

CITY OF SONOMA

Audited Financial Statements

June 30, 2018

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CITY OF SONOMA
 Comprehensive Annual Financial Report
 For the Year Ended June 30, 2018

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).....	62
Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions – Safety Fire Plans (Unaudited)	63

CITY OF SONOMA
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

SUPPLEMENTAL INFORMATION

Non-major Governmental Funds

Combining Balance Sheet	64
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	65

Special Revenue Funds

Combining Balance Sheet	66
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	68

Capital Project and Debt Service Funds

Combining Balance Sheet	70
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	71

Internal Service Funds

Combining Statement of Net Position – Internal Service Funds	72
Combining Statement of Revenues, Expenses and Changes in Fund Net Position – Internal Service Funds	74
Combining Statement of Cash Flows – Internal Service Funds	76

Agency Funds

Combining Statement of Assets and Liabilities – All Agency Funds.....	78
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	80



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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, 2018, 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 the aggregate remaining fund information of the City of Sonoma, California, as of June 30, 2018, and

To the City Council
City of Sonoma, California

the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 basic financial statements or to the basic 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 basic financial statements as a whole.

Richardson & Company, LLP

February 4, 2020

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management's Discussion and Analysis

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, 2018. 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, 2018, total assets and deferred outflows of the City exceeded its total liabilities and deferred inflows by \$60.7 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 \$2.6 million. The portion of net position that was restricted and may only be used for specific purposes was \$0.6 million. The remaining \$57.4 million was invested in capital assets.
- ◆ Overall, City-wide revenue from all governmental and business-type activities was \$24.6 million, an increase of \$1.8 million from the previous fiscal year. City-wide expenditures from all governmental and business-type activities was \$24.0 million, an increase of \$1.3 million the previous fiscal year.
- ◆ As of June 30, 2018, the City's governmental funds reported combined ending fund balances of \$9.8 million. Of the combined fund balances, \$9.1 million or (93%) is available to meet the City's current and future needs (committed, assigned and unassigned balances).
- ◆ The General Fund reported a total fund balance of \$9.2 million at the end of the 2017-18 fiscal year. This represents an increase in fund balance of \$0.8 million, or 10% from the previous fiscal year. Of the total fund balance, \$3.4 million, or 37%, was unassigned or available for spending at the City's discretion.
- ◆ As of June 30, 2018, the committed amount in the General Fund of \$4.4 million represents amounts committed for operations (\$1.5 million) and unanticipated emergencies (\$2.9 million). See Note H in the Notes to the Basic Financial Statements.
- ◆ The City's net pension liability increased by \$1.9 million to \$14.5 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 in the Notes to the Basic Financial Statements.
- ◆ The City ended the fiscal year with \$0.9 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, 2018

Management's Discussion and Analysis, Continued

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 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

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management's Discussion and Analysis, Continued

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, 2018, the City's major funds include the General Fund, Water Enterprise Fund and Cemetery Enterprise Fund.

For the fiscal year ended June 30, 2018, the City adopted annual appropriated budgets for all governmental funds.

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 28-61 of this report. Required Supplementary Information follows the notes on pages 62-63.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management's Discussion and Analysis, Continued

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 notes to the financial statements. Combining and individual fund statements can be found on pages 64-81 of this report.

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 \$60.7 million as of June 30, 2018. The Summary of Net Position as of June 30, 2018, and 2017, follows:

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 16,125,792	\$ 15,462,760	\$ 3,299,843	\$ 4,910,783	\$ 19,425,635	\$ 20,373,543
Capital assets	41,422,146	41,912,448	17,727,781	16,139,588	59,149,927	58,052,036
Total Assets	57,547,938	57,375,208	21,027,624	21,050,371	78,575,562	78,425,579
Total Deferred Outflows	3,308,823	2,251,067	633,559	237,130	3,942,382	2,488,197
Long-term liabilities	14,235,287	12,750,417	3,396,636	3,236,505	17,631,923	15,986,922
Other liabilities	1,783,361	2,094,172	548,257	1,051,139	2,331,618	3,145,311
Total Liabilities	16,018,648	14,844,589	3,944,893	4,287,644	19,963,541	19,132,233
Total Deferred Inflows	1,604,662	1,669,024	270,267	91,739	1,874,929	1,760,763
Net position:						
Net investment in capital assets	40,989,833	41,620,205	16,442,781	14,784,588	57,432,614	56,404,793
Restricted	650,937	769,953	-	-	650,937	769,953
Unrestricted	1,592,681	722,504	1,003,242	2,123,530	2,595,923	2,846,034
Total Net Position	\$ 43,233,451	\$ 43,112,662	\$ 17,446,023	\$ 16,908,118	\$ 60,679,474	\$ 60,020,780

Total assets increased by \$.1 million or (.19%) to \$78.6 million. An increase of \$1.1 million in capital assets was partially offset by a slight decrease of \$0.9 million in current and other assets. The decrease in business-type activities current assets was mainly the result of cash (current assets) used for capital expenditures. The business-type activities decrease in current assets resulted in an increase in capital assets.

Total liabilities increased by \$.8 million or (4.3%) to \$19.9 million. The changes in liabilities include an increase in the City's net pension liability of \$1.9 million, a decrease in other liabilities of \$.8 million and long-term debt principal payments which decreased the outstanding balances by \$.3 million. The increase in the City's net pension liability is due to CalPERS lowering the discount used to determine the net pension liability from 7.65% to 7.15%.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The restricted net position at the end of fiscal year 2017-18 was \$.6 million, a decrease of \$.1 million or (-15.5%) and includes funding restricted for public safety, public works, and community development activities.

As of June 30, 2018, the City had \$2.6 million of unrestricted net position, which is a decrease of \$.3 million. At the end of the 2018 fiscal year, the City had positive balances in all three categories of total net position, both for the government as a whole, as well as for its separate governmental activities and business-type activities. The same situation held true for the prior fiscal year.

By far the largest portion of the City's net position (94.6%) reflects its net investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, and infrastructure), net of any related outstanding debt used to acquire those assets. The City uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net position, \$.7 million or (1.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2.6 million or (4.28%) may be used to meet the government's ongoing obligations to citizens, creditors, and to meet City imposed designations (e.g., reserves, pending litigations, contingencies, capital projects).

The following table (Statement of Activities) shows how the governments net position changed during the fiscal year 2017-18 as compared to 2016-17. The City's overall net position increased by \$.7 million during the current fiscal year.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 3,063,076	\$ 2,870,074	\$ 5,101,036	\$ 4,576,303	\$ 8,164,112	\$ 7,446,377
Grants and contributions:						
Operating	1,181,479	588,659	-	-	1,181,479	588,659
Capital	136,535	205,044	286,070	-	422,605	205,044
General revenues:					-	-
Property taxes, levied					-	-
for general purposes	3,267,361	2,953,222	-	-	3,267,361	2,953,222
Transient occupancy taxes	3,645,768	3,732,212	-	-	3,645,768	3,732,212
Sales and use taxes	3,106,186	3,200,422	-	-	3,106,186	3,200,422
Measure J	2,276,294	2,334,963	-	-	2,276,294	2,334,963
Franchise taxes	546,031	494,353	-	-	546,031	494,353
Other taxes	329,335	316,003	-	-	329,335	316,003
State motor vehicle in-lieu	1,013,148	958,963	-	-	1,013,148	958,963
Investment earnings	162,311	72,259	36,133	43,164	198,444	115,423
Other general revenues	263,443	100,728	240,279	354,350	503,722	455,078
Total Revenues	18,990,967	17,826,902	5,663,518	4,973,817	24,654,485	22,800,719
Expenses:						
Governmental activities:						
General government	2,404,238	3,775,008	-	-	2,404,238	3,775,008
Public safety	11,942,533	10,368,608	-	-	11,942,533	10,368,608
Public works	2,808,595	2,240,618	-	-	2,808,595	2,240,618
Community development	1,323,312	1,379,657	-	-	1,323,312	1,379,657
Parks and recreation	607,899	596,400	-	-	607,899	596,400
Interest and fiscal charges	59,131	77,019	-	-	59,131	77,019
Business-type activities:					-	-
Water	-	-	4,339,985	3,891,204	4,339,985	3,891,204
Cemetery	-	-	459,300	297,997	459,300	297,997
Interest on long-term debt	-	-	50,798	67,324	50,798	67,324
Total Expenses	19,145,708	18,437,310	4,850,083	4,256,525	23,995,791	22,693,835
Excess (Deficiency) of revenues over						
expenditures before transfers	(154,741)	(610,408)	813,435	717,292	658,694	106,884
Transfers	275,530	572,207	(275,530)	(572,207)	-	-
Change in Net Position	120,789	(38,201)	537,905	145,085	658,694	106,884
Restatement	-	1,919,884	-	(1,683,421)	-	236,463
Net position, beginning of year	43,112,662	41,230,979	16,908,118	18,446,454	60,020,780	59,677,433
NET POSITION, JUNE 30	\$ 43,233,451	\$ 43,112,662	\$17,446,023	\$ 16,908,118	\$ 60,679,474	\$ 60,020,780

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues

The City's total revenues for governmental and business-type activities increased by \$1.8 million or 8.1% from \$22.8 million to \$24.7 million for the fiscal year ended June 30, 2018. Approximately 83% of the City's key revenues are generated from five major sources.

Following is a discussion of the variances in key revenues from the prior fiscal year:

1. **Charges for Services** – Revenue from charges for services for the fiscal year ended June 30, 2018 and increased by \$0.7 million or (9.64%) from \$7.4 million to \$8.1 million.
2. **Property Taxes** - Revenue for the fiscal year ended June 30, 2018 increased by \$0.4 million or (11%) from \$2.9 million to \$3.3 million. This increase reflects the continued strong real estate market within the City of Sonoma.
3. **Transient Occupancy Taxes** – Annual receipts from the City's Transient Occupancy Tax (TOT) decreased by \$0.08 million or (-2.3%) from \$3.7 million to \$3.6 million. This decrease in TOT tax was due to the catastrophic north bay fires that occurred in October of 2017. The City of Sonoma was very fortunate to have no loss of life or structures, but the fires did negatively impact tourism-related revenues. Fortunately, the impacts from the fires did not have a lasting effect and the rebound in tourism related revenue was relatively quick in the City of Sonoma.
4. **Sales and Use Taxes**- Revenues decreased by \$.10 million or (-3.1%) in 2018 from \$3.2 million to \$3.1 million. This decrease was also due to the October 2017 fires as many businesses were closed during the fire. As a result, tourism related sales declined.
5. **Measure J** – Also as a result of the October 2017 fires, revenue from the Measure J sales tax declined by \$.06 million or (-2.51%) from \$2.33 million to \$2.27 million.

Expenses

Governmental and business-type activity expenses of the City for the year totaled \$24.0 million. Governmental activity expenses totaled \$19.1 million or (80%) of total expenses. Business-type activities expenses totaled \$4.8 million during the fiscal year. Public safety costs represented 62% of total governmental activities expenses.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management’s Discussion and Analysis, Continued

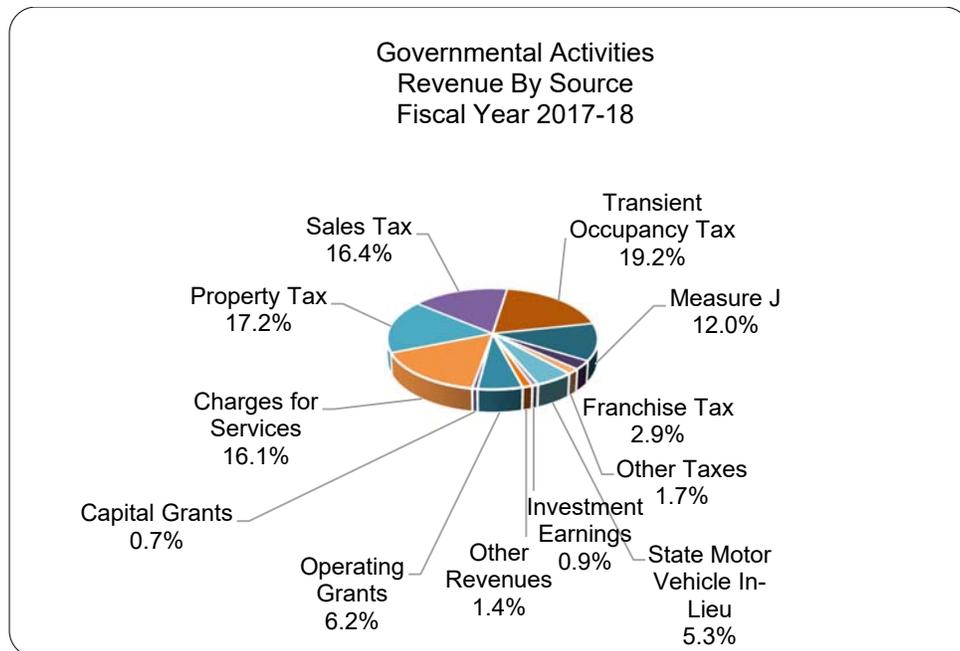
GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

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, 2018, was as follows:

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net Revenue (Expenses of Activities)</u>
General government	\$ 2,404,238	\$ 106,553	\$ (2,297,685)
Public safety	11,942,533	2,911,659	(9,030,874)
Public works	2,808,595	749,913	(2,058,682)
Community development	1,323,312	565,564	(757,748)
Parks and recreation	607,899	47,401	(560,498)
Interest on long-term debt	59,131	-	(59,131)
TOTAL	\$ 19,145,708	\$ 4,381,090	\$ (14,764,618)

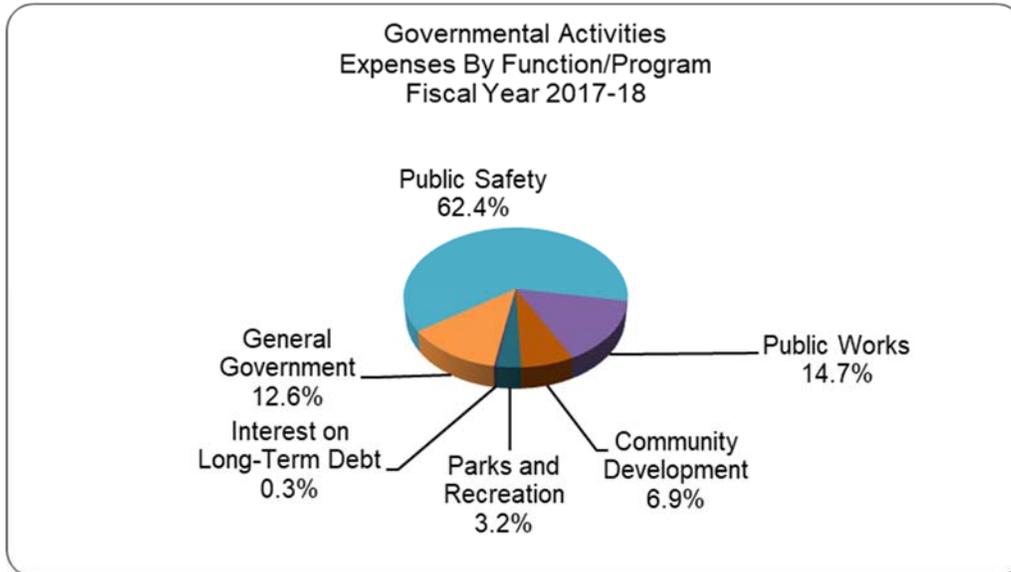
Revenues by source and expenses by function/program for the fiscal year ended June 30, 2018, are as follows:



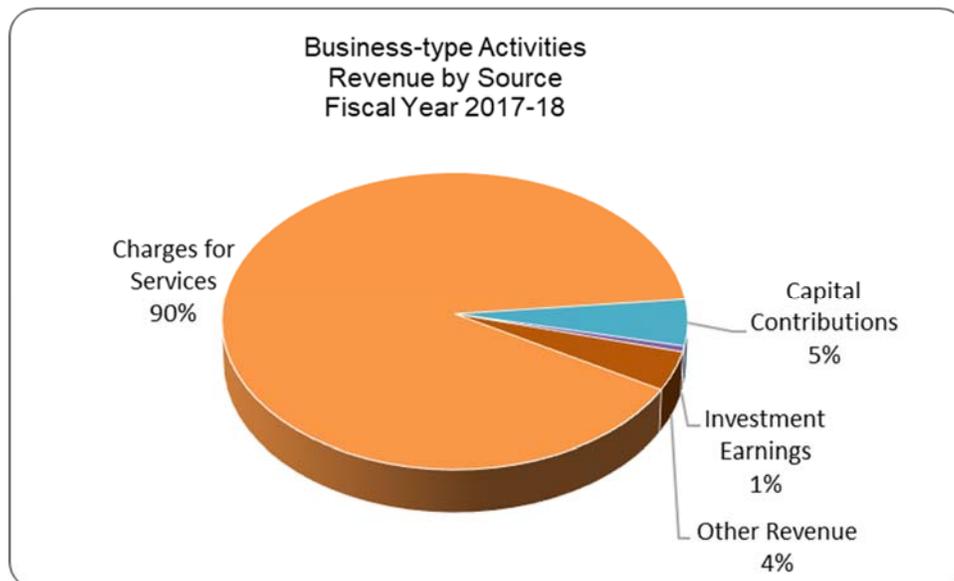
City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued



Business-type activities. The City’s net position for business-type activities increased by \$.5 million or (3.2%). 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, 2018 are as follows:

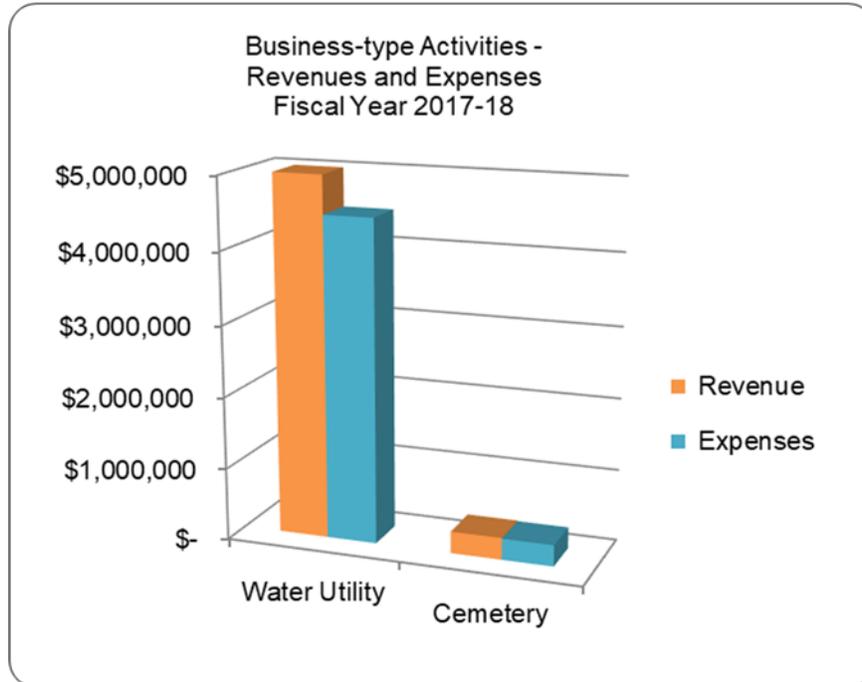


City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The operating revenues and expenses for the business-type activities for the fiscal year ended June 30, 2018 are as follows:



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, 2018, the City’s governmental funds reported combined fund balances of \$9.8 million. This represents an increase of \$0.7 million or (7.4%) from the prior year.

The General Fund is the chief operating fund of the City. At the fiscal year ended June 30, 2018, the General Fund’s fund balance totaled \$9.2 million of which \$4.4 million was committed by the City Council for emergency and operating reserves. \$1.3 million was assigned – these are resources that are constrained by City Council’s intent to be used for specific purposes but are neither restricted nor committed. The remaining fund balance of \$3.5 million was unassigned.

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management’s Discussion and Analysis, Continued

Proprietary funds. The City’s proprietary funds unrestricted net position increased by \$.5 million in the fiscal year ended June 30, 2018. This increase was mainly due to a reduction in water fund transfers to other funds of \$.2 million and an increase in water fund capital contributions of \$.3 million.

General Fund Budgetary Highlights

General Fund revenues totaled \$17.9 million for the fiscal year ended June 30, 2018 which was \$0.9 million or 6% over the budget estimate of \$16.9 million. Total General Fund expenditures were \$17.3 million or .6% under the budget appropriation of \$17.4 million.

Capital Assets

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounted to \$59.1 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	
	2018	2017	2018	2017	2018	2017
Land	\$ 5,141,367	\$ 5,141,367	\$ 960,472	\$ 960,472	\$ 6,101,839	\$ 6,101,839
Buildings and improvements	14,984,448	15,666,409	1,943,513	2,032,797	16,927,961	17,699,206
Equipment and vehicles	2,320,489	2,223,559	185,791	302,505	2,506,280	2,526,064
Infrastructure	18,424,815	18,367,634	14,633,177	11,971,743	33,057,992	30,339,377
Construction in progress	551,027	513,479	4,828	872,071	555,855	1,385,550
Total	\$ 41,422,146	\$ 41,912,448	\$ 17,727,781	\$ 16,139,588	\$ 59,149,927	\$ 58,052,036

During the fiscal year ended June 30, 2018, the City’s total investment in capital assets increased by \$1.1 million. Additions included \$2.9 million in construction activity, \$.4 million in equipment purchases offset by \$.3 million dollars in equipment retirements and \$1.9 million of depreciation adjustments. Additional information about the City’s capital assets can be found in Note F on pages 45 and 46 in the Notes to the Basic Financial Statements.

Long-term Debt

At June 30, 2018, the City’s debt was comprised of the following:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Capital Lease Obligations	\$ 250,494	\$ 292,243	\$ -	\$ -	\$ 250,494	\$ 292,243
Pension Obligation bonds	1,140,000	1,490,000	-	-	1,140,000	1,490,000
Water Installment Sale	-	-	1,285,000	1,355,000	1,285,000	1,355,000
PG&E Loan	181,818	-	-	-	181,818	-
Total	\$ 1,572,312	\$ 1,782,243	\$ 1,285,000	\$ 1,355,000	\$ 2,857,312	\$ 3,137,243

City of Sonoma, California
Basic Financial Statements
For the Year ended June 30, 2018

Management's Discussion and Analysis, Continued

The City made all required debt service payments on the issues listed above. Additional information on outstanding debt may be found on pages 47 and 48 in the Notes to the Basic Financial Statements.

Economic Outlook

The local economy continued to perform well during the 2017-18 fiscal year. The City's population increased to 11,253 in 2018 and is projected to reach 11,286 by 2023. Between 2010 and 2018, the City's population increased by 5.2%, the fifth highest growth rate among cities within Sonoma County. Total taxable sales increased by .5% to \$274.1 million in 2018, consistent with the post-recession economic recovery forecasts. Additionally, Sonoma realized the highest taxable sales per capita, at \$25,000. The median home sales price increased to \$794,750 which was the third highest among Sonoma County's nine cities. The median household income in 2018 was \$76,015, also the third highest amongst Sonoma County's nine cities. In 2018, Sonoma's unemployment rate of 3.77% was lower than the California average of 4.2% but higher than Sonoma County at 2.7%.

Requests for Information

The Basic Financial Statements are 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, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 13,164,231	\$ 2,321,272	\$ 15,485,503
Taxes receivable	1,909,487		1,909,487
Accounts receivable, net	422,323	892,643	1,314,966
Internal balances	430,997	(430,997)	-
Interest receivable	94,009		94,009
Due from other governments	160,207		160,207
Other assets	116,619		116,619
Notes receivable, net	344,844		344,844
Interfund advances	(516,925)	516,925	-
Capital assets:			
Non-depreciable	5,692,394	965,300	6,657,694
Depreciable, net of accumulated depreciation	35,729,752	16,762,481	52,492,233
Total capital assets	<u>41,422,146</u>	<u>17,727,781</u>	<u>59,149,927</u>
TOTAL ASSETS	<u><u>57,547,938</u></u>	<u><u>21,027,624</u></u>	<u><u>78,575,562</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	3,308,823	633,559	3,942,382
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,308,823</u>	<u>633,559</u>	<u>3,942,382</u>
LIABILITIES			
Accounts payable and accrued expenses	1,433,110	362,189	1,795,299
Other payables	9,757		9,757
Accrued interest payable	3,800	12,529	16,329
Deposits payable	336,694	173,539	510,233
Long-term liabilities:			
Due within one year			
Bonds, capital leases and contracts	474,931	75,000	549,931
Compensated absences	126,385	68,141	194,526
Due in more than one year			
Bonds, capital leases and contracts	1,097,381	1,210,000	2,307,381
Compensated absences	72,539	34,526	107,065
Net pension liability	12,464,051	2,008,969	14,473,020
TOTAL LIABILITIES	<u>16,018,648</u>	<u>3,944,893</u>	<u>19,963,541</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	1,604,662	270,267	1,874,929
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,604,662</u>	<u>270,267</u>	<u>1,874,929</u>
NET POSITION			
Net investment in capital assets	40,989,833	16,442,781	57,432,614
Restricted for:			
Public safety	72,395		72,395
Public works	319,771		319,771
Community development	258,771		258,771
Unrestricted	1,592,681	1,003,242	2,595,923
TOTAL NET POSITION	<u><u>\$ 43,233,451</u></u>	<u><u>\$ 17,446,023</u></u>	<u><u>\$ 60,679,474</u></u>

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

CITY OF SONOMA
Statement of Activities
For the Year Ended June 30, 2018

<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	\$ 2,404,238	\$ 29,583	\$ 76,970	
Public safety	11,942,533	1,930,826	980,833	
Public works	2,808,595	613,378		\$ 136,535
Community development	1,323,312	460,801	104,763	
Parks and recreation	607,899	28,488	18,913	
Interest on long-term debt	59,131			
Total governmental activities	<u>19,145,708</u>	<u>3,063,076</u>	<u>1,181,479</u>	<u>136,535</u>
Business-type activities				
Water	4,339,985	4,985,306		286,070
Cemetery	459,300	115,730		
Interest on long-term debt	50,798			
Total business-type activities	<u>4,850,083</u>	<u>5,101,036</u>	<u>-</u>	<u>286,070</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 23,995,791</u></u>	<u><u>\$ 8,164,112</u></u>	<u><u>\$ 1,181,479</u></u>	<u><u>\$ 422,605</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 (MVLFF)
- Unrestricted investment earnings
- Other general revenues

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (2,297,685)		\$ (2,297,685)
(9,030,874)		(9,030,874)
(2,058,682)		(2,058,682)
(757,748)		(757,748)
(560,498)		(560,498)
(59,131)		(59,131)
<u>(14,764,618)</u>		<u>(14,764,618)</u>
	\$ 931,391	931,391
	(343,570)	(343,570)
	(50,798)	(50,798)
<u>-</u>	<u>537,023</u>	<u>537,023</u>
<u>(14,764,618)</u>	<u>537,023</u>	<u>(14,227,595)</u>
3,267,361		3,267,361
3,645,768		3,645,768
3,106,186		3,106,186
2,276,294		2,276,294
546,031		546,031
329,335		329,335
1,013,148		1,013,148
162,311	36,133	198,444
263,443	240,279	503,722
<u>14,609,877</u>	<u>276,412</u>	<u>14,886,289</u>
275,530	(275,530)	-
<u>14,885,407</u>	<u>882</u>	<u>-</u>
120,789	537,905	658,694
<u>43,112,662</u>	<u>16,908,118</u>	<u>60,020,780</u>
<u>\$ 43,233,451</u>	<u>\$ 17,446,023</u>	<u>\$ 60,679,474</u>

CITY OF SONOMA
Balance Sheet
Governmental Funds
June 30, 2018

	Major Fund	Other	Total
	General Fund	Nonmajor Governmental Funds	Governmental Funds
ASSETS			
Cash and investments	\$ 8,572,536	\$ 829,259	\$ 9,401,795
Receivables:			
Taxes receivable	1,844,081	65,406	1,909,487
Accounts receivable, net	408,397	11,332	419,729
Intergovernmental	114,965		114,965
Notes receivable	75,000		75,000
Interest receivable	94,009		94,009
Due from other funds	287,516		287,516
Prepaid items	56,928		56,928
	TOTAL ASSETS	\$ 905,997	\$ 12,359,429
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,227,079	\$ 113,515	\$ 1,340,594
Due to other funds		35,087	35,087
Advances from other funds	516,925		516,925
Deposits payable	184,977	142,460	327,437
Other liabilities	8,241		8,241
	TOTAL LIABILITIES	291,062	2,228,284
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	314,820		314,820
Fund balances:			
Nonspendable - prepaid items	56,928		56,928
Restricted for:			
Public safety		72,395	72,395
Public works		319,771	319,771
Community development		258,771	258,771
Committed	4,437,680		4,437,680
Assigned	1,266,925		1,266,925
Unassigned (deficit)	3,439,857	(36,002)	3,403,855
	TOTAL FUND BALANCES	614,935	9,816,325
	TOTAL LIABILITIES AND FUND BALANCES	\$ 905,997	\$ 12,359,429

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, 2018

Total fund balance, governmental funds	\$	9,816,325
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.		41,422,146
Revenues which are deferred on the Fund Balance Sheets, because they are not available currently, are taken into revenue in the Statement of Activities.		314,820
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.		3,308,823
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.		4,211,286
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		(1,572,312)
Compensated absences		(198,924)
Net pension liability		(12,464,051)
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.		(1,604,662)
		(1,604,662)
NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	\$	<u><u>43,233,451</u></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, 2018

	<u>Major Fund</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 3,959,213		\$ 3,959,213
Sales taxes	5,546,477		5,546,477
Other taxes	4,824,933	\$ 149,025	4,973,958
Licenses and permits	8,672	63,119	71,791
Fines and forfeitures	95,700		95,700
Intergovernmental	809,455	453,760	1,263,215
Use of money and property	203,235	10,699	213,934
Charges for services	2,473,390		2,473,390
Reimbursements	6,912		6,912
Other revenues	30,920		30,920
TOTAL REVENUES	<u>17,958,907</u>	<u>676,603</u>	<u>18,635,510</u>
EXPENDITURES			
Current:			
General government	1,956,358		1,956,358
Public safety	11,246,063	14,756	11,260,819
Public works	2,232,345	25,392	2,257,737
Community development	1,268,422	54,474	1,322,896
Parks and recreation	493,419		493,419
Debt Service:			
Principal	68,182	391,749	459,931
Interest and other charges		59,131	59,131
Capital outlay	46,360	607,409	653,769
TOTAL EXPENDITURES	<u>17,311,149</u>	<u>1,152,911</u>	<u>18,464,060</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>647,758</u>	<u>(476,308)</u>	<u>171,450</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt	250,000		250,000
Transfers in	343,482	451,550	795,032
Transfers out	(431,511)	(105,000)	(536,511)
TOTAL OTHER FINANCING SOURCES AND USES	<u>161,971</u>	<u>346,550</u>	<u>508,521</u>
CHANGE IN FUND BALANCE	809,729	(129,758)	679,971
Fund balances, beginning of year	<u>8,391,661</u>	<u>744,693</u>	<u>9,136,354</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,201,390</u>	<u>\$ 614,935</u>	<u>\$ 9,816,325</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, 2018

Net change in fund balances - total governmental funds: \$ 679,971

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	653,769
Depreciation expense	(1,334,080)
Disposals and transfers	(142,755)

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. 100,631

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. 209,931

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. 526,005

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	(3,913)
Change in deferred outflow of resources	1,057,756
Change in net pension obligation	(1,690,888)
Change in deferred inflow of resources	<u>64,362</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 120,789

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
Property taxes	\$ 3,677,722	\$ 3,677,722	\$ 3,959,213	\$ 281,491
Sales taxes	5,408,839	5,408,839	5,546,477	137,638
Other taxes	5,092,320	5,092,320	4,824,933	(267,387)
Licenses and permits	12,800	12,800	8,672	(4,128)
Fines and forfeitures	76,600	76,600	95,700	19,100
Intergovernmental	154,500	104,500	809,455	704,955
Use of money and property	153,800	153,800	203,235	49,435
Charges for services	2,450,213	2,450,213	2,473,390	23,177
Reimbursements			6,912	6,912
Other revenues	5,000	5,000	30,920	25,920
TOTAL REVENUES	<u>17,031,794</u>	<u>16,981,794</u>	<u>17,958,907</u>	<u>977,113</u>
EXPENDITURES				
Current:				
General government	1,938,815	2,147,099	1,956,358	190,741
Public safety	10,582,172	10,827,241	11,246,063	(418,822)
Public works	2,280,685	2,422,715	2,232,345	190,370
Community development	1,197,002	1,300,639	1,268,422	32,217
Parks and recreation	538,446	538,446	493,419	45,027
Debt Service:				
Principal			68,182	(68,182)
Capital outlay	55,000	177,733	46,360	131,373
TOTAL EXPENDITURES	<u>16,592,120</u>	<u>17,413,873</u>	<u>17,311,149</u>	<u>102,724</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>439,674</u>	<u>(432,079)</u>	<u>647,758</u>	<u>1,079,837</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt			250,000	250,000
Transfers in	313,102	343,482	343,482	-
Transfers out	(302,595)	(552,993)	(431,511)	121,482
TOTAL OTHER FINANCING SOURCES AND USES	<u>10,507</u>	<u>(209,511)</u>	<u>161,971</u>	<u>371,482</u>
NET CHANGE IN FUND BALANCES	450,181	(641,590)	809,729	1,451,319
Fund balances, beginning of year	<u>8,391,661</u>	<u>8,391,661</u>	<u>8,391,661</u>	
FUND BALANCES , END OF YEAR	<u>\$ 8,841,842</u>	<u>\$ 7,750,071</u>	<u>\$ 9,201,390</u>	<u>\$ 1,451,319</u>

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

CITY OF SONOMA
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business Type Activities-			Governmental
	Water	Cemetery	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 2,321,272		\$ 2,321,272	\$ 3,762,436
Receivables:				
Accounts	892,643		892,643	2,594
Intergovernmental				45,242
Notes				269,844
Due from other funds				288,613
Advances to other funds	516,925		516,925	
Due from other governments				
Prepaid items				59,691
Total current assets	<u>3,730,840</u>	<u>-</u>	<u>3,730,840</u>	<u>4,428,420</u>
Noncurrent assets:				
Capital assets				
Non-depreciable	768,996	\$ 196,304	965,300	
Depreciable, net of accumulated	15,530,556	1,231,925	16,762,481	1,922,055
Total non-current assets	<u>16,299,552</u>	<u>1,428,229</u>	<u>17,727,781</u>	<u>1,922,055</u>
TOTAL ASSETS	<u>20,030,392</u>	<u>1,428,229</u>	<u>21,458,621</u>	<u>6,350,475</u>
Deferred outflow of resources:				
Pensions	554,617	78,942	633,559	
Total deferred outflow of resources	<u>554,617</u>	<u>78,942</u>	<u>633,559</u>	
LIABILITIES				
Current liabilities:				
Accounts payable	353,727	8,462	362,189	96,317
Due to other funds		541,042	541,042	
Deposits payable	98,125	75,414	173,539	9,257
Interest payable	12,529		12,529	
Compensated absences, current portion	59,160	8,981	68,141	
Loans payable, current portion	75,000		75,000	
Unearned revenue				1,516
Total current liabilities	<u>598,541</u>	<u>633,899</u>	<u>1,232,440</u>	<u>107,090</u>
Non-current liabilities:				
Compensated absences	29,766	4,760	34,526	
Loans payable	1,210,000		1,210,000	
Net pension liability	1,758,650	250,319	2,008,969	
Total non-current liabilities	<u>2,998,416</u>	<u>255,079</u>	<u>3,253,495</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,596,957</u>	<u>888,978</u>	<u>4,485,935</u>	<u>107,090</u>
Deferred inflow of resources:				
Pensions	236,592	33,675	270,267	
Total deferred inflow of resources	<u>236,592</u>	<u>33,675</u>	<u>270,267</u>	
NET POSITION				
Net investment in capital assets	15,014,552	1,428,229	16,442,781	1,922,055
Unrestricted (deficit)	1,736,908	(843,711)	893,197	4,321,330
TOTAL NET POSITION	<u>\$ 16,751,460</u>	<u>\$ 584,518</u>	<u>17,335,978</u>	<u>\$ 6,243,385</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. 110,045

TOTAL NET POSITION PER GOVERNMENT-WIDE FINANCIAL STATEMENTS \$ 17,446,023

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, 2018

	Business Type Activities		Total	Governmental
	Enterprise Funds			Activities-
	Water	Cemetery		Internal Service
				Funds
OPERATING REVENUES				
Charges for services	\$ 4,985,306	\$ 115,730	\$ 5,101,036	
Interdepartmental charges				\$ 655,863
Other operating revenue	27,498	188,772	216,270	158,770
TOTAL OPERATING REVENUES	<u>5,012,804</u>	<u>304,502</u>	<u>5,317,306</u>	<u>814,633</u>
OPERATING EXPENSES				
Personnel expense	1,182,241	181,586	1,363,827	
Maintenance and operations	39,433	7,647	47,080	185,977
Depreciation	521,273	39,905	561,178	262,279
Other operating expenses	2,731,227	67,115	2,798,342	129,729
TOTAL OPERATING EXPENSES	<u>4,474,174</u>	<u>296,253</u>	<u>4,770,427</u>	<u>577,985</u>
OPERATING INCOME (LOSS)	<u>538,630</u>	<u>8,249</u>	<u>546,879</u>	<u>236,648</u>
NON-OPERATING REVENUES (EXPENSES)				
Connection fees	24,009		24,009	
Interest revenue	35,670	463	36,133	50,814
Interest expense	(50,798)		(50,798)	
Gain (loss) from the sale of capital assets	(104,595)	(7,180)	(111,775)	(3,070)
TOTAL NON-OPERATING REVENUE (EXPENSES)	<u>(95,714)</u>	<u>(6,717)</u>	<u>(102,431)</u>	<u>47,744</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>442,916</u>	<u>1,532</u>	<u>444,448</u>	<u>284,392</u>
Capital contributions	286,070		286,070	45,242
Transfers in		35,678	35,678	17,009
Transfers out	(303,694)	(7,514)	(311,208)	
CHANGE IN NET POSITION	<u>425,292</u>	<u>29,696</u>	<u>454,988</u>	<u>346,643</u>
Net position, beginning of year	<u>16,326,168</u>	<u>554,822</u>	<u>16,880,990</u>	<u>6,054,665</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 16,751,460</u>	<u>\$ 584,518</u>		<u>\$ 6,401,308</u>
Change in net position			454,988	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>82,917</u>	
CHANGE IN NET POSITION OF BUSINESS TYPE ACTIVITIES			<u>\$ 537,905</u>	

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, 2018

	<u>Enterprise Funds</u>		<u>Total</u>	<u>Governmental</u> <u>Activities</u>
	<u>Water</u>	<u>Cemetery</u>		<u>Internal Service</u> <u>Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 4,938,466	\$ 305,320	\$ 5,243,786	
Cash paid to suppliers	(3,087,000)	(108,380)	(3,195,380)	\$ (301,713)
Cash paid to employees and related benefits	(1,175,794)	(175,803)	(1,351,597)	(142,677)
Cash (paid) received from interfund services provided	(162,611)	11,569	(151,042)	653,831
Other operating revenues received				158,770
CASH PROVIDED BY OPERATING ACTIVITIES	<u>513,061</u>	<u>32,706</u>	<u>545,767</u>	<u>368,211</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Amounts received (paid) to other funds	(303,694)	(38,084)	(341,778)	17,009
Other revenues received	24,009		24,009	42,437
CASH (USED) PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	<u>(279,685)</u>	<u>(38,084)</u>	<u>(317,769)</u>	<u>59,446</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital expenditures	(2,262,346)		(2,262,346)	(335,835)
Capital revenues received	213,288		213,288	
Principal paid on long-term liabilities	(70,000)		(70,000)	
Interest paid on long-term liabilities	(51,480)		(51,480)	
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,170,538)</u>	<u>-</u>	<u>(2,170,538)</u>	<u>(335,835)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	35,670	463	36,133	50,814
CHANGE IN CASH AND INVESTMENTS	(1,901,492)	(4,915)	(1,906,407)	142,636
Cash and investments, beginning of year	4,222,764	4,915	4,227,679	3,619,800
CASH AND INVESTMENTS, END OF YEAR	<u>\$ 2,321,272</u>	<u>\$ -</u>	<u>\$ 2,321,272</u>	<u>\$ 3,762,436</u>
RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 538,630	\$ 8,249	\$ 546,879	\$ 236,648
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation and amortization	521,273	39,905	561,178	262,279
Construction in progress written off	1,200			
Change in pension obligation and related deferred inflows (outflows)	3,966	5,517	9,483	
Changes in operating assets and liabilities:				
Accounts and other receivables	(90,390)	818	(89,572)	(3,548)
Due from other governments	16,052		16,052	
Prepaid expenses				(59,691)
Accounts payable and accrued expenses	(476,595)	(1,284)	(477,879)	(68,993)
Retention payable	(25,306)		(25,306)	
Deposits payable	21,750	(20,765)	985	
Unearned revenue				1,516
Compensated absences	2,481	266	2,747	
CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 513,061</u>	<u>\$ 32,706</u>	<u>\$ 544,567</u>	<u>\$ 368,211</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, 2018

	Private-Purpose Trust Fund	Agency Funds
	Successor Agency Former Sonoma Community Development Agency	
ASSETS		
Current assets:		
Cash and investments	\$ 2,026,151	\$ 4,991,584
Due from other agencies		176,212
Cash and investments with trustee/fiscal agent	8,937,516	
Receivables:		
Accounts		24
Taxes		288,137
Total current assets	10,963,667	5,455,957
Other assets:		
Capital assets:		
Nondepreciable		131,472
Depreciable, net		1,845,910
Total other assets	1,977,382	1,977,382
TOTAL ASSETS	\$ 10,963,667	\$ 7,433,339
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 49,087	\$ 436,242
Amount held in trust		6,997,097
Interest payable	160,089	
Notes payable, due within one year	128,120	
Bonds payable, due within one year	1,145,000	
Total current liabilities	1,482,296	
Long-term liabilities:		
Notes payable, due after one year	2,063,831	
Bonds payable, due after one year	32,423,403	
Total long-term liabilities	34,487,234	
TOTAL LIABILITIES	35,969,530	\$ 7,433,339
Net position (deficit):		
Net position held in trust for:		
Redevelopment Dissolution	(25,005,863)	
TOTAL NET POSITION (DEFICIT)	(25,005,863)	
TOTAL LIABILITIES AND NET POSITION	\$ 10,963,667	

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, 2018

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Property taxes	\$ 3,353,864
Investment income	<u>123,567</u>
Total operating revenues	<u>3,477,431</u>
DEDUCTIONS:	
Community development	435,535
Interest and trustee fees	1,981,010
Transfers to the County of Sonoma	<u> </u>
Total operating expenses	<u>2,416,545</u>
Change in Net Position	1,060,886
Net position, beginning of year	<u>(26,066,749)</u>
Net position, end of year	<u><u>\$ (25,005,863)</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, 2018

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, 2018

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), Sonoma Valley Citizens Advisory Commission (SVCAC) (local 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, 2018, no amounts were contributed to WMA or SVCAC or Sonoma County Library JPA. The City paid \$5,168,195 to SVFRA and \$97,767 to SGA during the year ended June 30, 2018.

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, 2018

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, 2018

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, 2018

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 \$264,279, which is net of an allowance for doubtful accounts of \$260,319 at June 30, 2018. 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, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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.

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

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 City adopted this statement in the year ended June 30, 2018. The implementation of this statement had no effect on the change in net position.

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, 2018

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 Public, Educational and Governmental, Strong Motion, Road Maintenance SB-1, Asset Forfeiture, Bond Property Maintenance, Schell Drainage, Abandoned Vehicle and Sonoma Creek Senior Housing Funds.

The Measure M and Cemetery Funds had expenditures in excess of the final appropriation for the year ended June 30, 2018 by \$22,550 and \$41,538, respectively. These over-expenditures were funded by available fund balance.

NOTE C – CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds. At June 30, 2018, the City’s pooled cash and investments are classified in the accompanying financial statements as follows:

Government-wide Statements of Net Position	
Governmental Activities	\$ 13,164,231
Business-type Activities	2,321,272
Statement of Fiduciary Net Position	
Private Purpose Trust Fund	2,026,151
Private Purpose Trust Fund - Restricted Cash	8,937,516
Agency Funds	<u>4,991,584</u>
Total cash and investments	<u>\$ 31,440,754</u>

As of June 30, 2018, the City’s cash and investments consisted of the following:

Cash on hand	\$ 850
Deposits with financial institutions	2,035,133
Investments:	
Held by City	14,329,182
Held by fiscal agents	<u>15,075,589</u>
Total cash and investments	<u>\$ 31,440,754</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, 2018

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, 2018

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	\$ 20,255,597		\$ 20,255,597
Negotiable certificates of deposit		\$ 211,658	211,658
Money market mutual fund	8,937,516		8,937,516
Total investments	29,193,113	211,658	29,404,771
Cash on hand	850		850
Cash in bank	2,035,133		2,035,133
Total cash and investments	\$ 31,229,096	\$ 211,658	\$ 31,440,754

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 \$88,949,144,131, 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, 2018, these investments matured in an average of 193 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, 2018:

Investment Type	Aaa/AAA	Not Rated	Total
California Local Agency Investment Fund		\$ 20,255,597	\$ 20,255,597
Negotiable certificates of deposit		211,658	211,658
Money market mutual fund	\$ 8,937,516		8,937,516
Totals	\$ 8,937,516	\$ 20,467,255	\$ 29,404,771

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

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, 2018.

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, 2018, the City had \$2,748,901 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, 2018:

	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	\$ 8,937,516		\$ 8,937,516	
Total investments by fair value level	8,937,516	\$ -	\$ 8,937,516	\$ -
Investments uncategorized				
California Local Agency Investment Fund	20,255,597			
Negotiable certificates of deposit	211,658			
	<u>\$ 29,404,771</u>			

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

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 – NOTES RECEIVABLE

The City and the Valley of the Moon Fire District have entered into a capital lease for a fire apparatus. At June 30, 2018, the lease receivable balance was \$268,328.

Future minimum lease payments to be received are as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$ 43,073	\$ 4,025
2020	43,720	3,379
2021	44,375	2,723
2022	45,041	2,057
2023	45,717	1,382
2024	<u>46,402</u>	<u>696</u>
Total	<u>\$ 268,328</u>	<u>\$ 14,262</u>

The City loaned \$75,000 at an interest rate of 0.654% to Satellite Affordable Housing Associates (SAHA) in the year ended June 30, 2018 for predevelopment costs associated with developing an affordable housing project. The City expects to receive repayment on this loan in February 2020.

The City also has loans to employees for computers totaling \$1,516.

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, 2018

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, 2018 were as follows:

<u>Fund Making Transfer</u>	<u>Fund Receiving Transfers</u>	<u>Amount Transferred</u>
General Fund	2008 CREB Debt Service Fund	\$ 27,972 (B)
	2012 Pension Obligation Bonds Debt Service Fund	403,539 (B)
Major Enterprise Funds:		
Water	General Fund	238,482 (A)
	2008 CREB Debt Service Fund	12,525 (B)
	Cemetery Fund	35,678 (A)
	Internal Service Fund	17,009 (A)
Cemetery	2008 CREB Debt Service Fund	1,252 (B)
	2012 Pension Obligation Bonds Debt Service Fund	6,262 (B)
Non-Major Special Revenue Funds:		
Supplemental Law Enforcement	General Fund	100,000 (A)
Maysonnave Property	General Fund	5,000 (A)
		<u>\$ 847,719</u>

(A) Transfer resources to fund incurring expenditures

(B) Transfer to fund debt service payments

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, 2018, the following funds have interfund balances.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

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	\$ 252,429
	Non-Major Special Revenue Funds:	
	Bond Property Maintenance	19,144
	Maysonnave Property	15,943
Internal Service Fund	Major Enterprise Fund	
	Cemetery Fund	<u>288,613</u>
	Total Due To/Due From Other Funds	<u><u>\$ 576,129</u></u>

Long-Term Interfund Advances

At June 30, 2018, 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	<u>\$ 516,925</u>
	Total Interfund Advances	<u><u>\$ 516,925</u></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, 2018

NOTE F – CAPITAL ASSETS

Capital assets at June 30 comprise:

	Balance at June 30, 2017	Additions	Retirements	Transfers	Balance at June 30, 2018
<u>Governmental Activities</u>					
Capital assets, not being depreciated:					
Land	\$ 5,141,367				\$ 5,141,367
Construction in progress	513,479	\$ 607,409		\$ (569,861)	551,027
Total capital assets, not being depreciated	<u>5,654,846</u>	<u>607,409</u>	<u>-</u>	<u>(569,861)</u>	<u>5,692,394</u>
Capital assets, being depreciated:					
Buildings and improvements	24,372,756		\$ (200,187)		24,172,569
Equipment and vehicles	6,011,062	382,195	(208,771)		6,184,486
Infrastructure	21,701,676			569,861	22,271,537
Total capital assets, being depreciated	<u>52,085,494</u>	<u>382,195</u>	<u>(408,958)</u>	<u>569,861</u>	<u>52,628,592</u>
Less accumulated depreciation for:					
Buildings and improvements	(8,706,347)	(481,774)			(9,188,121)
Equipment and vehicles	(3,787,503)	(339,626)	263,132		(3,863,997)
Infrastructure	(3,334,042)	(512,680)			(3,846,722)
Total accumulated depreciation	<u>(15,827,892)</u>	<u>(1,334,080)</u>	<u>263,132</u>		<u>(16,898,840)</u>
Capital assets being depreciated, net	<u>36,257,602</u>	<u>(951,885)</u>	<u>(145,826)</u>	<u>569,861</u>	<u>35,729,752</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 41,912,448</u>	<u>\$ (344,476)</u>	<u>\$ (145,826)</u>	<u>\$ -</u>	<u>\$ 41,422,146</u>

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE F – CAPITAL ASSETS (Continued)

	Balance at June 30, 2017	Additions	Retirements	Transfers	Balance at June 30, 2018
<u>Business-Type Activities</u>					
Capital assets, not being depreciated:					
Land	\$ 960,472				\$ 960,472
Construction in progress	872,071	\$ 2,262,346	\$ (1,200)	\$ (3,128,389)	4,828
Total capital assets, not being depreciated	<u>1,832,543</u>	<u>2,262,346</u>	<u>(1,200)</u>	<u>(3,128,389)</u>	<u>965,300</u>
Capital assets, being depreciated:					
Buildings and improvements	3,163,807		(27,284)		3,136,523
Equipment and vehicles	733,718		(95,403)		638,315
Infrastructure	21,957,587			3,128,389	25,085,976
Total capital assets, being depreciated	<u>25,855,112</u>	<u>-</u>	<u>(122,687)</u>	<u>3,128,389</u>	<u>28,860,814</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,131,010)	(62,561)	561		(1,193,010)
Equipment and vehicles	(431,213)	(31,662)	10,351		(452,524)
Infrastructure	(9,985,844)	(466,955)			(10,452,799)
Total accumulated depreciation	<u>(11,548,067)</u>	<u>(561,178)</u>	<u>10,912</u>		<u>(12,098,333)</u>
Capital assets being depreciated, net	<u>14,307,045</u>	<u>(561,178)</u>	<u>(111,775)</u>	<u>3,128,389</u>	<u>16,762,481</u>
BUSINESS-TYPE ACTIVITIES					
CAPITAL ASSETS, NET	<u>\$ 16,139,588</u>	<u>\$ 1,701,168</u>	<u>\$ (112,975)</u>	<u>\$ -</u>	<u>\$ 17,727,781</u>

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	\$ 92,996
Parks and Recreation	32,084
Public safety	285,577
Public works	550,667
Community development	110,477
MIS Fund	17,892
Vehicle Replacement Fund	<u>244,387</u>
Total Governmental Activities	<u>\$ 1,334,080</u>
Business-type Activities:	
Water	\$ 521,273
Cemetery	<u>39,905</u>
Total Business-type Activities	<u>\$ 561,178</u>

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE G – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
<u>Governmental Activities</u>					
Capital Lease Obligations - CREBs	\$ 292,243		\$ (41,749)	\$ 250,494	\$ 41,749
Pension Obligation bond	1,490,000		(350,000)	1,140,000	365,000
PG&E Loan	-	\$ 250,000	(68,182)	181,818	68,182
Total Governmental Long-Term Debt	1,782,243	250,000	(459,931)	1,572,312	474,931
Compensated absences	195,011	198,924	(195,011)	198,924	126,385
Net pension liability	10,773,163	1,690,888		12,464,051	
Total Governmental Long-Term Debt, Net	\$12,750,417	\$2,139,812	\$(654,942)	\$14,235,287	\$ 601,316
<u>Business-type Activities</u>					
2012 Refunding Water Sales Agreement	\$ 1,355,000		\$ (70,000)	\$ 1,285,000	\$ 75,000
Total Business-type Long-Term Debt	1,355,000	-	(70,000)	1,285,000	75,000
Compensated absences	99,920	\$ 102,667	(99,920)	102,667	68,141
Net pension liability	1,781,585	227,384		2,008,969	
Total Business-type Activity Debt	\$ 3,236,505	\$ 330,051	\$(169,920)	\$ 3,396,636	\$ 143,141

All of the City's debt are direct borrowings.

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. If the City were to default on this lease, any payments in default will accrue interest at the rate of 8%.

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. The Indenture of Trust states that an event of default exists if the City fails to make the due and punctual payment of the principal or interest or if the Agency fails to observe any of the agreements or conditions of the Indenture for a period of 30 days. Upon any such event of default, the

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE G – LONG-TERM LIABILITIES (Continued)

Trustee, at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, shall declare the principal and accrued interest of all of the Bonds to be due and payable immediately and exercise any other remedies available in law or at equity.

Note Payable - PG&E

In 2017, the City signed a loan agreement with Pacific Gas and Electric Company (PG&E). PG&E loaned the City \$250,000 under its On-Bill Financing Program in order to help the City finance a project to convert the City’s streetlights to LED. Principal payments of \$5,682 are due monthly, beginning July 2017 and ending February 2021. If the City were to default on this loan, the entire outstanding loan balance would become immediately due and payable within 30 days. Additionally, failure to repay the loan balance in accordance with the terms of the loan agreement could result in shut-off of utility energy service, adverse credit reporting, and collection procedures, including legal action.

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. Any payments in default would continue to be obligations of the City until the amount in default had been fully paid, and the amount in default would bear an annual interest rate of 10%.

Future debt service for Governmental Activities and Business-Type Activities at June 30, 2018, 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	Note Payable Interest	Note Payable Principal	2012 Refunding Water Installment Sale	
					Principal	Interest
2019	\$ 41,749	\$ 365,000	\$ 45,600	\$ 68,182	\$ 75,000	\$ 48,653
2020	41,749	380,000	31,000	68,182	75,000	45,728
2021	41,749	395,000	15,800	45,454	75,000	42,803
2022	41,749				80,000	39,780
2023	83,498				85,000	36,563
2024-2028					460,000	131,040
2029-3033					435,000	34,613
Totals	\$ 250,494	\$ 1,140,000	\$ 92,400	\$ 181,818	\$ 1,285,000	\$ 379,180

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE H – NET POSITION AND FUND BALANCES

	General	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 56,928		\$ 56,928
Total Nonspendable	<u>56,928</u>	<u>-</u>	<u>56,928</u>
Restricted for:			
Public safety		\$ 72,395	72,395
Public works		319,771	319,771
Community development		258,771	258,771
Total Restricted	<u>-</u>	<u>650,937</u>	<u>650,937</u>
Committed for:			
Emergency Reserve	2,937,680		2,937,680
Operating Reserve	1,500,000		1,500,000
Total Committed	<u>4,437,680</u>	<u>-</u>	<u>4,437,680</u>
Assigned for:			
Broadway Affordable Housing Project	100,000		100,000
Water Transfer Set-Aside	516,925		516,925
General Plan Reserve	500,000		500,000
Financial Sustainability Reserve	100,000		100,000
Housing Opportunities and Strategies Reserve	50,000		50,000
Total Assigned	<u>1,266,925</u>	<u>-</u>	<u>1,266,925</u>
Unassigned	<u>3,439,857</u>	<u>(36,002)</u>	<u>3,403,855</u>
Total Unassigned	<u>3,439,857</u>	<u>(36,002)</u>	<u>3,403,855</u>
Total fund balances	<u>\$ 9,201,390</u>	<u>\$ 614,935</u>	<u>\$ 9,816,325</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, 2018, the operating reserve was \$2,937,680.

Operating reserve – represents amounts set aside by the City Council for operations. At June 30, 2018, the operating reserve was \$1,500,000.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE H – NET POSITION AND FUND BALANCES (CONTINUED)

Fund Balance Deficits

Deficit fund balances consisted of the following:

	As of <u>June 30, 2018</u>
Nonmajor Special Revenue Funds	
Bond Property Maintenance	\$ (19,144)
Maysonnave Property	(15,924)
Total Nonmajor Special Revenue	<u>(35,068)</u>
Nonmajor Debt Service Funds	
2012 Pension Obligations Bonds	(934)
Fiduciary Funds	
Successor Agency Private Purpose Trust	(25,005,863)

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.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE I – PENSION PLAN (Continued)

The Plans’ provisions and benefits in effect at June 30, 2018, are summarized as follows:

	City Miscellaneous	City PEPR Miscellaneous
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
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	9.60%	6.91%
	Safety Police	Safety Fire
	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 PEPR 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 \$647,378.

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, 2018, the contributions paid to each Plan were as follows:

	City Miscellaneous Plans	Safety Plans
Contributions - employer	\$ 511,035	\$ 404,714

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE I – PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:
As of June 30, 2018, 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	\$ 6,418,432
Safety Plans	<u>8,054,588</u>
Total Net Pension Liability	<u><u>\$ 14,473,020</u></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, 2017, 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, 2016 rolled forward to June 30, 2017 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, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2018 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2017	0.15636%	0.13753%
Proportion - June 30, 2018	0.16282%	0.13480%
Change - Increase (Decrease)	-0.00646%	0.00273%

For the year ended June 30, 2018, the City recognized pension expense of \$1,408,875. At June 30, 2018, 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	\$ 511,035	
Differences between actual and expected experience	9,059	\$ (129,787)
Changes in assumptions	1,124,007	(85,707)
Change in employer's proportion	125,843	(215,047)
Differences between the employer's contribution and the employer's proportionate share of contributions		(432,932)
Net differences between projected and actual earnings on plan investments	<u>254,204</u>	
Total	<u><u>\$ 2,024,148</u></u>	<u><u>\$ (863,473)</u></u>

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE I – PENSION PLAN (Continued)

Safety Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 404,714	
Differences between actual and expected experience	78,177	\$ (20,386)
Changes in assumptions	1,133,763	(86,985)
Change in employer's proportion	54,375	(439,609)
Differences between the employer's contribution and the employer's proportionate share of contributions		(464,476)
Net differences between projected and actual earnings on plan investments	247,205	
Total	\$ 1,918,234	\$ (1,011,456)

The \$511,035 and \$404,714 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, 2018. 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
2019	\$ (96,974)	\$ (111,896)
2020	571,204	475,965
2021	326,337	282,644
2022	(150,927)	(144,649)
	\$ 649,640	\$ 502,064

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, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 12.2% (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

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE I – PENSION PLAN (Continued)

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 be found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.15% 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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.

In fiscal year 2017-2018, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

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	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Private Equity	12.0%	6.60%	6.67%
Inflation Sensitive	6.0%	0.60%	1.39%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

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

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

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
	<u> </u>	<u> </u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 10,123,482	\$ 11,800,072
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 6,418,432	\$ 8,054,588
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 3,349,843	\$ 4,992,841

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, 2018

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 \$40,000,000 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 \$400,000,000.

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 \$10,000,000 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.

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE K – OTHER COMMITMENTS AND CONTINGENT LIABILITIES

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, 2018, 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.

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, 2018, the City had outstanding commitments with contractors for the following projects:

Project	Remaining Commitment
Sonoma Overlook Trail Rehabilitation	\$ 38,527
	<u>\$ 38,527</u>

The City has an agreement with the Sonoma Valley Visitors Bureau to provide visitor services through June 30, 2020 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, 2018

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. ABx1 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, 2018 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, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Fudiciary Activities:					
Note Payable - SERAF	\$ 1,798,279		\$ (365,214)	\$ 1,433,065	\$ 121,738
Note Payable - USDA	765,406		(6,520)	758,886	6,382
	<u>2,563,685</u>	-	<u>(371,734)</u>	<u>2,191,951</u>	<u>128,120</u>
2010 Tax Allocation Bonds	7,610,000		(430,000)	7,180,000	440,000
2011 Tax Allocation Bonds	14,945,000		(155,000)	14,790,000	165,000
2015 Tax Allocation Bonds	12,225,000		(515,000)	11,710,000	540,000
Less: Discount	(120,039)		8,442	(111,597)	
	<u>34,659,961</u>	-	<u>(1,091,558)</u>	<u>33,568,403</u>	<u>1,145,000</u>
Total Fiduciary Debt	<u>\$ 37,223,646</u>	<u>\$ -</u>	<u>\$ (1,463,292)</u>	<u>\$ 35,760,354</u>	<u>\$ 1,273,120</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. There is no specific default provision for this loan, however this loan is an enforceable obligation under California Health and Safety Code Section 34171(d)(1)(G).

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

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. The loan agreement states that default exists if the City fails to comply with the terms of the agreement, including timely payments, or if any of the City's representations are false or misleading. Upon any such default, USDA Rural Housing Service may declare the unpaid balance of the note immediately due and payable and take possession of the collateral.

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. The Indenture of Trust states that an event of default exists if the Agency fails to make the due and punctual payment of the principal or interest or if the Agency fails to observe any of the agreements or conditions of the Indenture for a period of 30 days. Upon any such event of default, the Trustee, with the prior written consent of the Bond Insurer, may declare the principal and accrued interest of all of the Bonds to be due and payable immediately and exercise any other remedies available to the Trustee and the Owners in law or at equity.

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. The Indenture of Trust states that an event of default exists if the Agency fails to make the due and punctual payment of the principal or interest or if the Agency fails to observe any of the agreements or conditions of the Indenture for a period of 30 days. Upon any such event of default, the Trustee may declare the principal and accrued interest of all of the Bonds to be due and payable immediately and exercise any other remedies available to the Trustee and the Owners in law or at equity.

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

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

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

\$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 Indenture of Trust states that an event of default exists if the Agency fails to make the due and punctual payment of the principal or interest or if the Agency fails to observe any of the agreements or conditions of the Indenture for a period of 30 days. Upon any such event of default, the Trustee may declare the principal and accrued interest of all of the Bonds to be due and payable immediately and exercise any other remedies available to the Trustee and the Owners in law or at equity.

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.

Future debt service for Fiduciary Activities at June 30, 2018 is as follows:

	2010 Tax Allocation Refunding Bond		2011 Tax Allocation Bonds		2015 Tax Allocation Refunding Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
Year Ending June 30,						
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	500,000	240,485	200,000	993,269	645,000	470,500
2024-2028	2,810,000	861,643	1,190,000	4,737,693	3,780,000	1,833,750
2029-2033	2,035,000	155,875	3,195,000	4,135,530	4,985,000	777,250
2034-2038	-	-	9,505,000	1,540,602	-	-
Total	<u>\$ 7,180,000</u>	<u>\$ 2,381,939</u>	<u>\$ 14,790,000</u>	<u>\$ 15,488,465</u>	<u>\$ 11,710,000</u>	<u>\$ 5,240,650</u>
Due within one year	\$ 440,000	\$ 302,013	\$ 165,000	\$ 1,034,779	\$ 540,000	\$ 574,500
Due after one year	<u>6,740,000</u>	<u>2,079,926</u>	<u>14,625,000</u>	<u>14,453,686</u>	<u>11,170,000</u>	<u>4,666,150</u>
Total	<u>\$ 7,180,000</u>	<u>\$ 2,381,939</u>	<u>\$ 14,790,000</u>	<u>\$ 15,488,465</u>	<u>\$ 11,710,000</u>	<u>\$ 5,240,650</u>

CITY OF SONOMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

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

Year Ending June 30,	Note Payable - USDA		Note Payable - SERAF		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 6,382	\$ 42,554	\$ 121,738	\$ -	1,273,120	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	7,950	40,956	121,738	-	1,474,688	1,745,210
2024-2028	47,188	197,342	608,690	-	8,435,878	7,630,428
2029-2033	62,473	182,057	215,685	-	10,493,158	5,250,712
2034-2038	613,553	64,740	-	-	10,118,553	1,605,342
Total	<u>\$ 758,886</u>	<u>\$ 653,027</u>	<u>\$ 1,433,065</u>	<u>\$ -</u>	<u>\$ 35,871,951</u>	<u>\$ 23,764,081</u>
Due within one year	\$ 6,382	\$ 42,554	\$ 121,738	\$ -	\$ 1,273,120	\$ 1,953,846
Due after one year	752,504	610,473	1,311,327	-	34,598,831	21,810,235
Total	<u>\$ 758,886</u>	<u>\$ 653,027</u>	<u>\$ 1,433,065</u>	<u>\$ -</u>	<u>\$ 35,871,951</u>	<u>\$ 23,764,081</u>

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.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SONOMA, CALIFORNIA

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.16282%	0.15635%	0.14510%	0.06028%
Proportionate share of the net pension liability	\$ 6,418,432	\$ 5,431,662	\$ 3,980,687	\$ 3,750,501
Covered payroll - measurement period	\$ 2,939,508	\$ 3,557,230	\$ 2,505,994	\$ 2,505,994
Proportionate share of the net pension liability as a percentage of covered payroll	218.35%	152.69%	158.85%	149.66%
Plan fiduciary net position as a percentage of the total pension liability	76.17%	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 and to 7.15% in 2018.

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, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 511,035	\$ 441,187	\$ 399,422	\$ 288,054
Contributions in relation to the actuarially determined contributions	(511,035)	(441,187)	(399,422)	(288,054)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll - fiscal year	\$ 3,130,032	\$ 2,939,508	\$ 3,557,230	\$ 2,505,994
Contributions as a percentage of covered payroll	16.33%	15.01%	11.23%	11.49%
Valuation date:	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method		Entry age normal		
Amortization method		Level percentage of payroll, closed		
Remaining amortization period		Varies, not more than 30 years		
Asset valuation method	Market Value	Market Value	Market Value	15-year smoothed market
Inflation	2.75%	2.75%	2.75%	2.75%
Salary increases		Varies by Entry Age and Service		
Payroll growth	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.50%	7.50%	7.50%	7.50%
Mortality	(3)	(2)	(2)	(2)

Notes to Schedule:

- (1) Net of administrative expenses, includes inflation
- (2) Probabilities of retirement and mortality are based on CalPERS' 2010 Experience Study for the period from 1997 to 2007.
- (3) Probabilities of retirement and mortality are based on CalPERS' 2014 Experience Study for the period from 1997 to 2011.

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, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.13480%	0.12357%	0.17640%	0.07112%
Proportionate share of the net pension liability	\$ 8,054,588	\$ 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	69.91%	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 and to 7.15% in 2018.

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, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 404,714	\$ 327,470	\$ 251,382	\$ 543,178
Contributions in relation to the actuarially determined contributions	(404,714)	(327,470)	(251,382)	(543,178)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Covered payroll - fiscal year

Contributions as a percentage of covered - payroll

Valuation date:

June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
---------------	---------------	---------------	---------------

Methods and assumptions used to determine contribution rates:

Actuarial cost method		Entry age normal		
Amortization method		Level percentage of payroll, closed		
Remaining amortization period		Varies, not more than 30 years		
Asset valuation method	Market	Market	Market	15-year
Inflation	2.75%	2.75%	2.75%	2.75%
Salary increases		Varies by Entry Age and Service		
Payroll growth	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.50%	7.50%	7.50%	7.50%
Mortality	(3)	(2)	(2)	(2)

Notes to Schedule:

(1) Net of administrative expenses, includes inflation

(2) Probabilities of retirement and mortality are based on CalPERS' 2010 Experience Study for the period from 1997 to 2007.

(3) Probabilities of retirement and mortality are based on CalPERS' 2014 Experience Study for the period from 1997 to 2011.

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, 2018

	Governmental Funds			
	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Nonmajor Funds Totals
ASSETS				
Cash and investments	\$ 710,151	\$ 116,242	\$ 2,866	\$ 829,259
Receivables:				
Taxes	65,406			65,406
Accounts	11,332			11,332
	<u>786,889</u>	<u>116,242</u>	<u>2,866</u>	<u>905,997</u>
TOTAL ASSETS	<u>\$ 786,889</u>	<u>\$ 116,242</u>	<u>\$ 2,866</u>	<u>\$ 905,997</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 9,311	\$ 100,404	\$ 3,800	\$ 113,515
Due to other funds	35,087			35,087
Deposits payable	142,460			142,460
	<u>186,858</u>	<u>100,404</u>	<u>3,800</u>	<u>291,062</u>
TOTAL LIABILITIES	<u>186,858</u>	<u>100,404</u>	<u>3,800</u>	<u>291,062</u>
 Fund balances:				
Restricted for:				
Public safety	72,395			72,395
Public works	303,933	15,838		319,771
Community development	258,771			258,771
Unassigned	(35,068)		(934)	(36,002)
	<u>600,031</u>	<u>15,838</u>	<u>(934)</u>	<u>614,935</u>
TOTAL FUND BALANCES	<u>600,031</u>	<u>15,838</u>	<u>(934)</u>	<u>614,935</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 786,889</u>	<u>\$ 116,242</u>	<u>\$ 2,866</u>	<u>\$ 905,997</u>

CITY OF SONOMA
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

<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	\$ 149,025			\$ 149,025
Licenses and permits	1,671	\$ 61,448		63,119
Intergovernmental	423,915	29,845		453,760
Use of money and property	12,137	(1,454)	\$ 16	10,699
TOTAL REVENUES	<u>586,748</u>	<u>89,839</u>	<u>16</u>	<u>676,603</u>
EXPENDITURES				
Current:				
Public safety	14,756			14,756
Public works	560	24,832		25,392
Community development	54,474			54,474
Debt Service:				
Principal			391,749	391,749
Interest and fiscal charges			59,131	59,131
Capital outlay	515,140	92,269		607,409
TOTAL EXPENDITURES	<u>584,930</u>	<u>117,101</u>	<u>450,880</u>	<u>1,152,911</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			451,550	451,550
Transfers out	(105,000)			(105,000)
TOTAL OTHER FINANCING SOURCES AND USES	<u>(105,000)</u>	<u>-</u>	<u>451,550</u>	<u>346,550</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(103,182)</u>	<u>(27,262)</u>	<u>686</u>	<u>(129,758)</u>
Fund balances, beginning of year	703,213	43,100	(1,620)	744,693
FUND BALANCES, END OF YEAR	<u>\$ 600,031</u>	<u>\$ 15,838</u>	<u>\$ (934)</u>	<u>\$ 614,935</u>

NON-MAJOR SPECIAL REVENUE FUNDS

Fund	Description
Public, Educational and Governmental	Accounts for revenues and expenditures related to public, educational and governmental (PEG) channels instituted by the Cable Communications Policy Act of 1984.
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.
Road Maintenance SB1	Accounts for funds received by the State of California to be used for road maintenance and rehabilitation.
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, 2018

	Public, Educational and Governmental	Strong Motion	Asset Forfeiture	Supplemental Law Enforcement	Bond Property Maintenance
ASSETS					
Cash and investments	\$ 12,165	\$ 4,475	\$ 18,679	\$ 28,195	
Receivables:					
Taxes				20,256	
Accounts	11,332				
TOTAL ASSETS	\$ 23,497	\$ 4,475	\$ 18,679	\$ 48,451	\$ -
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable					
Due to other funds					\$ 19,144
Deposits payable					
TOTAL LIABILITIES					19,144
Fund balances:					
Restricted for:					
Public safety			\$ 18,679	\$ 48,451	
Public works					
Community development	\$ 23,497	\$ 4,475			
Unassigned					(19,144)
TOTAL FUND BALANCES	23,497	4,475	18,679	48,451	(19,144)
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 23,497	\$ 4,475	\$ 18,679	\$ 48,451	\$ -

Maysonnave Property	Schell Drainage	Abandoned Vehicle	Sonoma Creek Senior Housing	Gas Tax	Road Maintenance SB1	Measure M	Totals
\$ 19	\$ 189,181	\$ 8,405	\$ 230,799	\$ 215,604	\$ 2,629		\$ 710,151
					23,291	\$ 21,859	65,406
							11,332
<u>\$ 19</u>	<u>\$ 189,181</u>	<u>\$ 8,405</u>	<u>\$ 230,799</u>	<u>\$ 215,604</u>	<u>\$ 25,920</u>	<u>\$ 21,859</u>	<u>\$ 786,889</u>
\$ 15,943		\$ 3,140		\$ 6,171			\$ 9,311
	\$ 142,460						35,087
<u>15,943</u>	<u>142,460</u>	<u>3,140</u>		<u>6,171</u>			<u>142,460</u>
							186,858
		5,265					72,395
	46,721			209,433	\$ 25,920	\$ 21,859	303,933
			\$ 230,799				258,771
(15,924)							(35,068)
<u>(15,924)</u>	<u>46,721</u>	<u>5,265</u>	<u>230,799</u>	<u>209,433</u>	<u>25,920</u>	<u>21,859</u>	<u>600,031</u>
<u>\$ 19</u>	<u>\$ 189,181</u>	<u>\$ 8,405</u>	<u>\$ 230,799</u>	<u>\$ 215,604</u>	<u>\$ 25,920</u>	<u>\$ 21,859</u>	<u>\$ 786,889</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, 2018

	Public, Educational and Governmental	Strong Motion	Asset Forfeiture	Supplemental Law Enforcement	Bond Property Maintenance
REVENUES					
Taxes	\$ 46,633				
Licenses and permits		\$ 1,671			
Intergovernmental				\$ 118,529	
Use of money and property		41	\$ 197	434	
TOTAL REVENUES	<u>46,633</u>	<u>1,712</u>	<u>197</u>	<u>118,963</u>	
EXPENDITURES					
Current:					
Public safety					
Public works					
Community development	23,136				
Capital outlay					
TOTAL EXPENDITURES	<u>23,136</u>				
REVENUES OVER (UNDER) EXPENDITURES	23,497	1,712	197	118,963	
OTHER FINANCING SOURCES (USES)					
Transfers out				(100,000)	
TOTAL OTHER FINANCING SOURCES AND USES				<u>(100,000)</u>	
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	23,497	1,712	197	18,963	-
FUND BALANCES (DEFICIT)					
Beginning of year		2,763	18,482	29,488	\$ (19,144)
End of year	<u>\$ 23,497</u>	<u>\$ 4,475</u>	<u>\$ 18,679</u>	<u>\$ 48,451</u>	<u>\$ (19,144)</u>

<u>Maysonnave Property</u>	<u>Schell Drainage</u>	<u>Abandoned Vehicle</u>	<u>Sonoma Creek Senior Housing</u>	<u>Gas Tax</u>	<u>Road Maintenance SBI</u>	<u>Measure M</u>	<u>Totals</u>
						\$ 102,392	\$ 149,025
		\$ 1,560		\$ 226,943	\$ 76,883		1,671
\$ (66)	\$ 2,292	130	\$ 2,933	1,976	1,714	2,486	423,915
(66)	2,292	1,690	2,933	228,919	78,597	104,878	586,748
		14,756					14,756
560							560
5,802			25,536				54,474
				157,713	52,677	304,750	515,140
6,362		14,756	25,536	157,713	52,677	304,750	584,930
(6,428)	2,292	(13,066)	(22,603)	71,206	25,920	(199,872)	1,818
(5,000)							(105,000)
(5,000)							(105,000)
(11,428)	2,292	(13,066)	(22,603)	71,206	25,920	(199,872)	(103,182)
(4,496)	44,429	18,331	253,402	138,227		221,731	703,213
\$ (15,924)	\$ 46,721	\$ 5,265	\$ 230,799	\$ 209,433	\$ 25,920	\$ 21,859	\$ 600,031

Continued

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, 2018

	Capital Projects Funds	Debt Service Funds			Totals
	Capital Improvement Program	2008 CREBs	2012 Pension Obligation Bonds	Sub-totals	
ASSETS					
Cash and investments	\$ 116,242		\$ 2,866	\$ 2,866	\$ 119,108
TOTAL ASSETS	<u>\$ 116,242</u>	<u>\$ -</u>	<u>\$ 2,866</u>	<u>\$ 2,866</u>	<u>\$ 119,108</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 100,404				\$ 100,404
Interest payable			\$ 3,800	\$ 3,800	3,800
TOTAL LIABILITIES	<u>100,404</u>		<u>3,800</u>	<u>3,800</u>	<u>104,204</u>
Fund balances:					
Restricted	15,838				15,838
Unassigned (deficit)			(934)	(934)	(934)
TOTAL FUND BALANCES	<u>15,838</u>	<u>-</u>	<u>(934)</u>	<u>(934)</u>	<u>14,904</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 116,242</u>	<u>\$ -</u>	<u>\$ 2,866</u>	<u>\$ 2,866</u>	<u>\$ 119,108</u>

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, 2018

	Capital Projects Funds	Debt Service Funds			Totals
	Capital Improvement Program	2008 CREBs	2012 Pension Obligation Bonds	Sub-totals	
REVENUES					
Licenses and permits	\$ 61,448				\$ 61,448
Intergovernmental	29,845				29,845
Use of money and property	(1,454)		\$ 16	\$ 16	(1,438)
TOTAL REVENUES	<u>89,839</u>	<u>-</u>	<u>16</u>	<u>16</u>	<u>89,855</u>
EXPENDITURES					
Current:					
Public works	24,832				24,832
Capital outlay	92,269				92,269
Debt service:					
Principal		\$ 41,749	350,000	391,749	391,749
Interest and fiscal charges			59,131	59,131	59,131
TOTAL EXPENDITURES	<u>117,101</u>	<u>41,749</u>	<u>409,131</u>	<u>450,880</u>	<u>567,981</u>
REVENUES OVER (UNDER) EXPENDITURES	(27,262)	(41,749)	(409,115)	(450,864)	(478,126)
OTHER FINANCING SOURCES (USES)					
Transfers in		41,749	409,801	451,550	451,550
TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>41,749</u>	<u>409,801</u>	<u>451,550</u>	<u>451,550</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	(27,262)		686	686	(26,576)
FUND BALANCES (DEFICIT)					
Beginning of year	43,100		(1,620)	(1,620)	41,480
End of year	<u>\$ 15,838</u>	<u>\$ -</u>	<u>\$ (934)</u>	<u>\$ (934)</u>	<u>\$ 14,904</u>

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, 2018

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund
ASSETS				
Current assets:				
Cash and investments	\$ 360,073	\$ 9,357	\$ 1,525,531	\$ 45,687
Receivables:				
Accounts				
Intergovernmental			45,242	
Notes			268,328	
Due from other funds			288,613	
Prepaid items				
Total Current Assets	360,073	9,357	2,127,714	45,687
Noncurrent assets:				
Capital assets, net	58,040		1,864,015	
Total Noncurrent Assets	58,040	-	1,864,015	-
TOTAL ASSETS	\$ 418,113	\$ 9,357	\$ 3,991,729	\$ 45,687
LIABILITIES AND NET POSITION				
Liabilities:				
Accounts payable	\$ 6,210			
Deposits payable		\$ 9,257		
Unearned revenue				
TOTAL LIABILITIES	6,210	9,257	-	-
Net Position:				
Net investment in capital assets	58,040		\$ 1,864,015	
Unrestricted	353,863	100	2,127,714	\$ 45,687
TOTAL NET POSITION	411,903	100	3,991,729	45,687
TOTAL LIABILITIES AND NET POSITION	\$ 418,113	\$ 9,357	\$ 3,991,729	\$ 45,687

<u>Employee Benefits Fund</u>	<u>Building Maintenance Fund</u>	<u>Computer Loans Fund</u>	<u>Hardscape Maintenance Fund</u>	<u>Totals</u>
\$ 12,952	\$ 1,728,160	\$ 56,610	\$ 24,066	\$ 3,762,436
2,594				2,594
		1,516		45,242
				269,844
				288,613
59,691				59,691
<u>75,237</u>	<u>1,728,160</u>	<u>58,126</u>	<u>24,066</u>	<u>4,428,420</u>
				1,922,055
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,922,055</u>
<u>\$ 75,237</u>	<u>\$ 1,728,160</u>	<u>\$ 58,126</u>	<u>\$ 24,066</u>	<u>\$ 6,350,475</u>
\$ 75,237	\$ 14,870			\$ 96,317
		\$ 1,516		9,257
		1,516		1,516
<u>75,237</u>	<u>14,870</u>	<u>1,516</u>	<u>-</u>	<u>107,090</u>
				1,922,055
	1,713,290	56,610	\$ 24,066	4,321,330
<u>-</u>	<u>1,713,290</u>	<u>56,610</u>	<u>24,066</u>	<u>6,243,385</u>
<u>\$ 75,237</u>	<u>\$ 1,728,160</u>	<u>\$ 58,126</u>	<u>\$ 24,066</u>	<u>\$ 6,350,475</u>

CITY OF SONOMA
Combining Statement of Revenues, Expenditures and Changes in Net Position
Nonmajor Internal Service Funds
For the Year Ended June 30, 2018

	<u>MIS Fund</u>	<u>Admin Hearings Fund</u>	<u>Vehicle Replacement Fund</u>	<u>Insurance Fund</u>
OPERATING REVENUES				
Interdepartmental charges	\$ 240,669		\$ 236,496	
Other operating				
TOTAL OPERATING REVENUES	<u>240,669</u>	<u>-</u>	<u>236,496</u>	<u>-</u>
OPERATING EXPENSES				
Repairs and maintenance	104,647		539	
Other operating	125,679			\$ 1,688
Depreciation	17,892		244,387	
TOTAL OPERATING EXPENSES	<u>248,218</u>	<u>-</u>	<u>244,926</u>	<u>1,688</u>
OPERATING INCOME (LOSS)	(7,549)	-	(8,430)	(1,688)
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	4,440	\$ 100	23,588	638
Gain (loss) from the sale of capital assets			(3,070)	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>4,440</u>	<u>100</u>	<u>20,518</u>	<u>638</u>
NET INCOME (LOSS) BEFORE TRANSFERS	(3,109)	100	12,088	(1,050)
Transfers in			17,009	
TOTAL TRANSFERS	<u>-</u>	<u>-</u>	<u>17,009</u>	<u>-</u>
CONTRIBUTED CAPITAL				
			45,242	
Change in net position	<u>(3,109)</u>	<u>100</u>	<u>74,339</u>	<u>(1,050)</u>
NET POSITION (DEFICIT)				
Net position, beginning of year	<u>415,012</u>	<u>-</u>	<u>3,917,390</u>	<u>46,737</u>
End of year	<u><u>\$ 411,903</u></u>	<u><u>\$ 100</u></u>	<u><u>\$ 3,991,729</u></u>	<u><u>\$ 45,687</u></u>

<u>Employee Benefits Fund</u>	<u>Building Maintenance Fund</u>	<u>Computer Loans Fund</u>	<u>Hardscape Maintenance Fund</u>	<u>Totals</u>
	\$ 178,698			\$ 655,863
\$ 157,923		\$ 847		158,770
157,923	178,698	847	-	814,633
	80,791			185,977
		2,362		129,729
				262,279
-	80,791	2,362	-	577,985
157,923	97,907	(1,515)	-	236,648
	21,010	784	\$ 254	50,814
				(3,070)
-	21,010	784	254	47,744
157,923	118,917	(731)	254	284,392
				17,009
-	-	-	-	17,009
				45,242
157,923	118,917	(731)	254	346,643
(157,923)	1,594,373	57,341	23,812	5,896,742
\$ -	\$ 1,713,290	\$ 56,610	\$ 24,066	\$ 6,243,385

CITY OF SONOMA
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2018

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash paid to suppliers	\$ (231,203)		\$ (539)
Cash paid to employees and related benefits			
Cash (paid) received from interfund services provided	240,669		236,496
Other operating revenues received			
CASH PROVIDED BY OPERATING ACTIVITIES	9,466	-	235,957
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Amounts received (paid) to other funds			17,009
Other revenues received			42,437
CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	-	-	59,446
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital expenditures	(13,838)		(321,997)
CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(13,838)	-	(321,997)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	4,440	\$ 100	23,588
CHANGE IN CASH AND INVESTMENTS	68	100	(3,006)
Cash and investments, beginning of year	360,005	9,257	1,528,537
CASH AND INVESTMENTS, END OF YEAR	\$ 360,073	\$ 9,357	\$ 1,525,531
RECONCILIATION OF OPERATING (LOSS) INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (7,549)		\$ (8,430)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation and amortization	17,892		244,387
Changes in operating assets and liabilities:			
Accounts and other receivables			
Prepaid expenses			
Accounts payable and accrued expenses	(877)		
Unearned revenue			
CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ 9,466	\$ -	\$ 235,957

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>
\$ (1,688)	\$ (142,677)	\$ (65,921)	\$ (2,362)		\$ (301,713)
	(2,594)	178,698	562		(142,677)
	157,923		847		653,831
<u>(1,688)</u>	<u>12,652</u>	<u>112,777</u>	<u>(953)</u>	<u>-</u>	<u>158,770</u>
					<u>368,211</u>
					17,009
					42,437
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,446</u>
					(335,835)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(335,835)</u>
<u>638</u>		<u>21,010</u>	<u>784</u>	<u>\$ 254</u>	<u>50,814</u>
(1,050)	12,652	133,787	(169)	254	142,636
<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>
<u>\$ 45,687</u>	<u>\$ 12,952</u>	<u>\$ 1,728,160</u>	<u>\$ 56,610</u>	<u>\$ 24,066</u>	<u>\$ 3,762,436</u>
\$ (1,688)	\$ 157,923	\$ 97,907	\$ (1,515)		\$ 236,648
					262,279
	(2,594)		(954)		(3,548)
	(59,691)				(59,691)
	(82,986)	14,870	-		(68,993)
			1,516		1,516
<u>\$ (1,688)</u>	<u>\$ 12,652</u>	<u>\$ 112,777</u>	<u>\$ (953)</u>	<u>\$ -</u>	<u>\$ 368,211</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, 2018

	Cultural Fine Arts	Tree Trust	Public Art	Pool Scholarship Fund
ASSETS				
Cash and investments	\$ 10,857	\$ 17,100	\$ 18,291	\$ 253,729
Due from other agencies				
Receivables:				
Accounts				
Taxes				
Capital assets:				
Nondepreciable				
Depreciable, net				
TOTAL ASSETS	\$ 10,857	\$ 17,100	\$ 18,291	\$ 253,729
 LIABILITIES				
Accounts payable				
Amounts held in trust	\$ 10,857	\$ 17,100	\$ 18,291	\$ 253,729
TOTAL LIABILITIES	\$ 10,857	\$ 17,100	\$ 18,291	\$ 253,729

<u>Valley of Moon Fire</u>	<u>Totals</u>
\$ 4,691,607	\$ 4,991,584
176,212	176,212
24	24
288,137	288,137
131,472	131,472
<u>1,845,910</u>	<u>1,845,910</u>
<u><u>\$ 7,133,362</u></u>	<u><u>\$ 7,433,339</u></u>
\$ 436,242	\$ 436,242
<u>6,697,120</u>	<u>6,997,097</u>
<u><u>\$ 7,133,362</u></u>	<u><u>\$ 7,433,339</u></u>

CITY OF SONOMA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Cultural Fine Arts				
ASSETS				
Cash and investments	\$ 10,742	\$ 10,857	\$ (10,742)	\$ 10,857
TOTAL ASSETS	<u>\$ 10,742</u>	<u>\$ 10,857</u>	<u>\$ (10,742)</u>	<u>\$ 10,857</u>
LIABILITIES				
Amounts held in trust	\$ 10,742	\$ 10,857	\$ (10,742)	\$ 10,857
TOTAL LIABILITIES	<u>\$ 10,742</u>	<u>\$ 10,857</u>	<u>\$ (10,742)</u>	<u>\$ 10,857</u>
Tree Trust				
ASSETS				
Cash and investments	\$ 16,920	\$ 17,100	\$ (16,920)	\$ 17,100
TOTAL ASSETS	<u>\$ 16,920</u>	<u>\$ 17,100</u>	<u>\$ (16,920)</u>	<u>\$ 17,100</u>
LIABILITIES				
Amounts held in trust	\$ 16,920	\$ 17,100	\$ (16,920)	\$ 17,100
TOTAL LIABILITIES	<u>\$ 16,920</u>	<u>\$ 17,100</u>	<u>\$ (16,920)</u>	<u>\$ 17,100</u>
Public Art				
ASSETS				
Cash and investments	\$ 18,097	\$ 18,291	\$ (18,097)	\$ 18,291
TOTAL ASSETS	<u>\$ 18,097</u>	<u>\$ 18,291</u>	<u>\$ (18,097)</u>	<u>\$ 18,291</u>
LIABILITIES				
Amounts held in trust	\$ 18,097	\$ 18,291	\$ (18,097)	\$ 18,291
TOTAL LIABILITIES	<u>\$ 18,097</u>	<u>\$ 18,291</u>	<u>\$ (18,097)</u>	<u>\$ 18,291</u>
Pool Scholarship Fund				
ASSETS				
Cash and investments	\$ 250,655	\$ 253,729	\$ (250,655)	\$ 253,729
TOTAL ASSETS	<u>\$ 250,655</u>	<u>\$ 253,729</u>	<u>\$ (250,655)</u>	<u>\$ 253,729</u>
LIABILITIES				
Amounts held in trust	\$ 250,655	\$ 253,729	\$ (250,655)	\$ 253,729
TOTAL LIABILITIES	<u>\$ 250,655</u>	<u>\$ 253,729</u>	<u>\$ (250,655)</u>	<u>\$ 253,729</u>

CITY OF SONOMA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Valley of the Moon Fire				
ASSETS				
Cash and investments	\$ 3,825,402	\$ 4,691,607	\$ (3,825,402)	\$ 4,691,607
Due from other agencies	124,318	176,212	(124,318)	176,212
Receivables:				
Accounts		24		24
Taxes		288,137		288,137
Prepaid items	34,952		(34,952)	
Capital assets:				
Nondepreciable	131,472			131,472
Depreciable, net	1,441,155	404,755		1,845,910
TOTAL ASSETS	\$ 5,557,299	\$ 5,560,735	\$ (3,984,672)	\$ 7,133,362
LIABILITIES				
Accounts payable	\$ 396,403	436,242	(396,403)	\$ 436,242
Amounts held in trust	5,444,494	6,697,120	(5,444,494)	6,697,120
TOTAL LIABILITIES	\$ 5,840,897	\$ 7,133,362	\$ (5,840,897)	\$ 7,133,362
Total of All Agency Funds				
ASSETS				
Cash and investments	\$ 4,121,816	\$ 4,991,584	\$ (4,121,816)	\$ 4,991,584
Due from other funds	124,318	176,212	(124,318)	176,212
Receivables:				
Accounts		24		24
Taxes		288,137		288,137
Prepaid items	34,952		(34,952)	
Capital assets:				
Nondepreciable	131,472			131,472
Depreciable, net	1,441,155	404,755		1,845,910
TOTAL ASSETS	\$ 5,853,713	\$ 5,860,712	\$ (4,281,086)	\$ 7,433,339
LIABILITIES				
Accounts payable	\$ 396,403	\$ 436,242	\$ (396,403)	\$ 436,242
Amounts held in trust	5,740,908	6,997,097	(5,740,908)	6,997,097
TOTAL LIABILITIES	\$ 6,137,311	\$ 7,433,339	\$ (6,137,311)	\$ 7,433,339