

**CITY OF SONOMA
CALIFORNIA**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

City Council

Laurie Gallian
Joanne Sanders
Ken Brown
Steve Barbose
Tom Rouse

Mayor
Mayor Pro-Tem
Council Member
Council Member
Council Member

Appointed Officials

City Manager
Linda Kelly

CITY OF SONOMA, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

TITLE	PAGE
FINANCIAL SECTION:	
<i>Independent Auditor's Report</i>	1 - 2
<i>Management's Discussion and Analysis</i>	3 - 9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets – governmental activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities – governmental activities	15
Proprietary Funds:	
Statement of Net Assets.....	16
Statement of Revenue, Expenses and Changes in Net Assets.....	17
Statement of Cash Flows	18
Agency Funds:	
Statement of Fiduciary Assets and Liabilities.....	19
Notes to the Basic Financial Statements	20 - 47
REQUIRED SUPPLEMENTARY INFORMATION:	
<i>Major Governmental Fund Schedules:</i>	
General Fund Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual	48
Community Development Agency Low/Moderate Income Housing Fund Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual	49
SUPPLEMENTARY INFORMATION:	
<i>Nonmajor Governmental Funds:</i>	
Combining Balance Sheets	50 - 54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	55 - 59
<i>Internal Service Funds:</i>	
Combining Statement of Net Assets	60
Combining Statement of Revenue, Expenses and Changes in Net Assets.....	61
Combining Statement of Cash Flows.....	62
<i>Agency Funds:</i>	
Combining Statement of Fiduciary Assets and Liabilities.....	63

CITY OF SONOMA, CALIFORNIA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

OTHER INDEPENDENT AUDITOR'S REPORT:

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	64 - 65
Schedule of Findings and Questioned Costs	66 - 68



C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Sonoma (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 approximately \$1.8 million described in Note 2 and the community development, public works and capital outlay expenditures reported on Page 14, Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balance, 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, business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, 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 City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial



reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

As discussed in Note 13 of the financial statements, The Community Development Agency of the City of Sonoma, a component unit of the City, was dissolved as of February 1, 2012. That component unit represented a significant portion of the City's total assets, liabilities, revenue and expenditures.

C. G. J. Uhlberg LLP

March 1, 2012
Redwood City, California

Management's Discussion and Analysis

Fiscal Year 2010-2011

CITY OF SONOMA

Annually, the City is required to present a Management's Discussion and Analysis [MD&A] with the annual financial report in accordance with Governmental Accounting Standards Board [GASB] rule 34. MD&A is intended to introduce the City's financial statements to users and help assess whether the City's overall financial health has improved or deteriorated as a result of the past year's operations.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The annual report is presented in a series of financial statements. The components are:

- The government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole.
- Fund financial statements describe how City services are financed in the short term as well as what resources are available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.
- Notes to the Financial Statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities [Government Wide]

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole that helps answer this question. These statements include all assets and liabilities using the full accrual basis of accounting.

These two statements report the City's net assets and changes thereto. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. It is also important to consider other non-financial factors such as changes in the City's property tax base or condition of City infrastructure assets to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities present information about the following:

Governmental Activities - All of the City's basic services are considered to be governmental functions, including City Council, City Manager, City Attorney, City Clerk, Administrative Services, Public Works, Planning and Community Development, Police, Fire, Community Services, General Services and EMS. These departments are supported by general City revenues such as taxes, and by specific program revenues such as fees.

Business-type Activities - The City's enterprise activities are reported here for Water and Cemetery Funds. Unlike governmental services, these services are supported by charges paid by users based on the amount of service they receive.

Component Unit - The City's governmental activities include the blending of one separate legal entity, the Sonoma Community Development Agency. Although legally separate, this "component unit" is important because the City is financially accountable for it. Complete financial statements of the component unit can be obtained from the City.

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

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, management establishes many other funds that aid in the administration of resources for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City has two fund types, governmental and proprietary, which use different accounting approaches as explained below.

Fund Financial Statements include Governmental and Proprietary Funds.

Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year end that are available for spending. The governmental fund statements provide a detailed short term view of the City's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds through a reconciliation statement.

Business Type (Proprietary) funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

FINANCIAL HIGHLIGHTS

- The City's total net assets at June 30, 2011 were \$52,643,847, a decrease of \$5,192,506 over the prior fiscal year 2009-2010. The primary cause of the reduction was an increase in total liabilities due to the issuance of new Tax Allocation Bonds by the Sonoma Community Development agency.
- Total City revenues, including program and general revenues, were \$21,505,129, a decrease of \$996,722 from the prior year. Total expenses were \$26,664,213, which was an increase of \$3,548,123 from the prior year.
- Governmental Activities Program Revenues were \$3,976,779 in fiscal year 2010-2011, a decrease of \$270,240 from the prior fiscal year's \$4,247,019.
- Governmental Activities Program Expenses were \$22,616,742 in fiscal year 2010-2011, an increase of \$3,333,444 from the prior fiscal year's \$19,283,298.
- Program revenues from Business-Type Activities [Proprietary Funds] were \$3,833,827 in fiscal year 2009-2011, a decrease of \$296,011 from the prior fiscal year.
- General Fund revenues and net other financing sources were \$11,300,519 in fiscal year 2010-2011, an increase of \$1,418,855 over the prior fiscal year.
- General Fund total expenditures were \$11,504,943 in fiscal year 2010-2011, a decrease of \$102,984 from prior fiscal year amounts.
- General fund balance was \$5,169,326 at fiscal year end June 30, 2011, compared with the budgeted fund balance and the prior fiscal year's actual fund balance of \$5,373,250. The fund balance is 45% of total General Fund expenditures.

Citywide Financial Statements – Governmental Activities

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

<i>(in US Dollar)</i>	2011	2010
Current and other assets	35,397,756	23,132,480
Capital Assets	51,802,967	52,664,498
Total Assets	87,200,723	75,796,978
Long-term debt outstanding	46,031,659	30,825,288
Other Liabilities	3,675,519	2,875,693
Total Liabilities	49,707,178	33,700,981
Net assets:		
Invested in Capital Asset [net of debt]	20,100,679	21,174,732
Restricted for Debt Service	1,732,700	194,463
Restricted for Capital Projects	423,116	632,131
Restricted for LMI	5,801,294	3,764,427
Restricted for Community Development	15,905,122	0
Unrestricted	-6,469,366	16,330,244
Total Net Assets	37,493,546	42,095,997

Total Net Assets decreased approximately \$4,602,451 in fiscal year 2010-2011 as compared to fiscal year 2009-2010 due to an increase in long-term liabilities in the Community Development Agency.

Governmental Activities – Revenues

<i>REVENUES</i>		
<i>Governmental Activities (in US Dollar)</i>		
<i>Revenues by Source</i>	<i>2011</i>	<i>%</i>
<i>Program revenues:</i>		
<i>Charges for Services</i>	<i>3,058,534</i>	<i>77%</i>
<i>Operating contributions & grants</i>	<i>729,813</i>	<i>18%</i>
<i>Capital contributions & grants</i>	<i>188,432</i>	<i>5%</i>
<i>Total Program Revenues</i>	<i>3,976,779</i>	
<i>General revenues</i>		
<i>Taxes and Assessments</i>	<i>12,847,487</i>	<i>91%</i>
<i>Use of money and property</i>	<i>516,084</i>	<i>4%</i>
<i>Other</i>	<i>707,364</i>	<i>5%</i>
<i>Total General Revenues</i>	<i>14,070,935</i>	
<i>Total Revenues, Transfers & Special Items</i>	<i>18,047,714</i>	

The table above shows that all Governmental Activity revenues totaled \$18,047,714 in fiscal year 2010-2011. This is in comparison to \$18,184,510 in fiscal year 2009-2010.

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

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

Governmental Activities – Expenses

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

EXPENSES & NET CHANGE			
<i>Governmental Activities</i>			<i>(in US Dollar)</i>
Department	Functions/ Expenses	Program Revenue	Revenue/ (Expenses)
General Government	1,592,227	97,590	(1,494,637)
Public Safety	8,601,073	2,212,971	(6,388,102)
Public Works	3,890,524	941,668	(2,948,856)
Community Development	5,497,644	695,830	(4,801,814)
Culture and Leisure	201,033	28,720	(172,313)
Interest on Long-term debt	1,871,874	-	(1,871,874)
Issuance costs amortization	962,367	-	(962,367)
Total Net Cost	22,616,742	3,976,779	(962,367)

The table above presents the net cost of each of the City’s governmental activities. During the year, net cost is defined as total program cost less the revenues generated by those specific activities. Total Governmental Activity expenses totaled \$22,616,742 in fiscal year 2010-2011. In fiscal year 2009-2010, the City’s expense level was \$19,283,298.

Citywide Financial Statements – Business-type Activities

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

Business-type Activities			
<i>Net Assets at June 30, 2011 and 2010</i>			<i>(in US Dollar)</i>
	2011	2010	Increase/(Decrease) from FY 09-10
Cash and other assets	5,191,924	5,885,903	(693,979)
Capital assets	12,281,019	12,572,068	(291,049)
Total Assets	17,472,943	18,457,971	(985,028)
Long-term debt outstanding	1,840,773	1,884,983	(44,210)
Other Liabilities	481,869	832,632	(430,763)
Total Liabilities	2,322,642	2,717,615	(394,973)
Total Net Assets:			
Invested in capital assets, net of debt	10,382,031	10,572,102	(190,071)
Restricted	320,468	320,468	-
Unrestricted	4,447,802	4,847,786	(399,984)
Total Net Assets	15,150,301	15,740,356	(590,055)

The City's Business-type net assets decreased \$590,055 to \$15.1 million in fiscal year 2010-2011, from \$15.7 million in fiscal year 2009-2010.

- ◆ Cash and other assets in fiscal year 2010-2011 were lower by \$693,979 in comparison to prior fiscal year.
- ◆ Unrestricted net assets of \$4.4 million represent liquid assets available to finance day-to-day operations and other expenditures approved by City Council.

FUND FINANCIAL STATEMENTS

Performance of Governmental Funds

At June 30, 2011, the City's Governmental Funds reported combined fund balances of \$28.9 million, an increase of \$12.2 million as compared with last year.

Governmental Fund revenues decreased \$940,755 this fiscal year to a total of \$19 million as compared to \$18.1 million.

Governmental Fund expenditures increased approximately \$12 million this year to \$33.3 million. The major cause for the increase is the expenditure of CDA Project Funds.

General Fund – The General Fund ended the year with \$5.2 million fund balance, compared to \$5.4 million, in the prior year. The City's financial performance was impacted by the lingering recession in fiscal year 2010-2011. Expenditures were slightly lower than in the current period, \$11.5 million in fiscal year 2010-2011 as compared to \$11.6 million in fiscal year 2009-2010.

Sales tax, Transient Occupancy Tax and other miscellaneous taxes, decreased by approximately \$245,635 as compared to the prior year. Property taxes, sales tax and transient occupancy taxes reflected a decrease of 1.9% due to economic conditions.

At June 30, 2011, the General Fund fund balance totaled \$5.2 million. The Council has designated approximately \$2.1 million as set-aside as business continuance for City services in the event of a major disaster or emergency and an additional \$1.5 million as operating reserve and the balance as reserve for special projects.

Low/Moderate Income (LMI) Housing Fund – The Low/Moderate Income Housing Fund ended the year with a \$3.9 million fund balance, compared to \$2.6 million in the prior year as restated. LMI revenues, including transfers in, totaled \$2.5 million, which is predominately derived directly from the 20% tax increment set-aside and investment income. Low/Moderate Housing expenditures, including transfers out, were \$1.2 million in fiscal year 2010-2011.

Community Development Agency (CDA) Capital Projects Fund – The CDA Projects Fund ended the year with a \$5.7 million fund balance, compared to \$7.3 million in the prior year. Revenues and transfers of \$4.7 million are derived directly from the tax increment and investment income. CDA Capital Projects Fund expenditures and transfers were \$4.5 million in fiscal year 2010-2011. Several significant construction projects, including numerous street projects, pavement, gutters and other improvements such as an emergency generator replacement, were completed or in progress during the fiscal year. The Fund also paid approximately \$400,000 to Supplemental Educational Revenue Augmentation Funds (SERAF) as required by the State Legislature.

Other Governmental/Non-major Funds – These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information. Total combined ending Fund Balance is \$894,490 at June 30, 2011, as compared to \$1.4 million at the end of the prior fiscal year.

PERFORMANCE OF PROPRIETARY [ENTERPRISE & INTERNAL SERVICE] FUNDS

At June 30, 2011, the City's Proprietary Funds reported combined net assets of \$15.1 million, as compared to combined net assets at June 30, 2010 of \$15.7 million.

Water Fund – The Water Fund ended the year with \$14.3 million net assets on June 30, 2011 as compared to the prior fiscal year which ended the year with a \$14.7 million balance. The Water Fund posted Operating revenues of \$3.5 million, compared to \$3.4 in the prior year. Operating expenditures for fiscal year 2010-2011 totaled \$3.5 million in comparison with fiscal year 2009-2010 expenditures of \$3.2 million.

Cemetery Fund – The Cemetery Fund ended the year with \$806,803 net assets on June 30, 2011 as compared to fiscal year 2009-2010, which ended the year with a \$994,147 balance. Operating revenues were higher in fiscal year 2010-2011 by \$70,417 from fiscal year 2009-2010, which posted \$318,891 as compared to \$248,474 in fiscal year 2009-2010. Operating expenditures were higher in fiscal year 2010-2011 totaling \$525,636 in comparison with fiscal year 2009-2010 expenditures of \$505,062.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and public officials with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, separate reports of the City's component units or need any additional financial information, contact the Carol E. Giovanatto, Assistant City Manager at City Hall, No. 1 the Plaza, Sonoma, California, 95476.

CITY OF SONOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 14,530,413	\$ 4,901,059	\$ 19,431,472
Cash and investments - restricted	14,524,907	320,468	14,845,375
Interest receivable	114,216	-	114,216
Accounts receivable - net	1,144,248	570,263	1,714,511
Deposits and other assets	2,196,004	-	2,196,004
Total current assets	<u>32,509,788</u>	<u>5,791,790</u>	<u>38,301,578</u>
Noncurrent assets:			
Notes receivable	1,352,812	-	1,352,812
Internal balances	600,516	(600,516)	-
Deferred charges - net	934,640	-	934,640
Capital assets:			
Nondepreciable	14,888,256	1,020,976	15,909,232
Depreciable, net of accumulated depreciation	36,914,711	11,260,043	48,174,754
Other noncurrent assets	-	650	650
Total noncurrent assets	<u>54,690,935</u>	<u>11,681,153</u>	<u>66,372,088</u>
Total Assets	<u>\$ 87,200,723</u>	<u>\$ 17,472,943</u>	<u>\$ 104,673,666</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,732,685	\$ 219,052	\$ 1,951,737
Accrued interest	448,548	-	448,548
Deposits payable and other liabilities	240,605	207,817	448,422
Total current liabilities	<u>2,421,838</u>	<u>426,869</u>	<u>2,848,706</u>
Long-term liabilities:			
Due within one year	1,253,681	55,000	1,308,681
Due in more than one year	46,031,659	1,840,773	47,872,432
Total long-term liabilities	<u>47,285,340</u>	<u>1,895,773</u>	<u>49,181,113</u>
Total Liabilities	<u>\$ 49,707,178</u>	<u>\$ 2,322,642</u>	<u>\$ 52,029,819</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 20,100,679	\$ 10,382,031	\$ 30,482,710
Restricted for debt service	1,732,700	141,300	1,874,000
Restricted for capital projects	423,116	179,168	602,284
Restricted for low/moderate income housing	5,801,294	-	5,801,294
Restricted for community development	15,905,122	-	15,905,122
Unrestricted	<u>(6,469,366)</u>	<u>4,447,802</u>	<u>(2,021,564)</u>
Total Net Assets	<u>\$ 37,493,546</u>	<u>\$ 15,150,301</u>	<u>\$ 52,643,847</u>

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

CITY OF SONOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 1,592,227	\$ 65,090	\$ 32,500	\$ -	\$ (1,494,637)	\$ -	\$ (1,494,637)
Public safety	8,601,073	2,068,850	105,968	38,153	(6,388,101)	-	(6,388,101)
Public works	3,890,524	305,202	553,711	82,755	(2,948,856)	-	(2,948,856)
Community development	5,497,644	590,672	37,634	67,524	(4,801,814)	-	(4,801,814)
Culture and leisure	201,033	28,720	-	-	(172,313)	-	(172,313)
Interest on long-term debt	1,871,874	-	-	-	(1,871,874)	-	(1,871,874)
Issuance cost amortization	962,367	-	-	-	(962,367)	-	(962,367)
Total Governmental Activities	22,616,742	3,058,534	729,813	188,432	(18,639,962)	-	(18,639,962)
Business-type Activities:							
Water	3,443,789	3,454,136	-	60,800	-	71,147	71,147
Cemetery	516,592	318,891	-	-	-	(197,701)	(197,701)
Interest on long-term debt	87,090	-	-	-	-	(87,090)	(87,090)
Total Business-type Activities	4,047,471	3,773,027	-	60,800	-	(213,644)	(213,644)
Total	\$ 26,664,213	\$ 6,831,561	\$ 729,813	\$ 249,232	\$ (18,639,962)	\$ (213,644)	\$ (18,853,606)
General Revenues:							
Taxes:							
General property taxes					6,614,323	-	6,614,323
Franchise taxes					405,110	-	405,110
Sales and use taxes					2,260,632	-	2,260,632
Transient occupancy taxes					2,385,554	-	2,385,554
Business license tax					285,876	-	285,876
Real property transfer taxes					65,850	-	65,850
Motor vehicle in lieu taxes					830,142	-	830,142
Investment earnings					516,084	163,633	679,717
Loss on sale of capital assets					(137,660)	-	(137,660)
Transfers					540,046	(540,046)	-
Miscellaneous					304,978	-	304,978
Total General Revenues and Transfers					14,070,935	(376,413)	13,694,522
Change in Net Assets					(4,569,027)	(590,057)	(5,159,084)
Net Assets - Beginning					42,062,573	15,740,358	57,802,931
Net Assets - Ending					\$ 37,493,546	\$ 15,150,301	\$ 52,643,847

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

CITY OF SONOMA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	General	Community Development Agency Low/Moderate Income Housing Fund	Community Development Agency Capital Projects Fund	2011 Tax Allocation Bonds Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 1,806,092	\$ 199,172	\$ 7,961,135	\$ -	\$ 1,423,398	\$ 11,389,797
Cash and investments - restricted	-	-	-	13,229,000	1,295,907	14,524,907
Interest receivable	114,216	-	-	-	-	114,216
Accounts receivable - net	1,094,004	576	(74,630)	-	117,148	1,137,099
Due from other funds	3,113,601	-	-	-	-	3,113,601
Loan and advances to other funds	18,991	1,920,016	-	-	-	1,939,007
Deposits and other assets	1,645	2,193,102	341	-	1,866	2,196,954
Total Assets	\$ 6,148,549	\$ 4,312,866	\$ 7,886,846	\$ 13,229,000	\$ 2,838,319	\$ 34,415,581
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Accounts payable	\$ 932,634	\$ 391,672	\$ 253,958	\$ -	\$ 126,116	\$ 1,704,381
Due to other funds	-	-	-	-	1,635,525	1,635,525
Loan from other funds	-	-	1,920,016	-	-	1,920,016
Deposits payable and other liabilities	46,589	-	3,750	-	182,187	232,526
Total Liabilities	979,223	391,672	2,177,724	-	1,943,828	5,492,448
Fund Balances (Deficits):						
Unspendable	18,991	1,920,016	-	-	-	1,939,007
Restricted for:						
Capital projects	-	-	-	-	423,116	423,116
Debt service	-	-	-	1,583,000	149,700	1,732,700
Housing	-	2,001,178	-	1,450,000	430,100	3,881,278
Community Development	-	-	5,709,122	10,196,000	-	15,905,122
Assigned for:						
Capital projects	-	-	-	-	481,269	481,269
Debt Service	-	-	-	-	597	597
Housing	-	-	-	-	670,466	670,466
Public Safety	-	-	-	-	64,006	64,006
Unassigned	5,150,335	-	-	-	(1,324,763)	3,825,572
Total Fund Balances	5,169,326	3,921,194	5,709,122	13,229,000	894,491	28,923,133
Total Liabilities and Fund Balances	\$ 6,148,549	\$ 4,312,866	\$ 7,886,846	\$ 13,229,000	\$ 2,838,319	\$ 34,415,581

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

CITY OF SONOMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Fund Balance - Total Governmental Funds **\$ 28,923,133**

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.

Capital assets	\$ 64,378,097	
Less: accumulated depreciation	<u>(12,575,130)</u>	
		51,802,967

Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The costs, which include issuance costs, premiums and discounts, are reported as expenditures of current financial resources in governmental funds when the debt is first issued.

Deferred charges	966,853	
Less: accumulated amortization	<u>(32,213)</u>	
		934,640

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.

Capital leases payable	1,137,150	
Notes payable	2,819,138	
Tax allocation bonds payable	42,975,000	
Compensated absences	<u>354,052</u>	
		(47,285,340)

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.

(448,548)

Internal service funds are used by management to charge the cost of management of certain activities, such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Assets.

2,213,882

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

1,352,812

Net Assets - Governmental Activities **\$ 37,493,546**

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

CITY OF SONOMA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Community Development Agency Low/Moderate Income/Housing Fund	Community Development Agency Capital Projects Fund	2011 Tax Allocation Bonds Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 7,692,116	\$ 1,094,599	\$ 3,983,099	\$ -	\$ 55,211	\$ 12,825,025
Fines and penalties	92,784	-	-	-	3,501	96,285
Intergovernmental revenues	178,942	-	67,524	-	618,889	865,355
Charges for services	1,741,856	-	-	-	13,324	1,755,180
License, permits and fees	351,036	-	-	-	13,135	364,171
Investment earnings (loss)	211,619	51,624	207,013	-	45,828	516,084
Rental income	66,691	-	2,525	-	595,378	664,594
Other revenue	272,538	1,312,340	17,245	-	306,533	1,908,656
Total Revenues	10,607,583	2,458,563	4,277,406	-	1,651,799	18,995,351
EXPENDITURES						
Current:						
General government	1,373,732	-	-	-	-	1,373,732
Public safety	8,433,392	-	-	-	10,002	8,443,394
Public works	1,496,786	-	-	-	835,073	2,331,859
Community development	-	873,858	1,621,167	-	2,478,053	4,973,078
Culture and leisure	201,033	-	-	-	-	201,033
Capital outlay	-	-	1,188,665	-	1,947,667	3,136,331
Debt service:						
Principal	-	-	-	-	10,465,665	10,465,665
Interest and fees	-	-	-	-	1,530,740	1,530,740
Bond issuance costs	-	-	-	381,650	456,310	837,960
Total Expenditures	11,504,943	873,858	2,809,832	381,650	17,723,510	33,293,793
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(897,360)	1,584,705	1,467,574	(381,650)	(16,071,711)	(14,298,442)
OTHER FINANCING SOURCES (USES)						
Transfers in	950,279	50,000	376,655	-	13,886,060	15,262,994
Transfers (out)	(257,343)	(349,030)	(1,671,521)	(2,000,000)	(10,281,475)	(14,559,369)
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)	692,936	(299,030)	(1,294,866)	13,610,650	13,790,716	26,500,406
NET CHANGES IN FUND BALANCES	(204,424)	1,285,675	172,708	13,229,000	(2,280,995)	12,201,964
FUND BALANCES - BEGINNING PRIOR PERIOD ADJUSTMENTS	5,373,750	2,635,519	7,339,074	-	1,372,826	16,721,169
	-	-	(1,802,660)	-	1,802,660	-
FUND BALANCES - BEGINNING AS RESTATED	5,373,750	2,635,519	5,536,414	-	3,175,486	16,721,169
FUND BALANCES - ENDING	\$ 5,169,326	\$ 3,921,194	\$ 5,709,122	\$ 13,229,000	\$ 894,491	\$ 28,923,133

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

CITY OF SONOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net Change in Fund Balances - Total Governmental Funds **\$ 12,201,964**

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

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.

Proceeds from land sale	(1,312,340)
Loss from land sale	(137,660)

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

Expenditures for capital asset additions	1,661,740	
Current year depreciation	<u>(1,073,273)</u>	588,467

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.

Proceeds of bond issuances	(25,870,000)	
Repayment of capital lease obligations	165,050	
Repayment of notes payable	50,615	
Repayment of tax allocation bonds	<u>10,250,000</u>	(15,404,335)

Deferred charges represent costs associated with the issuance of long-term debt. The costs are reported as expenditures of current financial resources in governmental funds, whereas these costs are deferred and amortized over the period during which the debt is outstanding in the Statement of Activities.

(162,089)

The amounts below included in the Statement of Activities do not require the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):

Accrued interest payable	(341,134)	
Compensated absences	<u>(28,253)</u>	(369,387)

Discount and premium on long-term bonds payable is reported as expenditures of current financial resources in governmental funds, whereas they are deferred and amortized over the period during which the debt is outstanding in the Statement of Activities.

73,219

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.

(46,866)

Change in Net Assets - Governmental Activities **\$ (4,569,027)**

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

CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 4,901,059	\$ -	\$ 4,901,059	\$ 3,140,617
Cash and investments - restricted	320,468	-	320,468	-
Accounts receivable - net	568,794	1,469	570,263	7,149
Due from other funds	-	-	-	-
Total current assets	<u>5,790,321</u>	<u>1,469</u>	<u>5,791,790</u>	<u>3,147,766</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	824,672	196,304	1,020,976	-
Depreciable, net of accumulated depreciation	9,899,150	1,360,893	11,260,043	-
Total capital assets	<u>10,723,822</u>	<u>1,557,197</u>	<u>12,281,019</u>	<u>-</u>
Deposits and other assets	650	-	650	(950)
Total noncurrent assets	<u>10,724,472</u>	<u>1,557,197</u>	<u>12,281,669</u>	<u>(950)</u>
Total Assets	<u>\$ 16,514,793</u>	<u>\$ 1,558,666</u>	<u>\$ 18,073,459</u>	<u>\$ 3,146,816</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 205,456	\$ 13,596	\$ 219,052	\$ 28,304
Due to other funds	-	581,525	581,525	896,551
Advances from other funds	-	18,991	18,991	-
Deposits payable and other liabilities	93,548	114,269	207,817	8,079
Long term debt - current portion	55,000	-	55,000	-
Total current liabilities	<u>354,004</u>	<u>728,381</u>	<u>1,082,385</u>	<u>932,934</u>
Noncurrent liabilities:				
Long term debt - noncurrent portion	1,770,000	-	1,770,000	-
Compensated absences	47,291	23,482	70,773	-
Total noncurrent liabilities	<u>1,817,291</u>	<u>23,482</u>	<u>1,840,773</u>	<u>-</u>
Total Liabilities	<u>\$ 2,171,295</u>	<u>\$ 751,863</u>	<u>\$ 2,923,158</u>	<u>\$ 932,934</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 8,898,822	\$ 1,557,197	\$ 10,456,019	\$ -
Restricted for capital projects (expendable)	179,168	-	179,168	-
Restricted for debt service (expendable)	141,300	-	141,300	-
Unrestricted	<u>5,124,208</u>	<u>(750,394)</u>	<u>4,373,814</u>	<u>2,213,882</u>
Total Net Assets	<u>\$ 14,343,498</u>	<u>\$ 806,803</u>	<u>\$ 15,150,301</u>	<u>\$ 2,213,882</u>

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

CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
OPERATING REVENUES				
Sales and services	\$ 3,582,926	\$ 318,891	\$ 3,901,817	\$ 3,069,099
Miscellaneous	(128,790)	-	(128,790)	19,231
Total Operating Revenues	<u>3,454,136</u>	<u>318,891</u>	<u>3,773,027</u>	<u>3,088,330</u>
OPERATING EXPENSES				
Salaries and benefits	890,650	334,876	1,225,526	2,372,243
Services, supplies and maintenance	1,961,385	79,878	2,041,263	293,379
Insurance premiums and claims	-	-	-	277,340
Miscellaneous	180,997	62,788	243,785	-
Depreciation and amortization	431,313	48,094	479,407	-
Total Operating Expenses	<u>3,464,345</u>	<u>525,636</u>	<u>3,989,981</u>	<u>2,942,962</u>
OPERATING INCOME (LOSS)	<u>(10,209)</u>	<u>(206,745)</u>	<u>(216,954)</u>	<u>145,368</u>
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	135,839	27,794	163,633	946
Interest expense	(87,090)	-	(87,090)	-
Total Nonoperating Revenues (Expenses)	<u>48,749</u>	<u>27,794</u>	<u>76,543</u>	<u>946</u>
INCOME (LOSS) BEFORE CONNECTION FEES & TRANSFERS	38,540	(178,951)	(140,411)	146,314
CONNECTION FEES	60,800	-	60,800	-
TRANSFERS:				
Transfers (out)	(502,051)	(8,395)	(510,446)	(193,179)
CHANGES IN NET ASSETS	(402,711)	(187,346)	(590,057)	(46,865)
NET ASSETS - BEGINNING	<u>14,746,209</u>	<u>994,149</u>	<u>15,740,358</u>	<u>2,260,747</u>
NET ASSETS - ENDING	<u>\$ 14,343,498</u>	<u>\$ 806,803</u>	<u>\$ 15,150,301</u>	<u>\$ 2,213,882</u>

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

CITY OF SONOMA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	Water Fund	Nonmajor Cemetery Fund	Totals	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 3,789,122	\$ 320,741	\$ 4,109,863	\$ -
Receipts from interfund services provided	-	-	-	3,069,592
Payments to employees for services	(879,860)	(190,065)	(1,069,925)	(2,178,155)
Payments to suppliers for goods and services	(1,919,656)	98,931	(1,820,725)	(610,926)
Payments for interfund services used	(415,518)	(182,820)	(598,338)	-
Other payments and receipts	(279,352)	(66,188)	(345,540)	19,232
Net Cash Provided by (Used for) Operating Activities	<u>294,736</u>	<u>(19,401)</u>	<u>275,335</u>	<u>299,743</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash paid to other funds	(502,051)	(8,393)	(510,444)	(193,179)
Cash received from other funds	-	-	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(502,051)</u>	<u>(8,393)</u>	<u>(510,444)</u>	<u>(193,179)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Cash received from connection fees and grants	60,800	-	60,800	-
Purchases of capital assets	(188,358)	-	(188,358)	-
Principal paid on capital debt	(55,000)	-	(55,000)	-
Interest paid on capital debt	(87,090)	-	(87,090)	-
Net Cash Provided by (Used for) Capital Related Financing Activities	<u>(269,648)</u>	<u>-</u>	<u>(269,648)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	<u>135,839</u>	<u>27,794</u>	<u>163,633</u>	<u>946</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(341,124)	-	(341,124)	107,510
CASH AND INVESTMENTS - BEGINNING	<u>5,562,651</u>	<u>-</u>	<u>5,562,651</u>	<u>3,033,107</u>
CASH AND INVESTMENTS - ENDING	<u>\$ 5,221,527</u>	<u>\$ -</u>	<u>\$ 5,221,527</u>	<u>\$ 3,140,617</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (10,209)	\$ (206,745)	\$ (216,954)	\$ 145,368
Adjustments to reconcile operating income to cash flows provided by operating activities:				
Depreciation and amortization	431,313	48,094	479,407	-
Change in assets and liabilities:				
Accounts receivable	206,195	1,850	208,045	493
Accounts payable	(373,789)	(4,011)	(377,800)	(40,206)
Due to other funds	-	144,811	144,811	194,088
Compensated absences	10,790	-	10,790	-
Deposits and other liabilities	30,436	(3,400)	27,036	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 294,736</u>	<u>\$ (19,401)</u>	<u>\$ 275,335</u>	<u>\$ 299,743</u>

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

CITY OF SONOMA
AGENCY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2011

ASSETS

Cash and investments	\$ 2,083,708
Accounts receivable - net	<u>251,646</u>
 Total Assets	 <u><u>\$ 2,335,355</u></u>

LIABILITIES

Accounts payable	\$ 2,166,441
Deposits payable	<u>168,914</u>
 Total Liabilities	 <u><u>\$ 2,335,355</u></u>

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The City of Sonoma (the "City") is a municipal corporation operating as a general law city in the State of California. The City operates under a Council-Manager form of government and is governed by a council of five members. The City provides a full range of municipal services to its citizens, including general government, public safety, public works and facilities, culture, public utilities, and community development. Redevelopment services are provided primarily through the Community Development Agency (the "Agency") of the City.

These basic financial statements present the City of Sonoma (the primary government) and its component units. The component units discussed in Section B (below) are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

B. Description of Blended Component Units

The Community Development Agency of the City of Sonoma (Agency), the Sonoma Community Housing Corporation (Corporation), and the Sonoma Public Financing Authority (Authority) serve all the citizens of the City. The Agency and Authority are governed by a board comprised of members of the City's elected council. The Corporation is governed by two members of the City Council and two city employees. The Corporation was created as a public benefit corporation to provide affordable public housing. The Corporation's assets were purchased by the Agency, and the Agency has pledged its revenues for the repayment of the Corporation's debt. The Agency and Corporation activities are reported in a combination of governmental funds, including a special revenue fund, a capital projects fund, and a debt service fund depending upon the type of transactions.

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

The financial statements of the Agency can be obtained from the City at No.1 The Plaza, Sonoma, CA, 95476.

C. Description of Joint Ventures and Public Entity Risk Pool

The City, in conjunction with other governmental entities, created a number of joint powers authorities which include the Redwood Empire Municipal Insurance Fund (REMIF), the Sonoma County Transportation Authority, the Sonoma County Abandoned Vehicle Abatement Service Authority, Emergency Dispatch for Fire and Emergency Medical Services (REDCOM), and the Sonoma Valley Fire and Rescue Authority (SVFRA) with Valley of the Moon Fire Protection District. The City has no obligation other than to pay for a pro rata share of certain operating costs, no entitlement, and no residual interests in the other jointly governed organizations.

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

D. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board ("GASB") is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

These Statements require that the financial statements described below be presented.

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

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

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

E. Major Funds

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

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

The City reported the following major governmental funds:

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

Community Development Agency Low/Moderate Income Housing Fund - This fund is used to account for the twenty percent housing set aside from tax increment proceeds for the purpose of increasing or improving the community's supply of low and moderate income housing, pursuant to Health and Safety Code Section 33334.2.

Community Development Agency Capital Projects Fund - This fund accounts for expenditures related to capital projects of the Agency and the balance of property tax allocations after debt service, 20% set aside allocation, and related expenditures made on behalf the Agency.

Tax Allocation Bond 2011 Debt Service Fund - This fund accounts for the proceeds related to the bond issuance of the Agency.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

The City reported the following proprietary funds:

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges.

Water Fund (major)- This fund is used to account for the revenues and expenses of the City's water operations.

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

The City also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include management information systems, furniture and equipment, vehicle replacement, self-insurance, employee benefits, long-term building maintenance, computer loans, and landscape maintenance.

Fiduciary Funds include agency funds used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

F. Basis of Accounting

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

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

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, interest revenue, and charges for services. Fines, forfeitures, and licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

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

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

Use of Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Receivables and Payables - Property, sales, and use taxes related to the current fiscal year are generally accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and state grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide Statement of Net Assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available. The City considers these taxes available if they are received during the period when settlement of prior fiscal year accounts payable and payroll changes normally occur. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles.

Grants, entitlements and shared revenues are recorded as receivables and revenues in the General, Special Revenue and Capital Projects Funds when they are received or susceptible to accrual.

Allowance for Doubtful Accounts - Management generally reserves allowance for doubtful accounts based on historical trend of uncollectible accounts. Management has elected to record bad debts using the direct write-off method for the water fund. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

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

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

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

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

Property Held for Resale - is acquired as part of the Agency's redevelopment program. Cost 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.

Deferred Compensation Plan - The City established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as part of the City's assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Post-Employment Benefits - The City provides post retirement health, dental, and vision care benefits, as per the requirements of a City resolution, to former elected members of the City Council. The City pays 100 percent of the premiums of health, dental, and vision care coverage for such elected members who retire with not less than 12 years of services. The City is generally obligated to pay such premiums for a number of years equal to each retiree's cumulative service on the City Council. As of June 30, 2011, there were two elected members who retired that were receiving the premium coverage. Since 2002 the City has rescinded the authorizing resolution so that future retirees will be ineligible to receive such benefits.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

The City adopted Government Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions* in 2009 and estimated the unfunded liability to be insignificant since the benefit for the last eligible retiree will end in September 2011.

Compensated Absences - In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for vacation leave in relevant funds. For governmental funds, the current liability appears in the respective funds. All vacation is accrued when incurred in the government-wide and proprietary funds financial statements. This liability is set up for the current employees at the current rates of pay. Vacation time may be accumulated up to 352 hours per employee. Cash compensation for accrued vacation is generally not payable until the employee has terminated employment with the City. Sick leave may be accumulated but is not paid. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

Long-Term Obligations - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. In the governmental fund financial statements, bond premiums, discounts, and issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets - Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions 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 City's capital assets, less the outstanding balance of any debt issued to finance these assets.

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

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

Fund Equity - Beginning with fiscal year 2011, the City 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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

between funds) or are required to be maintained intact.

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

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

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

Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

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

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

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

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

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

Excess of Expenditures Over Appropriations in Individual Funds - The City incurred the following excess of expenditures over appropriations in the General Fund

Fund	Excess Expenditures	Explanation
General Fund	\$ 71,248	Primarily due to public work expenditures higher than planned.

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

NOTE 2 – CHANGE IN FINANCIAL STATEMENT PRESENTATION AND PRIOR PERIOD ADJUSTMENT

During the current year, the City has determined that certain transactions were recorded incorrectly in prior years.

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. Although this adjustment has no impact on the government-wide financial statements, the amount of \$1,802,660 is shown as a prior period adjustment in the fund financial statements.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - CASH AND INVESTMENTS

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

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

	<u>City</u>	<u>Fiduciary Funds</u>	<u>Totals</u>
Cash and Investments Available for Operation	\$ 19,431,472	\$ 2,083,708	\$ 21,515,180
Restricted Cash and Investments	<u>14,845,375</u>	<u>-</u>	<u>14,845,375</u>
 Total Cash and Investments	 <u>\$ 34,276,847</u>	 <u>\$ 2,083,708</u>	 <u>\$ 36,360,555</u>

Cash and Investments Defined - The City includes cash deposits in checking and money market bank accounts as cash. Investments in the State of California Local Agency Investment Fund (LAIF) and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the City's least liquid investments.

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

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

<u>Investment Type/Cash Deposit</u>	Available for		<u>Total</u>
	<u>Operations</u>	<u>Restricted</u>	
U.S. Treasuries Obligations	\$15,687,835	\$ -	\$ 15,687,835
Government Securities Money Market Mutual Funds	-	14,181,617	14,181,617
Local Agency Investment Fund	<u>4,618,632</u>	<u>-</u>	<u>4,618,632</u>
Total Investments	20,306,467	14,181,617	34,488,084
 Cash Deposits with Banks	(984,242)	663,758	(320,484)
Certificate of Deposit	2,192,579	-	2,192,579
Cash on Hand	<u>1,325</u>	<u>-</u>	<u>1,325</u>
 Total Cash and Investments	 <u>\$ 21,516,129</u>	 <u>\$ 14,845,375</u>	 <u>\$ 36,361,504</u>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

The City's cash deposits with banks (including CD investment) were \$3,840,459 as of June 30, 2011. Of the bank balance, \$2,856,337 was either insured or guaranteed by the Federal Depository Insurance Corporation (FDIC) and \$984,122 was uninsured but collateralized as noted in the preceding paragraph as of June 30, 2011. Differences between the carrying amount and bank balances are from outstanding deposits and checks as of June 30, 2011.

LAIF Investments - The City invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. As of June 30, 2011, LAIF had approximately \$24 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost of best estimate for those securities where market value is not readily available. The City's investments with LAIF at June 30, 2011 included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and /or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive shares of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011, the City had \$4,618,632 invested in LAIF, which had invested 5.01% of the pool investments funds in Structured Notes and Asset-Backed Securities. The City valued its investments with LAIF by multiplying its account balance with a fair value factor determined by the Pooled Money Investment Account (PMIA). LAIF is a part of PMIA. This factor is the result of dividing all PMIA participants' total aggregate fair value (\$66,489,270,507.63) by total aggregate amortized cost (\$66,384,617,119.40) resulting in a factor of 1.001576470.

A separate financial report for the LAIF is prepared by the State Treasurer Office. Copies of the report can be obtained from the California State Treasurer's Office, 915 Capitol Mall, Sacramento, CA 95814.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Investment Risks

The following table summarizes the City's policy related to the types (credit risk), maturities (interest rate risk), and portfolio percentages (concentration credit risk) of investments:

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

Custodial Credit Risk

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

Credit Risk

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Interest Rate Risk

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1 Year</u>	<u>1 – 5 Years</u>	<u>6 -10 Years</u>
U.S. Treasuries Obligations	\$ 15,687,835	\$ 4,806,300	\$ 8,875,755	\$ 2,005,780
Government Securities Money				
Market Mutual Funds	14,181,617	14,181,617	-	-
Local Agency Investment Fund	4,618,632	4,618,632	-	-
Total Investments	<u>\$ 34,488,084</u>	<u>\$ 23,606,549</u>	<u>\$ 8,875,755</u>	<u>\$ 2,005,780</u>

NOTE 4 - RECEIVABLES

Accounts Receivable

\$211,145 of the accounts receivable balance in General Fund was composed of amounts due from customers for emergency medical service (EMS) and was reported net of an allowance for uncollectible accounts in the amount of \$180,043. Other than the EMS accounts receivable, the majority of accounts receivable in the governmental activities was due from other governments while the majority of accounts receivable in the business-type activities was due from customers.

Notes Receivable

The long-term notes receivable for affordable housing loans of \$1,125,837 are secured by first deeds of trust on real property. Repayment of the notes are due upon sale of the secured property unless the terms of the notes are met, at which time the notes will be forgiven.

Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009/10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Sonoma was \$226,975.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13) and thus the receivable is offset by deferred revenue. In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

NOTE 5 - INTERFUND TRANSACTIONS

The following tables summarize the City's due to and due from other funds as of June 30, 2011:

<u>Receivable Fund (Due From in)</u>	<u>Payable fund (Due To in)</u>	<u>Amount</u>
General Fund	Nonmajor Proprietary Fund	\$ 581,525
	Nonmajor Governmental Funds	1,635,525
	Internal Service Funds	896,551
		<u>\$ 3,113,601</u>

The above balance was resulted from loans made to cover operating cash deficits.

The following tables summarize the City's interfund loan and advance as of June 30, 2011:

<u>Fund Making Loan and Advance</u>	<u>Fund Receiving Loan and Advance</u>	<u>Term</u>	<u>Amount</u>
General Fund	Nonmajor Proprietary Fund	Advance	\$ 18,991
Community Development Agency	Community Development Agency		
Low/Moderate Income Housing Fund	Capital Projects Fund	Loan	1,920,016
			<u>\$ 1,939,007</u>

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 (SERAF) as disclosed in Note 12.

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

The City uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statutes or the budget requires them to expend, (2) finance programs and capital projects in funds in accordance with the budget from unrestricted revenues recorded in the General fund, and (3) move cash to debt service funds as debt service requirements become due. In general, the effect of interfund activities has been eliminated from the government-wide financial statements.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Transfers between funds during the fiscal year ended June 30, 2011 were as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
Major Governmental Funds:		
General Fund	\$ 950,279	\$ 257,343
Low/Moderate Income Housing Fund	50,000	349,030
Community Development Agency Capital Projects Fund	376,655	1,671,521
2011 Tax Allocation Debt Service Funds	-	2,000,000
Major Proprietary Fund:		
Water Fund	-	502,051
Nonmajor Governmental Funds:		
SLESF Law Enforcement Fund	-	100,000
Bond Property Maintenance Fund	-	5,000
Mayssonave Property Fund	-	5,000
El Prado Landscape Maintenance Fund	220	-
Sonoma Valley Oaks Fund	681	-
Starr Ranch Fund	4,985	-
Sonoma Creek Senior Housing Fund	-	50,000
Gas Tax Fund	261,823	-
Measure M Fund	-	25,000
Capital Asset Project Fund	162,350	-
2011 Tax Allocation Bonds Projects Fund	2,000,000	-
Municipal Finance Corporation Debt Service Fund	(41)	-
1997 Community Development Agency Debt Service Fund	1,796,131	106,869
2000 Community Development Agency Debt Service Fund	7,933,689	244,785
2003 Tax Allocation Bonds Debt Service Fund	1,184,409	-
2008 CREB Bonds Debt Service Fund	72,250	15,000
2010 Tax Allocation Bonds Debt Service Fund	469,563	9,729,821
Nonmajor Proprietary Funds:		
Cemetery Fund	-	8,395
Vehicle Replacement Fund	-	193,179
	<u>\$ 15,262,994</u>	<u>\$ 15,262,994</u>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS

Changes in capital assets consisted of the following for the fiscal year ended June 30, 2011:

Governmental Activities	Balance June 30, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 13,502,240	\$ -	\$ -	\$ -	\$ 13,502,240
Land held for resale	1,450,000	-	(1,450,000)	-	-
Right of ways	356,028	-	-	-	356,028
Construction in progress	1,288,119	1,453,150	-	(1,711,281)	1,029,988
Total capital assets, not being depreciated	16,596,386	1,453,150	(1,450,000)	(1,711,281)	14,888,256
Capital assets, being depreciated:					
Infrastructure	21,220,898	-	-	1,455,888	22,676,786
Buildings and improvements	20,944,077	-	-	239,838	21,183,915
Equipment and vehicles	5,404,995	208,590	-	15,555	5,629,140
Total capital assets, being depreciated	47,569,970	208,590	-	1,711,281	49,489,841
Less accumulated depreciation	(11,501,858)	(1,073,272)	-	-	(12,575,130)
Total capital assets, being depreciated, net	36,068,112	(864,682)	-	1,711,281	36,914,711
Capital assets, net	\$ 52,664,498	\$ 588,468	\$ (1,450,000)	\$ -	\$ 51,802,967
Business-type Activities	Balance June 30, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Capital assets, not being depreciated:					
Land	\$ 960,472	\$ -	\$ -	\$ -	\$ 960,472
Construction in progress	-	60,504	-	-	60,504
Total capital assets, not being depreciated	960,472	60,504	-	-	1,020,976
Capital assets, being depreciated:					
Infrastructure	25,572	-	-	-	25,572
Buildings and improvements	21,015,514	127,854	-	-	21,143,368
Equipment and vehicles	911,680	-	-	-	911,680
Total capital assets, being depreciated	21,952,766	127,854	-	-	22,080,620
Less accumulated depreciation	(10,341,170)	(479,407)	-	-	(10,820,577)
Total capital assets, being depreciated, net	11,611,596	(351,553)	-	-	11,260,043
Capital assets, net	\$ 12,572,068	\$ (291,049)	\$ -	\$ -	\$ 12,281,019

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

<u>Program/Function</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General government	\$ 208,576	\$ -
Public safety	227,429	-
Public works	29,580	-
Community development	607,688	-
Water	-	431,313
Cemetery	-	48,094
Total Depreciation	<u>\$ 1,073,273</u>	<u>\$ 479,407</u>

NOTE 7 - LONG-TERM OBLIGATIONS

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

A. Schedule of Changes in Long-term Debt

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Due within one year</u>
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
Capital Lease Obligation REFA1993	290,700	-	92,800	197,900	96,800
Capital Lease Obligation CREBs	1,011,500	-	72,250	939,250	72,250
Compensated Absences	325,799	28,253	-	354,052	70,810
Total Governmental Activities Debt	<u>31,852,762</u>	<u>25,898,253</u>	<u>10,465,675</u>	<u>47,285,340</u>	<u>1,253,681</u>
Business-type Activities:					
Certificates of Participation - Water	1,880,000	-	55,000	1,825,000	55,000
Compensated Absences	59,983	10,790	3,215	67,558	13,512
Total Business-type Activities Debt	<u>1,939,983</u>	<u>10,790</u>	<u>58,215</u>	<u>1,892,558</u>	<u>68,512</u>
Total Long-term Obligations	<u>\$ 33,755,548</u>	<u>\$ 25,909,043</u>	<u>\$ 10,523,890</u>	<u>\$ 49,140,701</u>	<u>\$ 1,322,193</u>

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

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

B. Tax Allocation Bonds

Governmental Activities

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:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC 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>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

C. Notes Payable

Governmental Activities

2005 Note Payable – USDA - In April of 2005, the Agency obtained an \$816,635 loan from the U.S. Department of Agriculture to assist the Agency in purchasing and operating the Village Green Apartments II low/moderate income housing rental project. The loan is fully amortized over 30 years at an interest rate of 5.625%. The loan is secured by an interest in the property and rental income and is subordinated to an existing loan with Exchange Bank. The outstanding balance as of June 30, 2011 was \$795,149 and the future minimum obligations as of June 30, 2011 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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 Note Payable - Exchange Bank - On March 1, 2005 the Agency borrowed \$2,300,157 from Exchange Bank to purchase the Village Green Apartments, a Low and Moderate Income Housing Project. The loan is secured by a deed of trust on the purchased property. Interest on the note is variable at 1.50% above the index rate. The interest rate cannot go below 4.36% or above 9.36% and cannot adjust more than 2% in any one adjustment period. The note matures April 1, 2035. The outstanding balance as of June 30, 2011 was \$2,022,959 and the future minimum annual debt commitments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

D. Capital Lease Obligations

Governmental Activities

1993 Financing Authority Leases - The City entered into lease-purchase agreements with the Redwood Empire Financing Authority (the "Authority") for the purpose of making improvements to City property and buildings, and for the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date of the leases. The Authority issued \$1,430,000 in the Certificates of Participation at 6.00% to obtain the funds needed to make such improvements and acquisitions, and entered into lease agreements with in the City and Agency to provide repayment of such Certificates. In November of 2006, the City refinanced the \$610,000 remaining on the 1993 lease by issuing a new lease purchase agreement at 4.4% over the next six years for a total debt service of \$584,100. The annual lease payment is shown below. The lease payments are secured by a pledge of the City to make such payments from any source of funds available to the City. The City has agreed to budget and appropriate monies each year sufficient to pay the required lease payments.

The net present values of the 1993 Financing Authority future minimum lease payments were as follows as of June 30, 2011:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 96,800	\$ 7,654	\$ 104,454
2013	101,100	3,348	104,448
Total	<u>\$ 197,900</u>	<u>\$ 11,002</u>	<u>\$ 208,902</u>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Municipal Finance Corporation Leases – In 2007 the City submitted applications to the United States Internal Revenue Service (IRS) for allocation of Clean Renewable Energy Bonds (CREBs). The IRS awarded the City an allocation of \$1,156,000 to finance solar paneling project at four different municipal facilities within the City limits. Bonds were issued on July 10, 2008 in the amount of \$1,156,000 and tax credits were granted to lender upon financing. The bonds were issued at a discount of \$39,854. The discount and the issuance cost of \$52,195 are amortized over 16 years. The obligation is a lease agreement with Municipal Finance Corporation (Corporation) entered into by the City on July 10, 2008. Principal installments of \$72,250 are made on December 15 of each year, with the final installment due on July 10, 2023. The future minimum obligations as of June 30, 2011 were as follows:

Fiscal Year Ending June 30,	Total
2012	\$ 72,250
2013	72,250
2014	72,250
2015	72,250
2016	72,250
2017-2021	361,250
2022-2024	216,750
Total minimum lease payments	\$ 939,250

E. Certificates of Participation (COP)

Business-type Activities

2002 Finance Authority COP - The City's Public Financing Authority issued Certificates of Participation of \$2,250,000 and loaned the proceeds to the Water Enterprise Fund for water facilities improvements. Semi-annual interest at 4% and principal payments, pledged by water revenues, are due in April and October. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 55,000	\$ 83,028	\$ 138,028
2013	55,000	80,910	135,910
2014	60,000	78,638	138,638
2015	60,000	76,178	136,178
2016	65,000	73,520	138,520
2017-2021	365,000	320,905	685,905
2022-2026	460,000	223,725	683,725
2027-2031	575,000	101,531	676,531
2032	130,000	3,088	133,088
Total	\$ 1,825,000	\$ 1,041,523	\$ 2,866,523

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

F. Compensated Absences

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

NOTE 8 – DEFICIT NET ASSETS AND FUND BALANCES

The following funds had deficit fund balances or net assets as of June 30, 2011:

Funds	Deficit
<u>Non major Funds:</u>	
Strong Motion Fund	\$ 2,616
Gas Tax Fund	359,669
Economic Stimulus Fund	841,048
Capital Asset Project Fund	618,280
Municipal Finance Corporation Debt Service Fund	106,430
2008 CREBS Bonds Debt Service Fund	15,000
<u>Internal Service Fund:</u>	
Employee Benefits Fund	909,377

NOTE 9 - EMPLOYEES' RETIREMENT PLAN

Plan Description - The City of Sonoma contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy - Participants are required to contribute 7% (9% for fire safety employees) of their annual covered salary. The City covers the employees' required contribution and is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2011 was 13.536% of annual covered payroll for non-safety (miscellaneous) employees and 34.294% for fire safety employees. The police safety funding is not based on covered payroll as this is an inactive plan and only former employees are being funded. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost - For fiscal year ended June 30, 2011, the City's \$965,590 annual pension cost for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) 3.25% to 14.45% projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.0% inflation; (d) 3.25% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-Year Trend Information PERS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$ 906,581	100%	-
6/30/2010	965,590	100%	-
6/30/2011	1,026,156	100%	-

Plan Actuarial Value and Funding Progress (Required Supplementary Information)

The following tables report the balances in the entire retirement pool administered by PERS for each plan and consist of more than just the City's share. The unfunded (overfunded) liability is the difference between the "determined" accrued liability for the pool and the fair value of the assets belonging to the pool at the valuation date.

Actuarial – Safety 3.0% at 50 Risk Pool (Fire Safety)

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2008	\$ 8,700,467,733	\$ 7,464,927,716	\$ 1,175,434,267	85.8%	\$ 914,840,596	135.1%
2009	9,721,675,347	8,027,158,724	1,694,516,623	82.6%	831,607,658	174.0%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	914,840,596	177.3%

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

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2008	\$ 2,780,280,768	\$ 2,547,323,278	\$ 262,170,432	91.6%	\$ 688,606,681	37.5%
2009	3,104,798,222	2,758,511,101	346,287,121	88.8%	742,981,488	46.6%
2010	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Actuarial – Inactive Agency Risk Pool (Police Safety)

Valuation Date	Entry Age Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Payroll
2008	\$ 399,268,715	\$ 390,402,716	8,865,999	97.8%	\$ -	0.0%
2009	480,513,699	442,936,897	37,576,802	92.2%	-	0.0%
2010	509,198,137	466,195,860	43,002,277	91.6%	-	0.0%

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases automobile, general liability, property, workers' compensation, earthquake and flood, boiler and machinery, and errors and omissions insurance from the REMIF, a risk-sharing program. Under this program, the City has a \$5,000 deductible for workers' compensation and liability coverage and a \$10,000 deductible for property retention limit with REMIF being responsible for losses above that amount up to \$500,000 for liability losses, \$1,000,000 for workers' compensation claims, and \$25,000 for property damage. REMIF purchases excess commercial liability coverage of \$39,500,000 in excess of its \$500,000 retention limit to cover losses above its deductible for general liability and \$300,000,000 in excess of its \$25,000 retention limit for property.

The City is assessed a contribution to cover claims, operating costs and claim settlement expenses based upon an actuarially determined rate for each coverage layer pool. Additional cash contributions may be assessed on the basis of adverse loss experience. If the events of the year result in a negative risk position, the members' annual assessment may be increased in subsequent years. The City is unable to reasonably estimate the probability of REMIF ending the year in a negative risk position. Refunds to members may be made if funds are determined to be surplus as a result on an actuarial study.

The City currently reports all of its risk management activities in the Insurance Internal Service Fund and the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. During the fiscal year ended June 30, 2011, the City paid \$414,433 for current year coverage and received a rebate from the program of \$69,232.

Condensed full accrual basis audited financial information of REMIF as of and for the year ended June 30, 2011, is as follows:

Total Assets	\$ 17,941,577
Total Liabilities	<u>14,408,878</u>
Net Assets	<u>\$ 3,532,699</u>
Total Revenues	\$ 9,159,160
Total Expenses	<u>10,976,105</u>
Change in Net Assets	<u>\$ (1,816,945)</u>

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The City receives funding from a number of federal, state and local grant programs. These programs are subject to financial and compliance review by grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies, cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

Litigation - Various claims involving the City are currently outstanding. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the City's financial position or results of operations.

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.

Environmental - The City owns property which was the City dumpsite 50 years ago. Clean-up efforts were completed during the fiscal year ended June 30, 2003. The City's portion of the cost of the clean-up was approximately \$200,000. On-going monitoring will continue to be conducted at nominal cost. The site will be left in its natural state and no plans for development have been made.

NOTE 12 - 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 by 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.

CITY OF SONOMA, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13 – 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. The City has not yet determined the impact to the future financial statements. As of June 30, 2011 and for the year ended, the Agency portion of the government-wide financial statements were as follows:

Total Assets	\$ 65,112,674
Total Liabilities	<u>46,979,926</u>
Total Net Assets	<u><u>\$ 18,132,748</u></u>

Expenses	<u>\$ 8,511,951</u>
Revenue	<u><u>\$ 6,431,246</u></u>

Required Supplementary Information

CITY OF SONOMA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 7,429,854	\$ 7,429,854	\$ 7,692,116	\$ 262,262
Fines and penalties	80,550	80,550	92,784	12,234
Intergovernmental revenues	142,950	142,950	178,942	35,992
Charges for services	2,181,600	2,181,600	1,741,856	(439,744)
License, permits and fees	319,500	319,500	351,036	31,536
Investment earnings	160,000	160,000	211,619	51,619
Rental income	83,392	83,392	66,691	(16,701)
Other revenue	83,500	83,500	272,538	189,038
Total Revenues	<u>10,481,346</u>	<u>10,481,346</u>	<u>10,607,583</u>	<u>126,237</u>
EXPENDITURES				
Current:				
General government	1,322,286	1,322,286	1,373,732	(51,446)
Public safety	8,494,245	8,494,245	8,433,392	60,853
Public works	1,317,954	1,317,954	1,496,786	(178,832)
Culture and leisure	204,292	204,292	201,033	3,259
Capital outlay	-	11,200	-	11,200
Total Expenditures	<u>11,338,777</u>	<u>11,349,977</u>	<u>11,504,943</u>	<u>(154,966)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(857,431)</u>	<u>(868,631)</u>	<u>(897,360)</u>	<u>(28,729)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	794,782	794,782	950,279	155,497
Transfers (out)	(201,823)	(201,823)	(257,343)	(55,520)
Total Other Financing Sources (Uses)	<u>592,959</u>	<u>592,959</u>	<u>692,936</u>	<u>99,977</u>
NET CHANGES IN FUND BALANCE	<u>\$ (264,472)</u>	<u>\$ (275,672)</u>	<u>\$ (204,424)</u>	<u>\$ 71,248</u>

CITY OF SONOMA
COMMUNITY DEVELOPMENT AGENCY
LOW/MODERATE INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Taxes	\$ 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	<u>125,000</u>	<u>125,000</u>	<u>51,624</u>	<u>(73,376)</u>
 Total Revenues	 <u>1,217,852</u>	 <u>2,667,852</u>	 <u>3,770,903</u>	 <u>1,103,051</u>
EXPENDITURES				
Current:				
Community development	230,727	1,870,827	873,858	996,969
Capital outlay	<u>1,149,000</u>	<u>1,149,000</u>	<u>-</u>	<u>1,149,000</u>
 Total Expenditures	 <u>1,379,727</u>	 <u>3,019,827</u>	 <u>873,858</u>	 <u>2,145,969</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>(161,875)</u>	 <u>(351,975)</u>	 <u>2,897,045</u>	 <u>3,249,020</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,833,148	1,833,148	50,000	(1,783,148)
Transfers (out)	<u>(537,942)</u>	<u>(534,673)</u>	<u>(349,030)</u>	<u>185,643</u>
 Total Other Financing Sources (Uses)	 <u>1,295,206</u>	 <u>1,298,475</u>	 <u>(299,030)</u>	 <u>(1,597,505)</u>
 NET CHANGES IN FUND BALANCE	 <u>\$ 1,133,331</u>	 <u>\$ 946,500</u>	 <u>\$ 2,598,015</u>	 <u>\$ 1,651,515</u>

Supplementary Information

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Strong Motion Fund	Asset Forfeiture Fund	SLESF Law Enforcement Fund	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund
ASSETS						
Cash and investments	\$ -	\$ 3,685	\$ -	\$ 31,972	\$ 7,359	\$ 20,679
Cash and investments - restricted	-	-	-	-	-	-
Accounts receivable - net	-	-	14,339	-	-	-
Deposits and other assets	-	-	-	-	-	-
Total Assets	\$ -	\$ 3,685	\$ 14,339	\$ 31,972	\$ 7,359	\$ 20,679
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Accounts payable	\$ 319	\$ -	\$ -	\$ -	\$ -	\$ 475
Due to other funds	2,297	-	2,378	-	-	-
Deposits payable and other liabilities	-	-	-	30,891	-	-
Total Liabilities	2,616	-	2,378	30,891	-	475
Fund Balances (Deficits):						
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Housing	-	-	-	-	-	-
Assigned for:						
Capital projects	-	-	-	1,081	7,359	20,204
Debt Service	-	-	-	-	-	-
Housing	-	-	-	-	-	-
Public Safety	-	3,685	11,961	-	-	-
Unassigned	(2,616)	-	-	-	-	-
Total Fund Balances (Deficits)	(2,616)	3,685	11,961	1,081	7,359	20,204
Total Liabilities and Fund Balances (Deficits)	\$ -	\$ 3,685	\$ 14,339	\$ 31,972	\$ 7,359	\$ 20,679

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Mayssonave Property Fund	El Prado Landscape Maintenance Fund	Sonoma Valley Oaks Fund	Schell Drainge Fund	Starr Ranch Fund
ASSETS					
Cash and investments	\$ 59,282	\$ -	\$ -	\$ 181,055	\$ -
Cash and investments - restricted	-	-	-	-	-
Accounts receivable - net	(47)	-	-	-	-
Deposits and other assets	-	-	-	-	-
Total Assets	\$ 59,235	\$ -	\$ -	\$ 181,055	\$ -
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deposits payable and other liabilities	-	-	-	142,460	-
Total Liabilities	-	-	-	142,460	-
Fund Balances (Deficits):					
Restricted for:					
Capital projects	59,235	-	-	38,595	-
Debt service	-	-	-	-	-
Housing	-	-	-	-	-
Assigned for:					
Capital projects	-	-	-	-	-
Debt Service	-	-	-	-	-
Housing	-	-	-	-	-
Public Safety	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances (Deficits)	59,235	-	-	38,595	-
Total Liabilities and Fund Balances (Deficits)	\$ 59,235	\$ -	\$ -	\$ 181,055	\$ -

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Abandoned Vehicle Fund	Sonoma Creek Senior Housing Fund	Village Green Fund	Gas Tax Fund	Community Development Block Grant Fund
ASSETS					
Cash and investments	\$ 49,056	\$ 351,710	\$ 86,836	\$ -	\$ 55,799
Cash and investments - restricted	-	100,193	563,566	-	-
Accounts receivable - net	-	-	-	1,297	100,000
Deposits and other assets	-	-	-	-	-
Total Assets	<u>\$ 49,056</u>	<u>\$ 451,903</u>	<u>\$ 650,402</u>	<u>\$ 1,297</u>	<u>\$ 155,799</u>
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ 696	\$ 1,739	\$ -	\$ 35,323	\$ -
Due to other funds	-	-	-	325,643	-
Deposits payable and other liabilities	-	-	-	-	-
Total Liabilities	<u>696</u>	<u>1,739</u>	<u>-</u>	<u>360,966</u>	<u>-</u>
Fund Balances (Deficits):					
Restricted for:					
Capital projects	-	-	-	-	155,799
Debt service	-	-	-	-	-
Housing	-	-	430,100	-	-
Assigned for:					
Capital projects	-	-	-	-	-
Debt Service	-	-	-	-	-
Housing	-	450,164	220,302	-	-
Public Safety	48,360	-	-	-	-
Unassigned	-	-	-	(359,669)	-
Total Fund Balances (Deficits)	<u>48,360</u>	<u>450,164</u>	<u>650,402</u>	<u>(359,669)</u>	<u>155,799</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 49,056</u>	<u>\$ 451,903</u>	<u>\$ 650,402</u>	<u>\$ 1,297</u>	<u>\$ 155,799</u>

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

CAPITAL PROJECT FUNDS

	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund	2011 TAB Projects Fund
ASSETS					
Cash and investments	\$ 135,072	\$ 169,487	\$ -	\$ -	\$ 122,975
Cash and investments - restricted	-	-	-	632,148	-
Accounts receivable - net	-	-	-	1,559	-
Deposits and other assets	-	-	-	-	-
Total Assets	\$ 135,072	\$ 169,487	\$ -	\$ 633,707	\$ 122,975
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	\$ 31,233	\$ -	\$ (39,353)	\$ 27,318	\$ 68,366
Due to other funds	-	-	880,401	303,376	-
Deposits payable and other liabilities	8,836	-	-	-	-
Total Liabilities	40,069	-	841,048	330,694	68,366
Fund Balances (Deficits):					
Restricted for:					
Capital projects	-	169,487	-	-	-
Debt service	-	-	-	-	-
Housing	-	-	-	-	-
Assigned for:					
Capital projects	95,003	-	-	303,013	54,609
Debt Service	-	-	-	-	-
Housing	-	-	-	-	-
Public Safety	-	-	-	-	-
Unassigned	-	-	(841,048)	-	-
Total Fund Balances (Deficits)	95,003	169,487	(841,048)	303,013	54,609
Total Liabilities and Fund Balances (Deficits)	\$ 135,072	\$ 169,487	\$ -	\$ 633,707	\$ 122,975

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

	DEBT SERVICE FUNDS						Total Combining Nonmajor Funds
	Municipal Finance Corporation Debt Service Fund	1997 Community Development Agency Debt Service Fund	2000 Community Development Agency Debt Service Fund	2003 Tax Allocation Bonds Debt Service Fund	2008 CREB Bonds Debt Service Fund	2010 Tax Allocation Bonds Debt Service Fund	
ASSETS							
Cash and investments	\$ -	\$ 152	\$ 445	\$ 147,834	\$ -	\$ -	\$ 1,423,398
Cash and investments - restricted	-	-	-	-	-	-	1,295,907
Accounts receivable - net	-	-	-	-	-	-	117,148
Deposits and other assets	-	-	-	1,866	-	-	1,866
Total Assets	\$ -	\$ 152	\$ 445	\$ 149,700	\$ -	\$ -	\$ 2,838,319
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 126,116
Due to other funds	106,430	-	-	-	15,000	-	1,635,525
Deposits payable and other liabilities	-	-	-	-	-	-	182,187
Total Liabilities	106,430	-	-	-	15,000	-	1,943,828
Fund Balances (Deficits):							
Restricted for:							
Capital projects	-	-	-	-	-	-	423,116
Debt service	-	-	-	149,700	-	-	149,700
Housing	-	-	-	-	-	-	430,100
Assigned for:							
Capital projects	-	-	-	-	-	-	481,269
Debt Service	-	152	445	-	-	-	597
Housing	-	-	-	-	-	-	670,466
Public Safety	-	-	-	-	-	-	64,006
Unassigned	(106,430)	-	-	-	(15,000)	-	(1,324,763)
Total Fund Balances (Deficits)	(106,430)	152	445	149,700	(15,000)	-	894,491
Total Liabilities and Fund Balances (Deficits)	\$ -	\$ 152	\$ 445	\$ 149,700	\$ -	\$ -	\$ 2,838,319

(Concluded)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Strong Motion Fund	Asset Forfeiture Fund	SLESF Law Enforcement Fund	Eastside Estate Fund	Traffic Grant Fund	Bond Property Maintenance Fund
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	-	-
Intergovernmental revenues	-	-	100,000	-	-	-
Charges for services	-	-	-	-	-	-
License, permits and fees	378	-	-	-	-	-
Investment earnings	-	101	5	858	197	646
Rental income	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total Revenues	<u>378</u>	<u>101</u>	<u>100,005</u>	<u>858</u>	<u>197</u>	<u>646</u>
EXPENDITURES						
Current:						
Public safety	-	-	-	-	-	-
Public works	(14)	75	-	-	-	10,390
Community development	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-
Total Expenditures	<u>(14)</u>	<u>75</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,390</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>392</u>	<u>26</u>	<u>100,005</u>	<u>858</u>	<u>197</u>	<u>(9,744)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	(100,000)	-	-	(5,000)
Refunding bonds issued	-	-	-	-	-	-
Premium on refunding bonds	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>
NET CHANGES IN FUND BALANCES (DEFICITS)	392	26	5	858	197	(14,744)
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	(3,008)	3,659	11,956	223	7,162	34,948
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	<u>(3,008)</u>	<u>3,659</u>	<u>11,956</u>	<u>223</u>	<u>7,162</u>	<u>34,948</u>
FUND BALANCES (DEFICITS) - ENDING	<u>\$ (2,616)</u>	<u>\$ 3,685</u>	<u>\$ 11,961</u>	<u>\$ 1,081</u>	<u>\$ 7,359</u>	<u>\$ 20,204</u>

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Mayssonave Property Fund	El Prado Landscape Maintenance Fund	Sonoma Valley Oaks Fund	Schell Drainage Fund	Starr Ranch Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	-
Charges for services	-	-	-	-	-
License, permits and fees	-	-	-	-	-
Investment earnings	1,620	-	-	4,857	-
Rental income	7,230	-	-	-	-
Other revenue	-	-	-	-	-
Total Revenues	8,850	-	-	4,857	-
EXPENDITURES					
Current:					
Public safety	-	-	-	-	-
Public works	7,220	-	-	-	-
Community development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Total Expenditures	7,220	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,630	-	-	4,857	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	220	681	-	4,985
Transfers (out)	(5,000)	-	-	-	-
Refunding bonds issued	-	-	-	-	-
Premium on refunding bonds	-	-	-	-	-
Total Other Financing Sources (Uses)	(5,000)	220	681	-	4,985
NET CHANGES IN FUND BALANCES (DEFICITS)	(3,370)	220	681	4,857	4,985
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	62,605	(220)	(681)	33,738	(4,985)
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	62,605	(220)	(681)	33,738	(4,985)
FUND BALANCES (DEFICITS) - ENDING	\$ 59,235	\$ -	\$ -	\$ 38,595	\$ -

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2011

SPECIAL REVENUE FUNDS

	Abandoned Vehicle Fund	Sonoma Creek Senior Housing Fund	Village Green Fund	Gas Tax Fund	Community Development Block Grant Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ 55,211	\$ -
Fines and penalties	3,501	-	-	-	-
Intergovernmental revenues	-	-	37,634	278,500	(17,245)
Charges for services	-	-	-	(351)	-
License, permits and fees	-	-	-	-	-
Investment earnings	2,666	9,566	15,579	-	1,615
Rental income	-	204,128	384,020	-	-
Other revenue	-	2,340	4,193	-	100,000
Total Revenues	6,167	216,034	441,426	333,360	84,370
EXPENDITURES					
Current:					
Public safety	10,002	-	-	-	-
Public works	-	-	-	817,402	-
Community development	-	200,721	277,333	-	-
Capital outlay	-	-	-	-	477
Debt service:					
Principal	-	-	50,625	-	-
Interest and fees	-	-	107,121	-	-
Bond issuance costs	-	-	-	-	-
Total Expenditures	10,002	200,721	435,079	817,402	477
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,835)	15,314	6,347	(484,042)	83,893
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	261,823	-
Transfers (out)	-	(50,000)	-	-	-
Refunding bonds issued	-	-	-	-	-
Premium on refunding bonds	-	-	-	-	-
Total Other Financing Sources (Uses)	-	(50,000)	-	261,823	-
NET CHANGES IN FUND BALANCES (DEFICITS)	(3,835)	(34,686)	6,347	(222,219)	83,893
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	52,195	484,850	644,055	(137,450)	71,906
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	52,195	484,850	644,055	(137,450)	71,906
FUND BALANCES (DEFICITS) - ENDING	\$ 48,360	\$ 450,164	\$ 650,402	\$ (359,669)	\$ 155,799

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2011

CAPITAL PROJECT FUNDS

	Capital Improvement Program Fund	Measure M Fund	Economic Stimulus Fund	Capital Asset Project Fund	2011 TAB Projects Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and penalties	-	-	-	-	-
Intergovernmental revenues	220,000	-	-	-	-
Charges for services	-	-	-	-	-
License, permits and fees	12,757	-	-	-	-
Investment earnings	2,339	4,616	-	74	-
Rental income	-	-	-	-	-
Other revenue	-	-	-	-	200,000
Total Revenues	<u>235,096</u>	<u>4,616</u>	<u>-</u>	<u>74</u>	<u>200,000</u>
EXPENDITURES					
Current:					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Community development	-	-	-	-	2,000,000
Capital outlay	310,678	-	443,566	1,047,554	145,391
Debt service:					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Total Expenditures	<u>310,678</u>	<u>-</u>	<u>443,566</u>	<u>1,047,554</u>	<u>2,145,391</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(75,582)</u>	<u>4,616</u>	<u>(443,566)</u>	<u>(1,047,480)</u>	<u>(1,945,391)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	162,350	2,000,000
Transfers (out)	-	(25,000)	-	-	-
Refunding bonds issued	-	-	-	-	-
Premium on refunding bonds	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>162,350</u>	<u>2,000,000</u>
NET CHANGES IN FUND BALANCES (DEFICITS)	<u>(75,582)</u>	<u>(20,384)</u>	<u>(443,566)</u>	<u>(885,130)</u>	<u>54,609</u>
FUND BALANCES (DEFICITS) - BEGINNING	170,585	189,871	(397,482)	(614,517)	-
PRIOR PERIOD ADJUSTMENTS	-	-	-	1,802,660	-
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	<u>170,585</u>	<u>189,871</u>	<u>(397,482)</u>	<u>1,188,143</u>	<u>-</u>
FUND BALANCES (DEFICITS) - ENDING	<u>\$ 95,003</u>	<u>\$ 169,487</u>	<u>\$ (841,048)</u>	<u>\$ 303,013</u>	<u>\$ 54,609</u>

(Continued)

CITY OF SONOMA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED JUNE 30, 2011

	DEBT SERVICE FUNDS						Total Combining Nonmajor Funds
	Municipal Finance Corporation Debt Service Fund	1997 Community Development Agency Debt Service Fund	2000 Community Development Agency Debt Service Fund	2003 Tax Allocation Bonds Debt Service Fund	2008 CREB Bonds Debt Service Fund	2010 Tax Allocation Bonds Debt Service Fund	
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,211
Fines and penalties	-	-	-	-	-	-	3,501
Intergovernmental revenues	-	-	-	-	-	-	618,889
Charges for services	13,675	-	-	-	-	-	13,324
License, permits and fees	-	-	-	-	-	-	13,135
Investment earnings	-	151	445	201	-	292	45,828
Rental income	-	-	-	-	-	-	595,378
Other revenue	-	-	-	-	-	-	306,533
Total Revenues	13,675	151	445	201	-	292	1,651,799
EXPENDITURES							
Current:							
Public safety	-	-	-	-	-	-	10,002
Public works	-	-	-	-	-	-	835,073
Community development	-	-	-	-	-	-	2,478,053
Capital outlay	-	-	-	-	-	-	1,947,667
Debt service:							
Principal	92,790	1,935,000	7,715,000	450,000	72,250	150,000	10,465,665
Interest and fees	11,791	57,529	295,965	738,479	-	319,855	1,530,740
Bond issuance costs	-	-	-	-	-	456,310	456,310
Total Expenditures	104,581	1,992,529	8,010,965	1,188,479	72,250	926,165	17,723,511
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(90,906)	(1,992,378)	(8,010,520)	(1,188,278)	(72,250)	(925,873)	(16,071,710)
OTHER FINANCING SOURCES (USES)							
Transfers in	(41)	1,796,131	7,933,689	1,184,409	72,250	469,563	13,886,060
Transfers (out)	-	(106,869)	(244,785)	-	(15,000)	(9,729,821)	(10,281,475)
Refunding bonds issued	-	-	-	-	-	10,120,000	10,120,000
Premium on refunding bonds	-	-	-	-	-	66,131	66,131
Total Other Financing Sources (Uses)	(41)	1,689,262	7,688,904	1,184,409	57,250	925,873	13,790,716
NET CHANGES IN FUND BALANCES (DEFICITS)	(90,947)	(303,116)	(321,616)	(3,869)	(15,000)	-	(2,280,994)
FUND BALANCES (DEFICITS) - BEGINNING PRIOR PERIOD ADJUSTMENTS	(15,483)	303,268	322,061	153,569	-	-	1,372,825
FUND BALANCES (DEFICITS) - BEGINNING AS RESTATED	(15,483)	303,268	322,061	153,569	-	-	3,175,485
FUND BALANCES (DEFICITS) - ENDING	\$ (106,430)	\$ 152	\$ 445	\$ 149,700	\$ (15,000)	\$ -	\$ 894,491

(Concluded)

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2011

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term			Totals
						Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	
ASSETS									
Current Assets:									
Cash and investments	\$ 262,809	\$ 9,063	\$ 1,003,519	\$ 239,454	\$ -	\$ 1,550,097	\$ 52,362	\$ 23,313	\$ 3,140,617
Cash and investments - restricted	-	-	-	-	-	-	-	-	-
Accounts receivable - net	-	-	-	-	1,637	-	5,512	-	7,149
Due from other funds	-	-	-	-	-	(950)	-	-	(950)
Deposits and other assets	-	-	-	-	-	-	-	-	-
Total current assets	<u>262,809</u>	<u>9,063</u>	<u>1,003,519</u>	<u>239,454</u>	<u>1,637</u>	<u>1,549,147</u>	<u>57,874</u>	<u>23,313</u>	<u>3,146,816</u>
Total Assets	<u>\$ 262,809</u>	<u>\$ 9,063</u>	<u>\$ 1,003,519</u>	<u>\$ 239,454</u>	<u>\$ 1,637</u>	<u>\$ 1,549,147</u>	<u>\$ 57,874</u>	<u>\$ 23,313</u>	<u>\$ 3,146,816</u>
LIABILITIES									
Current Liabilities:									
Accounts payable	\$ 2,920	\$ -	\$ -	\$ 9,729	\$ 14,463	\$ 1,192	\$ -	\$ -	\$ 28,304
Due to other funds	-	-	-	-	896,551	-	-	-	896,551
Deposits payable and other liabilities	-	8,079	-	-	-	-	-	-	8,079
Total current liabilities	<u>2,920</u>	<u>8,079</u>	<u>-</u>	<u>9,729</u>	<u>911,014</u>	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>932,934</u>
Total Liabilities	<u>2,920</u>	<u>8,079</u>	<u>-</u>	<u>9,729</u>	<u>911,014</u>	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>932,934</u>
NET ASSETS									
Unrestricted	<u>259,889</u>	<u>984</u>	<u>1,003,519</u>	<u>229,725</u>	<u>(909,377)</u>	<u>1,547,955</u>	<u>57,874</u>	<u>23,313</u>	<u>2,213,882</u>
Total Net Assets	<u>\$ 259,889</u>	<u>\$ 984</u>	<u>\$ 1,003,519</u>	<u>\$ 229,725</u>	<u>\$ (909,377)</u>	<u>\$ 1,547,955</u>	<u>\$ 57,874</u>	<u>\$ 23,313</u>	<u>\$ 2,213,882</u>

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term			Totals
						Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	
OPERATING REVENUES									
Charges for services	\$ 212,673	\$ -	\$ 173,700	\$ 213,636	\$ 2,236,335	\$ 232,755	\$ -	\$ -	\$ 3,069,099
Miscellaneous	-	-	-	19,232	(1)	-	-	-	19,231
Total Operating Revenues	212,673	-	173,700	232,868	2,236,334	232,755	-	-	3,088,330
OPERATING EXPENSES									
Salaries and benefits	-	-	-	-	2,372,243	-	-	-	2,372,243
Services, supplies and maintenance	231,048	-	-	9,729	-	52,602	-	-	293,379
Insurance premiums and claims	-	-	-	258,978	18,362	-	-	-	277,340
Total Operating Expenses	231,048	-	-	268,707	2,390,605	52,602	-	-	2,942,962
OPERATING INCOME (LOSS)	(18,375)	-	173,700	(35,839)	(154,271)	180,153	-	-	145,368
NONOPERATING REVENUES (EXPENSES):									
Investment earnings	-	243	-	-	-	-	78	625	946
Total Nonoperating Revenues (Expenses)	-	243	-	-	-	-	78	625	946
INCOME (LOSS) BEFORE TRANSFERS	(18,375)	243	173,700	(35,839)	(154,271)	180,153	78	625	146,314
TRANSFERS:									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers (out)	-	-	(193,179)	-	-	-	-	-	(193,179)
CHANGES IN NET ASSETS	(18,375)	243	(19,479)	(35,839)	(154,271)	180,153	78	625	(46,865)
NET ASSETS - BEGINNING	278,264	741	1,022,998	265,564	(755,106)	1,367,802	57,796	22,688	2,260,747
NET ASSETS - ENDING	\$ 259,889	\$ 984	\$ 1,003,519	\$ 229,725	\$ (909,377)	\$ 1,547,955	\$ 57,874	\$ 23,313	\$ 2,213,882

CITY OF SONOMA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund	Employee Benefits Fund	Long-term Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from internal service provided	\$ 212,673	\$ -	\$ 173,700	\$ 213,636	\$ 2,235,511	\$ 232,755	\$ 1,317	\$ -	\$ 3,069,592
Payments to employees	-	-	-	-	(2,178,155)	-	-	-	(2,178,155)
Payments to suppliers and users	(229,676)	-	-	(272,266)	(57,356)	(51,628)	-	-	(610,926)
Other payments and receipts	-	-	-	19,232	-	-	-	-	19,232
Net Cash Provided by (Used for) Operating Activities	(17,003)	-	173,700	(39,398)	-	181,127	1,317	-	299,743
CASH FLOWS FROM INVESTING ACTIVITIES:									
Interest received	-	243	-	-	-	-	78	625	946
Net Cash Provided by Investing Activities	-	243	-	-	-	-	78	625	946
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(17,003)	243	(19,479)	(39,398)	-	181,127	1,395	625	107,510
CASH AND INVESTMENTS - BEGINNING	279,812	8,820	1,022,998	278,852	-	1,368,970	50,967	22,688	3,033,107
CASH AND INVESTMENTS - ENDING	\$ 262,809	\$ 9,063	\$ 1,003,519	\$ 239,454	\$ -	\$ 1,550,097	\$ 52,362	\$ 23,313	\$ 3,140,617
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:									
Operating income (loss)	\$ (18,375)	\$ -	\$ 173,700	\$ (35,839)	\$ (154,271)	\$ 180,153	\$ -	\$ -	\$ 145,368
Adjustments to reconcile operating income to cash flows provided by operating activities:									
Change in assets and liabilities:									
Accounts receivable	-	-	-	-	(824)	-	1,317	-	493
Accounts payable	1,372	-	-	(3,559)	(38,993)	974	-	-	(40,206)
Due to other funds	-	-	-	-	194,088	-	-	-	194,088
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (17,003)	\$ -	\$ 173,700	\$ (39,398)	\$ -	\$ 181,127	\$ 1,317	\$ -	\$ 299,743

CITY OF SONOMA
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2011

	Cultural Fine Arts	Tree Trust	Public Art	Payroll Clearing	Climate Conference	Bid Deposits	Valley of the Moon Fire	Totals
ASSETS								
Cash and investments	\$ 10,517	\$ 11,370	\$ 17,719	\$ 18,671	\$ 86	\$ 66,646	\$ 1,958,700	\$ 2,083,708
Accounts receivable - net	-	-	-	-	-	598	251,048	251,646
Total Assets	\$ 10,517	\$ 11,370	\$ 17,719	\$ 18,671	\$ 86	\$ 67,244	\$ 2,209,748	\$ 2,335,355
LIABILITIES								
Accounts payable	\$ 10,517	\$ 11,370	\$ 17,719	\$ (116,275)	\$ 86	\$ 33,276	\$ 2,209,748	\$ 2,166,441
Deposits payable and other liabilities	-	-	-	134,946	-	33,968	-	168,914
Total Liabilities	\$ 10,517	\$ 11,370	\$ 17,719	\$ 18,671	\$ 86	\$ 67,244	\$ 2,209,748	\$ 2,335,355



C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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

We have audited the financial statements of the financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Sonoma (the "City") as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 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 City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: Findings 11-01 and 11-02.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 11-03

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

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

C. D. Uhlenberg LLP

March 1, 2012
Redwood City, California

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Financial Statement Findings

Finding 11-01/ Material Weakness

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

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

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

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

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

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

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

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

CITY OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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.

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 OF SONOMA, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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.