

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

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
WITH INDEPENDENT AUDITORS' REPORT
THEREON**

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COMMUNITY DEVELOPMENT AGENCY
 OF THE CITY OF SONOMA
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 FOR THE YEAR ENDED JUNE 30, 2011

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C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

City Council, City of Sonoma acting as the Successor Agency
Sonoma, California

We have audited the accompanying financial statements of the Community Development Agency of the City of Sonoma (the "Agency"), a component unit of the City of Sonoma, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The prior period adjustment of \$1,802,660 described in Note 11 to the financial statements, the redevelopment expenses reported on Page 14, the Government-wide Financial Statements – Statement of Activities and the community development and capital outlay expenditures reported on Page 17, Statement of Revenues, Expenditures and Changes in Fund Balances, have not been audited with respect to compliance with Section 33080.1 of the California Health and Safety Code. This code section refers to compliance audits of California Redevelopment Agencies.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the prior period adjustment or the aforementioned expenditures had been audited with respect to compliance with Section 33080.1 of the California Health and Safety Code, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Agency as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2012, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the



internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 12 of the financial statements, The Agency was dissolved as of February 1, 2012.

C. G. Uhlenberg LLP

March 1, 2012
Redwood City, California

Management's Discussion and Analysis

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

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

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

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

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

- Firehouse Village (30 affordable rental units)
- Sonoma Creek Senior Housing (34 senior rental units)
- Casa Primera (13 first-time homebuyer affordable units)
- Palm Court (18 privately developed first-time home buyer affordable units)
- Marcy Court (16 first-time homebuyer affordable units)
- Sonoma Commons Phase I & Phase II (first-time home buyer affordable units)
- Cabernet (7 senior affordable rental units)
- Maysonnave Apartments (10 senior affordable units)

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

Village Green II Senior Apartments (34 senior affordable units)
Wildflower Self-Help Housing Project (first-time home buyer affordable units)
Valley Oaks/Sonoma Hwy Affordable Rental Housing Project

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

CDA Capital Fund for fiscal year 2010-11 included significant activity to complete major projects funded through tax increment proceeds. These projects include the business improvement loans, historic preservation easement, ADA Accessibility Improvements, numerous sidewalk and street resurfacing projects. In addition, the CDA Capital Fund issued a new \$16 million Tax Allocation Bond to finance Street and Road projects, upgrades to the Sonoma Community Library, provide grant funding to the historic Sonoma Community Center and funding for an affordable housing project.

FISCAL 2011 FINANCIAL HIGHLIGHTS

Agency revenues experienced 5.5% growth primarily due to program revenue and investment earnings. Property tax increment, the Agency's primary revenue source, experienced flat growth at \$5.7 million in fiscal year 2010-11.

- The assets of the Agency exceeded its liabilities at June 30, 2011, by \$18.1 million (net assets).
- The Agency's total net assets decreased by \$4,511,672 from the prior year which is mainly due to net of recording of the issuance of the 2011 Tax Allocation Bonds as debt offset by the amount of unspent proceeds as of June 30, 2011.
- As of June 30, 2011 the Agency's governmental funds reported combined ending fund balances of about \$24.2 million, an increase of \$12.3 million from the prior year's combined fund balance of \$11.9 million. The change is due to the unspent proceeds of the 2011 tax allocation bond issuance.
- The Agency's total outstanding debt increased by \$16 million during the current fiscal year. The increase was due to the issuance of the 2011 Tax Allocation Bonds [TAB].

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

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

Basic Financial Statements

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

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

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

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

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

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

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

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

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

Governmental Activities

Governmental Net Assets presents total program assets and liabilities and the resulting allocation of the Agency's net assets. Table 1 below summarizes the Agency's Statement of Net Assets as of June 30, 2011.

The Agency's governmental net assets amounted to \$18.1 million at June 30, 2011. The Agency's net assets at June 30, 2011 are comprised of the following:

**Table 1
Net Assets
(In Whole Dollars)**

| | 2011 | 2010 |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Cash and other assets | \$26,899,515 | \$ 14,108,520 |
| Capital assets | <u>38,213,159</u> | <u>39,012,045</u> |
| Total Assets | <u>\$ 65,112,674</u> | <u>\$ 53,120,565</u> |
| Liabilities | | |
| Longterm debt | 44,795,999 | \$ 29,478,762 |
| Other liabilities | <u>2,183,927</u> | <u>997,383</u> |
| Total Liabilities | <u>\$ 46,979,926</u> | <u>\$ 30,476,145</u> |
| Net Assets: | | |
| Invested in capital assets, net of related debt | \$ 7,629,541 | \$ 8,768,802 |
| Restricted | 21,519,697 | 2,038,875 |
| Unrestricted | <u>(11,016,490)</u> | <u>11,836,743</u> |
| Total Net Assets | <u>\$ 18,132,748</u> | <u>\$ 22,644,420</u> |

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

- Cash and investments comprised \$11.5 million of pooled cash and investments available for operations. Substantially all of these amounts were held in the City's cash and investments pool as described in Note 3 to the financial statements.
- Long-term debt of \$45.81 million, of which \$44.80 million is due in future years and \$1.01 million, is due currently.
- The \$7.6 million of "Invested in capital assets, net of related debt" describes the portion of Net Assets that represents the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.
- Restricted net assets total \$21.5 million, of which approximately \$3.88 million is restricted for low and moderate income housing purposes. The restrictions on these funds were placed there by Redevelopment law and cannot be changed by the Agency.
- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The Agency had no unrestricted net assets at June 30, 2011 due to restrictions imposed by tax allocation bonds to be used for capital projects.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

Changes in Governmental Net Assets

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

**Table 2
Change in Net Assets
(In Whole Dollars)**

| | 2011 | 2010 |
|---|-----------------------------|-----------------------------|
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$ 590,673 | \$ 616,907 |
| Operating Grants and Contributions | 37,634 | 31,208 |
| Capital Grants and Contributions | 67,524 | 430,570 |
| General Revenues and Special Items | | |
| Property tax increments | 5,077,698 | 5,704,507 |
| Investment earnings | 284,871 | 305,099 |
| Miscellaneous | <u>86,118</u> | <u>128,067</u> |
| Total Revenues | <u>\$ 6,144,518</u> | <u>\$ 7,216,430</u> |
| Expenses | | |
| Community Redevelopment | 5,656,021 | 5,070,281 |
| Interest and Fees | 1,859,358 | 1,480,958 |
| Issuance cost amortization | <u>996,572</u> | <u>-</u> |
| Total Expenses | <u>\$ 8,511,951</u> | <u>\$ 6,551,239</u> |
| Increase (Decrease) in Net Assets Before Transfers | (2,367,433) | 665,191 |
| Transfers | (341,579) | (425,696) |
| Increase (Decrease) in Net Assets | (2,709,012) | 239,495 |
| Net Assets - Beginning | 22,644,420 | <u>22,404,925</u> |
| Prior Period Adjustment | <u>(1,802,660)</u> | |
| Net Assets - Ending | <u>\$ 18,132,748</u> | <u>\$ 22,644,420</u> |

As Table 2 above shows, \$695,831 (11.3%) of the Agency's 2011 Governmental revenue is program revenue and \$5.4 million (88.7%) came from general revenues such as taxes and interest. Program revenues were comprised of charges for services, which include reimbursements for expenses incurred in providing services, operating grants and contributions, and capital grants and contributions. General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

Net Revenue (Expense) of Governmental Activities

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

Table 3
Net Cost of Service
(In Whole Dollars)

| | 2011 | 2010 |
|----------------------------------|------------------------------|------------------------------|
| Redevelopment Projects | \$ (5,656,021) | \$ (5,070,281) |
| Charges for service | 590,673 | 616,907 |
| Interest | <u>(2,855,930)</u> | <u>(1,480,958)</u> |
| Total Net Cost of Service | <u>\$ (7,921,278)</u> | <u>\$ (5,934,332)</u> |

BUDGET HIGHLIGHTS

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

The State of California has an enormous budget crisis that cannot and will not be solved quickly. In the past the State has looked at city funds as a way to help bridge the gap between its revenues and expenditures. California voters passed measures to restrict State raids of local government funds, but loopholes allowed the State to take redevelopment funds. In fiscal year 2009-10 the State took \$1,920,016 from the Agency. For fiscal year 2010-11 the State took another \$394,918 from the Agency. Subsequently, in 2012, the State Legislature voted to dissolve all redevelopment agencies.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

THE AGENCY'S FUND FINANCIAL STATEMENTS

Table 4 below summarizes the fund balances of Governmental Funds. The Low/Moderate Income Housing Fund balance of \$3,921,194 includes \$1,920,016 reserved for the loan to the Capital Improvement Fund. On February 17, 2010 the Agency's Board approved a resolution authorizing the borrowing in accordance with the requirements in Health and Safety Code 33690(c)(2) which requires the Agency to repay the amount in full to the Low/Moderate Income Housing Fund, without interest, not later than June 30, 2015. The loan was essential to assist the Agency in meeting its Supplemental Educational Revenue Augmentation Fund (SERAF) payment obligation to the State.

**Table 4
Fund Balances
(In Whole Dollars)**

| Governmental Funds | 2011 | 2010 | Increase (Decrease) |
|-------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Village Green Housing Fund | \$ 650,402 | \$ 644,057 | \$ 6,345 |
| Sonoma Creek Senior Housing Fund | 450,163 | 484,852 | (34,689) |
| Low/moderate Income Housing Fund | 3,921,194 | 2,635,519 | 1,285,675 |
| Capital Improvement Projects Fund | 5,763,731 | 7,339,074 | (1,629,952) |
| Debt Service Funds | <u>13,379,297</u> | <u>778,897</u> | <u>12,655,019</u> |
| Total Fund Balances | \$ <u>24,164,787</u> | \$ <u>11,882,399</u> | \$ <u>12,282,388</u> |

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

CAPITAL ASSETS

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

**Table 5
Capital Assets
June 30, 2011
(In Whole Dollars)**

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|-----------------------------|-----------------------------|
| Land - Nondepreciable | \$ 10,600,515 | \$ 12,050,515 |
| Buildings and Improvements | 13,418,803 | 13,178,965 |
| Improvements other than Buildings | 356,028 | 356,028 |
| Infrastructure | 16,634,671 | 15,719,356 |
| Equipment and Vehicles | 387,449 | 387,449 |
| Construction in Progress | 831,278 | 727,629 |
| Total Capital Assets | <u>42,228,744</u> | <u>42,419,942</u> |
| Less: Accumulated Depreciation | <u>(4,015,585)</u> | <u>(3,407,897)</u> |
| Capital Assets - Net | <u>\$ 38,213,159</u> | <u>\$ 39,012,045</u> |

Analyses of Major Governmental Funds

Special Revenue Fund

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

Low and Moderate Income Housing Fund

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

Capital Projects Fund

This Fund accounts for capital project expenses of the Agency. During fiscal year 2010-2011, the Agency's capital project expenses were for expenses related to numerous reconstruction projects to streets and roads in various locations throughout the project area including installing pavement, gutters, and other improvements to meet the Americans with Disabilities Act.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010-11**

Debt Service Fund

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

**Table 6
Outstanding Debt
June 30, 2011
*[In Whole Dollars]***

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|-----------------------------|-----------------------------|
| 71997 Tax Allocation Bonds | \$ - | \$ 1,935,000 |
| 2000 Tax Allocation Refunding Bonds | - | 7,715,000 |
| 2003 Tax Allocation Bonds | 17,255,000 | 17,705,000 |
| 2010 Tax Allocation Refunding Bonds | 9,970,000 | - |
| 2011 Tax Allocation Bonds | 15,750,000 | - |
| Notes Payable: USDA | 796,179 | 799,203 |
| Notes Payable: Exchange Bank | 2,022,959 | 2,070,560 |
| Compensated Absences | 18,480 | 18,480 |
| Total Outstanding Debt | <u>\$ 45,812,618</u> | <u>\$ 30,243,243</u> |

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

| | Governmental Activities |
|--|------------------------------------|
| ASSETS | |
| Cash and investments | \$ 8,870,259 |
| Cash and investments - restricted | 13,892,759 |
| Accounts receivable (net of allowance for uncollectible) | (74,054) |
| Deposits and other assets | 2,195,309 |
| Deferred charges (net of accumulated amortization) | 889,406 |
| Notes Receivable | 1,125,837 |
| Capital assets (net) | 38,213,159 |
| Total Assets | \$ 65,112,674 |
| LIABILITIES | |
| Accounts payable | \$ 715,735 |
| Interest payable | 447,823 |
| Deposits payable | 3,750 |
| Noncurrent liabilities: | |
| Due within one year | 1,016,619 |
| Due in more than one year | 44,795,999 |
| Total Liabilities | \$ 46,979,926 |
| NET ASSETS | |
| Invested in capital assets (net of related debt) | \$ 7,629,541 |
| Restricted for: | |
| Capital Projects | 149,700 |
| Debt Service | 1,583,597 |
| Housing | 3,881,278 |
| Community Development | 15,905,122 |
| Unrestricted | (11,016,490) |
| Total Net Assets | \$ 18,132,748 |

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Net (Expenses) Revenue and Changes in Net Assets</u> |
|--|----------------------------|---------------------------------|---|---|---|
| Redevelopment | \$ 5,656,021 | \$ 590,673 | \$ 37,634 | \$ 67,524 | \$ (4,960,190) |
| Interest and fees | 1,859,358 | - | - | - | (1,859,358) |
| Issuance cost amortization | 996,572 | - | - | - | (996,572) |
| Total Governmental Activities | <u>\$ 8,511,951</u> | <u>\$ 590,673</u> | <u>\$ 37,634</u> | <u>\$ 67,524</u> | <u>(7,816,120)</u> |
| General Revenues, and Transfers: | | | | | |
| Tax allocation increment | | | | | 5,077,698 |
| Investment earnings | | | | | 284,871 |
| Miscellaneous | | | | | 223,778 |
| Loss on sale of capital assets | | | | | (137,660) |
| Transfers to the City of Sonoma | | | | | <u>(341,579)</u> |
| Total General Revenues, and Transfers | | | | | <u>5,107,108</u> |
| Change in Net Assets | | | | | (2,709,012) |
| Net Assets - Beginning | | | | | 22,644,420 |
| Prior Period Adjustment | | | | | <u>(1,802,660)</u> |
| Net Assets - Ending | | | | | <u>\$ 18,132,748</u> |

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
GOVERNMENTAL FUNDS BALANCE SHEET
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

| | 1997 | | 2000 | | 2011 Tax Allocation Bonds Debt Service Fund | Other Nonmajor Governmental Funds | Total Government Funds |
|--|---|--|---------------------------|---|--|--------------------------------------|---------------------------|
| | Capital Improvement Projects Fund | Low/Moderate Income Housing Fund | 2011 TAB Projects Fund | Community Development Agency Debt Service Fund | | | |
| ASSETS | | | | | | | |
| Cash and investments | \$ 7,961,135 | \$ 199,172 | \$ 122,975 | \$ 152 | \$ 445 | \$ 586,380 | \$ 8,870,259 |
| Cash and investments -restricted | - | - | - | - | - | 663,759 | 13,892,759 |
| Accounts receivable - net | (74,630) | 576 | - | - | - | - | (74,054) |
| Loan and advances to other funds | - | 1,920,016 | - | - | - | - | 1,920,016 |
| Deposits and other assets | 341 | 2,193,102 | - | - | - | 1,866 | 2,195,309 |
| TOTAL ASSETS | \$ 7,886,846 | \$ 4,312,866 | \$ 122,975 | \$ 152 | \$ 445 | \$ 1,252,004 | \$ 26,804,288 |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 253,958 | \$ 391,672 | \$ 68,366 | \$ - | \$ - | \$ 1,739 | \$ 715,735 |
| Due to other funds | - | - | - | - | - | - | - |
| Loan from other funds | 1,920,016 | - | - | - | - | - | 1,920,016 |
| Deposits and other assets | 3,750 | - | - | - | - | - | 3,750 |
| TOTAL LIABILITIES | 2,177,724 | 391,672 | 68,366 | - | - | 1,739 | 2,639,501 |
| Fund Balances: | | | | | | | |
| Unspendable | \$ - | \$ 1,920,016 | \$ - | \$ - | \$ - | \$ - | \$ 1,920,016 |
| Restricted for: | | | | | | | |
| Capital projects | - | - | - | - | - | 149,700 | 149,700 |
| Debt service | - | - | - | - | - | - | 1,583,597 |
| Housing | - | 2,001,178 | - | 152 | 445 | 430,100 | 3,881,278 |
| Community Development | 5,709,122 | - | - | - | - | - | 15,905,122 |
| Assigned for: | | | | | | | |
| Capital projects | - | - | 54,609 | - | - | - | 54,609 |
| Debt Service | - | - | - | - | - | - | - |
| Housing | - | - | - | - | - | 670,466 | 670,466 |
| Public Safety | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - |
| TOTAL FUND BALANCES | 5,709,122 | 3,921,194 | 54,609 | 152 | 445 | 1,250,265 | 24,164,787 |
| TOTAL LIABILITIES & FUND BALANCES | \$ 7,886,846 | \$ 4,312,866 | \$ 122,975 | \$ 152 | \$ 445 | \$ 1,252,004 | \$ 26,804,288 |

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

| | |
|---|-----------------------------|
| Fund Balances - Governmental Funds | \$ 24,164,787 |
| <p>Amounts reported for governmental activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:</p> | |
| Capital assets (net) used in governmental activities are not current assets or financial resources and therefore, are not reported in the Governmental Funds Balance Sheet. | 38,213,159 |
| Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The costs are reported as expenditures of current financial resources in governmental funds. | 889,406 |
| Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet. | (447,823) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet | (45,812,618) |
| In governmental funds, notes receivables are not available to pay for current period expenditures and, therefore, are not reported in the Governmental Funds Balance Sheet | <u>1,125,837</u> |
| Net Assets of Governmental Activities | <u><u>\$ 18,132,748</u></u> |

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

| | Capital Improvement Projects Fund | Low/Moderate Income Housing Fund | 2011 TAB Projects Fund | 1997 Community Development Agency Debt Service Fund | 2000 Community Development Agency Debt Service Fund | 2011 Tax Allocation Bonds Debt Service Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|---|-------------------------------------|---------------------------|---|--|---|--------------------------------------|-----------------------------|
| REVENUES | | | | | | | | |
| Tax allocation increment | \$ 3,983,099 | \$ 1,094,599 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,077,698 |
| Intergovernmental revenues | 67,524 | - | - | - | - | - | 37,634 | 105,158 |
| Investment earnings | 207,013 | 51,624 | - | 151 | 445 | - | 25,638 | 284,871 |
| Rental income | 2,525 | - | - | - | - | - | 588,148 | 590,673 |
| Other revenues | 17,245 | 1,312,340 | 200,000 | - | - | - | 6,533 | 1,536,118 |
| Total Revenues | 4,277,406 | 2,458,563 | 200,000 | 151 | 445 | - | 657,953 | 7,594,518 |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| Community Development | \$ 1,621,167 | \$ 873,858 | \$ 2,000,000 | \$ - | \$ - | \$ - | \$ 478,054.00 | \$ 4,973,079 |
| Capital Outlay | 1,188,665 | - | 145,391 | - | - | - | - | 1,334,056 |
| Debt service: | | | | | | | | |
| Principal payments | - | - | - | 1,935,000 | 7,715,000 | - | 650,625 | 10,300,625 |
| Interest and fiscal charges | - | - | - | 57,529 | 295,965 | - | 1,165,455 | 1,518,949 |
| Bond issuance costs | - | - | - | - | - | 381,650 | 456,310 | 837,960 |
| Total Expenditures | 2,809,832 | 873,858 | 2,145,391 | 1,992,529 | 8,010,965 | 381,650 | 2,750,444 | 18,964,669 |
| Excess (Deficiency) of Revenues over Expenditures | 1,467,574 | 1,584,705 | (1,945,391) | (1,992,378) | (8,010,520) | (381,650) | (2,092,491) | (11,370,151) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers in | 376,655 | 50,000 | 2,000,000 | 1,796,131 | 7,933,689 | - | 1,653,972 | 13,810,447 |
| Transfers out | (1,671,521) | (349,030) | - | (106,869) | (244,785) | (2,000,000) | (9,779,821) | (14,152,026) |
| Refunding bonds issued | - | - | - | - | - | - | 10,120,000 | 10,120,000 |
| Premium on refunding bonds | - | - | - | - | - | - | 66,131 | 66,131 |
| Tax allocation bond issued | - | - | - | - | - | 15,750,000 | - | 15,750,000 |
| Discount on tax allocation bond | - | - | - | - | - | (139,350) | - | (139,350) |
| Total Other Financing Sources (Uses) | (1,294,866) | (299,030) | 2,000,000 | 1,689,262 | 7,688,904 | 13,610,650 | 2,060,282 | 25,455,202 |
| Net Changes in Fund Balances | 172,708 | 1,285,675 | 54,609 | (303,116) | (321,616) | 13,229,000 | (32,209) | 14,085,051 |
| Beginning fund balances | 7,339,074 | 2,635,519 | - | 303,268 | 322,061 | - | 1,282,474 | 11,882,396 |
| Prior Period Adjustment | (1,802,660) | - | - | - | - | - | - | (1,802,660) |
| Beginning fund balances as restated | 5,536,414 | 2,635,519 | - | 303,268 | 322,061 | - | 1,282,474 | 10,079,736 |
| Ending fund balances | \$ 5,709,122 | \$ 3,921,194 | \$ 54,609 | \$ 152 | \$ 445 | \$ 13,229,000 | \$ 1,250,265 | \$ 24,164,787 |

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

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

| | |
|---|-----------------------|
| NET CHANGES IN FUND BALANCES | \$ 14,085,051 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different from those reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because of the following:</p> | |
| <p>Proceeds from the sale of capital assets provides current financial resource to governmental funds, but is netted against the carrying value in the Statement of Net Assets</p> | |
| Proceeds from land sale | (1,312,340) |
| Loss from land sale | (137,660) |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.</p> | |
| Capital additions | 1,258,802 |
| Depreciation expense not reported in the governmental funds | (607,688) |
| <p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p> | |
| Proceeds of bond issuances | (25,870,000) |
| Repayment of tax allocation bonds | 10,250,000 |
| Repayment of notes payable | 50,625 |
| <p>Deferred charges represent costs associated with the issuance of long-term debt .</p> | |
| <p>The costs are reported as expenditures of current financial resources in governmental funds, whereas these costs are deferred and amortized over the period during which the debt is outstanding in the Statement of Activities.</p> | |
| | (85,393) |
| <p>The amounts below included in the Statement of Activities do not provide (or require the use of) current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):</p> | |
| Interest payable | (340,409) |
| Compensated absences | - |
| Government Wide Changes in Net Assets | <u>\$ (2,709,012)</u> |

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. DESCRIPTION OF THE AGENCY

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

GASB requires that the financial statements described below be presented.

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

B. Major Funds

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

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

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

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

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

2011 TAB Projects Fund – This capital project fund was established to account for the expenditures related to the 2011 Tax Allocation Bonds (TAB)

1997 and 2000 Community Development Agency Debt Service Funds – These funds were established to account for the debt service expenditures of the 1997 and 2000 TABs. These bonds were fully refunded in the year ended June 30, 2011.

2011 Tax Allocation Bonds Debt Service Fund – This fund was established to account for the debt service expenditures of the 2011 TAB.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

C. Basis of Accounting

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

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

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

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

D. Cash and Investments

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

Cash includes not only currency on hand, but deposits in the City's cash and investment pool. These deposits have the same characteristics for the participating funds as demand deposit accounts, in that the funds may deposit additional cash at any time and also effectively withdraw cash at any time without prior notice or penalty. Cash and investments - restricted includes

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

unpooled cash and both restricted and unrestricted cash and money market funds held by fiscal agent.

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

E. Interfund Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due to/due from other funds" (amounts due within one year), "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions), or "loans to/from other funds" (long-term lending/borrowing transactions as evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable Governmental Funds to indicate they are not available for appropriation, and are not expendable available financial resources.

F. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital assets are recorded if acquisition or construction costs exceed \$5,000 for fixed assets, \$20,000 for buildings, \$10,000 for building improvements, and \$50,000 for Infrastructure.

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

G. Long-Term Obligations

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

H. Net Assets

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

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

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

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

I. Fund Equity

Beginning with fiscal year 2011, the Agency implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government),

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the Agency itself, using its highest level of decision-making authority (i.e., Agency Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level action to remove or change the constraint. The Agency did not have any committed resources as of June 30, 2011.

Assigned fund balance—amounts the Agency intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

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

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

J. Tax Increment

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

K. Property Held for Resale

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

L. Budgets and Budgetary Accounting

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

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

Formal budgetary integration is employed as a management control device.

M. Use of Estimates

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

3. CASH AND INVESTMENTS

The Agency has pooled its operating cash and investments with the City of Sonoma in order to achieve a higher return on investment. Restricted cash and investments are required to be held by outside fiscal agents under the provisions of various debt issues or other restrictions. These cash and investments are restricted for debt service requirements or housing projects. The Agency held the following cash and investments at year end:

| <u>Investment Type/Cash Deposit</u> | <u>Available for Operations</u> | <u>Restricted</u> | <u>Total</u> |
|--|---|--------------------------|--------------------------|
| Pooled Cash with the City of Sonoma | \$ 8,870,259 | \$ - | \$ 8,870,259 |
| Cash Deposits with Banks | - | 663,759 | 663,759 |
| Government Securities Money Market Mutual Funds | - | 13,229,000 | 13,229,000 |
| Total Cash and Investments | <u>\$ 8,870,259</u> | <u>\$ 13,892,759</u> | <u>\$ 22,763,018</u> |

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

See The City's Comprehensive Annual Financial Report for disclosures related to the pooled cash and investments. These disclosures detail custodial credit risk, credit risk and interest rate risk.

Cash Deposits with Banks and Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have formal policies for custodial credit risk. California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Agency's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Agency's name and places the Agency ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by Federal Depository Insurance.

The City's cash deposits with banks were \$663,759 as of June 30, 2011. These deposits were either insured or guaranteed by the Federal Depository Insurance Corporation (FDIC).

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Government Securities Money Market Mutual Funds: Investments carry various risks as follows:

Custodial Credit Risk

This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The government securities money market mutual funds are held by the trustee in accordance with the agreement at the time of the bond issuances

Credit Risk

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

Interest Rate Risk

This is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The government securities money market mutual funds do not have a maturity.

4. INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables

The Community Development Agency Capital Projects Fund borrowed \$1,920,016 from the Low/Moderate Income Housing Fund in order to make payment to the Supplemental Educational Revenue Augmentation Funds as disclosed in Note 9.

Transfers

With Council approval, resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers made to the City for operating expenses have been classified as community development expenditures

In general, the effect of interfund activities has been eliminated for the government-wide financial statements. Net transfers to the City, excluding operating expenditures, for the fiscal year ended June 30, 2011 was \$341,579.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

5. CAPITAL ASSETS

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

| Governmental Activities | Balance June 30, 2010 | Additions | Deletions | Transfers | Balance June 30, 2011 |
|---|--------------------------|-------------------|----------------------|--------------------|--------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$10,600,515 | \$ - | \$ - | | \$10,600,515 |
| Land held for resale | 1,450,000.0 | - | (1,450,000) | - | - |
| Right of ways | 356,028 | - | - | - | 356,028 |
| Construction in progress | 727,629 | 1,258,802 | - | (1,155,153) | 831,278 |
| Total capital assets, not being depreciated | 13,134,172 | 1,258,802 | (1,450,000) | (1,155,153) | 11,787,821 |
| Capital assets, being depreciated: | | | | | |
| Infrastructure | 15,719,356 | - | - | 915,315 | 16,634,671 |
| Buildings and improvements | 13,178,965 | - | - | 239,838 | 13,418,803 |
| Equipment and vehicles | 387,449 | - | - | - | 387,449 |
| Total capital assets, being depreciated | 29,285,770 | - | - | 1,155,153 | 30,440,923 |
| Less accumulated depreciation | (3,407,897) | (607,688) | - | - | (4,015,585) |
| Total capital assets, being depreciated, net | 25,877,873 | (607,688) | - | 1,155,153 | 26,425,338 |
| Capital assets, net | \$39,012,045 | \$ 651,114 | \$(1,450,000) | \$ - | \$38,213,159 |

Depreciation expense of \$607,688 was charged to redevelopment expenses in the Statement of Activities.

6. LONG-TERM NOTES RECEIVABLE

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

7. DEPOSITS

The deposit amount includes a deposit with an escrow company for \$2,193,000 made by the Low/Moderate Income Housing Fund. This was set up to administer loan disbursement to Affordable Housing Associates for a construction loan. Affordable Housing Associates are not entitled to drawdown against the funds until certain milestones and approvals are met.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

8. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt activity of the Agency for the fiscal year ended June 30, 2011:

| | Balance June 30, 2010 | Additions | Reductions | Balance June 30, 2011 | Due Within One Year |
|-------------------------------------|--------------------------|----------------------|----------------------|--------------------------|---------------------------|
| Governmental Activities: | | | | | |
| 1997 Tax Allocation Bonds | \$ 1,935,000 | \$ - | \$ 1,935,000 | \$ - | \$ - |
| 2000 Tax Allocation Refunding Bonds | 7,715,000 | - | 7,715,000 | - | - |
| 2003 Tax Allocation Bonds | 17,705,000 | - | 450,000 | 17,255,000 | 465,000 |
| 2010 Tax Allocation Bonds | - | 10,120,000 | 150,000 | 9,970,000 | 370,000 |
| 2011 Tax Allocation Bonds | - | 15,750,000 | - | 15,750,000 | 125,000 |
| Note Payable - USDA | 799,203 | - | 3,024 | 796,179 | 4,074 |
| Note Payable - Exchange Bank | 2,070,560 | - | 47,601 | 2,022,959 | 49,747 |
| Compensated Absences | 18,480 | - | - | 18,480 | 2,798 |
| Total Governmental Activities Debt | <u>\$ 30,243,243</u> | <u>\$ 25,870,000</u> | <u>\$ 10,300,625</u> | <u>\$ 45,812,618</u> | <u>\$ 1,016,619</u> |

1997 Tax Allocation Bonds - On July 10, 1997, the Agency issued tax allocation bonds in the amount of \$2,885,000, with an interest rate of 5.58% per annum, to provide funds for certain projects of the Agency. In December 2010, these bonds were fully refunded using the proceeds of the 2010 Tax Allocation Refunding Bonds.

2000 Tax Allocation Refunding Bonds - On June 28, 2000, the Agency issued \$8,895,000 of Tax Allocation Refunding Bonds to advance refund \$2,085,000 of outstanding 1991 Senior Housing Certificates of Participation. In December 2010, these bonds were fully refunded using the proceeds of the 2010 Tax Allocation Refunding Bonds.

2003 Tax Allocation Bonds - In May 2003, the Agency issued tax allocation bonds in the amount of \$20,635,000, with a variable interest rate of 2.09% to 4.45% per annum, to provide funds for certain community development projects. The bonds mature semiannually in increasing amounts on each December 1, through 2033. Annual debt service requirements are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|----------------------|
| 2012 | \$ 465,000 | \$ 727,659 | \$ 1,192,659 |
| 2013 | 480,000 | 713,709 | 1,193,709 |
| 2014 | 500,000 | 698,709 | 1,198,709 |
| 2015 | 520,000 | 679,334 | 1,199,334 |
| 2016 | 535,000 | 661,134 | 1,196,134 |
| 2017-2021 | 3,025,000 | 2,976,300 | 6,001,300 |
| 2022-2026 | 3,735,000 | 2,285,685 | 6,020,685 |
| 2027-2031 | 4,660,000 | 1,382,838 | 6,042,838 |
| 2032-2034 | 3,335,000 | 301,043 | 3,636,043 |
| Total | <u>\$ 17,255,000</u> | <u>\$ 10,426,411</u> | <u>\$ 27,681,411</u> |

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|---------------------|---------------------|----------------------|
| 2012 | \$ 370,000 | \$ 372,822 | \$ 742,822 |
| 2013 | 380,000 | 364,847 | 744,847 |
| 2014 | 390,000 | 355,697 | 745,697 |
| 2015 | 395,000 | 345,885 | 740,885 |
| 2016 | 405,000 | 334,873 | 739,873 |
| 2017-2021 | 2,205,000 | 1,503,301 | 3,708,301 |
| 2022-2026 | 2,590,000 | 1,096,135 | 3,686,135 |
| 2027-2031 | 3,235,000 | 420,125 | 3,655,125 |
| Total | <u>\$ 9,970,000</u> | <u>\$ 4,793,685</u> | <u>\$ 14,763,685</u> |

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

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|----------------------|----------------------|----------------------|
| 2012 | \$ 125,000 | \$ 800,569 | \$ 925,569 |
| 2013 | 130,000 | 1,076,919 | 1,206,919 |
| 2014 | 125,000 | 1,074,319 | 1,199,319 |
| 2015 | 135,000 | 1,068,069 | 1,203,069 |
| 2016 | 145,000 | 1,061,319 | 1,206,319 |
| 2017-2021 | 815,000 | 5,191,415 | 6,006,415 |
| 2022-2026 | 1,050,000 | 4,926,395 | 5,976,395 |
| 2027-2031 | 1,450,000 | 4,511,945 | 5,961,945 |
| 2032-2036 | 8,835,000 | 3,269,662 | 12,104,662 |
| 2037 | 2,940,000 | 209,475 | 3,149,475 |
| Total | <u>\$ 15,750,000</u> | <u>\$ 23,190,087</u> | <u>\$ 38,940,087</u> |

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

2005 USDA Loan

In April of 2005, the Agency obtained an \$821,423 loan from the U.S. Department of Agriculture to assist the Agency in purchasing and operating the Village Green Apartments II low/moderate income housing rental project. The loan is fully amortized over 30 years at an interest rate of 5.625%. The loan is secured by an interest in the property and rental income and is subordinated to an existing loan with Exchange Bank. The outstanding balance as of June 30, 2011 was \$799,202 and the future minimum obligations as of June 30, 2011 as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|-------------------|-------------------|---------------------|
| 2012 | \$ 4,288 | \$ 44,618 | \$ 48,906 |
| 2013 | 4,536 | 44,370 | 48,906 |
| 2014 | 4,798 | 44,108 | 48,906 |
| 2015 | 5,075 | 43,831 | 48,906 |
| 2016 | 5,368 | 43,538 | 48,906 |
| 2017-2021 | 31,859 | 212,671 | 244,530 |
| 2022-2026 | 42,178 | 202,352 | 244,530 |
| 2027-2031 | 55,841 | 188,689 | 244,530 |
| 2032-2035 | 641,206 | 138,186 | 779,392 |
| Total | <u>\$ 795,149</u> | <u>\$ 962,363</u> | <u>\$ 1,757,512</u> |

2005 Exchange Bank Loan

On March 1, 2005 the Agency borrowed \$2,300,157 from Exchange Bank to purchase the Village Green Apartments, a Low and Moderate Income Housing Project. The loan is secured by a deed of trust on the purchased property. Interest on the note is variable at 1.50% above the index rate. The interest rate cannot go below 4.36% or above 9.36% and cannot adjust more than 2% in any one adjustment period. The note matures April 1, 2035. The outstanding balance as of June 30, 2011 was \$2,033,206 and the future minimum annual debt commitments are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------|---------------------|-------------------|---------------------|
| 2012 | \$ 49,747 | \$ 87,214 | \$ 136,961 |
| 2013 | 51,960 | 85,001 | 136,961 |
| 2014 | 54,271 | 82,689 | 136,960 |
| 2015 | 1,866,981 | 67,068 | 1,934,049 |
| Total | <u>\$ 2,022,959</u> | <u>\$ 321,972</u> | <u>\$ 2,344,931</u> |

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

9. SERAF

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$1.9 and \$0.4 million for the year ended June 30, 2010 and 2011, respectively. In response to AB 26 4x, the Agency funded the SERAF payment due in May 2010 from borrowing from the Community Development Agency Low/Moderate Income Housing Fund. The borrowing will be repaid no later than June 30, 2015 in full without interest.

10. COMMITMENTS AND CONTINGENCIES

Tax Increment participation Agreements

The Community Development Agency has a Participation Agreement with Sonoma County ("County") in regard to the sharing of incremental property taxes. Under the Agreement, the Agency is to retain 80 percent of the tax increment otherwise attributable to the County as a result of the redevelopment project area.

11. CHANGE IN FINANCIAL STATEMENT PRESENTATION AND PRIOR PERIOD ADJUSTMENT

It was determined that capital project expenditures that should have been charged against the Agency's capital project fund were incorrectly charged against the City's capital project fund. The amount of \$1,802,660 is shown as a prior period adjustment as a reduction to the Agency's net assets and fund balance.

12. SUBSEQUENT EVENT

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

Required Supplementary Information

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

| | Budgeted Amounts | | Actual | Variance |
|--|---------------------|-------------------|---------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| REVENUES | | | | |
| Property tax increment revenue | \$ 1,092,852 | \$ 1,092,852 | \$ 1,094,599 | \$ 1,747 |
| Proceeds from sale of land | - | 1,450,000 | 1,312,340 | \$ (137,660) |
| Investment earnings | 125,000 | 125,000 | 51,624 | (73,376) |
| Total Revenues | 1,217,852 | 2,667,852 | 2,458,563 | (209,289) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community development | 230,727 | 1,870,827 | 873,858 | 996,969 |
| Capital outlay | 1,149,000 | 1,149,000 | - | 1,149,000 |
| Total Expenditures | 1,379,727 | 3,019,827 | 873,858 | 2,145,969 |
| Excess (Deficiency) of Revenues Over Expenditures | (161,875) | (351,975) | 1,584,705 | 1,936,680 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 1,833,148 | 1,833,148 | 50,000 | (1,783,148) |
| Transfers out | (537,942) | (534,673) | (349,030) | 185,643 |
| Total Other Financing Sources (Uses) | 1,295,206 | 1,298,475 | (299,030) | (1,597,505) |
| Net Change in Fund Balance | \$ 1,133,331 | \$ 946,500 | 1,285,675 | \$ 339,175 |
| Fund Balance - Beginning | | | 2,635,519 | |
| Fund Balance - Ending | | | \$ 3,921,194 | |



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

City Council, City of Sonoma acting as the Successor Agency
Sonoma, California

We have audited the financial statements of the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Community Development Agency of the City of Sonoma ("the Agency") as of June 30, 2011 and the respective changes in financial position thereof for the year then ended, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, Findings 11-1 and 11-2.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 11-3

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

This report is intended solely for the information and use of management, the Oversight Board of the Successor Agency, others within the entity and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

C. D. Uhlberg LLP

March 1, 2012
Redwood City, California



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

City Council, City of Sonoma acting as the Successor Agency
Sonoma, California

Compliance

We were engaged to audit the Community Development Agency of the City of Sonoma (the "Agency") compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirement referred to above is the responsibility of Agency's management.

We were unable to test a prior period adjustment of \$1,802,660, as described in Note 10 and expenditures related to construction projects. We were unable to satisfy ourselves that the prior period adjustment and the expenditures related to construction projects represented allowable costs for the Agency by means of other auditing procedures.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the compliance requirement referred to above that is applicable for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described above and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance



that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses. Finding 11-01

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

This report is intended solely for the information and use of management, the City Council, City of Sonoma acting as the Successor Agency, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

C. D. Uhlenberg CCP

March 1, 2012
Redwood City, California

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The following findings were determined during the city-wide audit of the City of Sonoma, hence the references to “the City.” However, all of the findings also apply to the Community Development Agency of the City of Sonoma as a stand-alone entity and thus have been included in the report.

Finding 11-01/ Material Weakness

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

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

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

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

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

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

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

While it is acknowledged that material weakness was discovered during the audit, the above cited examples demonstrate that the City has been working since April 2011 through the present

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Finding 11-02/ Material Weakness

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

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

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

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

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

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

Finding 11-03/ Compliance

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

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

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

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

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

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

STATUS OF PRIOR YEAR FINDING

Finding 10 – 01

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

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

CAUSE OF THE CONDITION: The Agency did not have sufficient staff to require the renters to resubmit their qualification application each year.

EFFECT OF THE CONDITION: The Agency was unable to ensure the affordable housing units were provided to low- and moderate- income household.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SONOMA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

CURRENT STATUS: No change from previous year.