CITY OF SONOMA, CALIFORNIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

Prepared by:

DeAnna Hilbrants
Finance Director

This page intentionally left blank.

City of
SONOMA

City of Sonoma, California
Basic Financial Statements
For the year ended June 30, 2014

Table of Contents

Page

INTRODUCTORY SECTION

Table of Contents i

Letter of Transmittal v

Organization Chart x

List of Officials xi

FINANCIAL SECTION

Independent Auditors' Report 1

Management's Discussion and Analysis (Required Supplementary Information) 3

Basic Financial Statements:

Government-Wide Financial Statements:
Statement of Net Position 19
Statement of Activities 20

Fund Financial Statements:

Governmental Funds:
Balance Sheet 24
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position 26
Reconciliation of Fund Basis Balance Sheet to Government-wide Statement of Net Position – Governmental Activities 27
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 28
Reconciliation of Fund Basis Statements to Government-wide Statement of Activities 30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 31
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual – General Fund and Major Special Revenue Funds 32

Table of Contents, Continued

Page

Basic Financial Statements, Continued:

Fund Financial Statements, Continued:

Proprietary Funds:
Statement of Net Position – Proprietary Funds 36
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds 37
Statement of Cash Flows – Proprietary Funds 38

Fiduciary Activities:
Statement of Fiduciary Net Position – Fiduciary Activities 40
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund 41

Notes to Basic Financial Statements 46

Other Supplemental Information:
Required Supplementary Information
Schedule of Funding Progress- PERS 82

Combining and Individual Fund Financial Statements and Schedules:

Nonmajor Governmental Funds:
Combining Balance Sheet 86
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 87

Nonmajor Special Revenue Funds:
Combining Balance Sheet 90
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 92
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Strong Motion 94
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Asset Forfeiture 95
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – SLESF 96
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Eastside Estate 97
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Traffic Grant 98
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Bond Property Maintenance 99
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Maysonnave Property 100

Table of Contents, Continued

Page

Combining and Individual Fund Financial Statements and Schedules, Continued:

Nonmajor Special Revenue Funds, Continued:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Schell Drainage 101
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Abandoned Vehicle 102
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Sonoma Creek Senior Housing 103
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Community Development Block Grant 104

Nonmajor Capital Projects and Debt Service Funds:

Combining Balance Sheet 106
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 108

Internal Service Funds:
Combining Statement of Net Position – Internal Service Funds 112
Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds 114
Combining Statement of Cash Flows – Internal Service Funds 116

Agency Funds:
Combining Statement of Assets and Liabilities – Agency Funds 120
Combining Statement of Changes in Assets and Liabilities – Agency Funds 122

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 125

This page intentionally left blank.

City of Sonoma

No. 1 The Plaza
Sonoma California 95476-6690
Phone (707) 938-3681 Fax (707) 938-8775
E-Mail: cityhall@sonomacity.org

June 29, 2015

To the Honorable Mayor and Members of the City Council and Citizens of the City of Sonoma:

We are pleased to submit the City of Sonoma' Annual Financial Report for the fiscal year ended June 30, 2014. It is the policy of the Council that a licensed certified public accountant conducts an annual audit at the end of each fiscal year and issue a complete set of financial statements to be submitted to them. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards.

Responsibility for the accuracy of the data and the fairness of presentation, including all footnotes and disclosures, rests with the City. We believe the data presented in this report is accurate in all material respects and all statements and disclosures necessary for the reader to obtain a thorough understanding of the City's financial activities have been included.

Management of the City has established an internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

While traditionally addressed to the governing body of the City, this report is intended to provide relevant financial information to the citizens of the City of Sonoma, City staff, creditors, investors, and other concerned readers. We encourage all readers to contact the Finance Department with any questions or comments concerning this report.

The City's financial statements have been audited by JJACPA, Inc., a firm of certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2014, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was reasonable basis for rendering an unqualified opinion, which states that the City's financial statements for the fiscal year ended June 30, 2014, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Sonoma

The City of Sonoma is located in southeastern Sonoma County in the San Francisco Bay area on State Highway 12. The City is about 50 miles northeast of San Francisco and 20 miles southeast of the City of Santa Rosa. Approximately 2.2 square miles in size, the City of Sonoma is a small, historic community of some 10,933 residents. Located in the heart of the Wine Country and surrounded by world-class wineries and scenic vineyards, the mainstays of the local economy are agriculture, tourism, and public services. The City serves as the economic hub of Sonoma Valley.

Originally founded in 1823, the City was incorporated on September 3, 1883 under the general laws of the State of California. The City is a municipal corporation operating as a general law city. The Sonoma City Council consists of five members, elected at-large to four-year overlapping terms. Council members must be residents of the City. The positions of Mayor and Mayor Pro Tem are chosen by the City Council through policy direction determined by the City Council. The Mayor conducts the Council meetings and represents the City on ceremonial occasions.

The City Council serves as the policy board for the municipality. As an elected Board of Directors, the City Council provides policy direction, establishes goals, and sets priorities for the City government. In addition to serving as the policy makers for the community, the City Council also is responsible for numerous land use decisions within its borders, including the General Plan. The City Council appoints the City Manager, City Attorney, and all members of advisory boards, commissions, and committees.

The City of Sonoma operates under a Council-Manager form of government and provides municipal services that include public safety, public works and parks, community development and community activities. In addition, the City operates a water system and three cemeteries in the form of enterprise activities. This report includes all funds of the City of Sonoma and its blended component unit, the Successor Agency of the Sonoma Community Development Agency, for which the City is financially accountable.

The City Council establishes annual budgets for the General Fund and all Special Revenue Funds, except for certain Special Revenue Funds for which expenditures are controlled by grant funding or by assessments received. Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Manager. The City Manager prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the municipal code.

In Sonoma, the total labor force is approximately 8,200. Unemployment in Sonoma is approximately 4.3%.

The City of Sonoma is committed to providing high quality services in an economical manner. For fiscal year 2013/14, the City's efforts were focused in the following areas.

Budget Strategy and Fiscal Stability – Balance Budget without eroding infrastructure and preserving essential services.

Economic Development – Explore Economic Development Drivers to ensure preservation and long term viability of Community Assets.

Policy & Leadership – Mission and Vision Statement for the City.

Public Service – Continue to build on customer service and business friendly mindset we as a City are pursuing and explore additional ways to exhibit that mindset in the eyes of the community.

Recreation and Parks – Master plan Parks and Recreation Opportunities

Water & Infrastructure – Develop long-term strategies to address current and future infrastructure needs, promote water conservation while maintaining a stabilized rate structure.

Current Economic Conditions and Outlook

The City's economic development efforts and implementation of the City's financial policies help to promote Sonoma's long-term fiscal stability.

The City's principle general fund revenue sources are transient occupancy tax (TOT), property tax, sales tax, and Measure J transactions and use tax. Each of these sources experienced growth during 2013 / 2014. In 2012, voters approved Measure J; a ½ cent transactions and use tax. Collections exceeded estimates and those funds were primarily used for streets and other capital projects. Due to the robust economy primarily driven by tourism, sales tax is projected to increase for FY 2014-15.

While the City has experienced growth in key revenue drives, the City of Sonoma anticipates minimal ongoing revenue growth for the next ten years.

The City has a reserve policy which includes 17% of General Fund Revenue set aside for emergency reserve and $1.5 million as operating reserve.

Financial Information

During the past fiscal year, there were no changes to the City's financial policies or items in which policies impacted the financial information or presentation. Information concerning significant accounting policies affecting the finances of the City is summarized in the Notes to the Financial Statements.

Acknowledgements

The preparation of this Annual Financial Report could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department and the auditing firm of JJACPA, Inc. I would like to express my appreciation to Joseph Arch, CPA, Tika Koshiyama-Diaz, Davina The and Jaymin Patel of JJACPA, Inc. and to the members of the Finance Department who assisted and contributed to its preparation.

I would also like to thank members of the City Council, the City Manager, and the various departments for their cooperation and support in planning and conducting the financial operations of the City during the fiscal year.

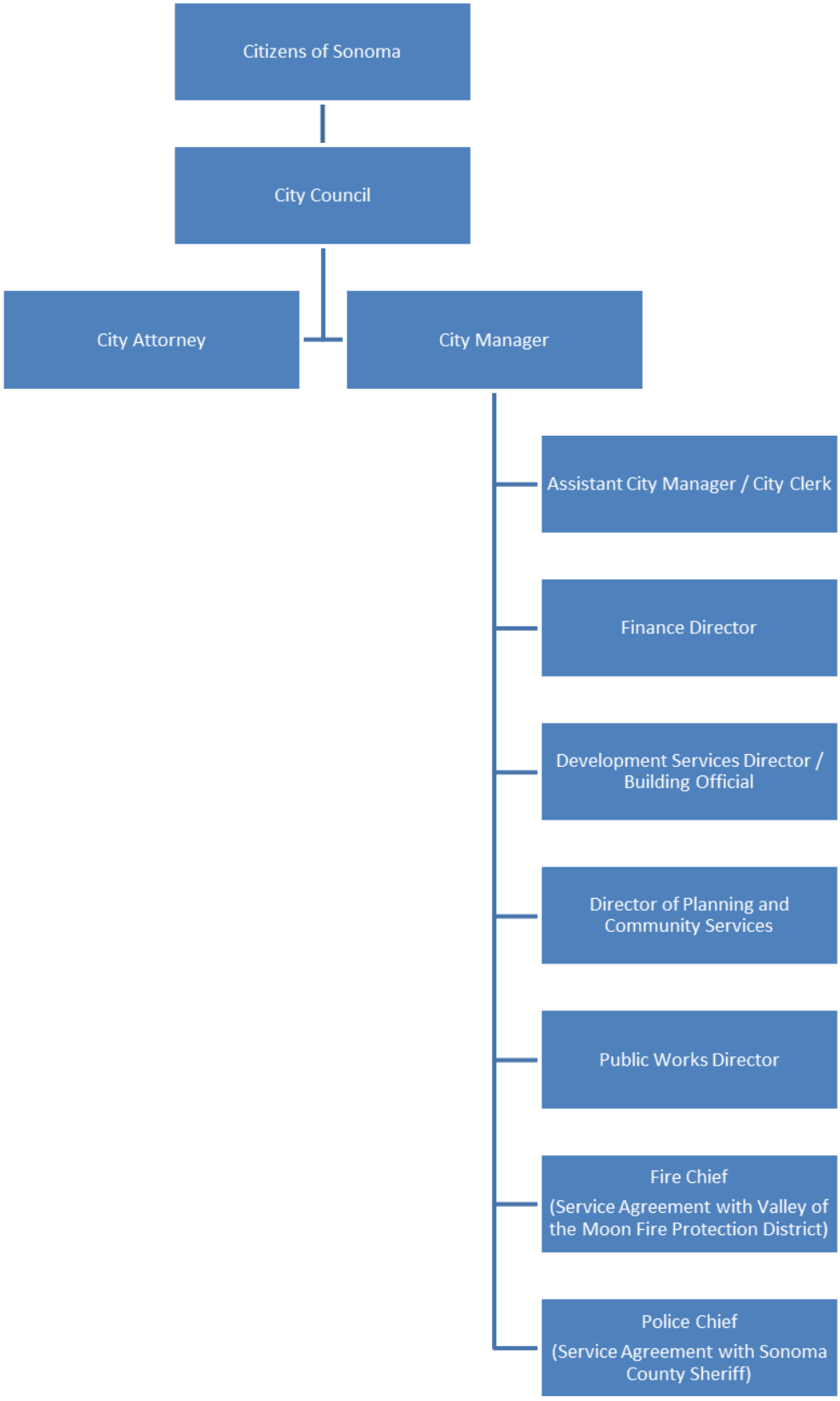
Respectfully Submitted,

DeAnna Hilbrants
Finance Director

This page intentionally left blank.

City of Sonoma, California
Basic Financial Statements
For the year ended June 30, 2014

Organization Chart



City of Sonoma, California
Basic Financial Statements
For the year ended June 30, 2014

List of Officials

CITY COUNCIL

- Tom Rouse, Mayor
- David Cook, Mayor Pro Tem
- Steve Barbose, Council Member
- Ken Brown, Council Member
- Laurie Gallian, Council Member

CITY OFFICIALS

- Carol Giovanatto, City Manager
- Gay Johann, Assistant City Manager/City Clerk
- DeAnna Hilbrants, Finance Director
- Mark Freeman, Fire Chief
- David Goodison, Planning Director
- Bret Sackett, Chief of Police
- Dan Takasugi, Public Works Director / City Engineer
- Jeffrey Walter (Walter & Pistole), City Attorney
- Wayne Wirick, Development Services Director / Building Official

This page intentionally left blank.

JJACPA, Inc.
A Professional Accounting Services Corp.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Sonoma
Sonoma, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the City of Sonoma, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the City, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

7080 Donlon Way, Suite 204, Dublin, CA 94568 ● phone (925) 556-6200 ● fax: (925) 556-6201
www.jjacpa.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3–15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

JJACPA, Inc.

June 29, 2015

JJACPA, Inc.
Dublin, CA

This section provides a narrative overview and analysis of the financial activities of the City of Sonoma (City) for the fiscal year ended June 30, 2014. It should be read in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position was $53.3 million, an increase of about $19.7 million over the course of this year's operations after conducting all City operations and programs. This increase is primarily related to the transfer of assets from the Former Sonoma Community Development Agency to the City.

- The assets of the City exceeded its liabilities by about $53.3 million at the end of the 2014 fiscal year. Of that amount, $11.7 million (the unrestricted net position) may be used to meet the City's ongoing obligations and operating expenses for the next fiscal year.

- Overall City-wide revenues from all governmental and business-type activities increased by $901,606 compared to the 2013 fiscal year. The City's total expense of all programs in fiscal 2014 decreased by $441,551 compared to the 2013 fiscal year.

- The general fund reported a fund balance of $6.9 million at the end of the 2014 fiscal year, an increase of about $475,000. This increase resulted from the delay of expenditure of funds for street improvements into the next fiscal year.

- The City also ended the fiscal year with $4.2 million reported in the proprietary enterprise funds (the amount of net position available for use, including unrestricted net position, but excluding the investment in capital assets net of related debt).

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is in two major parts:

1) **Introductory section**, which includes the Transmittal Letter and general information; and,

2) **Financial section**, which includes the Management's Discussion and Analysis (this part), the Basic Financial Statements, which include the Government-wide and the Fund Financial Statements along with the notes to these financial statements, and Combining and Individual Fund Financial Statements and Schedules.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT, Continued

The Basic Financial Statements

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

Government-wide Financial Statements

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

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

- ***Governmental activities*** – All of the City's basic services are considered to be governmental activities, including general government, community development, community activities, public safety, engineering, public improvements, planning and zoning, building inspections, and general administration. These services are supported by general City revenues such as taxes and by specific program revenues such as developer fees.

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

Fund Financial Statements

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

OVERVIEW OF THE ANNUAL FINANCIAL REPORT, Continued

Fund Financial Statements, Continued

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

Because the focus of the Governmental Fund Financial Statements is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statement. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Governmental Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them as one total. Instead, each major fund is presented individually, with all nonmajor funds summarized and presented only in a single column. Subordinate schedules present the detail of these nonmajor funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

For the fiscal year ended June 30, 2014, the City's major funds are as follows:

GOVERNMENTAL FUNDS:

- General Fund
- Gas Tax Fund
- Economic Stimulus Fund

PROPRIETARY FUNDS:

- Water Enterprise Fund
- Cemetery Enterprise Fund

OVERVIEW OF THE ANNUAL FINANCIAL REPORT, Continued

Fund Financial Statements, Continued

For the fiscal year ended June 30, 2014, the City adopted annual appropriated budgets for all governmental funds.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes to the basic financial statements can be found on pages 46–81 of this report. Required Supplementary Information follows the notes on page 82.

Combining and Individual Fund Financial Statements and Schedules

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements can be found on pages 86–124 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $53,331,860 as of June 30, 2014. The Summary of Net Position as of June 30, 2014, and 2013, follows:

Summary of Net Position

	2014			2013		
	Govern-mental Activities	Business-type Activities	Total	Govern-mental Activities	Business-type Activities	Total
Current and other assets	$ 10,355,031	$ 4,853,097	$ 15,208,128	$ 7,998,959	$ 7,218,371	$ 15,217,330
Noncurrent assets	33,531,039	12,464,875	45,995,914	14,270,597	11,326,398	25,596,995
Total assets	43,886,070	17,317,972	61,204,042	22,269,556	18,544,769	40,814,325
Current and other liabilities	3,035,780	528,076	3,563,856	1,437,756	530,672	1,968,428
Long-term liabilities	2,682,926	1,625,400	4,308,326	3,564,087	1,673,286	5,237,373
Total liabilities	5,718,706	2,153,476	7,872,182	5,001,843	2,203,958	7,205,801
Net position:						
Net investment in capital assets	30,633,549	10,979,875	41,613,424	12,715,221	10,357,646	23,072,867
Restricted	10,965	-	10,965	135,054	185,178	320,232
Unrestricted	7,522,850	4,184,621	11,707,471	4,417,438	5,797,987	10,215,425
Total net position	$ 38,167,364	$ 15,164,496	$ 53,331,860	$ 17,267,713	$ 16,340,811	$ 33,608,524

Overall, total net position increased by approximately $19.7 million. Of this amount, net position for governmental activities increased by approximately $20.9 million primarily the result of a transfer of capital assets from the Successor Agency private purpose trust fund. Net position for business-type activities decreased by approximately $1.2 million. Approximately 78 percent of the net position of the City is represented by the City's net investment in its capital assets such as buildings, land, equipment, utility systems, and facilities. Working capital of $11,644,272, which consists of current and other assets less current and other liabilities, essentially represents the other 22 percent. Approximately 55 percent of the City's total liabilities are represented by long-term obligations including revenue bonds, capital lease obligations, and certificates of participation.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues

The City's total revenues for governmental and business-type activities were $19,760,616 for the fiscal year ended June 30, 2014. Significant revenues for the City for fiscal year 2013-14 were derived from Property Tax (14%), Sales Tax (18%), and Transient Occupancy Tax (21%).

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

1. **Property Taxes.** Property taxes increased by $568,063 when impacts of the dissolution of the Community Development Agency are excluded.

2. **Sales Taxes.** Sales taxes increased by $125,966 or 4.9% resulting from ongoing increases in tourism in the City.

3. **Measure J.** Measure J Transactions and Use Tax increased by $1,144,491. This resulted from the fact that Fiscal Year 2013 – 2014 was the first full year of collections since approval of the tax in 2012.

4. **Transient Occupancy Taxes.** Annual revenue increased by 9.4% resulting both from ongoing increases in tourism and the establishment of a Tourism Improvement District focused on marketing tourism in Sonoma.

5. **Grants and Contributions – Governmental Activities Operating.** Annual receipts increased slightly resulting from grants related to Realignment of prisoners from State prisons to jails.

6. **Grants and Contributions – Capital.** Annual receipts decreased due to the completion of projects using Association of Bay Area Governments (ABAG) grant funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The change in net position for the fiscal years ended June 30, 2014, and 2013, follows:

Changes in Net Position

	2014			2013		
	Govern-mental Activities	Business-type Activities	Total	Govern-mental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	$ 1,983,165	$ 4,319,431	$ 6,302,596	$ 3,208,333	$ 5,134,849	$ 8,343,182
Grants and contributions:						
Operating	1,108,168	-	1,108,168	307,410	-	307,410
Capital	-	-	-	-	119,133	119,133
General revenues:						
Property taxes, levied for general purposes	2,112,267	-	2,112,267	1,544,204	-	1,544,204
Transient occupancy taxes	3,254,918	-	3,254,918	2,974,285	-	2,974,285
Sales taxes	2,717,216	-	2,717,216	2,591,250	-	2,591,250
Measure J	2,225,657	-	2,225,657	1,081,166	-	1,081,166
Franchise taxes	406,409	-	406,409	370,686	-	370,686
Other taxes	389,540	-	389,540	528,536	-	528,536
State motor vehicle in-lieu	794,157	-	794,157	805,258	-	805,258
Use of money and property	43,665	202,402	246,067	14,998	27,103	42,101
Other general revenues	203,621	-	203,621	151,799	-	151,799
Total revenues	15,238,783	4,521,833	19,760,616	13,577,925	5,281,085	18,859,010
Expenses:						
Governmental activities:						
General government	4,049,913	-	4,049,913	2,473,531	-	2,473,531
Public safety	9,499,274	-	9,499,274	11,350,853	-	11,350,853
Public works	2,580,984	-	2,580,984	2,393,459	-	2,393,459
Community development	16,609	-	16,609	218,749	-	218,749
Culture and leisure	309,418	-	309,418	175,499	-	175,499
Interest and fiscal charges	(2,427)	-	(2,427)	155,029	-	155,029
Business-type activities:						
Water	-	3,990,174	3,990,174	-	3,869,772	3,869,772
Cemetery	-	275,891	275,891	-	427,438	427,438
Debt interest and issuance cost	-	-	-	-	97,057	97,057
Total expenses	16,453,771	4,266,065	20,719,836	16,767,120	4,394,267	21,161,387
Excess (Deficiency) of revenues over expenditures before transfers	(1,214,988)	255,768	(959,220)	(3,189,195)	886,818	(2,302,377)
Transfers	1,432,083	(1,432,083)	-	311,114	(311,114)	-
Special items	20,682,556	-	20,682,556	850,711	-	850,711
Change in net position	20,899,651	(1,176,315)	19,723,336	(2,027,370)	575,704	(1,451,666)
Net position:						
Beginning of year	17,267,713	16,340,811	33,608,524	19,307,011	15,765,107	35,072,118
Prior period adjustments	-	-	-	(11,928)	-	(11,928)
End of year	$ 38,167,364	$ 15,164,496	$ 53,331,860	$ 17,267,713	$ 16,340,811	$ 33,608,524

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Expenses

Governmental and business-type activity expenses of the City for the year totaled $20,719,836. Governmental activity expenses totaled $16,453,771 or 79% of total expenses. Business-type activities incurred $4,266,065 of expenses during the fiscal year. Public safety costs represented 58% of total governmental activities expenses.

Governmental Activities

The following table shows the cost of each of the City's major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of the programs. The total cost of services and the net cost of services for the fiscal years ended June 30, 2014, and 2013, are as follows:

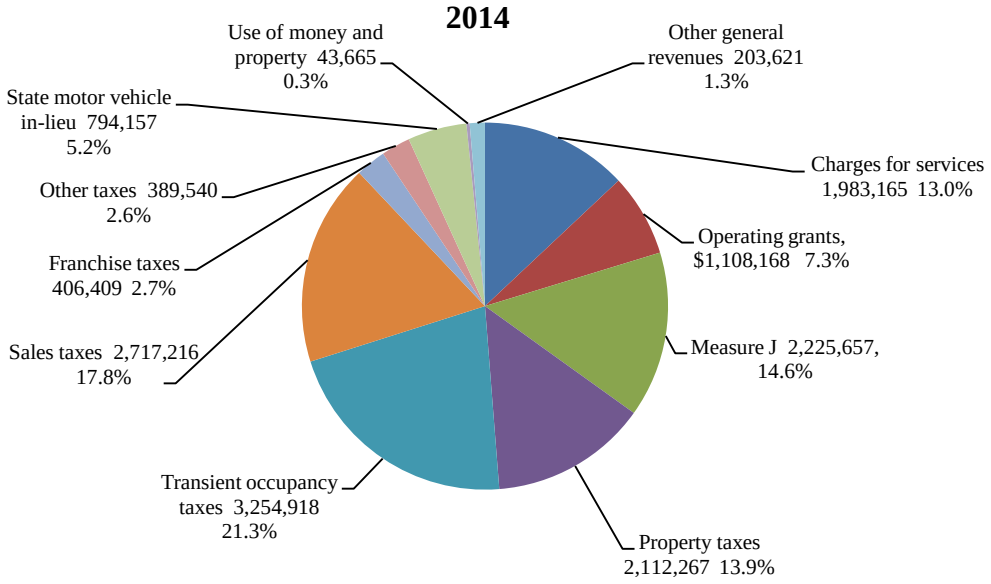
	2014		2013	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	$ 4,049,913	$ (3,855,295)	$ 2,473,531	$ (2,038,452)
Public safety	9,499,274	(7,840,529)	11,350,853	(9,181,724)
Public works	2,580,984	(1,471,925)	2,393,459	(1,740,141)
Community development	16,609	(16,609)	218,749	(12,380)
Culture and leisure	309,418	(180,507)	175,499	(123,651)
Interest and fiscal charges	(2,427)	2,427	155,029	(155,029)
Total	$ 16,453,771	$ (13,362,438)	$ 16,767,120	$ (13,251,377)

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

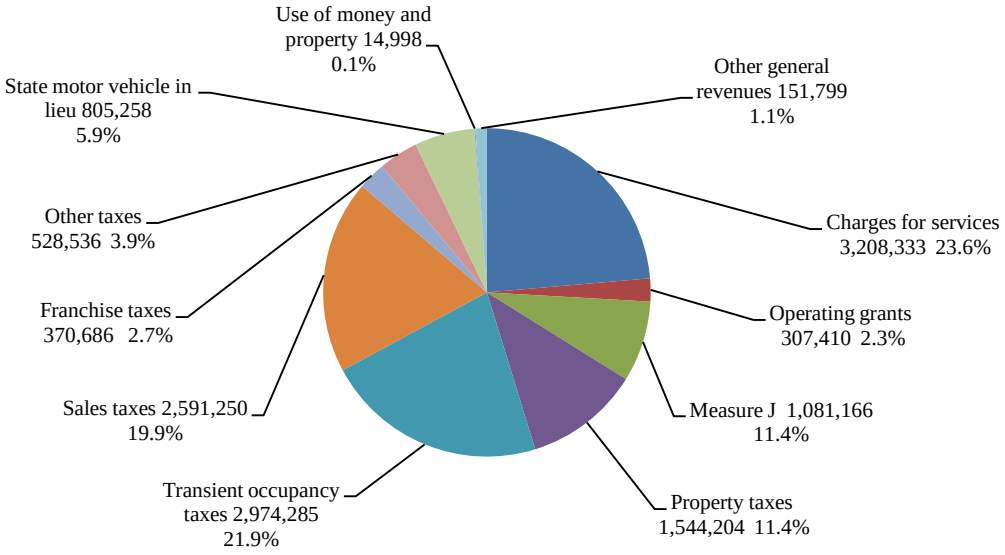
Governmental Activities, continued

Revenues by source for the fiscal years ended June 30, 2014, and 2013, are as follows:

Revenues by Source - Governmental Activities 2014



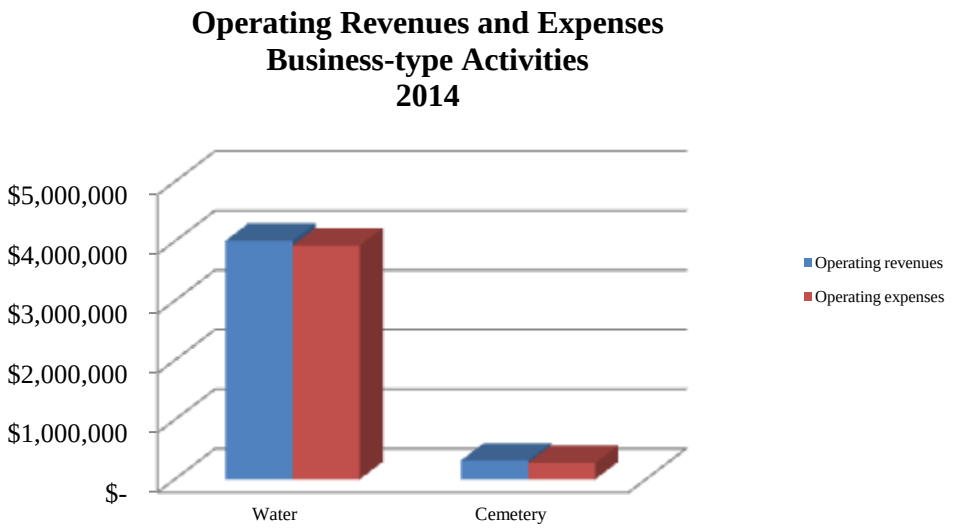
Revenues by Source - Governmental Activities 2013

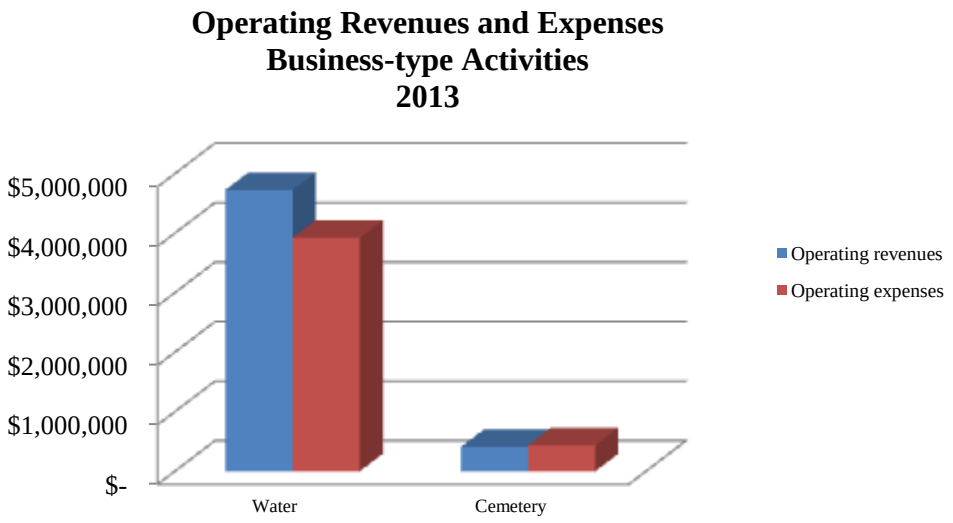


GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business-type Activities

Business-type activities decreased the City's net position by $1,176,315. The City has two business-type activities: Water and Cemetery operations. The operating revenues and expenses for the business-type activities for the fiscal years ended June 30, 2014, and 2013, are as follows:



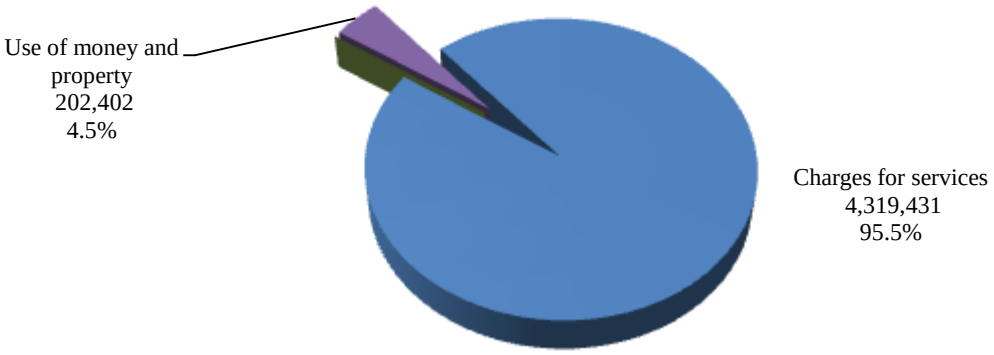


GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

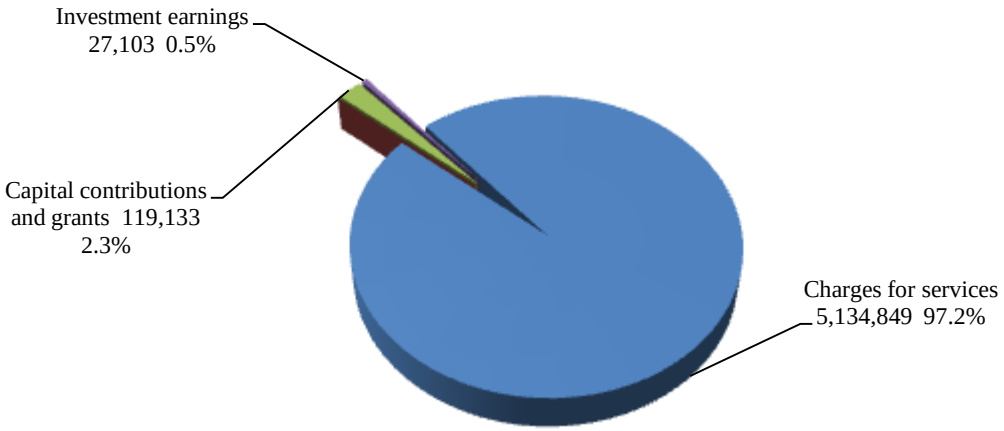
Business-type Activities, continued

The revenues by source for the business-type activities for the fiscal years ended June 30, 2014, and 2013, are as follows:

Revenues by Source - Business-type Activities
2014



Revenues by Source - Business-type Activities
2013



GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Financial Analysis of the Government's Funds

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

Governmental funds. The City's governmental funds provide information on near-term inflows, outflows, and balances of spending resources. At the fiscal year ended June 30, 2014, the City's governmental funds reported combined fund balances of $6,488,352. This is a slight increase from the prior fiscal year.

The General Fund is the chief operating fund of the City. At the fiscal year ended June 30, 2014, General Fund unassigned fund balance totaled $6,927,638. This is an increase of $486,435 from the prior year. This increase results from deferral of some Streets Capital projects into the following Fiscal Year.

The Economic Stimulus Fund was created during the period of American Recovery and Reinvestment Act of 2009. This fund was closed in 2014.

Proprietary funds. The City's proprietary funds unrestricted net position decreased by approximately $1.6 million in the fiscal year ended June 30, 2014. This decrease resulted from transfers to other funds for capital related activities. In addition, a water rate study was performed in 2014 to determine if water revenue will be adequate to support operating expenses in a drought.

General Fund Budgetary Highlights

The difference between the final budget and actual revenues is minor.

There was an $860,000 difference between the total original budget and the total final amended budget. This was due primarily to the Council approved allocation of funds received in Fiscal Year 2012 – 2013 after dissolution of redevelopment.

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amount to $45,995,914. This investment in capital assets includes land, construction in progress costs for road and median improvements, buildings and improvements, infrastructure, furniture and equipment, and vehicles.

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	$ 4,868,520	$ 2,901,724	$ 960,472	$ 960,472	$ 5,828,992	$ 3,862,196
Construction in progress	858,520	75,667	981,294	83,735	1,839,814	159,402
Buildings and improvements	9,074,289	2,826,677	6,409,190	6,681,520	15,483,479	9,508,197
Equipment and vehicles	1,843,527	1,881,971	70,341	99,025	1,913,868	1,980,996
Infrastructure	16,886,183	5,488,421	4,043,578	4,137,894	20,929,761	9,626,315
Total	$ 33,531,039	$ 13,174,460	$ 12,464,875	$ 11,962,646	$ 45,995,914	$ 25,137,106

This increase results from the transfer of capital assets from the Former Sonoma Community Development Agency.

More detail of the capital assets and current activity can be found in the notes to the financial statements on page 52 for significant accounting policies and Note 4 on page 63 for other capital asset information.

Economic Outlook

Turning the economic corner from prior years, the local and national economy grew slowly. The US economy grew 2.7 percent in fiscal year 2014, as unemployment began to drop and consumer confidence rose. Sonoma County saw an increase in employment and an increase in tourism but it is anticipated that growth will slow. At the same time, the state's impact on, and relationship with, local government will continue to impose many barriers to economic growth within the City as a result of the dissolution of redevelopment, realignment and as the State's activities continue to require additional revenue and impose stricter regulatory requirements on local government and small business.

Requests for Information

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

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

City of Sonoma, California
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	$ 7,296,213	$ 5,163,917	$ 12,460,130
Restricted cash and investments	-	5,940	5,940
Receivables:			
Taxes	1,221,384	-	1,221,384
Accounts	-	315,648	315,648
Intergovernmental	24,077	-	24,077
Other	342,038	-	342,038
Internal balances	633,577	(633,577)	-
Deposits and other assets	837,742	1,169	838,911
Total current assets	10,355,031	4,853,097	15,208,128
Noncurrent assets:			
Capital assets:			
Nondepreciable	5,727,040	1,941,766	7,668,806
Depreciable	27,803,999	10,523,109	38,327,108
Total noncurrent assets	33,531,039	12,464,875	45,995,914
Total assets	$ 43,886,070	$ 17,317,972	$ 61,204,042
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	$ 2,369,028	$ 305,978	$ 2,675,006
Interest payable	9,416	-	9,416
Deposits payable	190,481	162,098	352,579
Compensated absences - current portion	105,106	-	105,106
Due within one year	361,749	60,000	421,749
Total current liabilities	3,035,780	528,076	3,563,856
Noncurrent liabilities:			
Long-term liabilities:			
Compensated absences	147,185	140,400	287,585
Due after one year	2,535,741	1,485,000	4,020,741
Total noncurrent liabilities	2,682,926	1,625,400	4,308,326
Total liabilities	5,718,706	2,153,476	7,872,182
NET POSITION			
Net investment in capital assets	30,633,549	10,979,875	41,613,424
Restricted	10,965	-	10,965
Unrestricted	7,522,850	4,184,621	11,707,471
Total net position	38,167,364	15,164,496	53,331,860
Total liabilities and net position	$ 43,886,070	$ 17,317,972	$ 61,204,042

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

City of Sonoma, California
Statement of Activities
For the year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 4,049,913	$ 114,098	$ 80,520	$ -
Public safety	9,499,274	1,288,593	370,152	-
Public works	2,580,984	543,692	565,367	-
Community development	16,609	-	-	-
Culture and leisure	309,418	36,782	92,129	-
Interest and fiscal charges	(2,427)	-	-	-
Total governmental activities	16,453,771	1,983,165	1,108,168	-
Business-type activities:				
Water	3,990,174	4,005,862	-	-
Cemetery	275,891	313,569	-	-
Total business-type activities	4,266,065	4,319,431	-	-
Total primary government	$ 20,719,836	$ 6,302,596	$ 1,108,168	$ -

General revenues:
- Taxes:
  - Property taxes, levied for general purposes
  - Transient occupancy taxes, levied for general purposes
  - Sales taxes
  - Measure J
  - Franchise taxes
  - Other taxes
- Intergovernmental:
  - State motor vehicle in-lieu tax (MVLF)
- Use of money and property
- Other general revenues
  - Total general revenues
- Transfers
  - Total general revenues and transfers

Special item:
- Disallowed receivable from Successor Agency
- Capital asset transfer from Successor Agency
- Change in net position
- Net position:
  - Beginning of year
  - End of year

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

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	**Business-Type Activities**	**Totals**
$ (3,855,295)	$ -	$ (3,855,295)
(7,840,529)	-	(7,840,529)
(1,471,925)	-	(1,471,925)
(16,609)	-	(16,609)
(180,507)	-	(180,507)
2,427	-	2,427
(13,362,438)	-	(13,362,438)
-	15,688	15,688
-	37,678	37,678
-	53,366	53,366
(13,362,438)	53,366	(13,309,072)
2,112,267	-	2,112,267
3,254,918	-	3,254,918
2,717,216	-	2,717,216
2,225,657	-	2,225,657
406,409	-	406,409
389,540	-	389,540
794,157	-	794,157
43,665	202,402	246,067
203,621	-	203,621
12,147,450	202,402	12,349,852
1,432,083	(1,432,083)	-
13,579,533	(1,229,681)	12,349,852
(290,767)	-	(290,767)
20,973,323	-	20,973,323
20,899,651	(1,176,315)	19,723,336
17,267,713	16,340,811	33,608,524
$ 38,167,364	$ 15,164,496	$ 53,331,860

This page intentionally left blank.

FUND FINANCIAL STATEMENTS
MAJOR FUNDS

Fund	Description
Governmental Funds:	Governmental funds are used for taxes and grants.
General	Primary operating fund of the City; accounts for all activities except those legally or administratively required to be accounted for in other funds.
Gas Tax Special Revenue Fund	Accounts for funds received and expended for street maintenance purposes as defined in Sections 2105, 2106, 2107, and 2107.5 of the Streets and Highway Code.
Economic Stimulus Fund	Accounts for costs to be paid using grants from the American Recovery and Reinvestment Act of 2009.

City of Sonoma, California
Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds	
	General Fund	Gas Tax Special Revenue
ASSETS		
Cash and investments	$ 3,284,856	$ -
Receivables:		
Taxes	1,221,384	-
Intergovernmental	16,154	-
Other receivable	338,683	-
Due from other funds	3,385,250	-
Prepaid items	8,492	-
Total assets	$ 8,254,819	$ -
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,287,583	$ 43,169
Due to other funds	-	709,448
Deposits payable	31,106	-
Total liabilities	1,318,689	752,617
Fund balances:		
Nonspendable - Prepaid items	8,492	-
Restricted	-	-
Assigned	-	-
Unassigned (deficit)	6,927,638	(752,617)
Total fund balances	6,936,130	(752,617)
Total liabilities and fund balances	$ 8,254,819	$ -

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

Economic Stimulus Special Revenue	Nonmajor Governmental Funds	Totals
$ -	$ 673,371	$ 3,958,227
-	-	1,221,384
-	7,923	24,077
-	-	338,683
-	-	3,385,250
-	-	8,492
$ -	$ 681,294	$ 8,936,113
$ -	$ 6,451	$ 1,337,203
-	218,708	928,156
-	151,296	182,402
-	376,455	2,447,761
-	-	8,492
-	10,965	10,965
-	513,093	513,093
-	(219,219)	5,955,802
-	304,839	6,488,352
$ -	$ 681,294	$ 8,936,113

City of Sonoma, California

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2014

Total fund balances - total governmental funds		$ 6,488,352
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		33,531,039
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.		
Compensated absences	$ (251,878)	
Due within one year	(361,749)	
Due after one year	(2,535,741)	(3,149,368)
Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not reported in the governmental funds.		(9,416)
Internal services funds are used by management to charge the costs of certain activities, such as information technology and long term building maintenance, to individual funds. The assets and liabilities of the internal service funds are:		
Current assets	4,170,591	
Accounts payable and accrued liabilities	(2,863,834)	1,306,757
Net Position of governmental activities		$ 38,167,364

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

City of Sonoma, California

Reconciliation of Fund Basis Balance Sheet to Government-wide Statement of Net Position

Governmental Activities

June 30, 2014

	Governmental Funds Balance Sheet	Reclassifications	Changes in GAAP	Internal Services Balances	Statement of Net Position
ASSETS					
Current assets:					
Cash and investments	$ 3,958,227	$ -	$ -	$ 3,337,986	$ 7,296,213
Receivables:					
Taxes	1,221,384	-	-	-	1,221,384
Intergovernmental	24,077	-	-	-	24,077
Other receivable	338,683	-	-	3,355	342,038
Due from other funds	3,385,250	(3,385,250)	-	-	-
Internal balances	-	633,577	-	-	633,577
Deposits and other assets	8,492	-	-	829,250	837,742
Total current assets	8,936,113	(2,751,673)	-	4,170,591	10,355,031
Noncurrent assets:					
Capital assets, net	-	-	33,531,039	-	33,531,039
Total noncurrent assets	-	-	33,531,039	-	33,531,039
Total assets	$ 8,936,113	$ (2,751,673)	$ 33,531,039	$ 4,170,591	$ 43,886,070
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES					
Current liabilities:					
Accounts payable and accrued liabilities	$ 1,337,203	$ -	$ -	$ 1,031,825	$ 2,369,028
Interest payable	-	-	9,416	-	9,416
Due to other funds	928,156	(2,751,673)	-	1,823,517	-
Deposits payable	182,402	-	-	8,079	190,481
Compensated absences - current portion	-	-	104,693	413	105,106
Due within one year	-	-	361,749	-	361,749
Total current liabilities	2,447,761	(2,751,673)	475,858	2,863,834	3,035,780
Noncurrent liabilities:					
Long-term liabilities:					
Compensated absences	-	-	147,185	-	147,185
Due after one year	-	-	2,535,741	-	2,535,741
Total noncurrent liabilities	-	-	2,682,926	-	2,682,926
Total liabilities	2,447,761	(2,751,673)	3,158,784	2,863,834	5,718,706
Deferred inflows: Unavailable revenue	-	-	-	-	-
Total liabities and deferred inflows:	2,447,761	(2,751,673)	3,158,784	2,863,834	5,718,706
FUND BALANCES/NET POSITION					
Fund balances:					
Nonspendable	8,492	(8,492)	-	-	-
Restricted	10,965	(10,965)	-	-	-
Assigned	513,093	(513,093)	-	-	-
Unassigned (deficit)	5,955,802	(5,955,802)	-	-	-
Net position:					-
Net investment in capital assets	-	-	30,633,549	-	30,633,549
Restricted	-	-	10,965	-	10,965
Unrestricted	-	6,488,352	(272,259)	1,306,757	7,522,850
Total fund balances/net position	6,488,352	-	30,372,255	1,306,757	38,167,364
Total liabilities, deferred inflows and net position	$ 8,936,113	$ (2,751,673)	$ 33,531,039	$ 4,170,591	$ 43,886,070

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

City of Sonoma, California

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2014

	Major Funds		
	General Fund	Gas Tax Special Revenue	Economic Stimulus Special Revenue
REVENUES:			
Taxes and assessments	$ 11,954,552	$ -	$ -
Licenses and permits	11,543	-	-
Fines and forfeitures	72,941	-	-
Intergovernmental	344,484	331,576	-
Use of money and property	145,079	-	-
Charges for services	1,906,605	-	-
Reimbursements	23,494	-	-
Other revenues	179,048	-	-
Total revenues	14,637,746	331,576	-
EXPENDITURES:			
Current:			
General government	2,806,182	-	-
Public safety	9,280,594	-	-
Public works	930,584	677,123	-
Community development	-	-	-
Culture and leisure	152,106	-	-
Capital outlay	1,082,417	-	-
Debt service:			-
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	14,251,883	677,123	-
REVENUES OVER (UNDER) EXPENDITURES	385,863	(345,547)	-
OTHER FINANCING SOURCES (USES):			
Transfers from the Successor Agency to the Sonoma Community Development Agency	168,472	-	-
Transfers in	380,200	421,377	824,345
Transfers out	(458,569)	(54,617)	-
Total other financing sources (uses)	90,103	366,760	824,345
Net change in fund balances	475,966	21,213	824,345
FUND BALANCES (deficit):			
Beginning of year	6,460,164	(773,830)	(824,345)
End of year	$ 6,936,130	$ (752,617)	$ -

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

Other Governmental Funds	Totals
$ 55,980	$ 12,010,532
49,207	60,750
-	72,941
129,852	805,912
3,531	148,610
-	1,906,605
-	23,494
30,891	209,939
269,461	15,238,783
-	2,806,182
12,613	9,293,207
-	1,607,707
16,609	16,609
157,312	309,418
-	1,082,417
351,749	351,749
98,008	98,008
636,291	15,565,297
(366,830)	(326,514)
-	168,472
588,357	2,214,279
(209,010)	(722,196)
379,347	1,660,555
12,517	1,334,041
292,322	5,154,311
$ 304,839	$ 6,488,352

City of Sonoma, California

Reconciliation of Fund Basis Statements to Government-wide Statement of Activities

For the year ended June 30, 2014

Functions/Programs	Fund Based Totals	Compensated Absences/ Debt Service	Internal Service	Depreciation	Capital Asset (Additions)/ Retirements	Government-wide Totals
Governmental activities:						
General government	$ 2,806,182	$ (62,970)	$ 786,884	$ 220,226	$ 299,591	$ 4,049,913
Public safety	9,293,207	-	-	206,067	-	9,499,274
Public works	1,607,707	-	-	973,277	-	2,580,984
Community development	16,609	-	-	-	-	16,609
Culture and leisure	309,418	-	-	-	-	309,418
Capital outlay	1,082,417	-	-	-	(1,082,417)	-
Debt service/Interest	449,757	(452,184)	-	-	-	(2,427)
Total governmental activities	$ 15,565,297	$ (515,154)	$ 786,884	$ 1,399,570	$ (782,826)	$ 16,453,771

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

City of Sonoma, California

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2014

Net change in fund balances - total governmental funds		$ 1,334,041
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized	$ 782,826	
Capital asset transfer from private purpose trust funds	20,973,323	
Depreciation expense	(1,399,570)	20,356,579
Certain notes receivable are reported in the governmental funds as expenditures and then offset by a deferred revenue as they are not available to pay current expenditures. Likewise, when the note is collected it is reflected in revenue. This is the net change between notes receivable collected and issued.		(459,239)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Debt principal payments		351,749
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in interest payable	(9,416)	
Bond premium	109,851	
Change in compensated absences	62,970	163,405
Internal services funds are used by management to charge the costs of certain activities, such as MIS, to individual funds. The change in Net Position of the Internal Service Funds before transfers ($1,181,266) and net transfers out of ($60,000) are included in the governmental activities in the government-wide Statement of Net Position.	(786,884)	
	(60,000)	(846,884)
Change in Net Position of governmental activities		$ 20,899,651

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

City of Sonoma, California

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - Major Funds

For the year ended June 30, 2014

	General Fund			
	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Taxes and assessments	$ 11,226,690	$ 10,976,690	$ 11,954,552	$ 977,862
Licenses and permits	12,500	12,500	11,543	(957)
Fines and forfeitures	85,300	85,300	72,941	(12,359)
Intergovernmental	58,500	58,500	344,484	285,984
Use of money and property	144,500	144,500	145,079	579
Charges for services	1,921,442	1,921,442	1,906,605	(14,837)
Reimbursements	44,000	44,000	23,494	(20,506)
Other revenues	-	-	179,048	179,048
Total revenues	13,492,932	13,242,932	14,637,746	1,394,814
EXPENDITURES:				
Current:				
General government	2,939,347	2,939,347	2,806,182	133,165
Public safety	9,172,963	9,172,963	9,280,594	(107,631)
Public works	933,252	933,252	930,584	2,668
Culture and leisure	133,700	133,700	152,106	(18,406)
Capital outlay	915,130	915,130	1,082,417	(167,287)
Total expenditures	14,094,392	14,094,392	14,251,883	(157,491)
REVENUES OVER (UNDER) EXPENDITURES	(601,460)	(851,460)	385,863	1,237,323
OTHER FINANCING SOURCES (USES):				
Transfers from the Successor Agency to the Sonoma Community Development Agency	-	-	168,472	168,472
Transfers in	-	-	380,200	380,200
Transfers out	(111,823)	(111,823)	(458,569)	(346,746)
Total other financing sources (uses)	(111,823)	(111,823)	90,103	201,926
Net change in fund balances	(713,283)	(963,283)	475,966	1,439,249
FUND BALANCES (deficit):				
Beginning of year	6,460,164	6,460,164	6,460,164	-
End of year	$ 5,746,881	$ 5,496,881	$ 6,936,130	$ 1,439,249

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

Gas Tax Special Revenue Fund				Economic Stimulus Special Revenue Fund			
Budgeted Amounts			Variance w/Final Positive	Budgeted Amounts			Variance w/Final Positive
Original	Final	Actual	(Negative)	Original	Final	Actual	(Negative)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
180,000	180,000	331,576	151,576	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
180,000	180,000	331,576	151,576	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
619,508	619,508	677,123	(57,615)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
619,508	619,508	677,123	(57,615)	-	-	-	-
(439,508)	(439,508)	(345,547)	93,961	-	-	-	-
-	-	-	-	-	-	-	-
421,377	421,377	421,377	-	-	-	824,345	824,345
-	-	(54,617)	(54,617)	-	-	-	-
421,377	421,377	366,760	(54,617)	-	-	824,345	824,345
(18,131)	(18,131)	21,213	39,344	-	-	824,345	824,345
(773,830)	(773,830)	(773,830)	-	(824,345)	(824,345)	(824,345)	-
$ (791,961)	$ (791,961)	$ (752,617)	$ 39,344	$ (824,345)	$ (824,345)	$ -	$ 824,345

This page intentionally left blank.

ENTERPRISE FUNDS

Fund	Description
Major Funds:	
Water Fund	Accounts for the operation and maintenance of the City's water treatment and distribution system.
Cemetery Fund	Accounts for the operation and maintenance of the City's cemeteries.

City of Sonoma, California
Statement of Net Position
Proprietary Funds
June 30, 2014

	Water Fund	Cemetery Fund	Totals	Governmental Activities Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	$ 5,163,917	$ -	$ 5,163,917	$ 3,337,986
Restricted cash and investments	5,940	-	5,940	-
Receivables:				
Accounts	315,628	20	315,648	3,355
Prepaid items	1,169	-	1,169	829,250
Total current assets	5,486,654	20	5,486,674	4,170,591
Noncurrent assets:				
Capital assets, net	10,997,649	1,467,226	12,464,875	-
Total noncurrent assets	10,997,649	1,467,226	12,464,875	-
Total Assets	$ 16,484,303	$ 1,467,246	$ 17,951,549	$ 4,170,591
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	$ 299,014	$ 6,964	$ 305,978	$ 1,031,825
Due to other funds	-	633,577	633,577	1,823,517
Deposits payable	56,239	105,859	162,098	8,079
Current portion of long-term debt	60,000	-	60,000	-
Total current liabilities	415,253	746,400	1,161,653	2,863,834
Noncurrent liabilities:				
Compensated absences	127,310	13,090	140,400	-
Due after one year	1,485,000	-	1,485,000	-
Total noncurrent liabilities	1,612,310	13,090	1,625,400	-
Total liabilities	2,027,563	759,490	2,787,053	2,863,834
Net Position:				
Net investment in capital assets	9,512,649	1,467,226	10,979,875	-
Unrestricted (deficit)	4,944,091	(759,470)	4,184,621	1,306,757
Total net position	14,456,740	707,756	15,164,496	1,306,757
Total liabilities and net position	$ 16,484,303	$ 1,467,246	$ 17,951,549	$ 4,170,591

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

City of Sonoma, California

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the year ended June 30, 2014

	Water Fund	Cemetery Fund	Totals	Governmental Activities Internal Service Funds
OPERATING REVENUES:				
Charges for service	$ 4,002,744	$ 240,874	$ 4,243,618	$ -
Interdepartmental charges	-	-	-	2,057,492
Other operating revenue	3,118	72,695	75,813	-
Total operating revenues	4,005,862	313,569	4,319,431	2,057,492
OPERATING EXPENSES:				
Salaries and benefits	1,264,882	182,890	1,447,772	1,708,600
Contractual services	1,765,537	50,715	1,816,252	294
Materials and supplies	207,312	30,295	237,607	139,481
Repairs and maintenance	23,125	3,681	26,806	501,661
Utilities	33,957	398	34,355	-
Insurance	53,731	-	53,731	349,020
Other operating	97,520	-	97,520	12,698
Allocated overhead	127,225	(33,958)	93,267	163,062
Depreciation	353,460	41,870	395,330	-
Total operating expenses	3,926,749	275,891	4,202,640	2,874,816
OPERATING INCOME (LOSS)	79,113	37,678	116,791	(817,324)
NONOPERATING REVENUES (EXPENSES):				
Gain (Loss) from the sale of capital assets	9,520	-	9,520	33,000
Connection fees	160,831	-	160,831	-
Interest revenue	26,900	5,151	32,051	(2,560)
Interest expense	(63,425)	-	(63,425)	-
Total non-operating revenues, net	133,826	5,151	138,977	30,440
NET INCOME (LOSS) BEFORE TRANSFERS	212,939	42,829	255,768	(786,884)
Transfers in	135,909	-	135,909	-
Transfers out	(1,538,416)	(29,576)	(1,567,992)	(60,000)
Total transfers	(1,402,507)	(29,576)	(1,432,083)	(60,000)
CHANGE IN NET POSITION	(1,189,568)	13,253	(1,176,315)	(846,884)
NET POSITION:				
Beginning of year	15,646,308	694,503	16,340,811	2,153,641
End of year	$ 14,456,740	$ 707,756	$ 15,164,496	$ 1,306,757

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

City of Sonoma, California
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2014

	Water Fund	Cemetery Fund	Totals	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/users for services provided	$ 4,498,178	$ 310,434	$ 4,808,612	$ -
Cash received from interfund services provided	-	-	-	2,069,240
Cash payments to suppliers for goods and services	(2,343,147)	(50,313)	(2,393,460)	(930,564)
Cash payments to employees for services	(1,188,264)	(187,394)	(1,375,658)	(1,704,850)
Net cash provided by operating activities	966,767	72,727	1,039,494	(566,174)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers received	-	-	-	618,009
Transfers paid	(1,402,507)	(32,897)	(1,435,404)	(60,000)
Connection fees received	160,831	-	160,831	
Net cash used by noncapital financing activities	(1,241,676)	(32,897)	(1,274,573)	558,009
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(851,631)	(45,928)	(897,559)	-
Proceeds from sale of capital assets	9,520	-	9,520	33,000
Principal paid on long term debt	(60,000)	-	(60,000)	-
Interest paid on long term debt	(63,425)	-	(63,425)	-
Payments for loans receivable	-	-	-	-
Net cash (used) by capital and related financing activities	(965,536)	(45,928)	(1,011,464)	33,000
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income received	32,197	6,098	38,295	(2)
Net cash provided by investing activities	32,197	6,098	38,295	(2)
Net increase (decrease) in cash and cash equivalents	(1,208,248)	-	(1,208,248)	24,833
CASH AND CASH EQUIVALENTS:				
Beginning of year	6,378,105	-	6,378,105	3,313,153
End of year	$ 5,169,857	$ -	$ 5,169,857	$ 3,337,986
Amounts as reported in Statement of Net Position:				
Cash and investments	$ 5,163,917	$ -	$ 5,163,917	$ 3,337,986
Restricted cash and investments	5,940	-	5,940	-
Total cash and investments	$ 5,169,857	$ -	$ 5,169,857	$ 3,337,986
Reconciliation of income from operations to net cash provided by operating activities:				
Operating income	$ 79,113	$ 37,678	$ 116,791	$ (817,324)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	351,126	44,204	395,330	-
(Increase) decrease in current assets:				
Accounts receivable	518,374	-	518,374	11,748
Inventory	-	-	-	(759,880)
Prepaid items	(519)	-	(519)	
Increase (decrease) in liabilities:				
Accounts payable	(31,887)	(1,516)	(33,403)	995,532
Deposits payable	(26,058)	(3,135)	(29,193)	-
Compensated absences	76,618	(4,504)	72,114	3,750
Net cash provided by operating activities	$ 966,767	$ 72,727	$ 1,039,494	$ (566,174)

There were no noncash investing, capital, or financing activities affecting recognized assets and liabilities for the year ended June 30, 2014.

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

FIDUCIARY ACTIVITIES

Fund	Description
Private Purpose Trust Funds are used for resources held for other individuals and entities in a manner similar to private enterprise.	
Successor Agency - Sonoma Community Development Agency	Accounts for funds collected and disbursed for the dissolution of the former Sonoma Community Development Agency related to Administration and Retirement of enforceable obligations
Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments.	

The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

City of Sonoma, California
Statement of Fiduciary Net Position
Fiduciary Activities
June 30, 2014

	Successor Agency Former Sonoma Community Development Agency	Agency Funds
Current assets:		
Cash and investments	$ 4,208,643	$ 2,840,914
Cash and investments with trustee/fiscal agent	6,589,909	-
Accounts receivable	75	175,492
Total current assets	10,798,627	3,016,406
Property, plant and equipment	-	1,039,210
Less accumulated depreciation	-	-
Property, plant, and equipment, net	-	1,039,210
Other assets:		
Investment in land held for resale or transfer	1,818,315	-
Prepaid items	2,069	271,347
Total other assets	1,820,384	271,347
Total assets	$ 12,619,011	$ 4,326,963
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued liabilities	$ 13,709	$ 356,558
Deposits payable	-	149,419
Payable to Sonoma County Housing Authority	1,920,016	-
Interest payable	906,600	-
Amounts held in trust	-	3,820,986
Due within one year	2,922,028	-
Total current liabilities	5,762,353	4,326,963
Long-term liabilities:		
Due after one year	39,736,451	-
Total long-term liabilities	39,736,451	-
Total liabilities	45,498,804	$ 4,326,963
Net Position (deficit):		
Net position held in trust for Redevelopment Dissolution	(32,879,793)	
Total Net Position (deficit)	(32,879,793)	
Total liabilities and net position	$ 12,619,011	

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

City of Sonoma, California

Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

For the year ended June 30, 2014

	Successor Agency Former Sonoma Community Development Agency
ADDITIONS:	
Property taxes	4,737,773
Investment income	7,137
Disallowance of enforceable obligation	459,239
Total operating revenues	5,204,149
DEDUCTIONS:	
Community development	393,461
Interest and trustee fees	3,473,812
Writedown of capital assets	2,542,831
Transfers to the Sonoma County Housing Authority	5,357,234
Transfers to the City of Sonoma	29,749,403
Total operating expenses	41,516,741
CHANGE IN FIDUCIARY NET POSITION	(36,312,592)
NET POSITION (DEFICIT):	
Beginning of year	3,432,799
End of year	$ (32,879,793)

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

This page intentionally left blank.

NOTES TO BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

Index to the Notes to Basic Financial Statements

Page

Note 1 - Summary of Significant Accounting Policies 46
Financial Reporting Entity 46
Basis of Presentation 47
Measurement Focus 49
Basis of Accounting 50
Assets, Liabilities, and Equity 51
Revenues, Expenditures, and Expenses 56
Budgetary Accounting 57

Note 2 – Cash and Investments 58

Note 3 – Accounts Receivable 62

Note 4 – Capital Assets 63

Note 5 – Accounts Payable and Accrued Liabilities 65

Note 6 – Long-Term Liabilities 65

Note 7 – Net Position/Fund Balances 68

Note 8 – Interfund Transactions 71

Note 9 – Risk Management 73

Note 10 – Public Employee Retirement System 75
Plan Description 75
Funding Policy 75

Note 11 – Successor Agency for Former Sonoma Community Development Agency 76

Note 12 – Commitments and Contingencies 80

Note 13 – New Accounting Pronouncements 80

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The City applies all GASB pronouncements to its activities.

In addition, the City applies all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Financial Reporting Entity

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Sonoma Community Housing Corporation was created as a public benefit corporation to provide affordable public housing. It is governed by two members of the City Council and two City employees. The Sonoma Community Housing Corporation activities are reported in a special revenue fund.

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

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

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions restricted to the operating or capital requirements of a specific function or segment. All taxes and internally dedicated resources are reported as *general revenues* rather than program revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least ten percent of the corresponding total for all funds of that category or type; and

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Continued

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least five percent of the corresponding total for all governmental funds combined.

The City reports the following major funds:

- General Fund
- Gas Tax Fund
- Economic Stimulus Fund
- Water Fund
- Cemetery Fund

Descriptions of these funds are included on the divider page preceding the Governmental Funds Balance Sheet.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is used to account for resources traditionally associated with the City which are not required legally or by sound financial management to be accounted for in another fund. From this fund are paid the City's general operating expenditures, the fixed charges, and the capital costs that are not paid through other funds.

Special Revenue Funds

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

Capital Project Funds

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

Debt Service Funds

Debt Service Funds account for the accumulation of resources to pay principal and interest on debt.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary Funds

Enterprise Funds

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

Internal Service Funds

Internal Service Funds are used to account for financial transactions related to the City's Vehicle Replacement, Insurance and Information Technology programs. These services are provided based on a prorated share of costs or based on anticipated equipment replacement timelines.

Fiduciary Funds

Private Purpose Trust Funds

Private Purpose Trust Funds account for resources held for other individuals or entities in a manner similar to private enterprise.

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments.

The City closed the following funds during the fiscal year: Economic Stimulus Special Revenue Fund, Eastside Estate Special Revenue Fund, Traffic Grant Special Revenue Fund, Section 125 MED Internal Service Fund, and Climate Conference Agency Fund.

Measurement Focus

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

On the government-wide Statement of Net Position and the Statement of Activities, governmental and business-type activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position, which serves as an indicator of financial position.

In the fund financial statements, the "current financial resources" measurement focus is used for governmental funds. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The enterprise funds and private purpose trust funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. Enterprise fund and private purpose trust funds equity is classified as net position. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means the amount is collectible within the current period or soon enough thereafter to pay current liabilities. The City considers all revenues reported in the governmental funds to be available if the revenues are anticipated to be collected within 60 days after year end.

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

The enterprise funds and agency funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assets, Liabilities, and Equity

Cash Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City pools cash and investments from all funds for the purpose of increasing income through investment activities. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Market value is used as fair value for those securities for which market quotations are readily available.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note 8 for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include: property taxes, sales taxes, Measure J, Emergency Medical Services charges, and Transient Occupancy Tax (TOT).

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, sales tax, and intergovernmental subventions since they are usually both measurable and available. Non-exchange transactions collectible but not available, such as property tax, are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. The loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. The loans are recognized when advanced in the government-wide statements. The City's experience is that all accounts receivable are collectible; therefore an allowance for doubtful accounts is unnecessary.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assets, Liabilities, and Equity, Continued

Inventory

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of supplies are expended when purchased because the amounts are not considered to be material. Inventories of governmental funds are recorded as expenditures when used or consumed.

Prepaid Items

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

Capital Assets

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

Government-Wide Statements

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assets, Liabilities, and Equity, Continued

Capital Assets, continued

Fund Financial Statements

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue,* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Equity Classification

Government-Wide Statements

Equity is classified as net position and is displayed in three components:

a. *Net investment in capital assets* – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

c. *Unrestricted net position* – all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is classified as nonspendable, restricted, committed, assigned, or unassigned. Proprietary fund equity is classified the same as in the government-wide statements. The classifications for governmental funds are defined as follows for the City:

Nonspendable Fund Balance –

- Assets that will never convert to cash (prepaid items, inventory).
- Assets that will not convert to cash soon enough to affect the current period (long-term notes or loans receivable).
- Resources that must be maintained intact pursuant to legal or contractual requirements (the principal of an endowment).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assets, Liabilities, and Equity, Continued

Restricted Fund Balance –

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

Committed Fund Balance –

- Self imposed limitations set in place prior to the end of the period (encumbrances, economic contingencies and uncertainties).
- Limitation at the highest level of decision-making (Council) that requires formal action at the same level to remove.
- Council resolution is required to be taken to establish, modify or rescind a fund balance commitment

Assigned Fund Balance –

- Amounts in excess of nonspendable, restricted and committed fund balance in funds other than the general fund automatically are reported as assigned fund balance.
- Assigned amounts for a specific purpose are as authorized by the City's Finance Director through its fund balance policy.

Unassigned Fund Balance –

- Residual net resources
- Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance (surplus).
- Excess of nonspendable, restricted, and committed fund balance over total fund balance (deficit).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenues, Expenditures, and Expenses

Property Tax

Property taxes in the State of California are administered for all local agencies at the county level and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

Property Valuations – are established by the Assessor of the County of Sonoma (County) for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIIIA of the State Constitution (Proposition 13 adopted by voters on June 6, 1978) properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies – are limited to 1% of full value which results in a tax rate of $1.00 per $100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections – are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The County levies, bills, and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the "alternate method of property tax distribution", known as the Teeter Plan, by the City and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid. The County remits tax monies to the City in three installments as follows:

50 percent remitted in December
45 percent remitted in April
5 percent remitted in June

Interfund Transfers

Resources are reallocated between funds by reporting them as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Budgetary Accounting

The City Council establishes budgets for the General Fund and all Special Revenue Funds, except for certain Special Revenue Funds for which expenditures are controlled by grant funding or by assessments received. Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Manager. The City Manager prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the municipal code.

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

Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, which increase appropriations, may be made during the fiscal year. There were supplemental appropriations of $860,000 made for the fiscal year ended June 30, 2014. Budget information is presented for the General and budgeted Special Revenue Funds in the fund financial statements. The budget information is presented on a basis consistent with generally accepted accounting principles. Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

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

Reclassifications

Certain amounts have been reclassified to provide for comparable results on a year to year basis.

2. CASH AND INVESTMENTS

At June 30, 2014, the City's pooled cash and investments, classified by maturity, consisted of the following stated at fair value:

			Maturities (in years)				Fair
			<1	1 to 3	3 to 5	Deposits	Market Value
Cash equivalents and investments pooled							
Pooled cash, at fair value							
Cash in bank			$ -	$ -	$ -	$ 858,222	$ 858,222
Petty cash			-	-	-	850	850
Total pooled items			-	-	-	859,072	859,072
Pooled investments, at fair value							
Interest obligations							
Par	Rate						
$ 6,451,000	0.750 - 2.650%	Certificate of Deposits	507,815	6,011,930	-	-	6,519,745
	0.010%	Mutual funds	6,595,849		-	-	6,595,849
State of California Local Agency Investment Fund			12,130,870	-	-	-	12,130,870
Total pooled investments - interest obligations			19,234,534	6,011,930	-	-	25,246,464
Total cash equivalents and investments pooled			$ 19,234,534	$ 6,011,930	$ -	$ 859,072	$ 26,105,536

Amounts reported in:	
Governmental activities	$ 7,296,213
Business-type activities	5,163,917
Business-type activities - Restricted	5,940
Fiduciary activities	7,049,557
Fiduciary activities - Restricted	6,589,909
Total	$ 26,105,536

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	$ 6,519,745	2.49
State investment pool	12,130,870	-
Held by bond trustees:		
Mutual funds	6,595,849	-
Total fair value	$ 25,246,464	
Portfolio weighted average maturity		2.49

2. CASH AND INVESTMENTS, Continued

California statutes authorize cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code of the City's investment policy. During the year ended June 30, 2014, the City's permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bankers' Acceptances	180 days	40%	None
Certificates of Deposits	180 days	20%	None
Negotiable Certificates of Deposit	180 days	30%	None
Commercial Paper	180 days	15%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	$50 Million per entity
Medium Term Notes	5 years	30%	None
Money Market Funds	N/A	Unlimited	None
Passbook Savings and Money Market Accounts (Insured)	None	Unlimited	None
U.S. Treasury Obligations	None	Unlimited	None
U.S. Government Agency Issues	None	Unlimited	None
Repurchase Agreements	30 days	10%	None
Mortgage pass-through and asset backed securities	5 years	20%	None

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

2. CASH AND INVESTMENTS, Continued

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

Interest rate risk –Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit risk – As of June 30, 2014, the City's investments in money market funds were rated AAA by Standard & Poor's and Fitch Ratings, and Aaa by Moody's Investors Service. The State of California Local Agency Investment Fund is not rated.

Concentration of credit risk – The City's investment policy does not allow for an investment in any one issuer that is in excess of five percent of the government's total investments. The investments made by the City Treasurer are limited to those allowable under State statutes as incorporated into the City's Investment Policy, which is accepted annually by the City Council. There were no concentrations in any one issuer for the year.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested 1.86% of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to changes in interest rates.

2. CASH AND INVESTMENTS, Continued

Custodial credit risk – deposits. For deposits, this is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's Investment Policy addresses custodial credit risk, which follows the Government Code.

At June 30, 2014, the carrying amount of the City's deposits was $859,072 and the balances in financial institutions were $1,335,233. Of the balance in financial institutions, $250,000 was covered by federal depository insurance and $1,085,233 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the City and other governmental agencies, but not in the name of the City. As of June 30, 2014, the City's investments were held by the City's custodial agent, but not in the City's name, and were insured up to specified limits by the Securities Investor Protection Corporation (SIPC) and supplemental private insurance up to a limit of $150 million.

Custodial credit risk – investments. For investments, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside counterparty. For the investments maintained by the City, no security was uninsured or unregistered or held by a brokerage firm which is also the counterparty for the security.

Investment in LAIF

The City is a voluntary participant in California Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section under the oversight of the Local Investment Advisory Board (Board). The Board consists of five members as designated by state statute, and is chaired by the State Treasurer who is responsible for day to day administration of LAIF. The total amount invested by all public agencies as of June 30, 2014 was $21,781,391,500 of which the City had a balance of $12,130,870. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2014 has a portfolio of $64,870,214,443. Of the total invested, 98.14% was invested in non-derivative financial products and 1.86% in structured notes and asset-backed securities. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2014:

	Governmental Activities	Business-type Activities	Fiduciary Activities	Totals
Taxes	$ 1,221,384	$ -	$ -	$ 1,221,384
Accounts receivable	-	315,648	175,567	491,215
Intergovernmental	24,077	-	-	24,077
Other	342,038	-	-	342,038
	$ 1,587,499	$ 315,648	$ 175,567	$ 2,078,714

These amounts resulted in the following concentrations in receivables:

Other Governments	59.9%	Individuals/Business	23.6%
Other	16.5%		

Amounts do not indicate a significant concentration (greater than 25%) with any single individual, business or agency.

4. CAPITAL ASSETS

Governmental capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2014
Governmental activities:					
Nondepreciable assets:					
Land	$ 2,901,724	$ -	$ -	$ 1,966,796	$ 4,868,520
Construction in progress	75,667	813,238	-	(30,385)	858,520
Total nondepreciable assets	2,977,391	813,238	-	1,936,411	5,727,040
Depreciable assets:					
Buildings and structures	7,777,032	-	-	10,821,099	18,598,131
Equipment and vehicles	5,493,506	12,698	(727,534)	387,449	5,166,119
Infrastructure	6,422,255	-	-	16,435,974	22,858,229
Total depreciable assets	19,692,793	12,698	(727,534)	27,644,522	46,622,479
Total	22,670,184	825,936	(727,534)	29,580,933	52,349,519
Accumulated depreciation:					
Buildings and structures	(4,950,355)	(493,218)	-	(4,080,269)	(9,523,842)
Equipment and vehicles	(3,611,535)	(233,274)	684,422	(162,205)	(3,322,592)
Infrastructure	(933,834)	(673,078)	-	(4,365,134)	(5,972,046)
Total accumulated depreciation	(9,495,724)	(1,399,570)	684,422	(8,607,608)	(18,818,480)
Net depreciable assets	10,197,069	(1,386,872)	(43,112)	19,036,914	27,803,999
Total net capital assets	$ 13,174,460	$ (573,634)	$ (43,112)	$ 20,973,325	$ 33,531,039

Depreciation expense for capital assets was charged to functions as follows:

General government	$ 220,226
Public safety	206,067
Public works	973,277
	$ 1,399,570

4. CAPITAL ASSETS, Continued

Business-type capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2014
Business-type activities					
Nondepreciable assets:					
Land	$ 960,472	$ -	$ -	$ -	$ 960,472
Construction in progress	83,735	897,559	-	-	981,294
Total nondepreciable assets	1,044,207	897,559	-	-	1,941,766
Depreciable assets:					
Buildings and improvements	16,876,552	-	-	-	16,876,552
Equipment and vehicles	942,455	-	-	-	942,455
Infrastructure	4,715,513	-	-	-	4,715,513
Total depreciable assets	22,534,520	-	-	-	22,534,520
Total	23,578,727	897,559	-	-	24,476,286
Accumulated depreciation:					
Buildings and improvements	(10,195,032)	(272,330)	-	-	(10,467,362)
Equipment and vehicles	(843,430)	(28,684)	-	-	(872,114)
Infrastructure	(577,619)	(94,316)	-	-	(671,935)
Total accumulated depreciation	(11,616,081)	(395,330)	-	-	(12,011,411)
Net depreciable assets	10,918,439	(395,330)	-	-	10,523,109
Total net capital assets	$ 11,962,646	$ 502,229	$ -	$ -	$ 12,464,875

Depreciation expense for capital assets was charged to functions as follows:

Water	$ 353,460
Cemetery	41,870
	$ 395,330

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2014:

	Governmental Activities	Business-type Activities	Fiduciary Activities	Total
Accounts payable	$ 1,420,863	$ 305,978	$ 370,267	$ 2,097,108
Accrued payroll and related liabilities	948,165	-	-	948,165
Deposits payable	190,481	162,098	149,419	501,998
Interest payable	9,416	-	906,600	916,016
Amounts held in trust	-	-	3,820,986	3,820,986
Total	$ 2,568,925	$ 468,076	$ 5,247,272	$ 8,284,273

These amounts resulted in the following concentrations in payables:

Vendors	25.3%
Employees	11.4%
Others	63.3%

Amounts do not indicate a significant concentration (greater than 25%) with any single vendor or employee.

6. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Governmental Activities:					
Capital Lease Obligations - CREBs	$ 459,239	$ -	$ (41,749)	$ 417,490	$ 41,749
Pension Obligation Bond	2,790,000	-	(310,000)	2,480,000	320,000
Total governmental debt	$ 3,249,239	$ -	$ (351,749)	$ 2,897,490	$ 361,749
Compensated absences	314,848	-	(62,557)	252,291	105,106
Total governmental activities	$ 3,564,087	$ -	$ (414,306)	$ 3,149,781	$ 466,855
Business-type activities					
2012 Refunding Water Sales Agreement	1,605,000	-	(60,000)	1,545,000	60,000
Total business-type activity debt	1,605,000	-	(60,000)	1,545,000	60,000
Compensated absences	68,286	72,114	-	140,400	-
Total business-type activities	$ 1,673,286	$ 72,114	$ (60,000)	$ 1,685,400	$ 60,000

6. LONG-TERM LIABILITIES, Continued

Governmental Activities

Capital Lease Obligations

Municipal Finance Corporation Lease – 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 and 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 and tax credits were granted to lender upon financing. The obligation is a lease agreement with Municipal Finance Corporation in the amount of $1,156,000 entered into on July 10, 2008. Principal installments of $41,749 are made on December 15 of each year, with the final installment due on December 15, 2024.

2012 Pension Obligation Bond

On December 20, 2012, the City issued Taxable Pension Obligation Bonds in the amount of $2,925,000 to refund its obligation to make certain payments to PERS in respect of retired public safety and miscellaneous employees under the Side Fund program of PERS which amortizes such obligations over a fixed period of time. The current annual interest rate imputed by PERS to side funds is 7.5%. Debt service will be funded from the revenue of the general fund. Interest rates vary from 2% to 4%. The principal installments and interest are payable annual beginning on June 1, 2013 and the final payment will be made on June 1, 2021. The bond was issued at a premium of $117,206 with underwriter discount of $43,875 which will be amortized over the life of the bonds.

Business-type Activities

2012 Refunding Water Installment Sale

On October 1, 2001, the Sonoma Public Financing Authority issued the 2001 Revenue Bonds, Series A in the amount of $1,605,000 to finance improvements to the Water System. On October 1, 2012, the City entered into an agreement with Public Property Financing Corporation of California ("Corporation") whereby Corporation purchases and resale the improvements to the Water System from and to the City for $1,605,000. The proceeds from the 2012 Refunding Water Installment Sale was used to repay the 2001 Revenue Bonds, Series A. The Corporation assigned and transferred certain of its rights, including the right to receive the installment payment to City National Bank. The principal amount is payable annually beginning from October 1, 2013 until October 1, 2031. Interests are payable semi-annually on April 1 and October 1. The outstanding balance of the loan at June 30, 2014, was $1,545,000.

6. LONG-TERM LIABILITIES, Continued

Compensated Absences

The City records employee absences, such as vacation, illness, and holidays, for which it is expected that employees will be paid as compensated absences. Compensated absences had a balance of $252,291 at June 30, 2014; of that amount $105,106 is expected to be paid within a year.

Future debt service for Governmental Activities at June 30, 2014, is as follows for all debt except compensated absences and claims liabilities:

	Governmental Activities			
	Capital lease		Pension Obligation Bond	
Year Ending June 30,	Principal	Interest	Principal	Interest
2015	$ 41,749	$ -	$ 320,000	$ 90,950
2016	41,749	-	330,000	81,350
2017	41,749	-	340,000	70,625
2018	41,749	-	350,000	58,725
2019	41,749	-	365,000	-
2020-2024	208,745	-	775,000	-
Total	$ 417,490	$ -	$ 2,480,000	$ 301,650
Due within one year	$ 41,749	$ -	$ 320,000	$ 90,950
Due after one year	375,741	-	2,160,000	210,700
Total	$ 417,490	$ -	$ 2,480,000	$ 301,650

	Total	
Year Ending June 30,	Principal	Interest
2015	$ 361,749	$ 90,950
2016	371,749	81,350
2017	381,749	70,625
2018	391,749	58,725
2019	406,749	-
2020-2024	983,745	-
Total	$ 2,897,490	$ 301,650
Due within one year	$ 361,749	$ 90,950
Due after one year	2,535,741	210,700
Total	$ 2,897,490	$ 301,650

6. LONG-TERM LIABILITIES, Continued

Future debt service for Business-type Activities at June 30, 2014, is as follows:

	Business Type Activities	
Year Ending	2012 Refunding Water Installment Sale	
June 30,	Principal	Interest
2015	$ 60,000	$ 59,085
2016	65,000	56,648
2017	65,000	54,112
2018	70,000	51,480
2019	75,000	48,652
2020-2024	400,000	198,120
2024-2029	480,000	112,710
2030-2032	330,000	19,695
Total	$ 1,545,000	$ 600,502
Due within one year	$ 60,000	$ 59,085
Due after one year	1,485,000	541,417
Total	$ 1,545,000	$ 600,502

7. NET POSITION/ FUND BALANCES

Net Position

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets	$ 30,633,549	$ 10,979,875	$ 41,613,424
Restricted	10,965	-	10,965
Unrestricted	7,522,850	4,184,621	11,707,471
Total	$ 38,167,364	$ 15,164,496	$ 53,331,860

- Restricted balances are for the same purposes as fund balance restrictions because external restriction requirements are the same. See descriptions of the restrictions below.

7. NET POSITION/ FUND BALANCES, Continued

Fund Balance

Nonspendable and Restricted fund balance consisted of the following at June 30, 2014:

Nonspendable:	
Prepaid items	$ 8,492
Total Nonspendable	$ 8,492
Restricted:	
Governmental Funds:	
Community Development Block Grant	$ 10,965
Total Restricted	$ 10,965

The following describe the purpose of each nonspendable, restricted, and committed category used by the City:

Nonspendable

- **Prepaid items** – represents amounts classified as prepaid items as they do not represent current, spendable financial resources.

Restricted

- **Community Development Block Grant (CDBG) –** represents amounts restricted for the City's CDBG housing activities as these programs are supported by specific grants requiring the restriction.

7. NET POSITION/ FUND BALANCES, Continued

Fund Balance Deficits

Deficit fund balances consisted of the following:

	June 30, 2014
Major Funds:	
Gas Tax Special Revenue	$ 752,617
Nonmajor Special Revenue Funds:	
Strong Motion	1,685
Bond Property Maintenance	19,374
Total Nonmajor Special Revenue	21,059
Nonmajor Debt Service Funds:	
Municipal Finance Corporation	156,432
2008 CREBs	41,728
Total Nonmajor Debt Service	198,160
Total Nonmajor Governmental Funds	219,219
Fiduciary Funds:	
Successor Agency Private Purpose Trust	32,879,793

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

Excess of Expenditures and Transfers over Appropriations:

Expenditures and transfers exceeded appropriations for the year ended June 30, 2014, for the following funds:

Fund	Final Appropriations	Expenditures and Transfers	Excess
Major Funds:			
General Fund	$ 14,206,215	$ 14,710,452	$ (504,237)
Gas Tax Special Revenue	619,508	731,740	(112,232)
Nonmajor Funds			
Special Revenue Funds:			
SLESF	-	121,264	(121,264)
Eastside Estate	-	94	(94)
Traffic Grant	-	22	(22)
Maysonnave Property	7,817	9,439	(1,622)
Abandoned Vehicle	-	12,613	(12,613)
Sonoma Creek Senior Housing	-	157,312	(157,312)
Community Development Block Grant	-	7,923	(7,923)

8. INTERFUND TRANSACTIONS

Due to and from balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Due to and due from other funds consisted of the following as of June 30, 2014:

	Due from Other Funds	Due to Other Funds
Governmental Funds		
Major Funds:		
General Fund	$ 3,385,250	$ -
Gas Tax Special Revenue	-	709,448
Total Major Funds	3,385,250	709,448
Nonmajor Funds:		
Strong Motion Special Revenue	-	1,685
Bond Property Maintenance Special Revenue	-	18,863
Municipal Finance Corporation Debt Service	-	156,432
2008 CREBs Debt Service	-	41,728
Total Nonmajor Funds	-	218,708
Total Governmental Funds	3,385,250	928,156
Proprietary Funds		
Major Enterprise Funds:		
Cemetery	-	633,577
Major Enterprise Funds	-	633,577
Internal Service Funds:		
Employee Benefits Fund	-	1,823,517
Total Proprietary Funds	-	2,457,094
Total	$ 3,385,250	$ 3,385,250

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8. INTERFUND TRANSACTIONS, Continued

Transfers consisted of the following at June 30, 2014:

	Transfers In	Transfers Out
Governmental Funds		
Major Funds:		
General Fund	$ 380,200	$ 458,569
Gas Tax Special Revenue	421,377	54,617
Economic Stimulus Special Revenue	824,345	-
Total Major Funds	1,625,922	513,186
Non-major Funds:		
Special Revenue Funds:		
SLESF	-	103,894
Eastside Estate	-	94
Traffic Grant	-	22
Maysonnave Property	-	5,000
Total Non-major Special Revenue Funds	-	109,010
Capital Projects Funds:		
Capital Improvement Program	-	100,000
Total Non-major Capital Projects Funds	-	100,000
Debt Service Funds:		
2012 Pension Obligation Bonds	588,357	-
Total Non-major Debt Service Funds	588,357	-
Total Non-major Governmental Funds	588,357	209,010
Total Governmental Funds	2,214,279	722,196
Proprietary Funds		
Major Enterprise Funds		
Water	135,909	1,538,416
Cemetery	-	29,576
Total Enterprise Funds	135,909	1,567,992
Internal Service Funds		
MIS Fund	-	60,000
Total Internal Service Funds	-	60,000
Total Proprietary Funds	135,909	1,627,992
Total Transfers	$ 2,350,188	$ 2,350,188

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

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

9. RISK MANAGEMENT

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

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

The following is a summary of the financial statements of REMIF as of and for the fiscal year ended June 30, 2014:

Total assets	$	18,191,772
Total liabilities		(15,648,280)
Members' equity	$	2,543,492
Total revenue	$	8,797,431
Total expense		(9,480,853)
Operating income (loss)	$	(683,422)

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

9. RISK MANAGEMENT, Continued

The City of Sonoma participates in the following REMIF programs:

General Liability Insurance

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

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

Workers' Compensation

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

Property Insurance

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

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

Auto Physical Damage Insurance

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

10. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The City 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 adjustment, 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. The California Public Employees' Retirement System issues a separate financial report which can be obtained by writing to PERS, Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The City covers the employees' required contributions and is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2014 was 15.487% of annual covered payroll for nonsafety employees. The funding for safety employees 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 Costs

For fiscal year ended June 30, 2014, the City's annual pension cost of $314,805 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses); (b) 3.30% to 14.20% projected annual salary increases that vary by age, duration of service, and type of employment; (c) 2.75% inflation; (d) 3.00% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% 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. PERS unfunded actuarial accrued liability is being 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 the 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.

For fiscal years 2012, 2013 and 2014, the City's annual pension costs of $1,224,057, $684,423, and $314,805 respectively, were equal to the City's required and actual contributions.

11. SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Sonoma that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 12, 2012, the City Council elected to become the Successor Agency for the Former Sonoma Community Development Agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the Former Sonoma Community Development Agency until all enforceable obligations of the prior community development agency have been paid in full and all assets have been liquidated.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

Investment in Land Held for Resale or Transfer

The amounts shown below as investment in land held for resale or transfer consist of two parcels of land that are being sold or transferred during fiscal year 2014-15. 32 Patten St. will be sold with proceeds being distributed to taxing entities via the RPTTF. Below is the change in this account for the fiscal year ended June 30, 2014:

	Balance July 1, 2013	Additions	Transferred	Balance June 30, 2014
Fiduciary Activities:				
Old Fire Station (32 Patten St.)	$ 15,000	$ -	$ -	$ 15,000
.42 Acres Fire/EMS	1,803,315	-	-	1,803,315
Other Land and Buildings	1,863,646	-	(1,863,646)	-
Total capital assets held	3,681,961	-	(1,863,646)	1,818,315
Cash and investments	145,312	-	(145,312)	-
Total assets held	$ 3,827,273	$ -	$ (2,008,958)	$ 1,818,315

11. SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY, Continued

Capital Assets

	Balance July 1, 2013	Additions	Deletions	Adjustments/ Transfers	Balance June 30, 2014
Fiduciary activities:					
Nondepreciable assets:					
Construction in progress	$ 2,542,831	$ -	$ -	$ (2,542,831)	$ -
Total nondepreciable assets	2,542,831	-	-	(2,542,831)	-
Depreciable assets:					
Buildings and structures	32,371,765		-	(32,371,765)	-
Total depreciable assets	32,371,765	-	-	(32,371,765)	-
Total assets	34,914,596	-	-	(34,914,596)	-
Total net capital assets	$ 34,914,596	$ -	$ -	$ (34,914,596)	$ -

During the year the Successor, upon California Department of Finance direction, reconciled all assets transferred to the Successor Agency. As a result the Successor approved a finding that construction in progress transferred was completed by the City and included in City owned assets and therefore should be written down to zero. Other assets, including Low/Moderate Income Housing assets of $2,790,834 were transferred to the Sonoma County Housing Authority along with $557,442 in cash and investment balances. Remaining capital assets in the amount of $29,580,931 were transferred back to the City.

Long-term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Fiduciary Activities:					
2003 Tax Allocation Bonds	$ 16,310,000	$ -	$ (500,000)	$ 15,810,000	$ 520,000
2010 Tax Allocation Bonds	9,220,000	-	(390,000)	8,830,000	395,000
2011 Tax Allocation Bonds	15,495,000	-	(125,000)	15,370,000	135,000
2005 Note Payable - USDA	785,934	-	(4,408)	781,526	5,075
2005 Note Payable - Exchange Banl	1,921,613	-	(54,660)	1,866,953	1,866,953
Payment due to City on CREBs	459,239	-	(459,239)	-	-
Total fiduciary debt	$ 44,191,786	$ -	$ (1,533,307)	$ 42,658,479	$ 2,922,028

2003 Tax Allocation Bonds

In May 2003, the Agency issued tax allocation bonds in the amount of $20,635,000, with variable interest rates of 2.09% to 4.45% per annum, to provide funds for certain community development projects. The bond mature semi-annually in increasing amounts on each December 1, through 2033.

11. SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY, Continued

Long-term Liabilities, continued

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 and the 2000 Tax Allocation Refunding Bonds. Annual interest rates vary between 2% and 5% per annum. The Bonds mature semi-annually in increasing amounts on each December 1, through 2030.

2011 Tax Allocation Bonds

In February 2011, the Agency issued tax allocation bonds in the amount of $15,750,000, with variable interest rates of 2.25% to 6.50% per annum, to provide funds for certain community development projects. The bond mature semi-annually in increasing amounts on each December 1, through 2036.

2005 Note Payable - USDA

In April 2005, the Agency obtained an $816,635 loan from the U.S. Department of Agriculture to assist the Agency in purchasing and operating the Village Green Apartments II low/moderate income housing rental project. The loan is fully amortized over 30 years at an interest rate of 5.625%. The loan is secured by an interest in the property and rental income and is subordinated to an existing loan with Exchange Bank.

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 below 4.36% or above 9.36% and cannot adjust more than 2% in any one adjustment period. The note matures on April 1, 2035. This loan and the property were transferred to the Sonoma County Housing Authority in 2014-15.

Payment due to City on CREBs

In June 2010, the City entered into CREBs Project Funding Cooperation Agreement with the Former Agency to provide Agency payments to the City to make the required lease payments. The amount of $459,239 was recorded as receivables from the Successor Agency of the Sonoma Community Development Agency on the government-wide statement of net position and as a liability of the Successor Agency. During the fiscal year ended June 30, 2014, the California State Department of Finance determined that the Agreement was unenforceable and directed the Successor to write off the balance of this Agreement in the amount of $459,239.

11. SUCCESSOR AGENCY TRUST FOR FORMER SONOMA COMMUNITY DEVELOPMENT AGENCY, Continued

Long-term Liabilities, continued

Future debt service for Fiduciary Activities at June 30, 2014, is as follows

	Fiduciary Activities					
Year Ending	2003 Tax Allocation Bond		2010 Tax Allocation Refunding Bond		2011 Tax Allocation Bonds	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 520,000	$ 679,334	$ 395,000	$ 345,885	$ 135,000	$ 1,068,069
2016	535,000	661,134	405,000	334,873	145,000	1,061,319
2017	560,000	641,740	420,000	323,968	145,000	1,054,069
2018	580,000	619,340	430,000	313,655	155,000	1,046,819
2019	600,000	596,140	440,000	302,012	165,000	1,039,069
2020-2024	3,425,000	2,585,965	2,410,000	1,283,599	945,000	5,048,615
2025-2029	4,265,000	1,770,878	2,940,000	726,075	1,270,000	4,696,045
2030-2034	5,325,000	731,802	1,390,000	70,250	4,165,000	4,022,288
2035-2037	-	-	-	-	8,245,000	1,201,987
Total	$ 15,810,000	$ 8,286,333	$ 8,830,000	$ 3,700,317	$ 15,370,000	$ 20,238,280
Due within one year	$ 520,000	$ 679,334	$ 395,000	$ 345,885	$ 135,000	$ 1,068,069
Due after one year	15,290,000	7,606,999	8,435,000	3,354,432	15,235,000	19,170,211
Total	$ 15,810,000	$ 8,286,333	$ 8,830,000	$ 3,700,317	$ 15,370,000	$ 20,238,280

Year Ending	2005 Note Payable - USDA		2005 Note Payable - Exchange Bank		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 5,075	$ 43,831	$ 1,866,953	$ 67,068	$ 2,922,028	$ 2,204,187
2016	5,368	43,538	-	-	1,090,368	2,100,864
2017	5,677	43,229	-	-	1,130,677	2,063,006
2018	6,005	42,901	-	-	1,171,005	2,022,715
2019	6,352	42,554	-	-	1,211,352	1,979,775
2020-2024	37,700	206,830	-	-	6,817,700	9,125,009
2025-2029	49,912	194,618	-	-	8,524,912	7,387,616
2030-2034	66,080	178,450	-	-	10,946,080	5,002,790
2035-2037	599,357	30,573	-	-	8,844,357	1,232,560
Total	$ 781,526	$ 826,524	$ 1,866,953	$ 67,068	$ 42,658,479	$ 33,118,522
Due within one year	$ 5,075	$ 43,831	$ 1,866,953	$ 67,068	$ 2,922,028	$ 2,204,187
Due after one year	776,451	782,693	-	-	39,736,451	30,914,335
Total	$ 781,526	$ 826,524	$ 1,866,953	$ 67,068	$ 42,658,479	$ 33,118,522

12. COMMITMENTS AND CONTINGENCIES

Litigation

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

Grants and Allocations

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Commitments

The City had no significant unexpended contractual commitments as of June 30, 2014.

13. NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 65, "Item Previously Reported as Assets and Liabilities." This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City implemented this Statement in Fiscal year 2013-14.

The GASB has issued Statement No. 66, "Technical Corrections – 2014". The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this Statement did not have an effect on these financial statements.

13. NEW ACCOUNTING PRONOUNCEMENTS, Continued

The GASB has issued Statement No. 67, "Financial Reporting for Pension Plans". The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50, "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for periods beginning after June 15, 2014. The implementation of this statement will not have an effect on these financial statements.

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27" The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This Statement will be effective for periods beginning after June 15, 2014. The City will implement this Statement in fiscal year 2014-15.

The GASB has issued Statement No. 69, "Government Combinations and Disposals of Government Operations". This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement will be effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2014. The City will implement this Statement in fiscal year 2014-15, if applicable.

The GASB has issued Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees". The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement will be effective for periods beginning after June 15, 2014. The City will implement this Statement in fiscal year 2014-15, if applicable.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for PERS

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

Actuarial Valuation Date	Market Value of Assets (MVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
06/30/13	16,305,644	20,063,647	3,758,003	81.3%	2,315,255	162.3%
06/30/12	13,935,123	18,896,803	4,961,680	73.7%	2,349,497	211.2%
06/30/11	14,209,727	18,251,938	4,042,211	77.9%	2,771,398	145.9%

Actuarial - Inactive Agency Risk Pool (Safety)

Actuarial Valuation Date	Market Value of Assets (MVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
06/30/13	17,267,189	22,517,377	5,250,188	76.7%	-	0.0%
06/30/12	14,016,830	21,081,165	7,064,335	66.5%	-	0.0%
06/30/11	15,063,740	20,970,332	5,906,592	71.8%	-	0.0%

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

This page intentionally left blank.

NON-MAJOR GOVERNMENTAL FUNDS

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

City of Sonoma, California
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Governmental Funds			
	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Non-Major Funds Totals
ASSETS				
Cash and investments	$ 456,421	$ 216,950	$ -	$ 673,371
Receivables:				
Intergovernmental	7,923	-	-	7,923
Due from other funds	-	-	-	-
Total assets	$ 464,344	$ 216,950	$ -	$ 681,294
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 6,451	$ -	$ -	$ 6,451
Due to other funds	20,548	-	198,160	218,708
Deposits Payable	142,460	8,836	-	151,296
Total liabilities:	169,459	8,836	198,160	376,455
Deferred inflows of resources:				
Unavailable revenue	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Total liabilities and deferred inflows	169,459	8,836	198,160	376,455
Fund Balances:				
Restricted	10,965	-	-	10,965
Assigned	304,979	208,114	-	513,093
Unassigned (deficit)	(21,059)	-	(198,160)	(219,219)
Total fund balances	294,885	208,114	(198,160)	304,839
Total liabilities, deferred inflows and fund balances	$ 464,344	$ 216,950	$ -	$ 681,294

City of Sonoma, California

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the year ended June 30, 2014

	Governmental Funds			
	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Non-Major Funds Totals
REVENUES:				
Taxes and assessments	$ -	$ 55,980	$ -	$ 55,980
Licenses and permits	1,004	48,203	-	49,207
Intergovernmental	129,852	-	-	129,852
Use of money and property	2,652	879	-	3,531
Other revenues	30,891	-	-	30,891
Total revenues	164,399	105,062	-	269,461
EXPENDITURES:				
Current:				
Public safety	12,613	-	-	12,613
Community development	16,609	-	-	16,609
Culture and leisure	157,312	-	-	157,312
Debt Service				
Principal	-	-	351,749	351,749
Interest and fiscal charges	-	-	98,008	98,008
Total expenditures	186,534	-	449,757	636,291
REVENUES OVER (UNDER) EXPENDITURES	(22,135)	105,062	(449,757)	(366,830)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	588,357	588,357
Transfers out	(109,010)	(100,000)	-	(209,010)
Total other financing sources (uses)	(109,010)	(100,000)	588,357	379,347
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	(131,145)	5,062	138,600	12,517
FUND BALANCES (deficit):				
Beginning of year	426,030	203,052	(336,760)	292,322
End of year	$ 294,885	$ 208,114	$ (198,160)	$ 304,839

This page intentionally left blank.

NON-MAJOR SPECIAL REVENUE FUNDS

Fund	Description
Strong Motion	Accounts for State of California "strong motion" fees paid by building permit applicants. Funds are paid regularly to State Department of Conservation.
Asset Forfeiture	Accounts for funds received from seizure and forfeiture of assets that represent the proceeds of, or were used to facilitate crime. Funds are expended according to legal restrictions.
SLESF Law Enforcement Fund	Accounts for Supplemental Law Enforcement Services Funds (SLESF) which are collected by the State of California as part of the State Vehicle License Fee.
Eastside Estate Fund	Accounts for funds collected for landscape assessment districts, that were closed in prior years.
Traffic Grant Fund	Accounts for grant funds received from the Office of Traffic Safety.
Bond Property Maintenace Fund	Accounts for revenues and expenditures related to maintenance of the Bond Property.
Maysonnave Propety Fund	Accounts for revenues and expenditures related to ongoing maintenance of the Maysonnave Property.
Schell Drainage Fund	Accounts for funds used for tracking of mitigation fees for specific projects.
Abandoned Vehicle Fund	Accounts for funds received from the Abandoned Vehicle Abatement program and must be expended in compliance with legal restrictions.
Sonoma Creek Senior Housing Fund	Accounts for revenues and expenditures related to Sonoma Creek Senior Housing.
Community Development Block Grant Fund	Accounts for revenues and expenditures related to the City's Community Development Block program.

City of Sonoma, California
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

	Strong Motion	Asset Forfeiture	SLESF	Eastside Estate
ASSETS				
Cash and investments	$ -	$ 3,747	$ -	$ -
Receivables:				
Intergovernmental	-	-	-	-
Due from other funds	-	-	-	-
Total assets	$ -	$ 3,747	$ -	$ -
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ -
Due to other funds	1,685	-	-	-
Deposits payable	-	-	-	-
Total liabilities	1,685	-	-	-
Fund Balances:				
Restricted	-	-	-	-
Assigned	-	3,747	-	-
Unassigned (deficit)	(1,685)	-	-	-
Total fund balances	(1,685)	3,747	-	-
Total liabilities deferred inflows and fund balances	$ -	$ 3,747	$ -	$ -

Traffic Grant	Bond Property Maintenance	Maysonnave Property	Schell Drainage	Abandoned Vehicle	Sonoma Creek Senior Housing	Community Development Block Grant	Totals
$ -	$ -	$ 19,028	$ 184,134	$ 29,472	$ 212,915	$ 7,125	$ 456,421
-	-	-	-	-	-	7,923	7,923
-	-	-	-	-	-	-	-
$ -	$ -	$ 19,028	$ 184,134	$ 29,472	$ 212,915	$ 15,048	$ 464,344
$ -	$ 511	$ -	$ -	$ 1,857	$ -	$ 4,083	$ 6,451
-	18,863	-	-	-	-	-	20,548
-	-	-	142,460	-	-	-	142,460
-	19,374	-	142,460	1,857	-	4,083	169,459
-	-	-	-	-	-	10,965	10,965
-	-	19,028	41,674	27,615	212,915	-	304,979
-	(19,374)	-	-	-	-	-	(21,059)
-	(19,374)	19,028	41,674	27,615	212,915	10,965	294,885
$ -	$ -	$ 19,028	$ 184,134	$ 29,472	$ 212,915	$ 15,048	$ 464,344

City of Sonoma, California

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the year ended June 30, 2014

	Strong Motion	Asset Forfeiture	SLESF	Eastside Estate
REVENUES:				
Licenses and permits	$ 1,004	$ -	$ -	$ -
Intergovernmental	-	-	120,748	-
Use of money and property	-	16	516	-
Other revenues	-	-	-	30,891
Total revenues	1,004	16	121,264	30,891
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Community development	-	-	-	-
Culture and leisure	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	1,004	16	121,264	30,891
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	(103,894)	(94)
Total other financing sources and uses	-	-	(103,894)	(94)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	1,004	16	17,370	30,797
FUND BALANCES (deficit):				
Beginning of year	(2,689)	3,731	(17,370)	(30,797)
End of year	$ (1,685)	$ 3,747	$ -	$ -

Traffic Grant	Bond Property Maintenance	Maysonnave Property	Schell Drainage	Abandoned Vehicle	Sonoma Creek Senior Housing	Community Development Block Grant	Totals
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,004
-	-	-	-	1,181	-	7,923	129,852
-	-	95	775	125	1,079	46	2,652
-	-	-	-	-	-	-	30,891
-	-	95	775	1,306	1,079	7,969	164,399
-	-	-	-	12,613	-	-	12,613
-	4,247	4,439	-	-	-	7,923	16,609
-	-	-	-	-	157,312	-	157,312
-	4,247	4,439	-	12,613	157,312	7,923	186,534
-	(4,247)	(4,344)	775	(11,307)	(156,233)	46	(22,135)
-	-	-	-	-	-	-	-
(22)	-	(5,000)	-	-	-	-	(109,010)
(22)	-	(5,000)	-	-	-	-	(109,010)
(22)	(4,247)	(9,344)	775	(11,307)	(156,233)	46	(131,145)
22	(15,127)	28,372	40,899	38,922	369,148	10,919	426,030
$ -	$ (19,374)	$ 19,028	$ 41,674	$ 27,615	$ 212,915	$ 10,965	$ 294,885

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Strong Motion Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Licenses and permits	$ -	$ -	$ 1,004	$ 1,004
Total revenues	-	-	1,004	1,004
EXPENDITURES:				
Current:				
Culture and leisure	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	1,004	1,004
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	1,004	1,004
FUND BALANCES (DEFICIT):				
Beginning of year	(2,689)	(2,689)	(2,689)	-
End of year	$ (2,689)	$ (2,689)	$ (1,685)	$ 1,004

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Asset Forfeiture Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Use of money and property	$ -	$ -	$ 16	$ 16
Total revenues	-	-	16	16
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	16	16
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	16	16
FUND BALANCES:				
Beginning of year	3,731	3,731	3,731	-
End of year	$ 3,731	$ 3,731	$ 3,747	$ 16

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

SLESF Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Intergovernmental	$ -	$ -	$ 120,748	$ 120,748
Use of money and property	-	-	516	516
Total revenues	-	-	121,264	121,264
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	121,264	121,264
OTHER FINANCING SOURCES (USES):				
Transfers out			(103,894)	(103,894)
Total other financing sources (uses)	-	-	-	(103,894)
Net change in fund balances	-	-	121,264	17,370
FUND BALANCES (DEFICIT):				
Beginning of year	(17,370)	(17,370)	(17,370)	-
End of year	$ (17,370)	$ (17,370)	$ 103,894	$ 17,370

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Eastside Estate Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Other revenues	$ -	$ -	$ 30,891	$ 30,891
Total revenues	-	-	30,891	30,891
EXPENDITURES:				
Current:				
Community development	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	30,891	30,891
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(94)	(94)
Total other financing sources (uses)	-	-	(94)	(94)
Net change in fund balances	-	-	30,797	30,797
FUND BALANCES (DEFICIT):				
Beginning of year	(30,797)	(30,797)	(30,797)	-
End of year	$ (30,797)	$ (30,797)	$ -	$ 30,797

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Traffic Grant Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Intergovernmental	$ -	-	$ -	$ -
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(22)	(22)
Total other financing sources (uses)	-	-	(22)	(22)
Net change in fund balances	-	-	(22)	(22)
FUND BALANCES:				
Beginning of year	22	22	22	-
End of year	$ 22	$ 22	$ -	$ (22)

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Bond Property Maintenance Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Use of money and property	$ -	$ -	$ -	$ -
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Community development	5,044	5,044	4,247	797
Total expenditures	5,044	5,044	4,247	797
REVENUES OVER (UNDER) EXPENDITURES	(5,044)	(5,044)	(4,247)	797
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(5,044)	(5,044)	(4,247)	797
FUND BALANCES (DEFICIT):				
Beginning of year	(15,127)	(15,127)	(15,127)	-
End of year	$ (20,171)	$ (20,171)	$ (19,374)	$ 797

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Maysonnave Property Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Use of money and property	$ 4,000	$ 4,000	$ 95	$ (3,905)
Total revenues	4,000	4,000	95	(3,905)
EXPENDITURES:				
Current:				
Community development	2,817	2,817	4,439	(1,622)
Total expenditures	2,817	2,817	4,439	(1,622)
REVENUES OVER (UNDER) EXPENDITURES	1,183	1,183	(4,344)	(5,527)
OTHER FINANCING SOURCES (USES):				
Transfers out	(5,000)	(5,000)	(5,000)	-
Total other financing sources (uses)	(5,000)	(5,000)	(5,000)	-
Net change in fund balances	(3,817)	(3,817)	(9,344)	(5,527)
FUND BALANCES:				
Beginning of year	28,372	28,372	28,372	-
End of year	$ 24,555	$ 24,555	$ 19,028	$ (5,527)

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Schell Drainage Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Use of money and property	$ -	$ -	$ 775	$ 775
Total revenues	-	-	775	775
EXPENDITURES:				
Community development	-	-	-	-
Total expenditures	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	-	-	775	775
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	775	775
FUND BALANCES:				
Beginning of year	40,899	40,899	40,899	-
End of year	$ 40,899	$ 40,899	$ 41,674	$ 775

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Abandoned Vehicle Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Intergovernmental	$ -	$ -	$ 1,181	$ 1,181
Use of money and property	-	-	125	125
Total revenues	-	-	1,306	1,306
EXPENDITURES:				
Current:				
Public safety	-	-	12,613	(12,613)
Total expenditures	-	-	12,613	(12,613)
REVENUES OVER (UNDER) EXPENDITURES	-	-	(11,307)	(11,307)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	(11,307)	(11,307)
FUND BALANCES:				
Beginning of year	38,922	38,922	38,922	-
End of year	$ 38,922	$ 38,922	$ 27,615	$ (11,307)

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Sonoma Creek Senior Housing Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Intergovernmental	$ -	$ -	$ -	$ -
Use of money and property	-	-	1,079	1,079
Total revenues	-	-	1,079	1,079
EXPENDITURES:				
Current:				
Culture and leisure	-	-	157,312	(157,312)
Total expenditures	-	-	157,312	(157,312)
REVENUES OVER (UNDER) EXPENDITURES	-	-	(156,233)	(156,233)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	(156,233)	(156,233)
FUND BALANCES:				
Beginning of year	369,148	369,148	369,148	-
End of year	$ 369,148	$ 369,148	$ 212,915	$ (156,233)

City of Sonoma, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

Community Development Block Grant Special Revenue Fund

For the year ended June 30, 2014

	Budgeted Amounts			Variance w/Final Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Intergovernmental	$ -	$ -	$ 7,923	$ 7,923
Use of money and property	-	-	46	46
Total revenues	-	-	7,969	7,969
EXPENDITURES:				
Current:				
Community development	-	-	7,923	(7,923)
Total expenditures	-	-	7,923	(7,923)
REVENUES OVER (UNDER) EXPENDITURES	-	-	46	46
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	46	46
FUND BALANCES:				
Beginning of year	10,919	10,919	10,919	-
End of year	$ 10,919	$ 10,919	$ 10,965	$ 46

NON-MAJOR CAPITAL PROJECTS AND DEBT SERVICE FUNDS

Fund	Description
Capital Projects Funds	
Capital Improvement Program	Accounts for Capital Improvement Projects by centralizing project expenditures. Projects are tracked and managed for purposes of planning, scheduling and budgeting capital improvements.
Measure M	Accounts for funds received from a Countywide 1/4 cent sales tax and designated to be used for transportation projects.
Debt Service Funds	
Municipal Finance Corporation	Accounts for debt service for the Redwood Empire Financing Authority Lease.
2008 CREBs	Accounts for debt service related to the Clean Renewable Energy Bonds.
2012 Pension Obligation Bonds	Accounts for debt service for the Pension Obligation Bond issued in 2012.

City of Sonoma, California
Combining Balance Sheet
Nonmajor Capital Projects and Debt Service Funds
June 30, 2014

	Capital Projects Funds		
	Capital Improvement Program	Measure M	Sub-Totals
ASSETS			
Cash and investments	$ 105,577	$ 111,373	$ 216,950
Due from other funds	-	-	-
Total assets	$ 105,577	$ 111,373	$ 216,950
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities:			
Accounts payable	$ -	$ -	$ -
Due to other funds	-	-	-
Deposits payable	8,836	-	8,836
Total liabilities:	8,836	-	8,836
Fund Balances:			
Restricted	-	-	-
Assigned	96,741	111,373	208,114
Unassigned (deficit)	-	-	-
Total fund balances	96,741	111,373	208,114
Total liabilities deferred inflows and fund balances	$ 105,577	$ 111,373	$ 216,950

Debt Service Funds				
Municipal Finance Corporation	2008 CREBs	2012 Pension Obligation Bonds	Sub-Totals	Totals
$ -	$ -	$ -	$ -	$ 216,950
-	-	-	-	-
$ -	$ -	$ -	$ -	$ 216,950
$ -	$ -	$ -	$ -	$ -
156,432	41,728	-	198,160	198,160
-	-	-	-	8,836
156,432	41,728	-	198,160	
-	-	-	-	-
-	-	-	-	208,114
(156,432)	(41,728)	-	(198,160)	(198,160)
(156,432)	(41,728)	-	- (198,160)	9,954
$ -	$ -	$ -	$ -	$ 216,950

City of Sonoma, California

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects and Debt Service Funds

For the year ended June 30, 2014

	Capital Projects Funds		
	Capital Improvement Program	Measure M	Sub-Totals
REVENUES:			
Taxes and assessments	$ -	$ 55,980	$ 55,980
Licenses and permits	48,203	-	48,203
Use of money and property	350	529	879
Total revenues	48,553	56,509	105,062
EXPENDITURES:			
Current:			
Community development	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	48,553	56,509	105,062
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	(100,000)	-	(100,000)
Total other financing sources and uses	(100,000)	-	(100,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	(51,447)	56,509	5,062
FUND BALANCES (deficit):			
Beginning of year	148,188	54,864	203,052
End of year	$ 96,741	$ 111,373	$ 208,114

Debt Service Funds				
Municipal Finance Corporation	2008 CREBs	2012 Pension Obligation Bonds	Sub-Totals	Totals
$ -	$ -	$ -	$ -	$ 55,980
-	-	-	-	48,203
-	-	-	-	879
-	-	-	-	105,062
-	-	-	-	-
-	41,749	310,000	351,749	351,749
-	-	98,008	98,008	98,008
-	41,749	408,008	449,757	449,757
-	(41,749)	(408,008)	(449,757)	(344,695)
-	-	588,357	588,357	588,357
-	-	-	-	(100,000)
-	-	588,357	588,357	488,357
-	(41,749)	180,349	138,600	143,662
(156,432)	21	(180,349)	(336,760)	(133,708)
$ (156,432)	$ (41,728)	$ -	$ (198,160)	$ 9,954

This page intentionally left blank.

INTERNAL SERVICE FUNDS

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

City of Sonoma, California
Combining Statement of Net Position
Internal Service Funds
For the year ended June 30, 2014

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund
ASSETS				
Current assets:				
Cash and investments	$ 403,353	$ 9,170	$ 603,099	$ 55,468
Receivables:				
Accounts	-	-	-	-
Due from other funds	-	-	-	-
Deposits and other assets	3,999	-	788,764	-
Total current assets	407,352	9,170	1,391,863	55,468
Noncurrent assets:				
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	-	-
Total assets	$ 407,352	$ 9,170	$ 1,391,863	$ 55,468
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	$ 3,643	$ -	$ -	$ -
Due to other funds	-	-	-	-
Deposits payable	-	8,079	-	-
Compensated absences - current portion	413	-	-	-
Total current liabilities	4,056	8,079	-	-
Net Position:				
Unrestricted	403,296	1,091	1,391,863	55,468
Total net position	403,296	1,091	1,391,863	55,468
Total liabilities and net position	$ 407,352	$ 9,170	$ 1,391,863	$ 55,468

Employee Benefits Fund	Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Section 125 MED Fund	Totals
$ 954,684	$ 1,234,954	$ 53,667	$ 23,591	$ -	$ 3,337,986
3,355	-	-	-	-	3,355
-	-	-	-	-	-
36,487	-	-	-	-	829,250
994,526	1,234,954	53,667	23,591	-	4,170,591
-	-	-	-	-	-
-	-	-	-	-	-
$ 994,526	$ 1,234,954	$ 53,667	$ 23,591	$ -	$ 4,170,591
$ 955,916	$ 64,471	$ 7,795	$ -	$ -	$ 1,031,825
1,823,517	-	-	-	-	1,823,517
-	-	-	-	-	8,079
-	-	-	-	-	413
2,779,433	64,471	7,795	-	-	2,863,834
(1,784,907)	1,170,483	45,872	23,591	-	1,306,757
(1,784,907)	1,170,483	45,872	23,591	-	1,306,757
$ 994,526	$ 1,234,954	$ 53,667	$ 23,591	$ -	$ 4,170,591

City of Sonoma, California

Combining Statement of Revenues, Expenses, and Changes in Net Position

Internal Service Funds

For the year ended June 30, 2014

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund
OPERATING REVENUES:				
Interdepartmental charges	$ 272,284	$ -	$ 187,500	$ 132,648
Total operating revenues	272,284	-	187,500	132,648
OPERATING EXPENSES:				
Salaries and benefits	21,674	-	-	-
Contractual services	588	-	-	-
Materials and supplies	306	-	-	-
Repairs and maintenance	72,000	-	-	-
Insurance	-	-	-	171,791
Other operating	-	-	12,698	-
Allocated overhead	163,062	-	-	-
Total operating expenses	257,630	-	12,698	171,791
OPERATING INCOME (LOSS)	14,654	-	174,802	(39,143)
NONOPERATING REVENUES (EXPENSES):				
Gain/(loss) from the sale of capital assets	-	-	33,000	-
Interest revenue	(232)	(9)	(953)	(38)
Total non-operating revenues (expenses)	(232)	(9)	32,047	(38)
NET INCOME (LOSS) BEFORE TRANSFERS	14,422	(9)	206,849	(39,181)
Transfers in	-	-	-	-
Transfers out	(60,000)	-	-	-
Total transfers	(60,000)	-	-	-
Change in net position	(45,578)	(9)	206,849	(39,181)
NET POSITION (Deficit):				
Beginning of year	448,874	1,100	1,185,014	94,649
End of year	$ 403,296	$ 1,091	$ 1,391,863	$ 55,468

Employee Benefits Fund	Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Section 125 MED Fund	Totals
$ 1,276,617	$ 188,443	$ -	$ -	$ -	$ 2,057,492
1,276,617	188,443	-	-	-	2,057,492
1,686,926	-	-	-	-	1,708,600
-	(294)	-	-	-	294
-	139,175	-	-	-	139,481
-	429,661	-	-	-	501,661
177,229	-	-	-	-	349,020
-	-	-	-	-	12,698
-	-	-	-	-	163,062
1,864,155	568,542	-	-	-	2,874,816
(587,538)	(380,099)	-	-	-	(817,324)
					-
					-
-	-	-	-	-	33,000
-	(1,262)	(45)	(21)	-	(2,560)
-	(1,262)	(45)	(21)	-	30,440
(587,538)	(381,361)	(45)	(21)	-	(786,884)
-	-	-	-	-	-
-	-	-	-	-	(60,000)
-	-	-	-	-	(60,000)
(587,538)	(381,361)	(45)	(21)	-	(846,884)
(1,197,369)	1,551,844	45,917	23,612	-	2,153,641
$ (1,784,907)	$ 1,170,483	$ 45,872	$ 23,591	$ -	$ 1,306,757

City of Sonoma, California
Combining Statement of Cash Flows
Internal Service Funds
For the year ended June 30, 2014

	MIS Fund	Admin Hearings Fund	Vehicle Replacement Fund	Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from interfund services provided	$ 290,663	$ -	$ 187,500	$ 132,648
Cash paid to suppliers for goods and services	(178,055)	-	(801,462)	(173,958)
Cash paid to employees for services	(22,775)	-	-	-
Net cash provided (used) by operating activities	89,833	-	(613,962)	(41,310)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers received	-	-	-	-
Transfers paid	(60,000)	-	-	-
Net cash provided (used) by noncapital financing activities	(60,000)	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sale of capital assets		-	33,000	-
Net cash (used) by capital and related financing activities	-	-	33,000	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	-	(1)	-	-
Net cash provided by investing activities	-	(1)	-	-
Net increase (decrease) in cash and cash equivalents	29,833	(1)	(580,962)	(41,310)
CASH AND CASH EQUIVALENTS:				
Beginning of year	373,520	9,171	1,184,061	96,778
End of year	$ 403,353	$ 9,170	$ 603,099	$ 55,468
Reconciliation of income from operations to net cash provided (used) by operating activities:				
Operating income (loss)	$ 14,654	$ -	$ 174,802	$ (39,143)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	-	-	-
(Increase) decrease in current assets:				
Accounts receivable	18,379	-	-	-
Deposits amd other assets	58,506	-	(788,764)	-
Increase (decrease) in liabilities:				
Accounts payable	(605)	-	-	(2,167)
Compensated absences	(1,101)	-	-	-
Net cash provided by operating activities	$ 89,833	$ -	$ (613,962)	$ (41,310)

Employee Benefits Fund	Building Maintenance Fund	Computer Loans Fund	Hardscape Maintenance Fund	Section 125 MED Fund	Totals
$ 1,275,703	$ 188,443	$ (5,717)	$ -	$ -	$ 2,069,240
743,522	(525,736)	5,125	-	-	(930,564)
(1,682,550)	-	475	-	-	(1,704,850)
336,675	(337,293)	(117)	-	-	(566,174)
618,009	-	-	-	-	618,009
-	-	-	-	-	(60,000)
618,009	-	-	-	-	558,009
-	-	-	-	-	33,000
-	-	-	-	-	33,000
-	-	-	(1)	-	(2)
-	-	-	(1)	-	(2)
954,684	(337,293)	(117)	(1)	-	24,833
					-
					-
-	1,572,247	53,784	23,592	-	3,313,153
$ 954,684	$ 1,234,954	$ 53,667	$ 23,591	$ -	$ 3,337,986
$ (587,538)	$ (380,099)	$ -	$ -	$ -	$ (817,324)
-	-	-	-	-	-
(914)	-	(5,717)	-	-	11,748
(29,622)	-	-	-	-	(759,880)
950,373	42,806	5,125	-	-	995,532
4,376	-	475	-	-	3,750
$ 336,675	$ (337,293)	$ (117)	$ -	$ -	$ (566,174)

This page intentionally left blank.

AGENCY FUNDS

Fund	Description
Agency Funds	
Cultural Fine Arts	Accounts for assets held to be used for cultural fine art programs.
Tree Trust	Accounts for assets held to be used for planting and replacement of trees.
Public Art	Accounts for assets held to be used for public art displays.
Bid Deposits	Accounts for deposits received from applicants for City Engineering, Special Events, and other special services.
Valley of the Moon Fire	Accounts for assets held as the fiscal agent for the Valley of the Moon Fire District.

City of Sonoma, California

Combining Statement of Assets and Liabilities

Agency Funds

June 30, 2014

	Cultural Fine Arts	Tree Trust	Public Art	Climate Conference
ASSETS				
Cash and investments	$ 10,642	$ 15,518	$ 17,929	$ -
Due from other funds	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Prepaids	-	-	-	-
Capital Assets	-	-	-	-
Total assets	$ 10,642	$ 15,518	$ 17,929	$ -
LIABILITIES				
Accounts payable	$ -	$ -	$ -	$ -
Deposits payable	-	-	-	-
Amounts held in trust	10,642	15,518	17,929	-
Total liabilities	$ 10,642	$ 15,518	$ 17,929	$ -

Bid Deposits	Valley of the Moon Fire	Totals
$ 154,450	$ 2,642,375	$ 2,840,914
-	-	-
(1,168)	176,660	175,492
-	271,347	271,347
	1,039,210	1,039,210
$ 153,282	$ 4,129,592	$ 4,326,963
$ 3,863	$ 352,695	$ 356,558
149,419	-	149,419
-	3,776,897	3,820,986
$ 153,282	$ 4,129,592	$ 4,326,963

City of Sonoma, California

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the year ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Cultural Fine Arts				
ASSETS				
Cash and investments	$ 10,642	$ -	$ -	$ 10,642
Receivables:				
Interest	-	-	-	-
Total assets	$ 10,642	$ -	$ -	$ 10,642
LIABILITIES				
Amounts held in trust	$ 10,642	$ -	$ -	$ 10,642
Total liabilities	$ 10,642	$ -	$ -	$ 10,642
Tree Trust				
ASSETS				
Cash and investments	$ 14,018	$ 1,500	$ -	$ 15,518
Receivables:				
Accounts	-	-	-	-
Interest	-	-	-	-
Total assets	$ 14,018	$ 1,500	$ -	$ 15,518
LIABILITIES				
Amounts held in trust	$ 14,018	$ 1,500	$ -	$ 15,518
Total liabilities	$ 14,018	$ 1,500	$ -	$ 15,518
Public Art				
ASSETS				
Cash and investments	$ 17,929	$ -	$ -	$ 17,929
Total assets	$ 17,929	$ -	$ -	$ 17,929
LIABILITIES				
Accounts payable	$ -	$ -	$ -	$ -
Amounts held in trust	17,929	-	-	17,929
Total liabilities	$ 17,929	$ -	$ -	$ 17,929

(continued)

City of Sonoma, California

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the year ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Climate Conference				
ASSETS				
Cash and investments	$ 88	$ -	$ (88)	$ -
Receivables:				
Accounts	-	-	-	-
Total assets	$ 88	$ -	$ (88)	$ -
LIABILITIES				
Amount held in trust	$ 88	$ -	$ (88)	$ -
Total liabilities	$ 88	$ -	$ (88)	$ -
Bid Deposits				
ASSETS				
Cash and investments	$ 77,157	$ 154,450	$ (77,157)	$ 154,450
Receivables:				
Accounts	-	(1,168)	-	(1,168)
Total assets	$ 77,157	$ 153,282	$ (77,157)	$ 153,282
LIABILITIES				
Accounts payable	$ 1,168	$ 3,863	$ (1,168)	$ 3,863
Deposits payable	56,284	149,419	(56,284)	149,419
Amounts held in trust	19,705	-	(19,705)	-
Total liabilities	$ 77,157	$ 153,282	$ (77,157)	$ 153,282
Valley of the Moon Fire				
ASSETS				
Cash and investments	$ 2,047,302	$ 2,642,375	$ (2,047,302)	$ 2,642,375
Receivables:				
Accounts	261,913	176,660	(261,913)	176,660
Prepaids	-	271,347	-	271,347
Capital Assets	-	1,039,210	-	1,039,210
Total assets	$ 2,309,215	$ 4,129,592	$ (2,309,215)	$ 4,129,592
LIABILITIES				
Accounts payable	$ -	$ 352,695	$ -	$ 352,695
Deposits payable	400,692	-	(400,692)	-
Amounts held in trust	1,908,523	3,776,897	(1,908,523)	3,776,897
Total liabilities	$ 2,309,215	$ 4,129,592	$ (2,309,215)	$ 4,129,592

(continued)

City of Sonoma, California

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the year ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
TOTAL OF ALL AGENCY FUNDS				
ASSETS				
Cash and investments	$ 2,167,136	$ 2,798,325	$ (2,124,547)	$ 2,840,914
Restricted cash and investments	-	-	-	-
Due from other funds				-
Receivables:				
Accounts	261,913	175,492	(261,913)	175,492
Prepaids	-	271,347	-	271,347
Capital Assets	-	1,039,210	-	1,039,210
Total assets	$ 2,429,049	$ 4,284,374	$ (2,386,460)	$ 4,326,963
LIABILITIES				
Accounts payable	$ 1,168	$ 356,558	$ (1,168)	$ 356,558
Deposits payable	456,976	149,419	(456,976)	149,419
Amounts held in trust	1,970,905	3,778,397	(1,928,316)	3,820,986
Total liabilities	$ 2,429,049	$ 4,284,374	$ (2,386,460)	$ 4,326,963

(concluded)

JJACPA, Inc.
A Professional Accounting Services Corp.

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*

Independent Auditor's Report

To the Honorable Mayor and City Council
of the City of Sonoma
Sonoma, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the City of Sonoma, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 deficiency described in a separate report for the schedule of findings as Finding 2014-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JJACPA, Inc.

June 29, 2015

JJACPA, Inc.
Dublin, CA