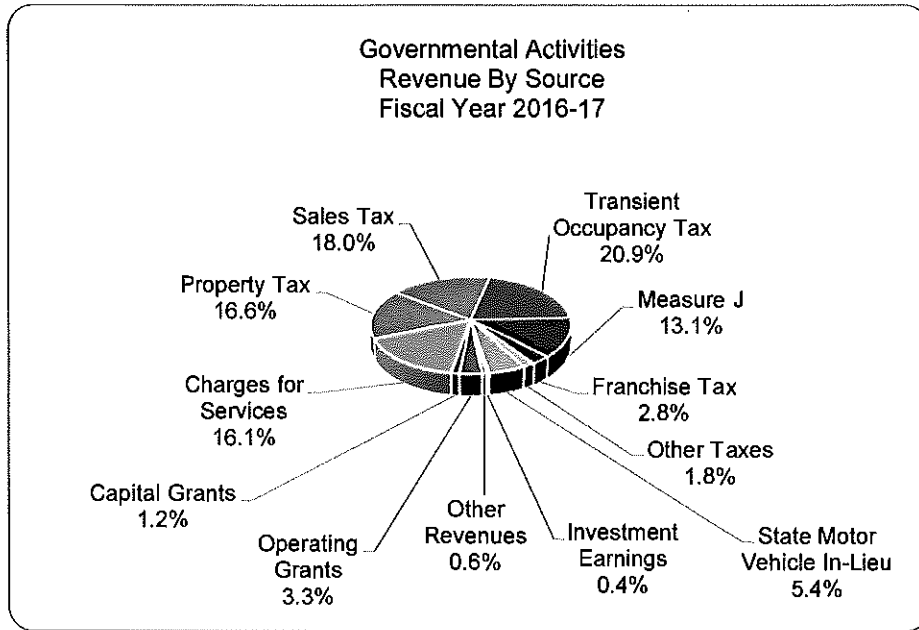
	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net Revenue (Expenses of Activities)</u>
General government	\$ 3,775,008	\$ 8,229	\$ (3,766,779)
Public safety	10,368,608	2,306,238	(8,062,370)
Public works	2,240,618	767,226	(1,473,392)
Community development	1,379,657	512,531	(867,126)
Parks and recreation	596,400	69,553	(526,847)
Interest on long-term debt	77,019	-	(77,019)
TOTAL	\$ 18,437,310	\$ 3,663,777	\$ (14,773,533)

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues by source and expenses by function/program for the fiscal year ended June 30, 2017, are as follows:

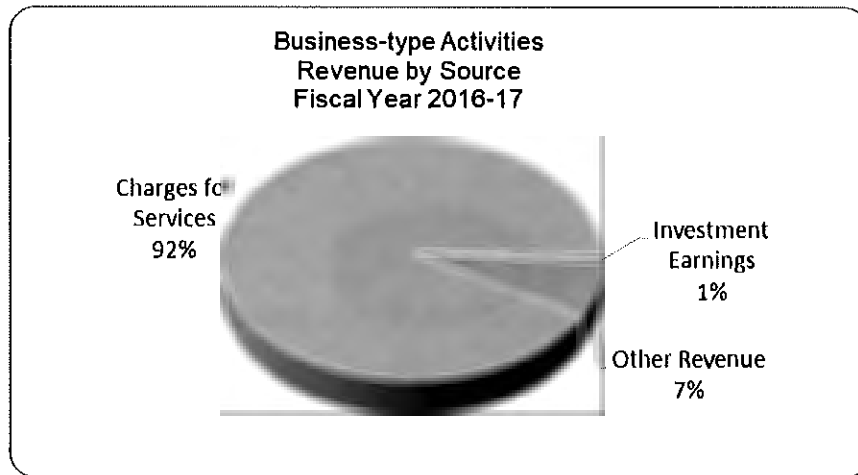


City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

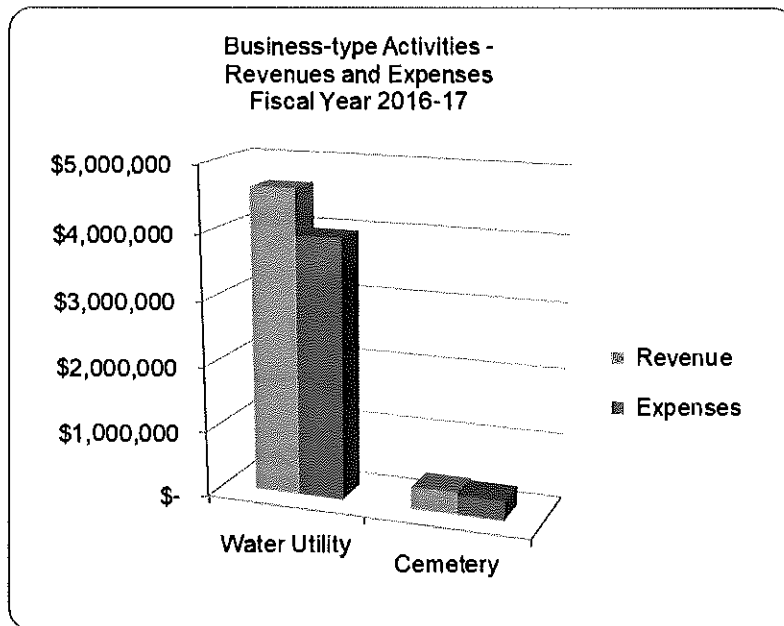
Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business-type activities. The City’s net position for business-type activities decreased by \$1.5 million. The City has two business-type activities, the Water and Cemetery operations. The revenue by source for the Water and Cemetery business-type activities for the fiscal year ended June 30, 2017 are as follows:



The operating revenues and expenses for the business-type activities for the fiscal year ended June 30, 2017 are as follows:



City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

Financial Analysis of the Government's Funds

The City of Sonoma uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide financial statements.

Governmental funds. The City's governmental funds provide information on near-term inflows, outflows, and balances of spending resources. At the fiscal year ended June 30, 2017, the City's governmental funds reported combined fund balances of \$9.1 million. This represents an increase of \$0.1 million from the prior year.

The General Fund is the chief operating fund of the City. At the fiscal year ended June 30, 2017, the General Fund's fund balance totaled \$8.4 million of which \$4.3 million was committed by the City Council for emergency and operating reserves. The remaining \$4.1 million fund balance was unassigned.

Proprietary funds. The City's proprietary funds unrestricted net position decreased by \$3.1 million in the fiscal year ended June 30, 2017. Of this decrease, \$1.7 million was an allocation of the net pension obligation to the enterprise funds. The remaining decrease was mainly due to year end accruals.

General Fund Budgetary Highlights

General Fund revenues totaled \$17.1 million for the fiscal year ended June 30, 2017 which was \$0.4 million or 2% over the budget estimate of \$16.7 million. Total General Fund expenditures were \$15.6 million or 4% under the budget appropriation of \$16.3 million. This variance was mainly the result of the delay in several public works capital projects.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounted to \$58.1 million. This investment in capital assets includes land, buildings and improvements, equipment and vehicles, infrastructure and construction in progress.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 5,141,367	\$ 5,141,367	\$ 960,472	\$ 960,472	\$ 6,101,839	\$ 6,101,839
Buildings and improvements	15,666,409	16,170,252	2,032,797	2,127,961	17,699,206	18,298,213
Equipment and vehicles	2,223,559	2,416,879	302,505	342,896	2,526,064	2,759,775
Infrastructure	18,367,634	17,079,392	11,971,743	12,372,717	30,339,377	29,452,109
Construction in progress	513,479	1,496,886	872,071	139,100	1,385,550	1,635,986
Total	\$ 41,912,448	\$ 42,304,776	\$16,139,588	\$15,943,146	\$ 58,052,036	\$ 58,247,922

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2017

Management's Discussion and Analysis, Continued

During the fiscal year ended June 30, 2017, the City's total investment in capital assets decreased by \$0.2 million. Reductions included \$1.8 million of depreciation adjustments which were partially offset by \$1.5 million in increased construction activity for a water system replacement and street rehab project, and \$0.1 million in equipment purchases. Additional information about the City's capital assets can be found in Note F on pages 45 and 46 of the Basic Financial Statements.

Long-term Debt

At June 30, 2017, the City's debt was comprised of the following:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Capital Lease Obligations	\$ 292,243	\$ 333,992	\$ -	\$ -	\$ 292,243	\$ 333,992
Pension Obligation bonds	1,490,000	1,830,000	-	-	1,490,000	1,830,000
Water Installment Sale	-	-	1,355,000	1,420,000	1,355,000	1,420,000
Total	\$ 1,782,243	\$ 2,163,992	\$ 1,355,000	\$ 1,420,000	\$ 3,137,243	\$ 3,583,992

The City made all required debt service payments on the issues listed above. Additional information on outstanding debt may be found on pages 51 and 52 of the Basic Financial Statements.

Economic Outlook

The local economy continued to perform well during the 2016-17 fiscal year. The City's population increased to 11,405 in 2017 and is projected to reach 11,916 by 2022. Between 2010 and 2017, the City's population increased by 10.8%, the second highest growth rate among cities within Sonoma County. Total taxable sales increased by 2.4% to \$272.8 million in 2017 and the median home sales price increased to \$670,000 which was higher than the countywide median price of \$535,000. In 2017, Sonoma's unemployment rate of 3.1% was lower than the countywide rate of 3.4%.

Requests for Information

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. If you have any questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Sonoma Finance Department, No. 1 The Plaza, Sonoma, CA 95476, or visit the City's web page at www.sonomacity.org.

BASIC FINANCIAL STATEMENTS

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CITY OF SONOMA
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 12,859,093	\$ 4,227,679	\$ 17,086,772
Taxes receivable	1,271,262		1,271,262
Accounts receivable, net	813,643	730,289	1,543,932
Internal balances	63,237	(63,237)	-
Interest receivable	43,592		43,592
Due from other governments	85,457	16,052	101,509
Other assets	15,711		15,711
Loans receivable, net	310,765		310,765
Capital assets:			
Non-depreciable	5,654,846	1,832,543	7,487,389
Depreciable, net of accumulated depreciation	36,257,602	14,307,045	50,564,647
Total capital assets	<u>41,912,448</u>	<u>16,139,588</u>	<u>58,052,036</u>
TOTAL ASSETS	<u>57,375,208</u>	<u>21,050,371</u>	<u>78,425,579</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	2,251,067	237,130	2,488,197
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,251,067</u>	<u>237,130</u>	<u>2,488,197</u>
LIABILITIES			
Accounts payable	1,718,686	840,068	2,558,754
Accrued expenses	2,210	25,306	27,516
Accrued interest payable	4,894	13,211	18,105
Deposits payable	368,382	172,554	540,936
Long-term liabilities:			
Due within one year			
Bonds, capital leases and contracts	391,749	70,000	461,749
Compensated absences	58,503	29,976	88,479
Due in more than one year			
Bonds, capital leases and contracts	1,390,494	1,285,000	2,675,494
Compensated absences	136,508	69,944	206,452
Net pension liability	10,773,163	1,781,585	12,554,748
TOTAL LIABILITIES	<u>14,844,589</u>	<u>4,287,644</u>	<u>19,132,233</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	1,669,024	91,739	1,760,763
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,669,024</u>	<u>91,739</u>	<u>1,760,763</u>
NET POSITION			
Net investment in capital assets	40,130,205	16,139,588	56,269,793
Restricted for:			
Public safety	66,301		66,301
Public works	447,487		447,487
Community development	256,165		256,165
Unrestricted	2,212,504	768,530	2,981,034
TOTAL NET POSITION	<u>\$ 43,112,662</u>	<u>\$ 16,908,118</u>	<u>\$ 60,020,780</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Activities
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental Activities				
General government	\$ 3,775,008	\$ 2,384	\$ 5,845	
Public safety	10,368,608	1,770,778	535,460	
Public works	2,240,618	562,182		\$ 205,044
Community development	1,379,657	480,031	32,500	
Parks and recreation	596,400	54,699	14,854	
Interest on long-term debt	77,019			
Total governmental activities	<u>18,437,310</u>	<u>2,870,074</u>	<u>588,659</u>	<u>205,044</u>
Business-type activities				
Water	3,891,204	4,421,041		
Cemetery	297,997	155,262		
Interest on long-term debt	67,324			
Total business-type activities	<u>4,256,525</u>	<u>4,576,303</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 22,693,835</u></u>	<u><u>\$ 7,446,377</u></u>	<u><u>\$ 588,659</u></u>	<u><u>\$ 205,044</u></u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Transient occupancy taxes, levied for general purposes
- Sales taxes
- Measure J
- Franchise taxes
- Other taxes

Intergovernmental:

- State motor vehicle in-lieu tax (MVLIF)
- Unrestricted investment earnings
- Other general revenues

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year, as previously reported

Restatement

Net position, beginning of year

Net position, end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (3,766,779)		\$ (3,766,779)
(8,062,370)		(8,062,370)
(1,473,392)		(1,473,392)
(867,126)		(867,126)
(526,847)		(526,847)
(77,019)		(77,019)
<u>(14,773,533)</u>		<u>(14,773,533)</u>
	\$ 529,837	529,837
	(142,735)	(142,735)
	<u>(67,324)</u>	<u>(67,324)</u>
	319,778	319,778
<u>(14,773,533)</u>	<u>319,778</u>	<u>(14,453,755)</u>
2,953,222		2,953,222
3,732,212		3,732,212
3,200,422		3,200,422
2,334,963		2,334,963
494,353		494,353
316,003		316,003
958,963		958,963
72,259	43,164	115,423
<u>100,728</u>	<u>354,350</u>	<u>455,078</u>
14,163,125	397,514	14,560,639
572,207	(572,207)	-
<u>14,735,332</u>	<u>(174,693)</u>	<u>-</u>
(38,201)	145,085	106,884
41,230,979	18,446,454	59,677,433
1,919,884	(1,683,421)	236,463
<u>43,150,863</u>	<u>16,763,033</u>	<u>59,913,896</u>
\$ 43,112,662	\$ 16,908,118	\$ 60,020,780

CITY OF SONOMA
Balance Sheet
Governmental Funds
June 30, 2017

	Major Fund	Other	Total
	General Fund	Nonmajor Governmental Funds	Governmental Funds
ASSETS			
Cash and investments	\$ 8,309,705	\$ 929,588	\$ 9,239,293
Receivables:			
Taxes receivable	1,251,641	19,621	1,271,262
Accounts receivable, net	813,643		813,643
Intergovernmental	83,972	1,485	85,457
Interest receivable	43,592		43,592
Due from other funds	342,317		342,317
Prepaid items	15,711		15,711
	\$ 10,860,581	\$ 950,694	\$ 11,811,275
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,518,931	\$ 39,901	\$ 1,558,832
Due to other funds	-	23,640	23,640
Advances from other funds	516,925		516,925
Deposits payable	216,665	142,460	359,125
Other liabilities	2,210		2,210
	2,254,731	206,001	2,460,732
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	214,189		214,189
Fund balances:			
Nonspendable - prepaid items	15,711		15,711
Restricted for:			
Public safety	-	66,301	66,301
Public works	-	447,487	447,487
Community development	-	256,165	256,165
Committed	4,325,270		4,325,270
Unassigned (deficit)	4,050,680	(25,260)	4,025,420
	8,391,661	744,693	9,136,354
TOTAL FUND BALANCES	8,391,661	744,693	9,136,354
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,860,581	\$ 950,694	\$ 11,811,275

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total fund balance, governmental funds	\$	9,136,354
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		40,060,879
Revenues which are deferred on the Fund Balance Sheets, because they are not available currently, are taken into revenue in the Statement of Activities.		(234,895)
Pension contributions subsequent to the plan's measurement date and other deferrals will reduce the pension liability in the future and are reported as deferred outflows of resources on the statement of net position.		2,251,067
Internal service funds are used by management to charge the costs of activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. This amount excludes long-term assets and liabilities reported separately below.		6,318,698
Long-term assets and liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		
Long-term debt		(1,782,243)
Compensated absences		(195,011)
Net pension liability		(10,773,163)
Employee pension differences to be recognized in the future as pension expense are reported as deferred inflows of resources on the statement of net position.		(1,669,024)
NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	\$	<u>43,112,662</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>Major Fund</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 3,662,185		\$ 3,662,185
Sales taxes	5,371,388		5,371,388
Other taxes	4,911,327	\$ 101,574	5,012,901
Licenses and permits	11,802	42,448	54,250
Fines and forfeitures	89,541		89,541
Intergovernmental	616,390	359,791	976,181
Use of money and property	177,073	4,777	181,850
Charges for services	2,226,811		2,226,811
Reimbursements	665		665
Other revenues	2,551		2,551
TOTAL REVENUES	<u>17,069,733</u>	<u>508,590</u>	<u>17,578,323</u>
EXPENDITURES			
Current:			
General government	1,796,199		1,796,199
Public safety	10,102,222	7,836	10,110,058
Public works	1,119,017	646,682	1,765,699
Community development	1,215,102	18,227	1,233,329
Parks and recreation	596,400		596,400
Debt Service:			
Principal		381,749	381,749
Interest and other charges		77,019	77,019
Capital outlay	767,672	21,395	789,067
TOTAL EXPENDITURES	<u>15,596,612</u>	<u>1,152,908</u>	<u>16,749,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,473,121</u>	<u>(644,318)</u>	<u>828,803</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	566,884	1,081,425	1,648,309
Transfers out	(1,603,170)	(197,877)	(1,801,047)
TOTAL OTHER FINANCING SOURCES AND USES	<u>(1,036,286)</u>	<u>883,548</u>	<u>(152,738)</u>
CHANGE IN FUND BALANCE	436,835	239,230	676,065
Fund balances, beginning of year, as originally reported	8,499,268	505,463	9,004,731
Restatement	(544,442)		(544,442)
Fund balances, beginning of year, as restated	<u>7,954,826</u>	<u>505,463</u>	<u>8,460,289</u>
FUND BALANCES, END OF YEAR	<u>\$ 8,391,661</u>	<u>\$ 744,693</u>	<u>\$ 9,136,354</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds: \$ 676,065

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlay	789,067
Depreciation expense	(1,287,978)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	234,895
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Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceed proceeds, net of amortization of deferred amount on refunding.	381,749
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Internal service funds are used by management to charge the costs of activities to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	(788,594)
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Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences	13,214
Change in deferred outflow of resources	(604,560)
Change in net pension obligation	(1,124,284)
Change in deferred inflow of resources	<u>1,672,225</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (38,201)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund

For the year ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 3,162,575	\$ 3,162,575	\$ 3,662,185	\$ 499,610
Sales taxes	5,366,265	5,366,265	5,371,388	5,123
Other taxes	4,807,464	4,963,247	4,911,327	(51,920)
Licenses and permits	12,800	12,800	11,802	(998)
Fines and forfeitures	84,650	84,650	89,541	4,891
Intergovernmental	123,500	195,500	616,390	420,890
Use of money and property	140,135	140,135	177,073	36,938
Charges for services	2,134,193	2,134,193	2,226,811	92,618
Reimbursements	28,000	28,000	665	(27,335)
Other revenues	600,000	600,000	2,551	(597,449)
TOTAL REVENUES	<u>16,459,582</u>	<u>16,687,365</u>	<u>17,069,733</u>	<u>382,368</u>
EXPENDITURES				
Current:				
General government	1,723,540	1,862,590	1,796,199	66,391
Public safety	9,811,925	10,021,495	10,102,222	(80,727)
Public works	1,420,714	1,505,714	1,119,017	386,697
Community development	1,268,142	1,283,142	1,215,102	68,040
Parks and recreation	524,201	524,201	596,400	(72,199)
Capital outlay	1,146,000	1,147,648	767,672	379,976
TOTAL EXPENDITURES	<u>15,894,522</u>	<u>16,344,790</u>	<u>15,596,612</u>	<u>748,178</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>565,060</u>	<u>342,575</u>	<u>1,473,121</u>	<u>1,130,546</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	828,966	828,966	566,884	(262,082)
Transfers out	(1,189,860)	(1,189,860)	(1,603,170)	(413,310)
TOTAL OTHER FINANCING SOURCES AND USES	<u>(360,894)</u>	<u>(360,894)</u>	<u>(1,036,286)</u>	<u>(675,392)</u>
NET CHANGE IN FUND BALANCES	204,166	(18,319)	436,835	455,154
Fund balances, beginning of year, as				
originally reported	8,499,268	8,499,268	8,499,268	-
Restatement	(544,442)	(544,442)	(544,442)	-
Fund balances, beginning of year, as restated	<u>7,954,826</u>	<u>7,954,826</u>	<u>7,954,826</u>	<u>-</u>
FUND BALANCES , END OF YEAR	<u>\$ 8,158,992</u>	<u>\$ 7,936,507</u>	<u>\$ 8,391,661</u>	<u>\$ 455,154</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business Type Activities-			Governmental
	Water	Enterprise Funds Cemetery	Total	Activities- Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 4,222,764	\$ 4,915	\$ 4,227,679	\$ 3,619,800
Receivables:				
Accounts	729,471	818	730,289	
Notes				310,765
Due from other funds				288,613
Advances to other funds	516,925		516,925	
Due from other governments	16,052		16,052	
Total current assets	<u>5,485,212</u>	<u>5,733</u>	<u>5,490,945</u>	<u>4,219,178</u>
Noncurrent assets:				
Capital assets				
Non-depreciable	1,636,239	196,304	1,832,543	
Depreciable, net of accumulated	13,028,035	1,279,010	14,307,045	1,851,569
Total non-current assets	<u>14,664,274</u>	<u>1,475,314</u>	<u>16,139,588</u>	<u>1,851,569</u>
TOTAL ASSETS	<u>20,149,486</u>	<u>1,481,047</u>	<u>21,630,533</u>	<u>6,070,747</u>
Deferred outflow of resources:				
Pensions	208,211	28,919	237,130	
Total deferred outflow of resources	<u>208,211</u>	<u>28,919</u>	<u>237,130</u>	
LIABILITIES				
Current liabilities:				
Accounts payable	830,322	9,746	840,068	164,748
Due to other funds		607,290	607,290	
Deposits payable	76,375	96,179	172,554	9,257
Retention payable	25,306		25,306	
Interest payable	13,211		13,211	
Compensated absences, current portion	25,933	4,043	29,976	
Loans payable, current portion	70,000		70,000	
Total current liabilities	<u>1,041,147</u>	<u>717,258</u>	<u>1,758,405</u>	<u>174,005</u>
Non-current liabilities:				
Compensated absences	60,512	9,432	69,944	
Loans payable	1,285,000		1,285,000	
Net pension liability	1,564,319	217,266	1,781,585	
Total non-current liabilities	<u>2,909,831</u>	<u>226,698</u>	<u>3,136,529</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,950,978</u>	<u>943,956</u>	<u>4,894,934</u>	<u>174,005</u>
Deferred inflow of resources:				
Pensions	80,551	11,188	91,739	
Total deferred inflow of resources	<u>80,551</u>	<u>11,188</u>	<u>91,739</u>	
NET POSITION				
Net investment in capital assets	14,664,273	1,475,315	16,139,588	1,851,569
Unrestricted (deficit)	1,661,895	(920,493)	741,402	4,045,173
TOTAL NET POSITION	<u>\$ 16,326,168</u>	<u>\$ 554,822</u>	<u>16,880,990</u>	<u>\$ 5,896,742</u>

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the Business Activities of the Statement of Net Position. 27,128

TOTAL NET POSITION PER GOVERNMENT-WIDE FINANCIAL STATEMENTS \$ 16,908,118

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business Type Activities			Governmental
	Enterprise Funds			Activities-
	Water	Cemetery	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 4,421,041	\$ 155,262	\$ 4,576,303	
Interdepartmental charges				\$ 2,033,394
Other operating revenue	44,544	181,244	225,788	
TOTAL OPERATING REVENUES	4,465,585	336,506	4,802,091	2,033,394
OPERATING EXPENSES				
Personnel expense	1,287,344	173,200	1,460,544	1,507,218
Maintenance and operations	24,065	4,136	28,201	103,731
Depreciation	496,625	39,904	536,529	237,353
Other operating expenses	2,107,560	83,495	2,191,055	312,139
TOTAL OPERATING EXPENSES	3,915,594	300,735	4,216,329	2,160,441
OPERATING INCOME (LOSS)	549,991	35,771	585,762	(127,047)
NON-OPERATING REVENUES (EXPENSES)				
Connection fees	128,432		128,432	
Interest revenue	41,818	1,346	43,164	23,879
Interest expense	(67,324)		(67,324)	
Gain (loss) from the sale of capital assets	130		130	10,510
TOTAL NON-OPERATING REVENUE (EXPENSES)	103,056	1,346	104,402	34,389
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	653,047	37,117	690,164	(92,658)
Transfers in		34,963	34,963	942,868
Transfers out	(589,830)	(17,340)	(607,170)	(217,923)
CHANGE IN NET POSITION	63,217	54,740	117,957	632,287
Net position, beginning of year, as originally reported	17,474,318	972,136	18,446,454	4,344,932
Restatement	(1,211,367)	(472,054)	(1,683,421)	919,523
Net position, beginning of year, as restated	16,262,951	500,082	16,763,033	5,264,455
TOTAL NET POSITION, END OF YEAR	\$ 16,326,168	\$ 554,822		\$ 5,896,742
Change in net position			117,957	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			27,128	
CHANGE IN NET POSITION OF BUSINESS TYPE ACTIVITIES			\$ 145,085	

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Enterprise Funds			Governmental Activities
	Water	Cemetery	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 4,247,724	\$ 335,688	\$ 4,583,412	\$ 1,178
Cash paid to suppliers	(897,403)	(73,225)	(970,628)	(257,844)
Cash paid to employees and related benefits	(904,553)	(117,447)	(1,022,000)	(1,724,159)
Cash (paid) received from interfund services provided	(1,084,464)	(336,052)	(1,420,516)	2,040,811
CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,361,304</u>	<u>(191,036)</u>	<u>1,170,268</u>	<u>59,986</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Amounts received (paid) to other funds	(1,106,755)	189,383	(917,372)	436,332
Other revenues received	128,432		128,432	41,810
CASH (USED) PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>(978,323)</u>	<u>189,383</u>	<u>(788,940)</u>	<u>478,142</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital expenditures	(732,971)		(732,971)	(106,583)
Proceeds from disposal of capital assets	130		130	10,510
Principal paid on long-term liabilities	(65,000)		(65,000)	
Interest paid on long-term liabilities	(54,113)		(54,113)	
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(851,954)</u>	<u>-</u>	<u>(851,954)</u>	<u>(96,073)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	41,818	1,346	43,164	23,879
CHANGE IN CASH AND INVESTMENTS	(427,155)	(307)	(427,462)	465,934
Cash and investments, beginning of year	4,649,919	5,222	4,655,141	3,153,866
CASH AND INVESTMENTS, END OF YEAR	<u>\$ 4,222,764</u>	<u>\$ 4,915</u>	<u>\$ 4,227,679</u>	<u>\$ 3,619,800</u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 549,991	\$ 35,771	\$ 585,762	\$ (127,047)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:				
Depreciation and amortization	496,625	39,904	536,529	237,353
Change in pension obligation and related deferred inflows (outflows)	80,246	11,145	91,391	
Changes in operating assets and liabilities:				
Accounts and other receivables	(201,809)	(818)	(202,627)	7,417
Due from other governments	(16,052)		(16,052)	
Prepaid expenses			-	6,865
Accounts payable and accrued expenses	423,887	(277,963)	145,924	(65,780)
Retention payable	25,306		25,306	
Deposits payable	7,800	(1,650)	6,150	1,178
Compensated absences	(4,690)	2,575	(2,115)	
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,361,304</u>	<u>\$ (191,036)</u>	<u>\$ 1,170,268</u>	<u>\$ 59,986</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Fiduciary Net Position
Fiduciary Funds
As of June 30, 2017

	Private-Purpose Trust Fund	Successor Agency Former Sonoma Community Development Agency	Agency Funds
ASSETS			
Current assets:			
Cash and investments	\$ 2,507,092		\$ 4,121,816
Due from other funds			124,318
Cash and investments with trustee/fiscal agent	8,837,258		
Interest receivable			283,598
Total current assets	11,344,350		4,529,732
Other assets:			
Capital assets:			
Nondepreciable			131,472
Depreciable, net			1,441,155
Other assets:			
Prepaid items			34,952
Total other assets			1,607,579
TOTAL ASSETS	\$ 11,344,350		\$ 6,137,311
LIABILITIES AND NET POSITION			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 22,788		\$ 396,403
Amount held in trust			5,740,908
Interest payable	164,665		
Notes payable, due within one year	492,957		
Bonds payable, due within one year	1,100,000		
Total current liabilities	1,780,410		
Long-term liabilities:			
Notes payable, due after one year	2,070,728		
Bonds payable, due after one year	33,559,961		
Total long-term liabilities	35,630,689		
TOTAL LIABILITIES	37,411,099		\$ 6,137,311
Net position (deficit):			
Net position held in trust for:			
Redevelopment Dissolution		(26,066,749)	
TOTAL NET POSITION (DEFICIT)		(26,066,749)	
TOTAL LIABILITIES AND NET POSITION	\$ 11,344,350		

The accompanying notes are an integral part of these financial statements.

CITY OF SONOMA
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Funds
For the Year Ended June 30, 2017

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Property taxes	\$ 3,841,686
Investment income	<u>66,640</u>
Total operating revenues	<u>3,908,326</u>
DEDUCTIONS:	
Community development	176,049
Interest and trustee fees	2,010,568
Transfers to the County of Sonoma	<u>250,000</u>
Total operating expenses	<u>2,436,617</u>
Change in Net Position	1,471,709
Net position, beginning of year, as originally reported	(28,266,278)
Restatement	<u>727,820</u>
Net position, beginning of year, as restated	<u>(27,538,458)</u>
Net position, end of year	<u><u>\$ (26,066,749)</u></u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sonoma (City) was incorporated in 1883, under the laws and regulations of the State of California (State). The City operates under a City Council/Manager form of government and provides the following services: public safety, public works and facilities, community services, public utilities, and community development.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City applies all GASB pronouncements to its activities. The more significant of these accounting policies are described below.

Financial Reporting Entity

The City operates as a self-governing local government unit within the State. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. The City's main funding sources include sales tax, property tax, Measure J (Transactions and Use Tax), and Transient Occupancy Tax (TOT).

The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (a) the City has the ability to impose its will on the organization, or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. These component units are reported on a blended basis. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The financial statements of the individual component units, if applicable as indicated below, may be obtained by writing to the City of Sonoma, Finance Department, 1 The Plaza Sonoma, CA 95476.

The City's reporting entity includes the following blended component unit:

Sonoma Community Housing Corporation – was created as a public benefit corporation to provide affordable public housing. It is governed by two members of the City Council and two City employees. The only activity of the Sonoma Community Housing Corporation is reported in the Sonoma Creek Senior Housing Special Revenue Fund.

Sonoma Public Financing Authority – is governed by a board comprised of members of the City's elected Council.

The above component units are included in the City's basic financial statements using the blended method because of the significance of their operational or financial relationships with the City. There are no component units of the City that meet the criteria for discrete presentation.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City is a member of joint powers authorities (JPA) in which the City has only a residual equity interest in the related entity. The City is not liable for the liabilities of the entities if they dissolve under the related JPA agreement. However, Senate Bill 1912, effective January 1, 2019, requires members of a JPA that participates in a public retirement system to agree on the apportionment of the JPA's retirement liability to the members of the JPA if the JPA dissolves or otherwise terminates its contract with the public retirement system. The City is a member of the following joint ventures: Sonoma County Waste Management Agency (WMA) (waste recycle services), Sonoma Valley Fire & Rescue Authority (SVFRA) (fire and emergency medical services), Sonoma Valley Groundwater Sustainability Agency (SGA) (groundwater sustainability planning) and Sonoma County Library JPA. The financial statements of the joint powers authorities are available on the websites of the related entities, if applicable.

During the year ended June 30, 2017, no amounts were contributed to the GSA and WMA. The City paid \$5,002,831 to the SVFRA during the year ended June 30, 2017.

Basis of Presentation

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities display information about the nonfiduciary activities of the government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues, while business-type activities rely to a significant extent on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions restricted to the operating or capital requirements of a specific function or segment. All taxes and internally dedicated resources classified as program revenues are reported as *general revenues*.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. 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 subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major funds are defined as funds that have either 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 major funds.

The City reports the following major governmental fund in the accompanying financial statements:

- **General Fund** – The General Fund is the primary operating fund of the City. It accounts for all activities except those legally or administratively required to be accounted for in another fund. From this fund are paid the City's general operating expenditures, the fixed charges, and the capital costs that are not paid through other funds.

The City reported both of its enterprise funds as major funds in the accompanying financial statements:

- **Water Enterprise Fund** – Accounts for the operations of the City's treatment and distribution system.
- **Cemetery Enterprise Fund** – Accounts for the operation and maintenance of the Mountain Valley and Veteran's Cemeteries.

Additionally, the City reports the following fund types:

Governmental Funds

Special Revenue Funds - Special revenue funds are used to account for specific revenues that are legally or otherwise restricted to expenditures for particular purposes.

Capital Project Funds - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Internal Service Funds – Internal service funds are used to account for building maintenance, fleet and information technology services provided to other departments or agencies of the City on a cost-reimbursement basis.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

Fiduciary Funds

Private Purpose Trust Funds - Private Purpose Trust Funds are used to account for fiduciary assets not required to be reported in another fiduciary fund type. The City's private purpose trust funds are used to account for the activities of the Successor Agency to the Community Redevelopment Agency of City of Sonoma as described in Note L.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency Funds - Agency Funds account for assets held by the City in a purely custodial capacity. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not presented in the government-wide financial statements.

Measurement Focus

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds, with the exception of agency funds, which have no measurement focus. The accounting objectives of economic resources measurement focus are the determination of net income, financial position, and cash flows. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded in the year for which they are levied. Sales taxes are recognized when the underlying sales transaction takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. All assets and liabilities (whether current or noncurrent) as well as deferred outflows and inflows of resources, associated with their activities are reported. Fund equity is classified as net position, which serves as an indicator of financial position.

In the governmental fund financial statements, the “current financial resources” measurement focus is used and the modified accrual basis of accounting. Only current financial assets and liabilities along with deferred outflows and inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statements, proprietary funds and private purpose trust funds are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the fund are those revenues that are generated from the primary operations of the fund, including charges for services. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount, and available means the amount is collectible within the current period or soon enough thereafter to pay current liabilities. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end, with the exception of grant and sales tax revenues. Grant revenues are considered to be available if collected within 180 days and sales tax revenues are considered to be available if collected within 90 days of the end of the current fiscal period.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain 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 if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are exchange or exchange-like transactions between functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounts Receivable

Included in accounts receivable in the General Fund are ambulance fees receivable arising from billings to insurance companies and patients for ambulance services. The City has a receivable balance of \$207,311, which is net of an allowance for doubtful accounts of \$209,960 at June 30, 2017. The allowance includes an estimate for future uncollectible debt and insurance write-offs.

Property Tax Revenues

Sonoma County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. In the governmental fund financial statements, prepaid items are offset with a reservation of fund balance for long-term assets to indicate they do not constitute current resources available for appropriation.

Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost, if actual is unavailable, except for donated Capital Assets which are recorded at their estimated acquisition cost at the date of donation. Policy has set the capitalization threshold for reporting at \$5,000 for non-infrastructure capital assets and \$25,000 for infrastructure capital assets.

Government-Wide Statements

Public domain (infrastructure) capital assets include roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems.

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. No depreciation is recorded in the year of acquisition or in the year of disposition.

The range of estimated useful lives by type of asset is as follows:

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

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred outflows/inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred outflows and deferred inflows of resources. *Deferred outflows of resources* represent a consumption of net position by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expenditure/expense) or an inflow of resources (revenue) until the earnings process is complete. The governmental funds report unavailable revenues for grants and other revenues when the amounts meet the asset recognition criteria under GASB 33 and were accrued as receivables, but the amounts were not received in the availability period. Deferred outflows and inflows of resources include amounts deferred related to the City's pension plans under GASB 68 as described in Note I.

Compensated Absences

Employees accrue vacation, sick, holiday, and compensatory time off benefits. City employees have vested interests in the amount of accrued time off, with the exception of sick time, and are paid on termination. Also, annually an employee may elect to be compensated for 40 to 120 hours of unused annual leave depending upon their length of service. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements and is currently payable. The City had no employee resignations or retirements for which compensated absences should be accrued in governmental funds at year-end. The general fund is typically used to liquidate compensated absences.

Long-term Obligations

Long-term debt of governmental funds are reported at face value in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, proceeds from borrowing are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Equity Classification

Government-Wide Statements

Equity in government-wide and proprietary fund statements is classified as net position and is displayed in three components:

Net investment capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages,

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The net investment in capital assets for the City represents the balance of capital assets, net of depreciation since the City has no long-term liabilities outstanding.

Restricted net position – consists of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, or by laws or regulations of other governments or law through constitutional provisions or enabling legislation.

Unrestricted net position – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

Governmental fund equity is classified as fund balance and displayed in the following components:

Nonspendable Fund Balance – Assets that will never convert to cash (prepaid items and inventory) and assets that will not convert to cash soon enough to affect the current period (long-term notes or loans receivable not deferred in the fund statements).

Restricted Fund Balance – Resources that are subject to externally enforceable legal restrictions imposed by parties altogether outside the government (creditors, grantors, contributors and other governments), or subject to limitations imposed by law through constitutional provisions or enabling legislation (e.g., Gas Tax).

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the City Council. These amounts cannot be used for any other purpose unless the City Council modifies or removes the fund balance commitment.

Assigned Fund Balance – Resources constrained by the government’s intent to be used for specific purposes but are neither restricted nor committed. Governmental fund amounts in excess of nonspendable, restricted and committed in other than the General Fund are automatically reported as assigned.

Unassigned Fund Balance – Unassigned fund balance is the residual classification of the City’s funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of a resolution. When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted, committed, assigned and unassigned resources as they are needed. The City’s committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employee's Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net position liability is generally liquidated by the City's General, Internal Service and Water Funds.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

New Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset (example is decommissioning a water treatment plant). A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). Topics that may be applicable include criteria for an enterprise fund to blend a component unit, measuring certain money market investments at amortized cost, timing of

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

pension and OPEB liabilities and expenditures under the current financial resources measurement focus, presenting payroll related measures in RSI for OPEB plans, classifying employer paid member contributions for OPEB plans, accounting and financial reporting for multiple-employer defined benefit OPEB Plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in the notes to government financial statements and clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. For notes to the financial statement there is a requirement that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the reporting periods beginning after June 15, 2018.

The City is currently analyzing the impact of the required implementation of these new statements.

NOTE B – BUDGETS AND BUDGETARY ACCOUNTING

The City Council establishes budgets for the General Fund and all Special Revenue Funds, except for certain Special Revenue Funds for which expenditures are controlled by grant funding or by assessments received. Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Manager. The City Manager prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the Sonoma Municipal Code.

The City Council may amend the budget by motion during the fiscal year. Only the Council can authorize transfers between funds and approve inter-fund loans. The City Manager is authorized to transfer budgeted amounts within a fund without formal City Council action or approval.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE B – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, which increase appropriations, may be made during the fiscal year. Budget information is presented for the General and budgeted Special Revenue Funds in the fund financial statements. The budget information is presented on a basis consistent with generally accepted accounting principles. Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year.

The City establishes budgets for all governmental funds except the Strong Motion, Asset Forfeiture, Bond Property Maintenance, Schell Drainage and Abandoned Vehicle Funds.

NOTE C – CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds. At June 30, 2017, the City's pooled cash and investments are classified in the accompanying financial statements as follows:

Government-wide Statements of Net Position	
Governmental Activities	\$ 12,859,093
Business-type Activities	4,227,679
Statement of Fiduciary Net Position	
Private Purpose Trust Fund	2,507,092
Private Purpose Trust Fund - Restricted Cash	8,837,258
Agency Funds	<u>4,121,816</u>
Total cash and investments	<u>\$ 32,552,938</u>

As of June 30, 2017, the City's cash and investments consisted of the following:

Cash on hand	\$ 850
Deposits with financial institutions	2,411,950
Investments:	
Held by City	14,774,024
Held by fiscal agents	<u>15,366,114</u>
Total cash and investments	<u>\$ 32,552,938</u>

Investments Authorized by the California Government Code and the City's Investment Policy: The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The following table also identifies certain provisions of the California Government Code, or the City's Investment Policy where the City's Investment Policy is more restrictive.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE C – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Government Agency securities	5 years	None	None
Bankers' Acceptances	270 days	30%	30%
Negotiable Certificate of Deposit	5 years	50%	None
Certificates of Deposits	5 years	None	None
State of California Local Agency Investment Fund (State Pool)	N/A	None	\$50 Million per entity
Money Market Funds	N/A	None	None
Passbook Savings and Money Market Accounts (Insured)	None	Unlimited	None
Repurchase Agreements	1 year	25%	None

Investments Authorized by Debt Agreements: The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	N/A	None	None
Certificates of Deposits with Banks and Savings and Loans	None	None	None
Municipal Obligations	None	None	None

Interest Rate Risk: Interest rate risk is the risk that changes in market interest 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 changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City generally manages its interest rate risk by investing in the Local Agency Investment Fund (LAIF), which provides the necessary cash flow and liquidity needed for operations, as well as purchasing a combination of shorter term and longer term investments so that a portion of the portfolio is maturing or coming close to maturing evenly over time.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE C – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the City’s investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity or earliest call date:

Authorized Investment Type	12 Months or less	13 to 36 Months	Total
California Local Agency Investment Fund	\$ 19,284,058		\$ 19,284,058
Certificates of Deposit		\$ 211,019	211,019
Negotiable Certificates of Deposit	1,807,803		1,807,803
Money market mutual fund	8,837,258		8,837,258
Total investments	29,929,119	211,019	30,140,138
Cash on hand	850		850
Cash in bank	2,411,950		2,411,950
Total cash and investments	\$ 32,341,919	\$ 211,019	\$ 32,552,938

Investment in LAIF: The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, United States Treasury Notes and Bills, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The total fair value amount invested by all public agencies in LAIF is \$77,616,216,602, managed by the State Treasurer. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by the State Statute. At June 30, 2017, these investments matured in an average of 194 days.

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following are credit ratings issued by Moody’s and Standard and Poor’s as of June 30, 2017:

Investment Type	Aaa/AAA	Not Rated	Total
California Local Agency Investment Fund		\$ 19,284,058	\$ 19,284,058
Certificates of deposit		211,019	211,019
Negotiable Certificates of deposit		1,807,803	1,807,803
Money market mutual fund	\$ 8,837,258		8,837,258
Totals	\$ 8,837,258	\$ 21,302,880	\$ 30,140,138

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE C – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk: The investment policy of the City has no limitations on the amount that can be invested in any one issuer beyond what is stipulated by the California Government Code. No investments exceeded 5% of total investments at June 30, 2017.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments 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. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2017, the City had \$2,921,396 in deposits at banks above the federally insured limit, which are collateralized.

Fair Value Measurement: The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2017:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Money market mutual fund	\$ 8,837,258		\$ 8,837,258	
Negotiable certificates of deposit	1,807,803		1,807,803	
Total investments by fair value level	10,645,061	\$ -	\$ 10,645,061	\$ -
Investments uncategorized				
Certificates of deposit	19,284,058			
California Local Agency Investment Fund	211,019			
	<u>\$ 30,140,138</u>			

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE C – CASH AND INVESTMENTS (Continued)

All securities classified in Level 2 are valued using pricing models that are based on market data, such as matrix or model pricing, which use standard inputs, which include benchmark yields, reported trades, broker/dealer quotes, issue spreads, two sided markets, benchmark securities, bids, offers and reference data including market research publications.

NOTE D – LEASE RECEIVABLE

The City and the Valley of the Moon Fire District have entered into a capital lease for a fire apparatus. At June 30, 2017, the lease receivable balance was \$310,765.

Future minimum lease payments to be received are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 42,437	\$ 4,661
2018	43,073	4,025
2019	43,720	3,379
2020	44,375	2,723
2021	45,041	2,057
2022-2023	<u>92,119</u>	<u>2,078</u>
Total	<u>\$ 310,765</u>	<u>\$ 18,923</u>

NOTE E – INTERFUND TRANSACTIONS

Interfund transactions between funds are reflected as loans, services provided, reimbursements or transfers. Loans are reported as receivables or payables as appropriate, and are subject to elimination upon consolidation. The City transfers resources among funds in the course of normal operations. Services provided, deemed to be at market or near market rates, such as vehicle maintenance, are accounted for as revenues and expenditures/ expenses. Transactions to reimburse a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the correct fund and as reductions of expenditures/ expenses in the original fund. All other interfund transactions are reported as transfers.

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE E – INTERFUND TRANSACTIONS (Continued)

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

<u>Fund Making Transfer</u>	<u>Fund Receiving Transfers</u>	<u>Amount Transferred</u>
General Fund	Gas Tax Special Revenue Fund	\$ 400,048 (A)
	2008 CREB Debt Service Fund	24,005 (B)
	2012 Pension Obligation Bonds Debt Service Fund	236,249 (B)
	Employee Benefits Internal Service Fund	942,868 (A)
Major Enterprise Funds:		
Water	General Fund	241,236 (A)
	Gas Tax Special Revenue Fund	184,242 (A)
	2008 CREB Debt Service Fund	12,525 (B)
	2012 Pension Obligation Bonds Debt Service Fund	116,864 (B)
	Cemetery Fund	34,963 (A)
Cemetery	General Fund	683 (A)
	2008 CREB Debt Service Fund	1,044 (B)
	2012 Pension Obligation Bonds Debt Service Fund	15,613 (B)
Non-Major Special Revenue Funds:		
Supplemental Law Enforcement	General Fund	100,000 (A)
Maysonnave Property	General Fund	5,000 (A)
Gas Tax	General Fund	2,042 (A)
	2008 CREB Debt Service Fund	4,175 (B)
	2012 Pension Obligation Bonds Debt Service Fund	46,660 (B)
Non-Major Capital Projects Fund:		
City Capital Projects	Gas Tax Special Revenue Fund	40,000 (C)
Internal Service Funds	General Fund	<u>217,923 (A)</u>
		<u>\$ 2,626,140</u>

The Water Fund transfers were made to provide resources recorded to other funds for water projects or related activities.

Other Special Revenue transfers out were to fund various programs and projects expended out of other funds.

Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2017, the following funds have interfund balances.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE E – INTERFUND TRANSACTIONS (Continued)

<u>Fund Making Loan</u>	<u>Fund Receiving Loan</u>	<u>Amount</u>
General Fund	Major Enterprise Fund:	
	Cemetery Fund	\$ 318,677
	Non-Major Special Revenue Funds:	
	Bond Property Maintenance	19,144
	Maysonnave Property	4,496
Internal Service Fund	Major Enterprise Fund	
	Cemetery Fund	288,613
	Total Due To/Due From Other Funds	<u>\$ 630,930</u>

Long-Term Interfund Advances

At June 30, 2017, the funds below had made advances which were not expected to be paid within the next year.

<u>Advance to Other Funds</u>	<u>Advance From Other Funds</u>	<u>Amount</u>
General Fund	Water Fund	\$ 516,925
	Total Interfund Advances	<u>\$ 516,925</u>

The General Fund is reflecting an advance from the Water Fund for interfund transfers made from the Water Fund to General Fund related to franchise fees, and in lieu property tax that were determined to be disallowed. The City sequestered the related transfers from July 1, 2014 to June 30, 2017 as an interfund advance that will be repaid with the sale of water-related infrastructure capital assets to the Water Fund.

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE F – CAPITAL ASSETS

Capital assets at June 30 comprise:

	Balance at June 30, 2016	Additions	Retirements	Transfers	Balance at June 30, 2017
<u>Governmental Activities</u>					
Capital assets, not being depreciated:					
Land	\$ 5,141,367				\$ 5,141,367
Construction in progress	1,496,886	\$ 789,067		\$(1,772,474)	513,479
Total capital assets, not being depreciated	<u>6,638,253</u>	<u>789,067</u>	<u>-</u>	<u>(1,772,474)</u>	<u>5,654,846</u>
Capital assets, being depreciated:					
Buildings and improvements	24,372,756				24,372,756
Equipment and vehicles	5,971,508	106,583	\$ (67,029)		6,011,062
Infrastructure	19,929,202			1,772,474	21,701,676
Total capital assets, being depreciated	<u>50,273,466</u>	<u>106,583</u>	<u>(67,029)</u>	<u>1,772,474</u>	<u>52,085,494</u>
Less accumulated depreciation for:					
Buildings and improvements	(8,202,504)	(503,843)			(8,706,347)
Equipment and vehicles	(3,554,629)	(299,903)	67,029		(3,787,503)
Infrastructure	(2,849,810)	(484,232)			(3,334,042)
Total accumulated depreciation	<u>(14,606,943)</u>	<u>(1,287,978)</u>	<u>67,029</u>		<u>(15,827,892)</u>
Capital assets being depreciated, net	<u>35,666,523</u>	<u>(1,181,395)</u>	<u>-</u>	<u>1,772,474</u>	<u>36,257,602</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 42,304,776</u>	<u>\$ (392,328)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,912,448</u>

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE F – CAPITAL ASSETS (Continued)

	Balance at June 30, 2016	Additions	Retirements	Transfers	Balance at June 30, 2017
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 960,472				\$ 960,472
Construction in progress	139,100	\$ 732,971			872,071
Total capital assets, not being depreciated	1,099,572	732,971		-	1,832,543
Capital assets, being depreciated:					
Buildings and improvements	3,195,879			\$ (32,072)	3,163,807
Equipment and vehicles	733,718				733,718
Infrastructure	21,925,515			32,072	21,957,587
Total capital assets, being depreciated	25,855,112	-	-	-	25,855,112
Less accumulated depreciation for:					
Buildings and improvements	(1,067,918)	(63,092)			(1,131,010)
Equipment and vehicles	(390,822)	(40,391)			(431,213)
Infrastructure	(9,552,798)	(433,046)			(9,985,844)
Total accumulated depreciation	(11,011,538)	(536,529)	-		(11,548,067)
Capital assets being depreciated, net	14,843,574	(536,529)		-	14,307,045
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 15,943,146	\$ 196,442	\$ -	\$ -	\$ 16,139,588

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 programs are as follows:

	<u>Depreciation</u>
Governmental Activities:	
General government	\$ 106,091
Public safety	282,266
Public works	512,179
Community development	150,089
MIS Fund	19,302
Vehicle Replacement Fund	218,051
Total Governmental Activities	<u>\$ 1,287,978</u>
Business-type Activities:	
Water	\$ 496,625
Cemetery	39,904
Total Business-type Activities	<u>\$ 536,529</u>

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE G – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

	(Restated) Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
<u>Governmental Activities</u>					
Capital Lease Obligations - CREBs	\$ 333,992		\$ (41,749)	\$ 292,243	\$ 41,749
Pension Obligation bond	1,830,000		(340,000)	1,490,000	350,000
Total Governmental Long-Term Debt	<u>2,163,992</u>	-	<u>(381,749)</u>	<u>1,782,243</u>	<u>391,749</u>
Compensated absences	208,225	\$ 196,674	(209,888)	195,011	58,503
Net pension liability	<u>9,648,879</u>	<u>1,124,284</u>		<u>10,773,163</u>	
Total Governmental Long-Term Debt, Net	<u>\$12,021,096</u>	<u>\$1,320,958</u>	<u>\$(591,637)</u>	<u>\$12,750,417</u>	<u>\$ 450,252</u>
<u>Business-type Activities</u>					
2012 Refunding Water Sales Agreement	\$ 1,420,000		\$ (65,000)	\$ 1,355,000	\$ 70,000
Total Business-type Long-Term Debt	<u>1,420,000</u>	-	<u>(65,000)</u>	<u>1,355,000</u>	<u>70,000</u>
Compensated absences	102,035	\$ 103,663	(105,778)	99,920	29,976
Net pension liability	<u>1,544,803</u>	<u>236,782</u>		<u>1,781,585</u>	
Total Business-type Activity Debt	<u>\$ 3,066,838</u>	<u>\$ 340,445</u>	<u>\$(170,778)</u>	<u>\$ 3,236,505</u>	<u>\$ 99,976</u>

Governmental Activities

Capital Lease Obligations

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 projects at four different municipal facilities within the City limits. Bonds were issued on July 10, 2008 and tax credits were granted to the lender upon financing. The obligation is a lease agreement with Municipal Finance Corporation in the amount of \$1,156,000 entered into on July 10, 2008. Principal installments of \$41,749 are made on December 15 of each year, with the final installment due on December 15, 2024.

2012 Pension Obligation Bond

On December 20, 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. The current annual interest rate imputed by PERS to side funds is 7.5%. Debt service will be funded from the revenue of the General Fund. Interest rates vary from 2% to 4%. The principal installments and interest are payable annually beginning on June 1, 2013 and the final payment will be made on June 1, 2021.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE G – LONG-TERM LIABILITIES (Continued)

Business-type Activities

2012 Refunding Water Installment Sale

On October 1, 2001, the Sonoma Public Financing Authority issued the 2001 Revenue Bonds, Series A in the amount of \$1,605,000 to finance improvements to the Water System. On October 1, 2012, the City entered into an agreement with Public Property Financing Corporation of California (“Corporation”) whereby Corporation purchases and resells the improvements to the Water System from and to the City for \$1,605,000. The proceeds from the 2012 Refunding Water Installment Sale were used to repay the 2001 Revenue Bonds, Series A. The Corporation assigned and transferred certain of its rights, including the right to receive the installment payment to City National Bank. The principal amount is payable annually beginning from October 1, 2013 until October 1, 2031. Interest is payable semi-annually on April 1 and October 1.

Future debt service for Governmental Activities and Business-Type Activities at June 30, 2017, is as follows for all debt except compensated absences and claims liabilities:

For the Year Ending June 30	Governmental Activities			Business-Type Activities	
	Capital Lease Principal	Pension Obligation Bond Principal	Interest	2012 Refunding Water Installment Sale Principal	Interest
2018	\$ 41,749	\$ 350,000	\$ 58,725	\$ 70,000	\$ 51,480
2019	41,749	365,000	45,600	75,000	48,653
2020	41,749	380,000	31,000	75,000	45,728
2021	41,749	395,000	15,800	75,000	42,803
2022	41,749			80,000	39,780
2023-2027	83,498			445,000	148,688
2028-2032				535,000	53,528
Totals	<u>\$ 292,243</u>	<u>\$ 1,490,000</u>	<u>\$ 151,125</u>	<u>\$ 1,355,000</u>	<u>\$ 430,660</u>

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE H – NET POSITION AND FUND BALANCES

	General	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 15,711		\$ 15,711
Total Nonspendable	<u>15,711</u>	<u>-</u>	<u>15,711</u>
Restricted for:			
Public safety		\$ 66,301	66,301
Public works		447,487	447,487
Community development		256,165	256,165
Total Restricted	<u>-</u>	<u>769,953</u>	<u>769,953</u>
Committed for:			
Emergency Reserve	2,825,270		2,825,270
Operating Reserve	1,500,000		1,500,000
Total committed	<u>4,325,270</u>	<u>-</u>	<u>4,325,270</u>
Unassigned	4,050,680	(25,260)	4,025,420
Total Unassigned	<u>4,050,680</u>	<u>(25,260)</u>	<u>4,025,420</u>
Total fund balances	<u>\$ 8,391,661</u>	<u>\$ 744,693</u>	<u>\$ 9,136,354</u>

The following describes the purpose of each committed category used by the City:

Emergency Reserve – represents amounts set aside by the City Council for emergencies. Emergency reserve is designated at 17% of operating revenue. At June 30, 2017, the operating reserve was \$2,825,270.

Operating reserve – represents amounts set aside by the City Council for operations. At June 30, 2017, the operating reserve was \$1,500,000.

Fund Balance Deficits

Deficit fund balances consisted of the following:

	As of June 30, 2017
Nonmajor Special Revenue Funds	
Bond Property Maintenance	\$ (19,144)
Maysonave Property	(4,496)
Total Nonmajor Special Revenue	<u>(23,640)</u>
Nonmajor Debt Service Funds	
2012 Pension Obligations Bonds	(1,620)
Internal Service Funds	
Employee Benefits Fund	(157,923)
Fiduciary Funds	
Successor Agency Private Purpose Trust	(26,066,749)

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE H – NET POSITION AND FUND BALANCES (CONTINUED)

The above deficit fund balances have occurred due to the spending of funds prior to the receipt of revenues (cost reimbursements). The fund balances will be restored in the near future as revenues are received.

The deficit fund balance in the Successor Agency Private Purpose trust is principally due to long term liabilities resulting from the issuance of Tax Allocation Bonds made by the original Redevelopment Agency. These bonds will be paid according to the annual debt amortization schedule currently in effect. The source of these funds will be provided by tax increment available from the former redevelopment area.

NOTE I – PENSION PLAN

Plan Descriptions: All qualified permanent and probationary employees are eligible to participate in the City’s Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). The Fire and Police Safety Plans have no current employees participating in the CalPERS Fire and Police Safety Plans because the City has contracted out public safety. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the 1959 Survivor Benefit level 4, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

Hire Date	City	City PEPRA
	Miscellaneous	Miscellaneous
	Prior to	On or after
	January 1, 2013	January 1, 2013
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.50%
Required employer contribution rates	9.56%	6.93%

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE I – PENSION PLAN (Continued)

	<u>Safety Police</u>	<u>Safety Fire</u>
	Prior to January 1, 2013	January 1, 1965 to May 5, 2010
Benefit formula (at full retirement)	3.0% @ 50	3.0% @ 50
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 57	50
Monthly benefits, as a % of eligible compensation	2.00% to 2.70%	3.00%

All Plans except the PEPRA plans are closed to new members that are not already CalPERS participants. There are no active members in the Safety Plans so no contributions are being made. In addition to the contribution rates noted above, payments toward the unfunded liability were made totaling \$538,995.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions paid to each Plan were as follows:

	City Miscellaneous Plans	Safety Plans
Contributions - employer	\$ 441,187	\$ 327,470

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2017, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
City Miscellaneous Plans	\$ 5,431,662
Safety Plans	7,123,086
Total Net Pension Liability	<u>\$ 12,554,748</u>

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers,

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE I – PENSION PLAN (Continued)

actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2016 and 2017 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2016	0.14509%	0.00234%
Proportion - June 30, 2017	0.15636%	0.00138%
Change - Increase (Decrease)	-0.01127%	0.00096%

For the year ended June 30, 2017, the City recognized pension expense of \$1,763,067. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions combined from the following sources:

<u>City Miscellaneous Plans</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 441,187	
Differences between actual and expected experience	14,907	\$ (3,416)
Changes in assumptions		(141,035)
Change in employer's proportion	17,374	(186,719)
Differences between the employer's contribution and the employer's proportionate share of contributions		(433,073)
Net differences between projected and actual earnings on plan investments	<u>734,044</u>	
Total	<u>\$ 1,207,512</u>	<u>\$ (764,243)</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Safety Plans</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 327,470	
Differences between actual and expected experience		\$ (22,179)
Changes in assumptions		(96,699)
Change in employer's proportion	577,077	(519,033)
Differences between the employer's contribution and the employer's proportionate share of contributions		(358,609)
Net differences between projected and actual earnings on plan investments	<u>376,138</u>	
Total	<u>\$ 1,280,685</u>	<u>\$ (996,520)</u>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2017

NOTE I – PENSION PLAN (Continued)

The \$441,187 and \$327,470 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	City Miscellaneous Plans	Safety Plans
2018	\$ (245,172)	\$ (14,961)
2019	(180,315)	(123,163)
2020	237,441	(4,124)
2021	190,128	98,943
	\$ 2,082	\$ (43,305)

Actuarial Assumptions: The total pension liabilities in the actuarial valuations for each of the Plans were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data for all Funds

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a April 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE I – PENSION PLAN (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is gross of administrative expenses. Administrative expenses are assumed to be 15 basis points.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class for each of the Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE I – PENSION PLAN (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the City’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	City Miscellaneous Plans	Safety Plans
1% Decrease	6.65%	6.65%
Net Pension Liability	\$ 8,670,229	\$ 10,485,593
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$ 5,431,662	\$ 7,123,086
1% Increase	8.65%	8.65%
Net Pension Liability	\$ 2,755,150	\$ 4,362,812

Pension Plan Fiduciary Net Position: Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE J – RISK MANAGEMENT

The City is an associate member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity pool comprised of fifteen northern California charter and associate member cities. REMIF is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of REMIF is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

For each of its insurance programs, REMIF has a multilevel risk sharing arrangement. Initially, each individual charter or associate member city participating in a program assumes its own losses up to a predetermined deductible level. Losses and claims in excess of the deductibles and within REMIF’s stated retention limits are paid out of a central pool maintained by REMIF. This central pool is funded by all of the cities participating in that program through premium assessments. REMIF purchases excess loss insurance policies (reinsurance) to provide coverage for losses and claims in excess of REMIF’s stated retention limits up to specified amounts. Losses and claims ceded to reinsurers would represent a contingent liability to REMIF if the reinsurers were unable to meet their existing obligations under the reinsurance agreements. Losses and claims which surpass the limits of the excess of loss insurance policies are the responsibility of the individual city in which the loss or claim originates.

Members and associate members participate in the workers’ compensation and general liability programs and have the option of participating in other coverage programs which provide property, flood and earthquake, fidelity/faithful performance, dental, vision, employee assistance and auto physical damage.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE J – RISK MANAGEMENT (Continued)

The City of Sonoma participates in the following REMIF programs:

General Liability Insurance

Annual premiums are paid by the member cities and are adjusted retrospectively to cover costs. The City of Sonoma self-insures for the first \$5,000 of each loss and pays 100% of all losses incurred under \$5,000. The City does not share or pay for losses of other cities under \$5,000, depending on the entity's deductible amount. Participating cities then share in the next \$5,000 to \$500,000 per loss occurrence. Excess of \$500,000 to a total of \$25,000,000 coverage per occurrence is covered by Munich Reinsurance America and SCOR Reinsurance Co.

Included in the general liability insurance premium is bonds coverage of up to \$10,000 per occurrence against loss of money, securities and other property through employee's dishonesty, forgery or alteration loss, computer fraud involving money, securities and other property, loss related to the fraudulent transfer of funds and public official faithful performance. The City of Sonoma has a \$5,000 deductible for this coverage.

Workers' Compensation

Periodic deposits are paid by member cities and are adjusted retrospectively to cover costs. The City of Sonoma is self-insured for the first \$5,000 of each loss and pays 100% of all losses incurred under \$5,000. The City does not share or pay for losses of other cities under \$5,000. Losses in excess of \$5,000 up to \$2,000,000 are covered by Safety National Casualty.

Property Insurance

The City participates in REMIF's property insurance program. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments. The City of Sonoma has a deductible level of \$10,000 and a coverage limit of \$290,000,000.

The property insurance program includes boiler and machinery coverage which provides up to \$21,245,000 coverage per occurrence. The City of Sonoma has a deductible of \$5,000.

Auto Physical Damage Insurance

The City of Sonoma has a deductible of \$10,000 per vehicle. Damages in excess of \$10,000 up to \$9,990,000 per occurrence is covered by Hanover Insurance Company.

There have been no significant reductions in insurance coverage from coverage in the prior fiscal year. Also, settlements have not exceeded the insurance coverage for the past three fiscal years.

NOTE K – OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The City participates in a number of federal and state grant programs subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs, including those for the year ended June 30, 2017, have yet to be conducted. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time. Management believes that such disallowances, if any, would not have a material effect on the financial statements.

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE K – OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City’s counsel, the resolution of these matters will not have a material effect on the financial condition of the City.

At June 30, 2017, the City had outstanding commitments with contractors for the following projects:

Project	Remaining Commitment
West Napa Street Water System Replacement Project	\$ 1,865,645
2017 Street Rehabilitation and Water Services Replacement Project	<u>543,185</u>
	<u><u>\$ 2,408,830</u></u>

The City has an agreement with Valley of the Moon Fire Protection District to form the Sonoma Valley Fire & Rescue Authority, to provide fire protection and emergency medical services through an indefinite date that can be terminated with at least one-year notice. The City is responsible for paying the shared costs associated with the management, administration and operational services based on budgets prepared by the Agency. The City’s share of the costs were \$5,002,831 and \$5,168,195 for the years ended June 30, 2017 and 2018 and are expected to be \$5,225,042 during the year ended June 30, 2019.

The City has an agreement with the Sonoma Valley Visitors Bureau to provide visitor services though June 30, 2019 for which the City will pay \$100,000 annually. The City also leases the Bureau office space for \$1 per year.

NOTE L – SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, as amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

Under the provisions of AB 1484, the City could elect to become the Housing Successor and retain the housing assets. On January 30, 2012, the City elected to not retain the housing assets of the former Sonoma Community Development Agency with City Resolution No. 06-2012, and on February 1, 2012, such housing assets and functions were transferred to the Housing Authority of the County of Sonoma.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE L – SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY (Continued)

The City also elected to become the Successor Agency and on February 1, 2012, the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABxI 26 requires the establishment of an Oversight board to oversee the activities of the Successor Agency and one was established in April 2012. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of seven members, including one member of the City Council, one former Redevelopment Agency employee appointed by the Mayor and the remaining members are appointed by external agencies with an interest in Successor Agency assets. Pursuant to Senate Bill 107, on July 1, 2018, a single consolidated County Oversight Board was established for the four city Oversight Boards.

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency, including paying debt service payments of existing Redevelopment Agency debt agreements. Currently, the last of the obligations of the former Redevelopment Agency will terminate in 2037.

The following disclosures of the Successor Agency as of June 30, 2017 are required by debt continuing disclosure requirements.

Long-term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Fiduciary Activities:					
Note Payable - SERAF	\$ 1,798,279			\$ 1,798,279	\$ 486,952
Note Payable - USDA	771,083		\$ (5,677)	765,406	6,005
	2,569,362	-	(5,677)	2,563,685	492,957
2010 Tax Allocation Bonds	8,030,000		(420,000)	7,610,000	430,000
2011 Tax Allocation Bonds	15,090,000		(145,000)	14,945,000	155,000
2015 Tax Allocation Bonds	12,725,000		(500,000)	12,225,000	515,000
Less: Discount	(131,500)		11,461	(120,039)	
	<u>35,713,500</u>	<u>-</u>	<u>(1,053,539)</u>	<u>34,659,961</u>	<u>1,100,000</u>
Total Fiduciary Debt	<u>\$ 38,282,862</u>	<u>\$ -</u>	<u>\$(1,059,216)</u>	<u>\$ 37,223,646</u>	<u>\$ 1,592,957</u>

Note Payable - SERAF

The Agency borrowed \$1,920,016 from the Low and Moderate Income Housing Fund to meet the payments to the Supplemental Educational Revenue Augmentation Fund (SERAF) for fiscal year 2009/10 pursuant to Health and Safety Code Section 33690(a). The loan was to be repaid by June 30, 2015 and was not, so the Agency owes this amount to the entity that assumed the Agency's housing assets, the Sonoma County Housing Authority. This loan, which was included on the Recognized Obligation Payment Schedule, was approved by the Department of Finance. The Agency is required to repay the Housing Authority by March 2030, with semi-annual payments of \$60,869 due in September and March each year. As of June 30, 2017, required payments were made through June 2015, but payments were made in September 2017 to bring the loan current as of that date.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE L – SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY (Continued)

Note Payable - USDA

In April 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. Payments of \$48,906 are due monthly.

2010 Tax Allocation Refunding Bonds

In September 2010, the Agency issued \$10,120,000 of tax allocation bonds to refund the 1997 Tax Allocation Bonds and the 2000 Tax Allocation Refunding Bonds. Annual interest rates vary between 2% and 5% per annum. The Bonds mature semi-annually in increasing amounts on each December 1, through 2030. The bonds are secured by a lien on tax revenues. Principal payments of \$430,000 to \$710,000 are due annually on December 1 through 2030. Interest payments of \$17,750 to \$159,569 are due semiannually on December 1 and June 1 through December 1, 2030.

2011 Tax Allocation Bonds

In February 2011, the Agency issued tax allocation bonds in the amount of \$15,750,000, with variable interest rates of 2.25% to 6.50% per annum, to provide funds for certain community development projects. The bonds mature semi-annually in increasing amounts on each December 1, through 2036. The bonds are secured by a lien on Successor Agency tax revenues. Principal payments of \$155,000 to \$2,940,000 are due annually on December 1, 2015 through 2036. Interest payments of \$104,737 to \$523,409 are due semiannually on December 1 and June 1 through December 1, 2036.

2015 Tax Allocation Bonds

In October 2015, the Agency issued tax allocation bonds in the amount of \$13,150,000, with variable rate of 2.00% to 4.00% per annum. The 2015 bonds are secured on a subordinate bases to the 2010 and 2011 bonds. The bonds mature semi-annually in increasing amounts on each December 1, through 2033. The bonds are secured by a lien on Successor Agency tax revenues. Principal payments of \$515,000 to \$1,120,000 are due annually on June 1, 2019 through 2033. Interest payments of \$28,000 to \$297,550 are due semiannually on December 1 and June 1 through 2033.

The pledged revenues reported above represents tax revenues deposited into the Redevelopment Property Tax Trust Fund administered by the County of Sonoma Auditor-Controller's Office, less property tax administration fees and tax sharing payments made to other local agencies as required under Community Redevelopment Law (net pledged tax increment revenues). A portion of the net pledged tax increment revenues reported above are not intended to represent the amount received by the Agency and reported in the Successor Agency Private-Purpose Trust Fund. Although the Agency does not receive all of the net pledged tax increment revenues, additional revenues would be available to the Agency in the future if necessary to make debt service payments.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE L – SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY (Continued)

Future debt service for Fiduciary Activities at June 30, 2017 is as follows:

Year Ending June 30,	2010 Tax Allocation Refunding Bond		2011 Tax Allocation Bonds		2015 Tax Allocation Refunding Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
	2018	\$ 430,000	\$ 313,655	\$ 155,000	\$ 1,042,944	\$ 515,000
2019	440,000	302,013	165,000	1,034,779	540,000	574,500
2020	450,000	289,103	170,000	1,025,729	560,000	552,900
2021	465,000	274,564	180,000	1,015,794	585,000	530,500
2022	480,000	258,256	185,000	1,005,069	615,000	501,250
2023-2027	2,695,000	985,003	1,120,000	4,817,793	3,585,000	2,013,000
2028-2032	2,650,000	273,000	2,290,000	4,329,608	4,705,000	1,012,500
2033-2037	-	-	10,680,000	2,259,692	1,120,000	56,000
Total	\$ 7,610,000	\$ 2,695,594	\$ 14,945,000	\$ 16,531,408	\$ 12,225,000	\$ 5,835,750
Due within one year	\$ 430,000	\$ 313,655	\$ 155,000	\$ 1,042,944	\$ 515,000	\$ 595,100
Due after one year	7,180,000	2,381,939	14,790,000	15,488,464	11,710,000	5,240,650
Total	\$ 7,610,000	\$ 2,695,594	\$ 14,945,000	\$ 16,531,408	\$ 12,225,000	\$ 5,835,750

Year Ending June 30,	Note Payable - USDA		Note Payable - SERAF		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2018	\$ 6,005	\$ 42,901	\$ 486,952	\$ -	\$ 1,592,957
2019	6,352	42,554	121,738	-	1,273,090	1,953,846
2020	6,718	42,188	121,738	-	1,308,456	1,909,920
2021	7,106	41,800	121,738	-	1,358,844	1,862,658
2022	7,516	41,390	121,738	-	1,409,254	1,805,965
2023-2027	44,613	199,917	608,690	-	8,053,303	8,015,713
2028-2032	59,064	185,466	215,685	-	9,919,749	5,800,574
2033-2037	628,032	99,711	-	-	12,428,032	2,415,403
Total	\$ 765,406	\$ 695,927	\$ 1,798,279	\$ -	\$ 37,343,685	\$ 25,758,679
Due within one year	\$ 6,005	\$ 42,901	\$ 486,952	\$ -	\$ 1,592,957	\$ 1,994,600
Due after one year	759,401	653,026	1,311,327	-	35,750,728	23,764,079
Total	\$ 765,406	\$ 695,927	\$ 1,798,279	\$ -	\$ 37,343,685	\$ 25,758,679

Commitments and Contingencies

State Approval of Enforceable Obligations: The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semiannually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE M – RESTATEMENTS

The City discovered items related to June 30, 2016 and prior years that warrant adjustments as of June 30, 2017. As a result of the prior period adjustments, the net assets and fund balance reported on the statement of activities and statement of revenues and expenditures as of July 1, 2016 have been restated as follows:

	Governmental Activities	Business-Type Activities
Net assets as of July 1, 2016, as previously reported	\$ 41,230,979	\$ 18,446,454
Correct June 2016 water billings recorded in July 2017		436,238
Transfer amounts erroneously reported as enterprise funds to the Vehicle Replacement Fund	919,523	(919,523)
Record disallowed transfers from the Water Fund to the General Fund in fiscal years 2014/15 and 2015/16	(344,667)	344,667
Record portion of net pension liability in enterprise funds previously recorded in governmental activities	1,544,803	(1,544,803)
Correct misposting of grant revenue	(199,775)	
Total adjustments	1,919,884	(1,683,421)
Net assets as of July 1, 2016, as restated	\$ 43,150,863	\$ 16,763,033
	General Fund	
Fund balance as of July 1, 2016, as previously reported	\$ 8,499,268	
Correct June 2016 water billings recorded in July 2017		
Record disallowed transfers from the Water Fund to the General Fund in fiscal years 2014/15 and 2015/16	(344,667)	
Correct misposting of grant revenue	(199,775)	
Total adjustments	(544,442)	
Fund balance as of July 1, 2016, as restated	\$ 7,954,826	
	Water Fund	Cemetery Fund
Net assets and fund balance as of July 1, 2016, as previously reported	\$ 17,474,318	\$ 972,136
Correct June 2016 water billings recorded in July 2017	436,238	
Record disallowed transfers from the Water Fund to the General Fund in fiscal years 2014/15 and 2015/16	344,667	
Transfer amounts erroneously reported as enterprise funds to the Vehicle Replacement Fund	(635,859)	(283,664)
Record portion of net pension liability in enterprise funds previously recorded in governmental activities	(1,356,413)	(188,390)
Total adjustments	(1,211,367)	(472,054)
Net assets and fund balance as of July 1, 2016, as restated	\$ 16,262,951	\$ 500,082

CITY OF SONOMA, CALIFORNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2017

NOTE M – RESTATEMENTS (Continued)

	Internal Service Funds
Net assets and fund balance as of July 1, 2016, as previously reported	\$ 2,797,363
Transfer amounts erroneously reported as enterprise funds to the Vehicle Replacement Fund	919,523
Total adjustments	919,523
Net assets and fund balance as of July 1, 2016, as restated	\$ 3,716,886
	Successor Agency
Net assets and fund balance as of July 1, 2016, as previously reported	\$ (28,266,278)
Correct June 2016 accrued interest	727,820
Total adjustments	727,820
Net assets and fund balance as of July 1, 2016, as restated	\$ (27,538,458)

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SONOMA, CALIFORNIA

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2017

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLANS (UNAUDITED)
Last 10 Years**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.15635%	0.14510%	0.06028%
Proportionate share of the net pension liability	\$ 5,431,662	\$ 3,980,687	\$ 3,750,501
Covered payroll - measurement period	\$ 3,557,230	\$ 2,505,994	\$ 2,505,994
Proportionate share of the net pension liability as a percentage of covered payroll	152.69%	158.85%	149.66%
Plan fiduciary net position as a percentage of the total pension liability	77.42%	82.52%	83.03%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and 2017.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN -
CITY MISCELLANEOUS PLANS (UNAUDITED)
Last 10 Years**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 441,187	\$ 399,422	\$ 288,054
Contributions in relation to the actuarially determined contributions	(441,187)	(399,422)	(288,054)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll - fiscal year	\$ 2,939,508	\$ 3,557,230	\$ 2,505,994
Contributions as a percentage of covered payroll	15.01%	11.23%	11.49%
Valuation date:	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 years
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50-67 years

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015; therefore only three years are presented.

CITY OF SONOMA, CALIFORNIA

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2017

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - SAFETY PLANS (UNAUDITED)
Last 10 Years**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.12357%	0.17640%	0.07112%
Proportionate share of the net pension liability	\$ 7,123,086	\$ 5,668,192	\$ 4,425,144
Covered payroll - measurement period	-	-	-
Proportionate share of the net pension liability as a percentage of covered payroll			
Plan fiduciary net position as a percentage of the total pension liability	71.42%	75.21%	81.42%

Notes to Schedule:

There is no covered payroll as the City does not currently employ safety personnel.

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions: The discount rate was changed from 7.50% in 2015 to 7.65% in 2016 and 2017.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN -
SAFETY PLANS (UNAUDITED)
Last 10 Years**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 327,470	\$ 251,382	\$ 543,178
Contributions in relation to the actuarially determined contributions	(327,470)	(251,382)	(543,178)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Covered payroll - fiscal year

Contributions as a percentage of covered - payroll

Valuation date:

June 30, 2014 June 30, 2013 June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 years
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50-60 years

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015; therefore only three years are presented.

SUPPLEMENTAL INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue	These funds account for restricted revenues (for specified purposes).
Capital Projects	These funds account for construction or acquisition of governmental capital assets (capital outlay).
Debt Service	These funds account for the accumulation of resources to pay principal and interest on debt.

CITY OF SONOMA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Governmental Funds			
	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Nonmajor Funds Totals
ASSETS				
Cash and investments	\$ 883,214	\$ 43,100	\$ 3,274	\$ 929,588
Receivables:				
Taxes	19,621			19,621
Intergovernmental	1,485			1,485
TOTAL ASSETS	\$ 904,320	\$ 43,100	\$ 3,274	\$ 950,694
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 35,007		\$ 4,894	\$ 39,901
Due to other funds	23,640			23,640
Deposits payable	142,460			142,460
TOTAL LIABILITIES	201,107	-	4,894	206,001
 Fund balances:				
Restricted for:				
Public safety	66,301			66,301
Public works	404,387	\$ 43,100		447,487
Community development	256,165			256,165
Unassigned	(23,640)		(1,620)	(25,260)
TOTAL FUND BALANCES	703,213	43,100	(1,620)	744,693
TOTAL LIABILITIES AND FUND BALANCES	\$ 904,320	\$ 43,100	\$ 3,274	\$ 950,694

CITY OF SONOMA
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	<u>Governmental Funds</u>			
	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>Nonmajor Funds Totals</u>
REVENUES				
Taxes and assessments	\$ 101,574			\$ 101,574
Licenses and permits	1,719	\$ 40,729		42,448
Intergovernmental	359,791			359,791
Use of money and property	4,233	531	\$ 13	4,777
TOTAL REVENUES	<u>467,317</u>	<u>41,260</u>	<u>13</u>	<u>508,590</u>
EXPENDITURES				
Current:				
Public safety	7,836			7,836
Public works	646,682			646,682
Community development	18,227			18,227
Debt Service				
Principal			381,749	381,749
Interest and fiscal charges			77,019	77,019
Capital outlay	21,395			21,395
TOTAL EXPENDITURES	<u>694,140</u>	<u>-</u>	<u>458,768</u>	<u>1,152,908</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	624,290		457,135	1,081,425
Transfers out	(157,877)	(40,000)		(197,877)
TOTAL OTHER FINANCING SOURCES AND USES	<u>466,413</u>	<u>(40,000)</u>	<u>457,135</u>	<u>883,548</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>239,590</u>	<u>1,260</u>	<u>(1,620)</u>	<u>239,230</u>
Fund balances, beginning of year	463,623	41,840	-	505,463
FUND BALANCES, END OF YEAR	<u><u>\$ 703,213</u></u>	<u><u>\$ 43,100</u></u>	<u><u>\$ (1,620)</u></u>	<u><u>\$ 744,693</u></u>

NON-MAJOR SPECIAL REVENUE FUNDS

Fund	Description
Strong Motion	Accounts for State of California "strong motion" fees paid by building permit applicants. Funds are paid regularly to State Department of Conservation.
Asset Forfeiture	Accounts for funds received from seizure and forfeiture of assets that represent the proceeds of, or were used to facilitate crime. Funds are expended according to legal restrictions.
SLESF Law Enforcement Fund	Accounts for Supplemental Law Enforcement Services Funds (SLESF) which are collected by the State of California as part of the State Vehicle License Fee.
Bond Property Maintenance Fund	Accounts for revenues and expenditures related to maintenance of the Bond Property.
Maysonnave Property Fund	Accounts for revenues and expenditures related to ongoing maintenance of the Maysonnave Property.
Schell Drainage Fund	Accounts for funds used for tracking of mitigation fees for specific projects.
Abandoned Vehicle Fund	Accounts for funds received from the Abandoned Vehicle Abatement program and must be expended in compliance with legal restrictions.
Sonoma Creek Senior Housing Fund	Accounts for revenues and expenditures related to Sonoma Creek Senior Housing.
Gas Tax	Accounts for proceeds and expenditures of gas tax revenue received under the California Streets and Highways Code.
Measure M	Accounts for funds received from a Countywide 1/4 cent sales tax and designated to be used for transportation projects.

CITY OF SONOMA
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017

	Strong Motion	Asset Forfeiture	Supplemental Law Enforcement	Bond Property Maintenance
ASSETS				
Cash and investments	\$ 2,763	\$ 18,482	\$ 29,488	
Receivables:				
Taxes receivable				
Intergovernmental				
TOTAL ASSETS	\$ 2,763	\$ 18,482	\$ 29,488	\$ -
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable				
Due to other funds				\$ 19,144
Deposits payable				
				19,144
TOTAL LIABILITIES				19,144
Fund balances:				
Restricted for:				
Public safety		\$ 18,482	\$ 29,488	
Public works				
Community development	\$ 2,763			
Unassigned				(19,144)
				(19,144)
TOTAL FUND BALANCES	2,763	18,482	29,488	(19,144)
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 2,763	\$ 18,482	\$ 29,488	\$ -

<u>Maysonave Property</u>	<u>Schell Drainage</u>	<u>Abandoned Vehicle</u>	<u>Sonoma Creek Senior Housing</u>	<u>Gas Tax</u>	<u>Measure M</u>	<u>Totals</u>
	\$ 186,889	\$ 18,006	\$ 255,710	\$ 169,766	\$ 202,110	\$ 883,214
		1,485			19,621	19,621
						1,485
<u>\$ -</u>	<u>\$ 186,889</u>	<u>\$ 19,491</u>	<u>\$ 255,710</u>	<u>\$ 169,766</u>	<u>\$ 221,731</u>	<u>\$ 904,320</u>
\$ 4,496		\$ 1,160	\$ 2,308	\$ 31,539		\$ 35,007
	\$ 142,460					23,640
<u>4,496</u>	<u>142,460</u>	<u>1,160</u>	<u>2,308</u>	<u>31,539</u>		<u>142,460</u>
	44,429	18,331		138,227	\$ 221,731	66,301
			253,402			404,387
(4,496)						256,165
<u>(4,496)</u>	<u>44,429</u>	<u>18,331</u>	<u>253,402</u>	<u>138,227</u>	<u>221,731</u>	<u>(23,640)</u>
<u>\$ -</u>	<u>\$ 186,889</u>	<u>\$ 19,491</u>	<u>\$ 255,710</u>	<u>\$ 169,766</u>	<u>\$ 221,731</u>	<u>\$ 904,320</u>

Continued

CITY OF SONOMA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017

	<u>Strong Motion</u>	<u>Asset Forfeiture</u>	<u>Supplemental Law Enforcement</u>	<u>Bond Property Maintenance</u>
REVENUES				
Taxes				
Licenses and permits	\$ 1,719			
Intergovernmental		\$ 10,121	\$ 129,364	
Use of money and property	12	132	124	\$ (1)
TOTAL REVENUES	1,731	10,253	129,488	(1)
EXPENDITURES				
Current:				
Public safety				
Public works				
Community development				
Capital outlay				
TOTAL EXPENDITURES				
REVENUES OVER (UNDER) EXPENDITURES	1,731	10,253	129,488	(1)
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers out			(100,000)	
TOTAL OTHER FINANCING SOURCES AND USES			(100,000)	
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	1,731	10,253	29,488	(1)
FUND BALANCES (DEFICIT)				
Beginning of year	1,032	8,229		(19,143)
End of year	\$ 2,763	\$ 18,482	\$ 29,488	\$ (19,144)

<u>Maysonnave Property</u>	<u>Schell Drainage</u>	<u>Abandoned Vehicle</u>	<u>Sonoma Creek Senior Housing</u>	<u>Gas Tax</u>	<u>Measure M</u>	<u>Totals</u>
					\$ 101,574	\$ 101,574
						1,719
		\$ 5,877		\$ 214,429		359,791
\$ 53	\$ 488	255	\$ 1,658	370	1,142	4,233
<u>53</u>	<u>488</u>	<u>6,132</u>	<u>1,658</u>	<u>214,799</u>	<u>102,716</u>	<u>467,317</u>
		7,836				7,836
3,599			14,628	646,682		646,682
				21,395		18,227
<u>3,599</u>	<u></u>	<u>7,836</u>	<u>14,628</u>	<u>668,077</u>	<u></u>	<u>21,395</u>
(3,546)	488	(1,704)	(12,970)	(453,278)	102,716	(226,823)
				624,290		624,290
<u>(5,000)</u>	<u></u>	<u></u>	<u></u>	<u>(52,877)</u>	<u></u>	<u>(157,877)</u>
<u>(5,000)</u>	<u></u>	<u></u>	<u></u>	<u>571,413</u>	<u></u>	<u>466,413</u>
(8,546)	488	(1,704)	(12,970)	118,135	102,716	239,590
4,050	43,941	20,035	266,372	20,092	119,015	463,623
<u>\$ (4,496)</u>	<u>\$ 44,429</u>	<u>\$ 18,331</u>	<u>\$ 253,402</u>	<u>\$ 138,227</u>	<u>\$ 221,731</u>	<u>\$ 703,213</u>

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NON-MAJOR CAPITAL PROJECTS AND DEBT SERVICE FUNDS

Fund	Description
<hr/>	
Capital Projects Funds	
Capital Improvement Program	The Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.
<hr/>	
Debt Service Funds	
2008 CREBs	Accounts for debt service related to the Clean Renewable Energy Bonds.
2012 Pension Obligation Bonds	Accounts for debt service for the Pension Obligation Bond issued in 2012.

CITY OF SONOMA
Combining Balance Sheet
Nonmajor Capital Projects and Debt Service Funds
June 30, 2017

	Capital Projects Funds	Debt Service Funds			Totals
	Capital Improvement Program	2008 CREBs	2012 Pension Obligation Bonds	Sub-totals	
ASSETS					
Cash and investments	\$ 43,100		\$ 3,274	\$ 3,274	\$ 46,374
TOTAL ASSETS	\$ 43,100	\$ -	\$ 3,274	\$ 3,274	\$ 46,374
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Interest payable			\$ 4,894	\$ 4,894	\$ 4,894
TOTAL LIABILITIES			4,894	4,894	4,894
Fund balances:					
Restricted	\$ 43,100				43,100
Unassigned (deficit)			(1,620)	(1,620)	(1,620)
TOTAL FUND BALANCES	43,100	-	(1,620)	(1,620)	41,480
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 43,100	\$ -	\$ 3,274	\$ 3,274	\$ 46,374

CITY OF SONOMA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Projects and Debt Service Funds
For the Year Ended June 30, 2017

	Capital Projects Funds	Debt Service Funds			Totals
	Capital Improvement Program	2008 CREBs	2012 Pension Obligation Bonds	Sub-totals	
REVENUES					
Licenses and permits	\$ 40,729				\$ 40,729
Use of money and property	531		\$ 13	\$ 13	544
TOTAL REVENUES	41,260	-	13	13	41,273
EXPENDITURES					
Debt service:					
Principal		\$ 41,749	340,000	381,749	381,749
Interest and fiscal charges			77,019	77,019	77,019
TOTAL EXPENDITURES	-	41,749	417,019	458,768	458,768
REVENUES OVER (UNDER) EXPENDITURES	41,260	(41,749)	(417,006)		
OTHER FINANCING SOURCES (USES)					
Transfers in		41,749	415,386	457,135	457,135
Transfers out	(40,000)				(40,000)
TOTAL OTHER FINANCING SOURCES AND USES	(40,000)	41,749	415,386	457,135	(40,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	1,260		(1,620)	(1,620)	(360)
FUND BALANCES (DEFICIT)					
Beginning of year	41,840				41,840
End of year	\$ 43,100	\$ -	\$ (1,620)	\$ (1,620)	\$ 41,480

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INTERNAL SERVICE FUNDS

Fund	Description
MIS Fund	Accounts for Management Information System maintenance and equipment replacement. Costs are distributed among user departments and transferred as approved in the annual budget process.
Admin Hearings Fund	Accounts for all activities of the City's Administrative Hearings as charged to departments.
Vehicle Replace Fund	Accounts for costs to replace vehicles based on a depreciation schedule. Costs are distributed among user departments and transferred as approved in the annual budget process.
Insurance Fund	Accounts for the City's self-insurance programs, the costs of which are distributed among designated user departments.
Employee Benefits Fund	Accounts for the City's employee benefit programs, the costs of which are distributed among designated user departments.
Long-term Building Maintenance Fund	Accounts for the City's building maintenance reserve programs, the costs of which are distributed among designated user departments.
Computer Loans Fund	Accounts for loans to employees for computer purchases. Reimbursements are collected from employee payroll.
Hardscape Maintenance Fund	Accounts for the City's hardscape maintenance reserve programs.

CITY OF SONOMA
Combining Statement of Net Position
Nonmajor Internal Service Funds
June 30, 2017

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund
ASSETS				
Current assets:				
Cash and investments	\$ 360,005	\$ 9,257	\$ 1,528,537	\$ 46,737
Receivables:				
Notes			310,765	
Due from other funds			288,613	
Total Current Assets	360,005	9,257	2,127,915	46,737
Noncurrent assets:				
Capital assets, net	62,094		1,789,475	
Total Noncurrent Assets	62,094	-	1,789,475	-
TOTAL ASSETS	\$ 422,099	\$ 9,257	\$ 3,917,390	\$ 46,737
LIABILITIES AND NET POSITION				
Liabilities:				
Accounts payable	\$ 7,087			
Deposits payable		\$ 9,257		
TOTAL LIABILITIES	7,087	9,257	-	-
Net Position:				
Net investment in capital assets	62,094		\$ 1,789,475	
Unrestricted	352,918		2,127,915	\$ 46,737
TOTAL NET POSITION	415,012	-	3,917,390	46,737
TOTAL LIABILITIES AND NET POSITION	\$ 422,099	\$ 9,257	\$ 3,917,390	\$ 46,737

<u>Employee Benefits Fund</u>	<u>Building Maintenance Fund</u>	<u>Computer Loans Fund</u>	<u>Hardscape Maintenance Fund</u>	<u>Totals</u>
\$ 300	\$ 1,594,373	\$ 56,779	\$ 23,812	\$ 3,619,800
				310,765
				288,613
<u>300</u>	<u>1,594,373</u>	<u>56,779</u>	<u>23,812</u>	<u>4,219,178</u>
				1,851,569
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,851,569</u>
<u>\$ 300</u>	<u>\$ 1,594,373</u>	<u>\$ 56,779</u>	<u>\$ 23,812</u>	<u>\$ 6,070,747</u>
\$ 158,223		\$ (562)		\$ 164,748
				9,257
<u>158,223</u>	<u>-</u>	<u>(562)</u>	<u>-</u>	<u>174,005</u>
				1,851,569
<u>(157,923)</u>	<u>\$ 1,594,373</u>	<u>57,341</u>	<u>\$ 23,812</u>	<u>4,045,173</u>
<u>(157,923)</u>	<u>1,594,373</u>	<u>57,341</u>	<u>23,812</u>	<u>5,896,742</u>
<u>\$ 300</u>	<u>\$ 1,594,373</u>	<u>\$ 56,779</u>	<u>\$ 23,812</u>	<u>\$ 6,070,747</u>

CITY OF SONOMA
Combining Statement of Revenues, Expenditures and Changes in Net Position
Nonmajor Internal Service Funds
For the Year Ended June 30, 2017

	<u>MIS Fund</u>	<u>Admin Hearings Fund</u>	<u>Vehicle Replacement Fund</u>	<u>Insurance Fund</u>
OPERATING REVENUES				
Interdepartmental charges	\$ 177,791		\$ 388,657	\$ 130,000
TOTAL OPERATING REVENUES	<u>177,791</u>	<u>-</u>	<u>388,657</u>	<u>130,000</u>
OPERATING EXPENSES				
Salaries and benefits				
Repairs and maintenance	99,841			
Other operating	30,281			128,613
Depreciation	19,302		218,051	
TOTAL OPERATING EXPENSES	<u>149,424</u>	<u>-</u>	<u>218,051</u>	<u>128,613</u>
OPERATING INCOME (LOSS)	28,367	-	170,606	1,387
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	932	\$ (1,138)	19,388	196
Gain (loss) from the sale of capital assets			10,510	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>932</u>	<u>(1,138)</u>	<u>29,898</u>	<u>196</u>
NET INCOME (LOSS) BEFORE TRANSFERS	29,299	(1,138)	200,504	1,583
Transfers in				
Transfers out	(60,000)			
TOTAL TRANSFERS	<u>(60,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONTRIBUTED CAPITAL				
Change in net position	<u>(30,701)</u>	<u>(1,138)</u>	<u>200,504</u>	<u>1,583</u>
NET POSITION (DEFICIT)				
Net position, beginning of year- as previously reported	445,713	1,138	2,797,363	45,154
Restatements			919,523	
Net position, beginning of year	<u>445,713</u>	<u>1,138</u>	<u>3,716,886</u>	<u>45,154</u>
End of year	<u>\$ 415,012</u>	<u>\$ -</u>	<u>\$ 3,917,390</u>	<u>\$ 46,737</u>

<u>Employee Benefits Fund</u>	<u>Building Maintenance Fund</u>	<u>Computer Loans Fund</u>	<u>Hardscape Maintenance Fund</u>	<u>Totals</u>
\$ 1,062,675	\$ 274,271			\$ 2,033,394
<u>1,062,675</u>	<u>274,271</u>	<u>-</u>	<u>-</u>	<u>2,033,394</u>
1,507,218				1,507,218
	3,890			103,731
9,300	159,354	\$ (15,409)		312,139
<u>1,516,518</u>	<u>163,244</u>	<u>(15,409)</u>	<u>-</u>	<u>2,160,441</u>
(453,843)	111,027	15,409	-	(127,047)
	4,166	237	\$ 98	23,879
				<u>10,510</u>
-	4,166	237	98	34,389
(453,843)	115,193	15,646	98	(92,658)
942,868				942,868
(157,923)				(217,923)
<u>784,945</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>724,945</u>
<u>331,102</u>	<u>115,193</u>	<u>15,646</u>	<u>98</u>	<u>632,287</u>
(489,025)	1,479,180	41,695	23,714	4,344,932
				<u>919,523</u>
<u>(489,025)</u>	<u>1,479,180</u>	<u>41,695</u>	<u>23,714</u>	<u>5,264,455</u>
<u>\$ (157,923)</u>	<u>\$ 1,594,373</u>	<u>\$ 57,341</u>	<u>\$ 23,812</u>	<u>\$ 5,896,742</u>

CITY OF SONOMA
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2017

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers		\$ 1,178	
Cash paid to suppliers	\$ (130,839)		
Cash paid to employees and related benefits			
Cash (paid) received from interfund services provided	177,791		\$ 388,657
CASH PROVIDED BY OPERATING ACTIVITIES	46,952	1,178	388,657
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Amounts received (paid) to other funds	(60,000)		(288,613)
Other revenues received			41,810
CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	(60,000)	-	(246,803)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital expenditures	(23,782)		(82,801)
Proceeds from disposal of capital assets			10,510
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(23,782)	-	(72,291)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	932	(1,138)	19,388
CHANGE IN CASH AND INVESTMENTS	(35,898)	40	88,951
Cash and investments, beginning of year	395,903	9,217	1,439,586
CASH AND INVESTMENTS, END OF YEAR	\$ 360,005	\$ 9,257	\$ 1,528,537
RECONCILIATION OF OPERATING (LOSS) INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 28,367		\$ 170,606
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation and amortization	19,302		218,051
Changes in operating assets and liabilities:			
Accounts and other receivables			
Prepaid expenses			
Accounts payable and accrued expenses	(717)		
Deposits		\$ 1,178	
CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ 46,952	\$ 1,178	\$ 388,657

The accompanying notes are an integral part of these financial statements.

<u>Insurance Fund</u>	<u>Employee Benefits Fund</u>	<u>Building Maintenance Fund</u>	<u>Computer Loans Fund</u>	<u>Hardscape Maintenance Fund</u>	<u>Totals</u>
					\$ 1,178
\$ (128,613)			\$ 1,608		(257,844)
	\$ (1,553,191)	\$ (170,968)			(1,724,159)
130,000	1,070,092	274,271			2,040,811
1,387	(483,099)	103,303	1,608	-	59,986
	784,945				436,332
	-				41,810
-	784,945	-	-	-	478,142
					(106,583)
					10,510
-	-	-	-	-	(96,073)
196		4,166	237	\$ 98	23,879
1,583	301,846	107,469	1,845	98	465,934
45,154	(301,546)	1,486,904	54,934	23,714	3,153,866
<u>\$ 46,737</u>	<u>\$ 300</u>	<u>\$ 1,594,373</u>	<u>\$ 56,779</u>	<u>\$ 23,812</u>	<u>\$ 3,619,800</u>
\$ 1,387	\$ (453,843)	\$ 111,027	\$ 15,409	\$ -	\$ (127,047)
					237,353
	7,417				7,417
	6,865				6,865
	(43,538)	(7,724)	(13,801)		(65,780)
					1,178
<u>\$ 1,387</u>	<u>\$ (483,099)</u>	<u>\$ 103,303</u>	<u>\$ 1,608</u>	<u>\$ -</u>	<u>\$ 59,986</u>

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AGENCY FUNDS

Fund	Description
Cultural Fine Arts	Accounts for assets held to be used for cultural fine art programs.
Tree Trust	Accounts for assets held to be used for planting and replacement of trees.
Public Art	Accounts for assets held to be used for public art displays.
Pool Scholarship Fund	Accounts for assets held to be used for services and programs in agreement with Sonoma Valley Health and Recreation Association (SVHRA).
Valley of the Moon Fire Protection District	Accounts for assets held as the fiscal agent for the Valley of the Moon Fire Protection District.

CITY OF SONOMA
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2017

	Cultural Fine Arts	Tree Trust	Public Art	Pool Scholarship Fund
ASSETS				
Cash and investments	\$ 10,742	\$ 16,920	\$ 18,097	\$ 250,655
Due from other agencies				
Receivables:				
Taxes				
Prepaid items				
Capital assets				
TOTAL ASSETS	\$ 10,742	\$ 16,920	\$ 18,097	\$ 250,655
LIABILITIES				
Accounts payable				
Amounts held in trust	\$ 10,742	\$ 16,920	\$ 18,097	\$ 250,655
TOTAL LIABILITIES	\$ 10,742	\$ 16,920	\$ 18,097	\$ 250,655

<u>Valley of Moon Fire</u>	<u>Totals</u>
\$ 3,825,402	\$ 4,121,816
124,318	124,318
283,598	283,598
34,952	34,952
<u>1,572,627</u>	<u>1,572,627</u>
<u>\$ 5,840,897</u>	<u>\$ 6,137,311</u>
\$ 396,403	\$ 396,403
<u>5,444,494</u>	<u>5,740,908</u>
<u>\$ 5,840,897</u>	<u>\$ 6,137,311</u>

CITY OF SONOMA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Cultural Fine Arts				
ASSETS				
Cash and investments	\$ 10,697	\$ 10,742	\$ (10,697)	\$ 10,742
TOTAL ASSETS	\$ 10,697	\$ 10,742	\$ (10,697)	\$ 10,742
LIABILITIES				
Amounts held in trust	\$ 10,697	\$ 10,742	\$ (10,697)	\$ 10,742
TOTAL LIABILITIES	\$ 10,697	\$ 10,742	\$ (10,697)	\$ 10,742
Tree Trust				
ASSETS				
Cash and investments	\$ 16,099	\$ 16,920	\$ (16,099)	\$ 16,920
TOTAL ASSETS	\$ 16,099	\$ 16,920	\$ (16,099)	\$ 16,920
LIABILITIES				
Amounts held in trust	\$ 16,099	\$ 16,920	\$ (16,099)	\$ 16,920
TOTAL LIABILITIES	\$ 16,099	\$ 16,920	\$ (16,099)	\$ 16,920
Public Art				
ASSETS				
Cash and investments	\$ 18,022	\$ 18,097	\$ (18,022)	\$ 18,097
TOTAL ASSETS	\$ 18,022	\$ 18,097	\$ (18,022)	\$ 18,097
LIABILITIES				
Amounts held in trust	\$ 18,022	\$ 18,097	\$ (18,022)	\$ 18,097
TOTAL LIABILITIES	\$ 18,022	\$ 18,097	\$ (18,022)	\$ 18,097
Pool Scholarship Fund				
ASSETS				
Cash and investments	\$ 250,000	\$ 250,655	\$ (250,000)	\$ 250,655
TOTAL ASSETS	\$ 250,000	\$ 250,655	\$ (250,000)	\$ 250,655
LIABILITIES				
Amounts held in trust	\$ 250,000	\$ 250,655	\$ (250,000)	\$ 250,655
TOTAL LIABILITIES	\$ 250,000	\$ 250,655	\$ (250,000)	\$ 250,655

CITY OF SONOMA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Valley of the Moon Fire				
ASSETS				
Cash and investments	\$ 3,389,805	\$ 3,825,402	\$ (3,389,805)	\$ 3,825,402
Due from other agencies		124,318		124,318
Accounts receivable	349,861		(349,861)	
Taxes receivable		283,598		283,598
Prepaid items	64,269	34,952	(64,269)	34,952
Capital assets	1,498,024	1,572,627	(1,498,024)	1,572,627
TOTAL ASSETS	\$ 5,301,959	\$ 5,840,897	\$ (5,301,959)	\$ 5,840,897
LIABILITIES				
Accounts payable	\$ 100,819	396,403	(100,819)	396,403
Amounts held in trust	5,201,140	5,444,494	(5,201,140)	5,444,494
TOTAL LIABILITIES	\$ 5,301,959	\$ 5,840,897	\$ (5,301,959)	\$ 5,840,897
Total of All Agency Funds				
ASSETS				
Cash and investments	\$ 3,684,623	\$ 4,121,816	\$ (3,684,623)	\$ 4,121,816
Due from other funds		124,318		124,318
Accounts receivable	349,861		(349,861)	
Interest receivable		283,598		283,598
Prepaid items	64,269	34,952	(64,269)	34,952
Capital assets	1,498,024	1,572,627	(1,498,024)	1,572,627
TOTAL ASSETS	\$ 5,596,777	\$ 6,137,311	\$ (5,596,777)	\$ 6,137,311
LIABILITIES				
Accounts payable	\$ 100,819	\$ 396,403	\$ (100,819)	\$ 396,403
Amounts held in trust	5,495,958	5,740,908	(5,495,958)	5,740,908
TOTAL LIABILITIES	\$ 5,596,777	\$ 6,137,311	\$ (5,596,777)	\$ 6,137,311