



Sonoma County Community Development Commission
Housing Authority • Redevelopment Agency
1440 Guerneville Road, Santa Rosa, CA 95403-4107

*Members of the
Commission*

Efren Carrillo
Chair

Shirlee Zane
Vice Chair

Valerie Brown
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Mike McGuire

Kathleen H. Kane
Executive Director

March 25, 2011

Shana Bridge
Client Service Manager
Digital Assurance Certification LLC
390 North Orange Avenue, 17th Floor
Orlando, FL 32801

Dear Ms. Bridge:

RE: Sonoma County Community Redevelopment Agency
The Springs Redevelopment Project
Tax Allocation Bonds, 2008
Annual Bond Disclosure Information

The Sonoma County Community Redevelopment Agency issued bonds in the amount of \$14,345,000 during December of 2008. The Bank of New York Mellon Trust Company is the Trustee and Digital Assurance Certification LLC (DAC) is the dissemination agent for the 2008 bonds. The related Indenture of Trust includes disclosure requirements at Sections 5.18 and 5.19. This disclosure submission includes the elements as required by the Continuing Disclosure Certificate to which Section 5.19 of the indenture references.

The disclosure report items and related attachments are enclosed. Please disseminate the attached information to the national repository as required in the Continuing Disclosure Certificate.

Sincerely,

Lawrence M. Cuneo
Controller

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Sonoma County Community Redevelopment Agency
The Springs Redevelopment Project
Tax Allocation Bonds, 2008
Annual Bond Disclosure Report for the Fiscal Year Ending June 30, 2010

This report provides information on disclosures items pertaining to the bond issue identified above. Section 5.19 of the related bond indenture refers to the Continuing Disclosure Certificate. The Continuing Disclosure Certificate requires annual disclosure on the items that follow.

Financial Statements:

Requirement: a copy of the annual audited financial statements
Disclosure: A copy of the audited financial statements for the fiscal year ending June 30, 2010 are attached. See ATTACHMENT A.

Assessed Valuation:

Requirement: aggregate assessed values of the project area
Disclosure: The aggregate valuation of The Springs Project area was \$268,247,546 as of 07/01/2009 and was \$245,056,272 as of 07/01/2010.

Largest Tax Payers:

Requirement: provide a list of the 20 largest local secured property tax payers
Disclosure: A table showing the 20 largest secured property tax payers is attached to this report as ATTACHMENT B.

Appeals by Largest Payers:

Requirement: information on appeals made by any of the twenty largest tax payers
Disclosure: Information associated with appeals from any of the top twenty taxpayers is shown on ATTACHMENT C.

Debt Service Coverage:

Requirement: project debt service coverage
Disclosure: The table of projected debt service coverage is shown on ATTACHMENT D.

Parity Debt:

Requirement: description of Parity Debt
Disclosure: No parity debt has been issued as of the date of this report. There are no known plans for issuing additional debt that would be secured by The Springs projects area's tax increment revenues.

Tax Levy Description:

Requirement: a description of the total tax levy, receipts and collection rate
Disclosure: This is only required if the Agency no longer participates in the Teeter-like tax collection program. The method of the Agency's tax receipt participation has not changed therefore a description of Sonoma County's total tax levy, actual receipts and collection rate details is not a required disclosure.

SERAF and Other State-Related Risk Factors:

- Requirement: description of SERAF shifts and/or any other taking of The Springs project area tax increment revenues by the State of California
- Disclosure: The Springs redevelopment project area made a SERAF payment in the amount of \$613,337 in May of 2010 and will make a SERAF payment in the amount of \$131,819 in May of 2011.

Resolved Tax Challenges:

- Requirement: information on appeals where more than five percent (5%) of the project area's valuation has been appealed
- Disclosure: Please see ATTACHMENT E. This table shows the status of pending and granted property valuation appeals.

Section 5.18:

- Requirement: a copy of the Written Certificate provided to the Trustee pursuant to Section 5.18 of the indenture
- Disclosure: The Bank of New York Trust Company, N.A. has been the trustee for this bond issue from the date of the original bond sale to the date of this report. The Agency submits an annual report pursuant to the Indenture's Section 5.18 to the Trustee. A copy of the report submitted in November of 2010 is attached as ATTACHMENT F.

Other Information:

- Requirement: any additional or correcting information necessary to clarify the facts above to protect readers from misleading statements
- Disclosure: On January 10, 2011, Governor Jerry Brown announced his proposed budget for FY 2011-12. Amongst other cost-cutting measures, Senate Bill 77/Assembly Bill 101 (as of March 15, 2011), includes the elimination of redevelopment agencies. If passed, the Sonoma County Community Redevelopment Agency's (the Agency) ability to receive future tax increment revenues could be severely limited. Unless the Agency has a third party contractual obligation for the use of existing and future tax increment revenues, its ability to fund future redevelopment activities will be eliminated. However, the proposed language of the Senate Bill 77/Assembly Bill 101 clearly states that obligations such as principal and interest payments on outstanding bond debt shall continue to be paid with project area property tax.

Agency staff has prepared the disclosure items provided above. To the best of their knowledge the information is accurate and is not misleading.

Sonoma County Community Redevelopment Agency

Annual Financial Report

Year Ended June 30, 2010

Sonoma County Redevelopment Agency
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June 30, 2010

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WALLACE ROWE & ASSOCIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Sonoma County Community
Redevelopment Agency
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Sonoma County Community Redevelopment Agency as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sonoma County Community Redevelopment Agency's management. 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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and each major fund of the Sonoma County Community Redevelopment Agency, as of June 30, 2010, and the respective changes in financial position and, cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of the Sonoma County Community Redevelopment Agency'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 34 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Sonoma County Community Redevelopment Agency's basic financial statements. The accompanying combining and individual non-major fund financial statement and the Computation of Housing Fund Excess Surplus are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wallace Rowe & Associates

December 14, 2010

Management's Discussion and Analysis

Our discussion and analysis of the Sonoma County Community Redevelopment Agency ("the Agency") for the fiscal year ending June 30, 2010 provides current year results based on the government-wide financial statements. The Agency's management offers the readers of the financial statements this narrative overview and analysis. Please read it in conjunction with the Financial Statements.

State law gives the County of Sonoma the authority to operate a redevelopment agency. These State laws allow redevelopment agencies to pledge tax increment revenue for the repayment of bonds and other types of debt incurred to fund redevelopment projects.

The Redevelopment Agency Committees and staff identify redevelopment projects within specific redevelopment project areas. Improvement projects are developed in the context of a project area plan. The plan establishes objectives such as encouraging and attracting private sector investment that otherwise would not occur. The Redevelopment Agency's activities create jobs, expand business opportunities, provide housing for needy families, help reduce crime, improve infrastructure and clean up the environment.

The Agency's history of projects include the development of housing for working families, rehabilitation of existing housing owned by low-income families, upgrading of roads and sidewalks, improvements to public safety facilities, revitalization loans to small businesses, and general community beautification and landscaping improvements.

Portions of the Agency's resources are targeted towards low and moderate-income housing related projects. The transactions pertaining to these projects are recorded within the project area housing funds. These funds are also referred to as the Set Aside Funds for the project areas because corresponding portions of tax increment revenues are "set aside" for housing purposes. These funds are used for the purpose of increasing, improving, and preserving the County's supply of affordable housing for very low, low, or moderate-income households.

The following management's discussion and analysis ("MD&A") will summarize the results of the Agency's operations. Key amounts will be compared with those of the prior year.

Financial Highlights

- The majority of the Agency's revenues, 94%, are derived from local taxation. The Agency does not have the authority to tax, but does receive a portion of tax revenues as distributed by the Sonoma County Auditor Controller Treasurer Tax Collector (ACTTC).
- The Agency revenues amounted to \$7,991,137 in the current fiscal year. There was a decrease of \$664,318 for fiscal year 2010 versus the prior fiscal year revenue of \$8,655,455. The Agency expenses in the current fiscal year were \$9,814,189 as compared to \$6,247,696 of expenses for the prior fiscal year.
- The total net assets of the Agency decreased by \$1,823,052 from the June 30, 2009 balance of \$27,263,056 to the June 30, 2010 balance of \$25,440,004.

Overview of the Financial Statements

This annual Financial Report is presented in six parts:

1. Independent Auditors' Report
2. Management's Discussion and Analysis
3. The Basic Financial Statements – The government-wide financial statements, fund financial statements, and the notes to these financial statements
4. Required Supplementary Information – Budget to actual schedules for major funds
5. Supplementary Information – Excess Surplus Calculation
6. Compliance Report – Auditors' report on internal control over financial reporting and compliance and other matters in accordance with Government Auditing Standards.

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 Agency's financial position and activities.

The government-wide financial statements provide a longer-term view of the Agency's activities as a whole, and are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Agency as a whole on the full accrual basis, similar to that used in the private sector. The Statement of Activities provides information about the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and expenses of each of the Agency's programs. The Statement of Activities explains the change in Net Assets for the year.

The fund financial statements report the Agency's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Agency's major funds. The fund financial statements measure only current revenues, expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts. Certain funds are required by State law. Management has established other funds to efficiently control other Agency resources.

Major funds account for the major financial activities of the Agency and are presented individually. Non-major funds are summarized and reported collectively. The major funds are explained further on page 8.

The Government-Wide Financial Statements

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

Governmental Activities – All of the Agency's functions are considered to be governmental activities. The services are supported by tax revenues and interest earnings.

**Sonoma County Community Redevelopment Agency
Management Discussion and Analysis**

The Agency's total net assets from governmental activities decreased during the current fiscal year in the amount of \$1,823,052. The year-to-year change in total net assets is a result of the net change of revenues and expenses. The following table represents a comparative analysis of the net assets of the governmental activities for the years ended June 30, 2010 and June 30, 2009.

| | June 30, 2010 | June 30, 2009 |
|---|-------------------|-------------------|
| Current assets | \$ 34,824,163 | \$ 36,623,052 |
| Non-current assets | 7,571,696 | 7,107,518 |
| Total assets | \$ 42,395,859 | \$ 43,730,570 |
| Current liabilities | \$ 2,595,855 | \$ 1,727,514 |
| Non-current liabilities | 14,360,000 | 14,740,000 |
| Total liabilities | 16,955,855 | 16,467,514 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 94,841 | 94,841 |
| Restricted | 12,531,292 | 27,168,215 |
| Unrestricted | 12,813,871 | - |
| Total net assets | \$ 25,440,004 | \$ 27,263,056 |

Prior to 2009-10 the Agency had accumulated tax increment revenues and bond proceeds in the form of cash and investments. Net assets decreased 7% during the report year. A portion of the previously accumulated investments were expended in support of the Hwy 12 improvement project and other activities.

Analysis of Net Assets – As indicated above, the Agency's net assets decreased by \$1,823,052 during the report year ending June 30, 2010. The change in net assets is presented below, summarized by program area.

| <u>Program</u> | <u>Net Asset Change</u> |
|--------------------------------|-----------------------------|
| Roseland Non-housing Fund | \$ 315,936 |
| Roseland Housing Fund | 135,288 |
| The Springs Non-housing Fund | (2,870,861) |
| The Springs Housing Fund | 371,124 |
| Russian River Non-housing Fund | (263,672) |
| Russian River Housing Fund | 760,135 |
| Debt Service Fund | (271,002) |
| Total Change in Net Asset | \$ (1,823,052) |

**Sonoma County Community Redevelopment Agency
Management Discussion and Analysis**

The following table indicates the comparative changes in net assets for the governmental activities for fiscal years ended June 30, 2010 and 2009.

| Governmental Activities | Years Ended June 30, | |
|-------------------------------------|----------------------|----------------------|
| | 2010 | 2009 |
| Revenues: | | |
| Program Revenues | | |
| Contributions and interest earnings | \$ 446,729 | \$ 755,799 |
| General revenues: | | |
| Taxes | 7,544,408 | 7,899,656 |
| Total revenues | <u>7,991,137</u> | <u>8,655,455</u> |
| Expenses: | | |
| Redevelopment | 7,907,532 | 4,012,157 |
| Administration | 1,016,958 | 1,642,947 |
| Interest on debt | 889,699 | 592,592 |
| Total expenses | <u>9,814,189</u> | <u>6,247,696</u> |
| Decrease in net assets | (1,823,052) | 2,407,759 |
| Net assets, beginning | <u>27,263,056</u> | <u>24,855,297</u> |
| Net assets, ending | <u>\$ 25,440,004</u> | <u>\$ 27,263,056</u> |

State laws require the Sonoma County Community Redevelopment Agency to send funds to the State and other governmental entities. Of the total expenses of \$9,814,189, 33% was sent to other governments. The State received \$2,219,387 via the SERAF legislation and \$1,068,142 was passed through to other governments in accordance with the law. Hwy 12 continues to be the Agency's largest single project spending \$3,210,711 during the year.

As indicated above, total revenues for the year as shown on the Statement of Activities were \$7,991,137. The major sources of these revenues were as follows:

| | |
|--|----------------------------|
| General revenues: | |
| Redevelopment Agency related tax increment revenue | 7,544,408 |
| Program revenues: | |
| Interest Income | 410,075 |
| Redevelopment Agency non-tax revenues | 36,654 |
| Total revenues | <u><u>\$ 7,991,137</u></u> |

Fund Financial Statements

The fund financial statements are designed to provide detailed information about each of the Agency's most significant funds, called major funds. The concept of major funds, and the determination of which funds are major funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Each major fund is presented individually, with any non-major funds summarized and presented in a single column. Major

Sonoma County Community Redevelopment Agency
Management Discussion and Analysis

funds present the major activities of the Agency for the year and may change from year-to-year as a result of changes in the pattern of the Agency's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and long-term liabilities are not presented in governmental fund financial statements. Most financial transactions of the Agency's basic services are reported in the governmental funds. These funds show the flow of readily available resources and the balances remaining at year-end that can be used for future project expenditures. The difference in results of fund financial statements to those in the government-wide financial statements is explained in a reconciliation which follows the Statement of Revenues, Expenditures and Changes in Fund Balance.

Comparisons of budget and actual financial information are presented only for the major funds.

Major Fund Financial Analysis

The Agency had five major funds during fiscal year 2009-10. Descriptions of those funds are as follows.

Roseland Non-housing Fund: The State of California Health and Safety Code regulate the activities of this fund and all other Redevelopment Agency funds. Property taxes, collected by the County of Sonoma, provided the resources for the Sonoma County Community Redevelopment Agency. This fund supports non-housing related redevelopment projects in the Roseland project area. In past years this fund has financed improvements to Sebastopol Road and other projects. Improvements to a shopping area are currently in the planning stages.

| <u>Fiscal year</u> | <u>2009-10</u> | <u>2008-09</u> |
|--------------------|----------------|----------------|
| Revenues | 1,484,394 | 1,549,849 |
| Expenditures | 803,723 | 273,615 |

The Springs Non-Housing Fund: This fund supports non-housing related redevelopment projects in The Springs area which is located in the Sonoma Valley portion of the County. The largest project administered by the Sonoma County Community Redevelopment Agency during 2009-10 continued to be the improvements to a section of Highway 12 and associated health, safety and economic development work. The transactions for the Hwy 12 improvements project are recorded within this fund. For the fiscal year 2010, the fund expended \$4,286,578 of which \$3,210,711 was associated with the Hwy 12 project.

| <u>Fiscal year</u> | <u>2009-10</u> | <u>2008-09</u> |
|--------------------|----------------|----------------|
| Revenues | 2,368,871 | 12,446,395 |
| Expenditures | 4,286,578 | 2,512,993 |

The Springs Housing Fund: This fund supports housing-related redevelopment projects in the Springs area of Sonoma County. Owner-occupied housing rehabilitation services were continued during FY 2009-10. Loans to developers and home owners have been made throughout the years. Loans outstanding as of June 30, 2010 amounted to \$4,192,741.

| <u>Fiscal year</u> | <u>2009-10</u> | <u>2008-09</u> |
|--------------------|----------------|----------------|
| Revenues | 14,546 | 19,794 |
| Expenditures | 60,417 | 68,612 |

**Sonoma County Community Redevelopment Agency
Management Discussion and Analysis**

Russian River Redevelopment Non-housing Fund: The Agency started receiving tax increment revenue from the Russian River area during FY 2002-03. A variety of Russian River area projects were active during 2009-10. Economic development and community blight reduction projects were supported.

| <u>Fiscal year</u> | <u>2009-10</u> | <u>2008-09</u> |
|--------------------|----------------|----------------|
| Revenues | 3,968,749 | 4,402,415 |
| Expenditures | 3,461,681 | 1,911,759 |

Russian River Redevelopment Housing Fund: The amount of expenditures was larger in 2009-10 as compared to the prior fiscal year. During 2009-10 a loan was made for the purpose of financing a multi-unit development. Loan proceeds in the amount of \$346,328 were expended on this construction project. Other housing funds were used to finance the repair of owner occupied homes. These loan disbursements amounted to \$50,336. The agency continued planning, in coordination with a local nonprofit agency, to develop property in Guerneville. The long-term plan is to demolish the existing structures and replace them with a new 48-unit affordable housing structure. A two-year fund activity comparison is as follows:

| <u>Fiscal year</u> | <u>2009-10</u> | <u>2008-09</u> |
|--------------------|----------------|----------------|
| Revenues | 20,773 | 36,518 |
| Expenditures | 478,524 | 206,646 |

Budgetary Highlights

Agency Wide Budget Summary

The Board of Commissioners approved an original budget pertaining to the 2009-10 fiscal year in the amount of \$19,138,847. No mid-year adjustments to appropriations were necessary during the fiscal year.

| | <u>Budget Amounts</u> | <u>Actual Amounts</u> | <u>Favorable (Unfavorable) Variance</u> |
|--------------------------------------|---------------------------|---------------------------|---|
| Revenues | | | |
| Taxes | \$ 8,177,117 | \$ 7,544,408 | \$ (632,709) |
| Interest Income | 626,664 | 300,524 | (326,140) |
| Bond Proceeds | - | - | - |
| Other income | 2,148,336 | 36,654 | (2,111,682) |
| Total revenues | <u>10,952,117</u> | <u>7,881,586</u> | <u>(3,070,531)</u> |
| Expenditures | | | |
| Redevelopment projects | 16,383,450 | 8,262,112 | 8,121,338 |
| Administration | 1,544,787 | 1,016,958 | 527,829 |
| Debt Service | | | |
| Principal | 315,000 | 315,000 | - |
| Interest | 895,610 | 895,610 | - |
| Total expenditures | <u>19,138,847</u> | <u>10,489,680</u> | <u>8,649,167</u> |
| Excess of revenues over expenditures | <u>\$ (8,186,730)</u> | <u>\$ (2,608,094)</u> | <u>\$ 5,578,636</u> |

Capital Assets and Debt Administration

Capital Assets

The Agency's only capital asset is a piece of land. No capital assets were acquired or disposed of during the current fiscal year.

Debt Administration

At June 30, 2010, the Agency had total long-term debt outstanding of \$14,740,000. The liability consists of tax allocation bonds in the amount of \$14,690,000 and a note payable to the City of Santa Rosa in the amount of \$50,000. Additional information concerning the Agency's long-term debt can be found in Note G.

Economic Factors and Next Year's Budget

Tax increment revenues for the Redevelopment Agency are not expected to materially increase or decrease. The State of California continues to face a serious budget crisis. The State redirected \$2,219,387 of tax revenues from the Sonoma County Community Redevelopment Agency to school districts during 2009-10 by way of the Supplemental Education Revenue Augmentation Fund (SERAF) processes. The State will require an additional \$456,492 SERAF transfer during 2010-11.

Request for Information

This annual report is intended to provide citizens with a general overview of the Agency's finances. Questions about this report should be directed to the Agency's Controller at 1440 Guerneville Road, Santa Rosa, CA 95403.

**Sonoma County Community Redevelopment Agency
Introduction to the Statement of Net Assets and Statement of Activities**

The Statement of Net Assets and the Statement of Activities are statements required by Government Accounting Standards Board Statement No. 34. Their purpose is to summarize the entire Agency's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Agency's assets and its liabilities, as well as its revenues and expenses. This is known as the full accrual basis - the effect of all the Agency's transactions is taken into account, regardless of whether or when cash changes hands.

The Statement of Net Assets reports the difference between the Agency's total assets and total liabilities. The Statement of Net Assets focuses the reader on the composition of the Agency's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Agency's governmental activities and the financial position of the Agency's Business-Type Activities. For the current fiscal year the Agency did not administer any business-type activities.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the fund financial statements, which reflects only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities shows summarized expenses first, followed by related revenues. Expenses are listed by function or program. Program revenues, revenues which are generated directly by these programs, are deducted from program expenses to arrive at the net expense of each governmental program. The Agency's general revenues are then listed in the Governmental Activities column, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Basic Financial Statements

Sonoma County Community Redevelopment Agency
Statement of Net Assets
June 30, 2010

Assets

| | |
|-----------------------------|---------------|
| Cash and investments | \$ 31,090,944 |
| Investments held by trustee | 3,313,219 |
| Other receivables | 550 |
| Asset held for resale | 420,000 |
| Notes receivable, net | 6,946,820 |
| Interest receivable, net | 529,485 |
| Capital assets, net | <u>94,841</u> |

| | |
|--------------|----------------------|
| Total assets | <u>\$ 42,395,859</u> |
|--------------|----------------------|

Liabilities

| | |
|---------------------------|-------------------|
| Accounts payable | \$ 74,856 |
| Due to other governments | 1,772,858 |
| Interest payable | 368,141 |
| Long-term debt: | |
| Due in one year | 430,000 |
| Due in more than one year | <u>14,310,000</u> |

| | |
|-------------------|-------------------|
| Total liabilities | <u>16,955,855</u> |
|-------------------|-------------------|

Net assets

| | |
|---|-------------------|
| Invested in capital assets, net of related debt | 94,841 |
| Restricted for debt service | 3,671,919 |
| Restricted for programs | 8,859,373 |
| Unrestricted | <u>12,813,871</u> |

| | |
|-------------------------|-----------------------------|
| Total net assets | <u><u>\$ 25,440,004</u></u> |
|-------------------------|-----------------------------|

See accompanying Notes to Basic Financial Statements

Sonoma County Community Redevelopment Agency
Statement of Activities
For the Year Ended June 30, 2010

| Functions/Programs | Expenses | Program Revenues | | Net Revenue and Changes in Net Assets |
|----------------------------------|--------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Total Governmental Activities |
| Governmental activities: | | | | |
| Redevelopment | \$ 7,907,532 | \$ - | \$ 446,729 | \$ (7,460,803) |
| Administration | 1,016,958 | - | - | (1,016,958) |
| Interest on debt | 889,699 | - | - | (889,699) |
| Total governmental activities | \$ 9,814,189 | \$ - | \$ 446,729 | (9,367,460) |
| General revenues: | | | | |
| Taxes | | | | 7,544,408 |
| Total general revenues | | | | 7,544,408 |
| Changes in net assets | | | | (1,823,052) |
| Net assets at June 30, 2009 | | | | 27,263,056 |
| Net assets at June 30, 2010 | | | | \$ 25,440,004 |

See accompanying Notes to Basic Financial Statements

Sonoma County Community Redevelopment Agency
Balance Sheet – Governmental Funds
June 30, 2010

| | Roseland Nonhousing | The Springs Nonhousing | The Springs Housing | Russian River NonHousing | Russian River Housing | Other Non-major Funds | Total Governmental Funds |
|--|------------------------|---------------------------|------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------------------|
| Assets | | | | | | | |
| Cash and investments | \$ 4,193,598 | \$ 13,215,310 | \$ 1,553,782 | \$ 7,712,939 | \$ 2,637,554 | \$ 1,777,761 | \$ 31,090,944 |
| Investments held by trustee | 192,461 | - | - | - | - | 3,120,758 | 3,313,219 |
| Other receivables | - | - | - | 550 | - | - | 550 |
| Due from other funds | - | - | - | - | - | - | - |
| Asset held for resale | - | - | 420,000 | - | - | - | 420,000 |
| Notes receivable, net | - | 495,910 | 3,995,828 | 397,654 | 1,634,638 | 422,790 | 6,946,820 |
| Interest receivable, net | - | 5,816 | 330,097 | 28,956 | 92,007 | 72,609 | 529,485 |
| Total assets | \$ 4,386,059 | \$ 13,717,036 | \$ 6,299,707 | \$ 8,140,099 | \$ 4,364,199 | \$ 5,393,918 | \$ 42,301,018 |
| Liabilities | | | | | | | |
| Accounts payable | \$ 2,465 | \$ 478 | \$ - | \$ 15,027 | \$ 54,049 | \$ 2,837 | \$ 74,856 |
| Due to other agencies | - | 1,770,837 | - | - | - | 2,021 | 1,772,858 |
| Deferred revenues related to notes receivable | - | 501,726 | 4,325,925 | 426,610 | 1,726,645 | 495,399 | 7,476,305 |
| Due to other funds | - | - | - | - | - | - | - |
| Total liabilities | 2,465 | 2,273,041 | 4,325,925 | 441,637 | 1,780,694 | 500,257 | 9,324,019 |

See accompanying Notes to Basic Financial Statements

Sonoma County Community Redevelopment Agency
Balance Sheet – Governmental Funds (Continued)
June 30, 2010

| | Roseland Nonhousing | The Springs Nonhousing | The Springs Housing | Russian River NonHousing | Russian River Housing | Other Non-major Funds | Total Governmental Funds |
|--|------------------------|---------------------------|------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------------------|
| Fund balance | | | | | | | |
| Reserved for: | | | | | | | |
| Asset held for resale | \$ - | \$ - | \$ 420,000 | \$ - | \$ - | \$ - | \$ 420,000 |
| Debt service | 52,840 | - | - | - | - | 3,657,534 | 3,710,374 |
| Low mod housing | - | - | 1,553,782 | - | 2,583,505 | 1,236,127 | 5,373,414 |
| Unreserved, reported in: | | | | | | | |
| Special revenue fund | 4,330,754 | 11,443,995 | - | 7,698,462 | - | - | 23,473,211 |
| Total fund balances | 4,383,594 | 11,443,995 | 1,973,782 | 7,698,462 | 2,583,505 | 4,893,661 | 32,976,999 |
| Total liabilities and fund balances | <u>\$ 4,386,059</u> | <u>\$ 13,717,036</u> | <u>\$ 6,299,707</u> | <u>\$ 8,140,099</u> | <u>\$ 4,364,199</u> | <u>\$ 5,393,918</u> | |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | | | | |
| Capital assets used in governmental activities are not current assets or financial resources and are therefore not reported in the funds | | | | | | | 94,841 |
| Non-current liabilities are not due and payable in the current period and therefore are not reported in the funds: | | | | | | | |
| Long-term debt | | | | | | | (14,740,000) |
| Interest payable | | | | | | | (368,141) |
| Non-current assets are not available to pay for current period expenditures and therefore are deferred or not presented in the funds: | | | | | | | |
| Deferred revenue related to notes receivable | | | | | | | 7,476,305 |
| Net assets of governmental activities | | | | | | | <u>\$ 25,440,004</u> |

See accompanying Notes to Basic Financial Statements

Sonoma County Community Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
For the Year Ended June 30, 2010

| | Roseland Nonhousing | The Springs Nonhousing | The Springs Housing | Russian River NonHousing | Russian River Housing | Other Non-major Funds | Total Governmental Funds |
|---|------------------------|---------------------------|------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------------------|
| Revenues | | | | | | | |
| Interest | \$ 38,170 | \$ 130,908 | \$ 12,215 | \$ 74,505 | \$ 20,773 | \$ 23,953 | \$ 300,524 |
| Taxes | 1,446,224 | 2,203,964 | - | 3,894,220 | - | - | 7,544,408 |
| Other income | - | 33,999 | 2,331 | 24 | - | 300 | 36,654 |
| Total revenues | 1,484,394 | 2,368,871 | 14,546 | 3,968,749 | 20,773 | 24,253 | 7,881,586 |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| Administration | 175,181 | 264,718 | 60,417 | 388,177 | 81,860 | 46,605 | 1,016,958 |
| Redevelopment | 572,862 | 4,021,860 | - | 3,073,504 | 396,664 | 197,222 | 8,262,112 |
| Debt service: | | | | | | | |
| Principal payments | 50,000 | - | - | - | - | 265,000 | 315,000 |
| Interest | 5,680 | - | - | - | - | 889,930 | 895,610 |
| Total expenditures | 803,723 | 4,286,578 | 60,417 | 3,461,681 | 478,524 | 1,398,757 | 10,489,680 |
| Excess of revenues over expenditures | 680,671 | (1,917,707) | (45,871) | 507,068 | (457,751) | (1,374,504) | (2,608,094) |

See accompanying Notes to Basic Financial Statements

Sonoma County Community Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds (Continued)
For the Year Ended June 30, 2010

| | Roseland Nonhousing | The Springs Nonhousing | The Springs Housing | Russian River NonHousing | Russian River Housing | Other Non-major Funds | Total Governmental Funds |
|---|------------------------|---------------------------|------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------------------|
| Other financing sources (uses) | | | | | | | |
| Transfers in (out) | \$ (414,930) | \$ (920,308) | \$ 445,308 | \$ (781,320) | \$ 781,320 | \$ 889,930 | \$ - |
| Total other financing sources (uses) | (414,930) | (920,308) | 445,308 | (781,320) | 781,320 | 889,930 | - |
| Net change in fund balances | 265,741 | (2,838,015) | 399,437 | (274,252) | 323,569 | (484,574) | (2,608,094) |
| Fund balance at June 30, 2009 | 4,117,853 | 14,282,010 | 1,574,345 | 7,972,714 | 2,259,936 | 5,378,235 | 35,585,093 |
| Fund balance at June 30, 2010 | \$ 4,383,594 | \$ 11,443,995 | \$ 1,973,782 | \$ 7,698,462 | \$ 2,583,505 | \$ 4,893,661 | \$ 32,976,999 |

See accompanying Notes to Basic Financial Statements

Sonoma County Community Redevelopment Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

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

Net change in fund balance – total governmental funds (Page 18) \$ (2,608,094)

In the fund financial statements, disbursements of principal for notes receivable are recognized as expenditures as those funds no longer represent current financial resources. Similarly, revenues derived from accrued interest on notes receivable is not recognized in the fund financial statements as those amounts also do not represent current financial resources. Both of these amounts must be added to obtain the change in net assets.

| | |
|--|---------|
| Disbursements for new notes receivable | 463,330 |
| Accrued interest earned | 146,732 |

Payments received on notes receivable and related accrued interest amounts provide current financial resources, and thus are recognized as revenue in the fund financial statements when they are collected. In the statement of activities, however, these payments reduce long term assets in the statement of net assets. Additionally, changes in the allowance for uncollectible notes and interest receivable do not affect current financial resources and therefore must be added in to obtain the changes in net assets

| | |
|---|-----------|
| Principal payments received on notes receivable | (34,508) |
| Payments received on accrued interest | (2,675) |
| Principal portion forgiven or written off | (108,750) |

| | |
|---|---------|
| Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets | 315,000 |
|---|---------|

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, however interest expense is recognized as accrued interest, regardless of when it is due.

5,913

| | |
|--|------------------------------|
| Statement of Activities – Changes in net Assets (Page 14) | <u><u>\$ (1,823,052)</u></u> |
|--|------------------------------|

See accompanying Notes to Basic Financial Statements

The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Sonoma County Community Redevelopment Agency as follows:

- Note A. Definition of Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Cash and Investments
- Note D. Restricted Investments and Liabilities
- Note E. Notes Receivable
- Note F. Capital Assets
- Note G. Long-Term Debt
- Note H. Interfund Balances
- Note I. Employer Retirement Plan
- Note J. Contingent Liabilities
- Note K. Concentrations
- Note L. Recent Governmental Accounting Standards

Note A. Definition of Reporting Entity

The Sonoma County Community Redevelopment Agency (the "Agency") is a component of the County of Sonoma (the "County"). The Agency's basic financial statements have also been reported as an integral part of the Sonoma County Community Development Commission's (the "Commission") separately issued financial report for the fiscal year ended June 30, 2010. The financial accountability for the Agency is the responsibility of the Commission. The Commission was established as a separate public and corporate entity pursuant to Section 34110 of the California Health and Safety Code. The Commission is governed by the Board of Commissioners who are appointed by the elected Board of Supervisors of Sonoma County. The exercise of this oversight responsibility causes the Commission to be an integral part of the County's reporting entity. Therefore, the Commission's basic financial statements have also been included as a component unit in the County's annual financial report for the fiscal year ended June 30, 2010.

The Agency's financial statements include activities over which the Board of Commissioners has oversight and budgeting responsibility. There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies

The Agency conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of significant accounting policies are included below:

Basis of Presentation

The accompanying basic financial statements are presented on the basis set forth in Government Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and related statements. This standard requires that the financial statements described below be presented.

Government-wide and Fund Financial Statements

Government-wide statements (i.e. the statement of net assets and the statement of activities) display information about the Agency as a whole. The effect of interfund activities has been removed from these statements. These statements distinguish between the *governmental and business-type activities*. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. The Agency had no business type activities during the year.

The Statement of Net Assets presents the financial condition of the governmental activities of the Agency at year-end. The Statement of Activities demonstrates the degree to which the direct expenses of a given program or function are offset by program revenues. Direct expenses are those that are specifically associated with a program or function and, are clearly identifiable to a particular program or function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given program or function and 2) grants and contributions that are restricted to the operational or capital requirements of a particular program or function. Taxes and others items not properly included among program revenues are reported as general revenues.

Note B. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements report uses the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operations of the Agency are included on the Statement of Net Assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from governmental grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus only current assets and current liabilities generally are included on the balance sheet. Therefore, in addition to the revenue recognition requirements noted above, revenues in the fund financial statements, including those derived from non-exchange transactions, are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

The governmental fund financial statements report expenditures in the current period only if current financial resources will be used to pay the related expenditure.

Major Funds

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

Major funds are defined as funds which have assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total of all funds regardless of type.

Note B. Summary of Significant Accounting Policies (continued)

Major Funds (continued)

The Agency's financial statements are presented utilizing special revenue funds. These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by State charter or ordinance to finance specific government functions.

For the Agency, the special revenue funds are established to account for tax revenues in accordance with the State of California Health and Safety code and for expenditures of various redevelopment projects such as road widening, crosswalk construction and the development of affordable rental housing.

Cash and Investments

The majority of the Agency's cash and investments are pooled with the Sonoma County Treasurer in the County Treasury Investment Pool ("the Treasury Pool"), which is an external investment pool. The Agency also has cash deposits with banks, and investments, which are held by outside trustees. The Sonoma County Treasurer also acts as a disbursing agent for the Agency. The fair value of the investments in the Sonoma County Treasury pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

The Agency applies the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB No. 31, the Agency has stated certain Treasury Pool investments at fair value.

The Agency applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB No. 3*, which requires governmental entities to provide proper disclosures on common deposit and investment risk related to custodial credit risk, credit risk, interest rate risk and concentrations of credit risk. In accordance with GASB No. 40, the Agency has made such disclosures.

Asset Held for Resale

An asset which the Agency is not using in operations and that it intends to sell is classified on the Statement of Net Assets and the Governmental Funds Balance Sheet as "Asset Held for Resale." In the Governmental Funds Balance Sheet a reservation of fund balance is made for this asset. The asset held for resale is a piece of land with a commercial building on it. The carrying value of the asset is the lower of the assets cost or its net realizable value, which is currently its historical cost to the Agency.

Notes and Interest Receivable

As part of the Agency's commercial building rehabilitation, housing rehabilitation programs and low-income housing development programs, the Agency makes certain loans to homeowners, non-profit agencies and for-profit entities. The Agency accrues interest on these loans based on the loan agreement.

Note B. Summary of Significant Accounting Policies (continued)

Notes and Interest Receivable (Continued)

The Agency's notes receivable are primarily "second mortgages" which follow a first lender in order of security interest. All of the Agency's notes and interest receivable are secured upon the related real property.

The Agency performs an analysis of notes receivable annually to estimate the potential for uncollectible notes and interest receivable. This analysis involves consideration of the notes risk of default and, should a default take place, the probability that the value of the property which the note is secured on will be less than the related outstanding debt.

Loans and interest receivable appear as notes and interest receivable, net of allowances for uncollectibles, with a corresponding deferred revenue amount in the fund financial statements.

In the government-wide financial statements, notes and interest receivable are presented on the Statement of Net Assets at their full value, net of an allowance for uncollectibles, with no corresponding deferred revenue amount.

Capital Assets

Capital assets are stated at cost or estimated historical cost. The Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided for, excluding land, using the straight-line method over estimated lives ranging from 3 to 50 years. Useful lives of machinery and equipment are generally estimated to be 3 to 15 years. Buildings and improvements are generally estimated to have useful lives ranging from 30 to 50 years.

Capital assets are not recognized in the fund financial statements as they do not represent current financial resources.

Deferred Revenues

Deferred revenues are recognized for transactions for which cash has been received but the related revenue has not yet been earned. Typical transactions recorded as deferred revenue are for grants received but not yet earned.

Additionally, in the fund financial statements where the modified accrual basis is used, notes and interest receivable are presented with a corresponding deferred amount as those assets do not represent current financial resources.

Program Revenues

The Statement of Activities reports program revenues pertaining to the Agency's various program areas. Program revenues for the agency are derived primarily from interest earned on cash and investments and interest earned on notes receivable. Fees generated by a program remain within the program and are used for program purposes.

Note B. Summary of Significant Accounting Policies (continued)

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Agency.

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Agency each fiscal year. Any subsequent delinquent payments, related penalties and interest will revert to the County.

Property taxes are recognized as revenue when they are levied as they are considered to be both measurable and available at this point in time. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's financial statements.

Budgeting Procedures

The Agency participates in the budgetary process of the County. During March each year, the Executive Director of the Agency must submit estimates of available financing and financing requirements for the Agency to the County Administrator. The administrator makes any necessary revisions and submits the budget to the Board of Supervisors for approval.

Subsequent revisions to the budget are made in the form of either supplemental appropriations or transfers between budget categories. The Board of Commissioners approves all significant budgetary revisions.

Net Assets and Fund Balance

Net assets represent the difference between assets and liabilities on the full accrual basis, as represented on the Statement of Net Assets. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Management's assumptions affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note B. Summary of Significant Accounting Policies (continued)

Encumbrances

The Commission does not use encumbrance accounting.

Note C. Cash and Investments

The Agency follows the practice of pooling cash and investments of funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and grant agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

The Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations
- Joint power agreements

A copy of the County Investment Policy is available upon request from the Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Investments in County Treasurer's Pooled Cash

As of June 30, 2010, the Agency's cash and investments consisted of \$31,090,944 in the Treasury Pool managed by the County Treasurer, which has a weighted average maturity of less than two years. The credit rating and other information regarding the Treasury for the current fiscal year is disclosed in the County's 2009-10 Comprehensive Annual Financial Report.

Non-pooled cash and investments and investments held by trustee

Included in the non-pooled cash and investments balance are investments held by trustee that are comprised of \$3,178,344 in mutual funds and \$134,875 in investment contracts.

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 Agency 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. The majority of the Agency's cash and investments are held by the Treasury Pool, which has a weighted average maturity of less than two years. The information about the sensitivity of the fair values of the Agency's non-pooled investments to market interest rate fluctuations is provided by the following table showing the distribution of the Agency's investments by maturity:

| Investment type | Less than one year | Five years or more | Total |
|------------------------------|-----------------------|-----------------------|---------------------|
| Mutual fund held by trustee: | | | |
| Treasury obligation fund | \$ 3,178,344 | \$ - | \$ 3,178,344 |
| Investment contracts | - | 134,875 | 134,875 |
| Total | <u>\$ 3,178,344</u> | <u>\$ 134,875</u> | <u>\$ 3,313,219</u> |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Note C. Cash and Investments (continued)

California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Agency's cash or deposit or first trust deed mortgage notes with a value 150% of the deposit as collateral for these deposits. Under California law this collateral is held in the Agency's name and places the Agency ahead of general creditors of the institution. The Agency has waived the collateral requirements for the portion of deposits covered by federal deposit insurance.

As of June 30, 2010, the Agency's investment in investment contracts of \$134,875 was uninsured, registered in the Agency's name, and held by a trustee.

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Agency has no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

| Investment Type | Total | Minimum Legal Rating | Exempt From Disclosure | Rating at year end | |
|------------------------------|--------------------|----------------------------|------------------------------|--------------------|------------------|
| | | | | AAA | Not Rated |
| Investments held by trustee: | | | | | |
| Treasury obligations fund | \$3,178,344 | A | \$ - | \$3,178,344 | \$ - |
| Investment contracts | 134,875 | N/A | - | - | 134,875 |
| Total | <u>\$3,313,219</u> | | <u>\$ -</u> | <u>\$3,178,344</u> | <u>\$134,875</u> |

Funds totaling \$31,090,944 are pooled with other County of Sonoma funds and are invested pursuant to investment policies established by the County Treasurer. Investments in the County Treasury pool are unrated.

Note D. Restricted Investments and Liabilities

The Agency has classified certain cash and investments as restricted due to the restrictive nature of the agreements surrounding the funding of certain activities.

Restricted cash and investments at June 30, 2010 were as follows:

| | |
|--|----------------------|
| Restricted investments | \$ 13,642,636 |
| Restricted investments held by trustee | <u>3,313,219</u> |
| Total | <u>\$ 16,955,855</u> |

Liabilities payable from restricted amounts at June 30, 2010 were as follows:

| | |
|--------------------------|---------------------|
| Bonds payable | \$ 14,690,000 |
| Due to other governments | 1,772,858 |
| Accounts payable | 74,856 |
| Notes payable | 50,000 |
| Interest payable | <u>368,141</u> |
| Total | <u>\$16,955,855</u> |

Note E. Notes Receivable

At June 30, 2010, the Agency had notes and interest receivable in the following amounts:

| | |
|------------------------------|---------------------|
| Notes Receivable | 7,143,733 |
| Allowance for uncollectibles | <u>(196,913)</u> |
| Total notes receivable | <u>\$ 6,946,820</u> |

At June 30, 2010, interest receivable was as follows:

| | |
|------------------------------|-------------------|
| Interest receivable | \$ 557,327 |
| Allowance for uncollectibles | <u>(27,842)</u> |
| Total interest receivable | <u>\$ 529,485</u> |

There are various types of notes receivable. Some require monthly principal reduction, and others have balloon payments at the end of the term of the note. Interest rates on the loans range from zero to ten percent per annum.

Note F. Capital Assets

There was no capital asset activity during the year ended June 30, 2010. The Agency's only capital asset is a piece of land in the amount of \$94,841, which is stated at its historical cost.

Note G. Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2010 is as follows:

| | Balance July 1, 2009 | Additions | Payments | Balance June 30, 2010 |
|---------------------------|-------------------------|-------------|-------------------|--------------------------|
| Bonds payable | \$ 14,955,000 | \$ - | \$ 265,000 | \$14,690,000 |
| Notes payable | 100,000 | - | 50,000 | 50,000 |
| Total long term debt | <u>\$ 15,055,000</u> | <u>\$ -</u> | <u>\$ 315,000</u> | <u>\$14,740,000</u> |
| Due in one year | | | | \$ 430,000 |
| Due in more than one year | | | | <u>14,310,000</u> |
| Total long term debt | | | | <u>\$ 14,740,000</u> |

Annual Requirements

The annual principal and interest requirements on the long-term bonds outstanding at June 30, 2010, are as follows:

Bonds Payable

| Year ending | Principal | Interest | Total |
|---------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 380,000 | \$ 873,715 | \$ 1,253,715 |
| 2012 | 395,000 | 854,608 | 1,249,608 |
| 2013 | 420,000 | 834,407 | 1,254,407 |
| 2014 | 440,000 | 812,918 | 1,252,918 |
| 2015 | 465,000 | 789,713 | 1,254,713 |
| 2016-20 | 1,940,000 | 3,662,643 | 5,602,643 |
| 2021-25 | 2,530,000 | 3,046,269 | 5,576,269 |
| 2026-30 | 3,425,000 | 2,110,713 | 5,535,713 |
| 2031-35 | <u>4,695,000</u> | <u>800,963</u> | <u>5,495,963</u> |
| Total bonds payable | <u>\$ 14,690,000</u> | <u>\$ 13,785,949</u> | <u>\$ 28,475,949</u> |

Bonds payable at June 30, 2010 are comprised of two tax allocation bond issuances. The bonds were issued to fund redevelopment projects of the County. The bonds are secured solely on the tax revenues of the Agency.

The Roseland, 1986 Series A Bond has a maturity date of August 1, 2014, carries an interest rate of 7.9% per annum with \$530,000 outstanding at June 30, 2010. The Commission issued The Springs Redevelopment Tax Allocation Bonds of 2008 on December 2, 2008. The Springs Bonds are payable on a predetermined schedule. The first bonds being repaid on August 1, 2009 and the final scheduled for payment on August 1, 2034. Bond principal in the amount of \$14,160,000 was outstanding as of the fiscal year end. The interest rates vary from 4.0% being paid on the early maturities to 6.5% being paid on the bonds that mature on August 1, 2034.

Note G. Long-Term Debt (continued)

Bonds Payable (continued)

Interest is payable on both the Roseland 1986 bonds and The Springs 2008 bonds each August 1st and February 1st. The original amounts of the Roseland 1986 bonds at issuance were \$1,330,000 and they are callable at the Commission's discretion. The Springs 2008 bonds were issued in the amount of \$14,345,000. The Commission can only call The Springs bonds earlier than stated on the bond repayment schedule where bonds mature after July 31, 2014.

Notes Payable

| Year ending | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|------------------|-----------------|------------------|
| 2011 | \$ 50,000 | \$ 2,840 | \$ 52,840 |
| Total notes payable | <u>\$ 50,000</u> | <u>\$ 2,840</u> | <u>\$ 52,840</u> |

The Agency obtained a loan from the City of Santa Rosa in June of 2001 in the amount of \$500,000. The outstanding balance of this loan at June 30, 2010 is \$50,000. The loan bears interest at 5.68%. The loan principal and interest are to be repaid in ten equal annual installments, which began in June 2003. The proceeds from the loan were used to widen and reconstruct Sebastopol Road, which is within the Roseland Redevelopment Project Area.

Interest Payable

Interest payable consists of interest accrued on the following obligations:

| | |
|--|-------------------|
| The Springs Redevelopment Bonds of 2008 | 350,500 |
| Roseland Redevelopment Bonds, Series A | 17,446 |
| City of Santa Rosa, Roseland Redevelopment | <u>195</u> |
| Total accrued interest payable | <u>\$ 368,141</u> |

Note H. Interfund Balances

Permanent transfers are reflected in the Other Financing Sources and Uses section of the Statement of Revenues, Expenditures and Changes in Fund Balance – Government Funds.

The transfer transactions are necessary to follow California Redevelopment Law and to honor the Agency's commitment to bondholders. Redevelopment law requires that at least 20% of the tax increment revenues be transferred to the Housing Fund. The bond indentures require that funds be transferred from Non-housing Funds to Debt Service Funds. The amount of Transfers In and Transfers Out processed during the fiscal year were as follows:

Note H. Interfund Balances (Continued)

| Fund Description | Transfer In | Transfer Out |
|--------------------------------|---------------------|---------------------|
| Roseland Non-Housing Fund | \$ - | \$ 414,930 |
| Roseland Housing Fund | 289,900 | |
| Roseland Debt Service Fund | 125,030 | |
| The Springs Non-housing Fund | - | 920,308 |
| The Springs Housing Fund | 445,308 | - |
| The Springs Debt Service Fund | 475,000 | |
| Russian River Non-housing Fund | - | 781,320 |
| Russian River Housing Fund | 781,320 | - |
| | - | - |
| Totals | <u>\$ 2,116,558</u> | <u>\$ 2,116,558</u> |

Both Due To\Due From and Transfer In\Transfer Out relationships are netted in the government wide financial statements as required by the provisions of GASB 34.

Note I. Employer Retirement Plan

The Agency participates in a defined benefit retirement plan (DDPP or the "Plan") that is administered by the Sonoma County Employee's Retirement Association. The Agency participates in this plan as a subpart of the Sonoma County Community Development Commission.

All full-time employees of the Agency participate in this plan. The Plan provides benefits as defined by law upon retirement, death, or disability of its members. Benefits are based upon the employee's highest level of annual salary, years of service, and age at the time of retirement. The Agency's total payroll for covered employees was \$694,095 for the year ended June 30, 2010 which is 15.3% of the Sonoma County Community Development Commission's total payroll.

The Plan is funded by actuarially-determined regular contributions using the entry age normal cost method. Under the entry age cost method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the working lifetime of the individual. Employer and member contributions are funded and recognized through the County payroll system via employer benefit payments and employee deductions.

Defined benefit pension plan members are required to contribute 7 percent to 14 percent of their annual covered salary, and their particular rate is based upon age at entry into the system. The Agency is required to contribute the remaining amounts necessary to finance the coverage of the employees. The Sonoma County Community Development Commission's contributions to the Plan during the year ended June 30, 2010 was \$956,680.

Note I. Employer Retirement Plan (continued)

The 10-year trend analysis and other disclosures required by generally accepted accounting principles are described in the financial statements of the County of Sonoma, California as of June 30, 2010. Additional detailed information and/or separately issued financial statements of the Retirement Association can be obtained from the Sonoma County Employee's Retirement Association located at: 433 Aviation Boulevard, Suite 100, Santa Rosa, California 95403.

Note J. Contingent Liabilities

Insurance

The Agency is a component unit of the County and is named insured on all general and automobile liability coverage maintained by the County of Sonoma. The County maintains a self-insured retention of \$1,000,000 per occurrence which is accounted for in the County's Risk Management Internal Service Fund. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA), and Excess Liability Program. Limits of this coverage are \$15,000,000. The Agency is covered under this program for general liability, auto liability, public employee faithful performance/dishonesty and property insurance. During the current fiscal year, the Agency paid annual premiums to the County for the above insurance coverage in the amount of \$769. Settlements have not exceeded coverage for each of the past three fiscal years. The Agency maintains worker's compensation insurance through the State Compensation Insurance Fund.

Note K. Concentrations

The Agency receives significant funding from the County of Sonoma through incremental tax revenues. In the current report year, this funding amounted to 94% of total Agency revenues.

Note L. Recent Governmental Accounting Standards

The Governmental Accounting Standards Board ("GASB") has released Statement No. 54.

Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" was issued in February of 2009. This statement changes the presentation of the fund balance section of the balance sheet. This change will be implemented by the Commission on the financial statements for the year ending June 30, 2011. The Statement No. 54 presentation will help to clarify the fund balance amounts of the governmental funds and will aid readers of the financial statements to better understand the different levels of constraints placed on fund balances.

Required Supplemental Information

Sonoma County Community Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Roseland Non-housing Fund
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|------------------|--------------|-------------------|---------------|
| | Original | Final | (Budgetary Basis) | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Taxes | \$ 1,570,512 | \$ 1,570,512 | \$ 1,446,224 | \$ (124,288) |
| Interest | 81,880 | 81,880 | 38,170 | (43,710) |
| Other income | - | - | - | - |
| Total revenues | 1,652,392 | 1,652,392 | 1,484,394 | (167,998) |
| Expenditures | | | | |
| Administration | 291,257 | 291,257 | 230,861 | 60,396 |
| Revelopment Projects | 878,233 | 878,233 | 572,862 | 305,371 |
| Total expenditures | 1,169,490 | 1,169,490 | 803,723 | 365,767 |
| Excess of revenues over expenditures | 482,902 | 482,902 | 680,671 | 197,769 |
| Other financing sources (uses) | | | | |
| Transfer In (Out) | (482,902) | (482,902) | (414,930) | 67,972 |
| Net change in fund balance | - | - | 265,741 | 265,741 |
| Fund Balance at June 30, 2009 | 4,117,853 | 4,117,853 | 4,117,853 | - |
| Fund Balance at June 30, 2010 | \$ 4,117,853 | \$ 4,117,853 | \$ 4,383,594 | \$ 265,741 |

See accompanying Notes to Required Supplemental Information

Sonoma County Community Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – The Springs Non-housing Fund
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|------------------|--------------|-------------------|---------------|
| | Original | Final | (Budgetary Basis) | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Tax Increment | \$ 2,263,575 | \$ 2,263,575 | \$ 2,203,964 | \$ (59,611) |
| Interest | 145,000 | 145,000 | 130,908 | (14,092) |
| Other income | 57,210 | 57,210 | 33,999 | (23,211) |
| Total revenues | 2,465,785 | 2,465,785 | 2,368,871 | (96,914) |
| Expenditures | | | | |
| Administration | 339,537 | 339,537 | 264,718 | 74,819 |
| Redevelopment | 8,488,533 | 8,488,533 | 4,021,860 | 4,466,673 |
| Total expenditures | 8,828,070 | 8,828,070 | 4,286,578 | 4,541,492 |
| Excess of revenues over expenditures | (6,362,285) | (6,362,285) | (1,917,707) | 4,444,578 |
| Other financing sources (uses) | | | | |
| Transfer In (Out) | (637,715) | (637,715) | (920,308) | (282,593) |
| Net change in fund balance | (7,000,000) | (7,000,000) | (2,838,015) | 4,161,985 |
| Fund Balance at June 30, 2009 | 14,282,010 | 14,282,010 | 14,282,010 | - |
| Fund Balance at June 30, 2010 | \$ 7,282,010 | \$ 7,282,010 | \$ 11,443,995 | \$ 4,161,985 |

See accompanying Notes to Required Supplemental Information

Sonoma County Community Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – The Springs Housing Fund
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|------------------|--------------|-------------------|---------------|
| | Original | Final | (Budgetary Basis) | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - |
| Interest | 14,100 | 14,100 | 12,215 | (1,885) |
| Other Income | - | - | 2,331 | 2,331 |
| Total revenues | 14,100 | 14,100 | 14,546 | 446 |
| Expenditures | | | | |
| Administration | 113,550 | 113,550 | 60,417 | 53,133 |
| Development Projects | 518,908 | 518,908 | - | 518,908 |
| Total expenditures | 632,458 | 632,458 | 60,417 | 572,041 |
| Excess of revenues over expenditures | (618,358) | (618,358) | (45,871) | 572,487 |
| Other financing sources (uses) | | | | |
| Transfer In (Out) | 498,358 | 498,358 | 445,308 | (53,050) |
| Net change in fund balance | (120,000) | (120,000) | 399,437 | 519,437 |
| Fund Balance at June 30, 2009 | 1,574,345 | 1,574,345 | 1,574,345 | - |
| Fund Balance at June 30, 2010 | \$ 1,454,345 | \$ 1,454,345 | \$ 1,973,782 | \$ 519,437 |

See accompanying Notes to Required Supplemental Information

Sonoma County Community Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Russian River Non-housing Fund
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|------------------|--------------|-------------------|---------------|
| | Original | Final | (Budgetary Basis) | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Taxes | \$ 4,343,030 | \$ 4,343,030 | \$ 3,894,220 | \$ (448,810) |
| Interest | 175,300 | 175,300 | 74,505 | (100,795) |
| Other income | - | - | 24 | 24 |
| Total revenues | 4,518,330 | 4,518,330 | 3,968,749 | (549,581) |
| Expenditures | | | | |
| Administration | 651,454 | 651,454 | 388,177 | 263,277 |
| Redevelopment Projects | 2,998,270 | 2,998,270 | 3,073,504 | (75,234) |
| Total expenditures | 3,649,724 | 3,649,724 | 3,461,681 | 188,043 |
| Excess of revenues over expenditures | 868,606 | 868,606 | 507,068 | (361,538) |
| Other financing sources (uses) | | | | |
| Transfer In (Out) | (868,606) | (868,606) | (781,320) | 87,286 |
| Net change in fund balance | - | - | (274,252) | (274,252) |
| Fund Balance at June 30, 2009 | 7,972,714 | 7,972,714 | 7,972,714 | - |
| Fund Balance at June 30, 2010 | \$ 7,972,714 | \$ 7,972,714 | \$ 7,698,462 | \$ (274,252) |

See accompanying Notes to Required Supplemental Information

Sonoma County Community Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Russian River Housing Fund
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|------------------|--------------|-------------------|---------------|
| | Original | Final | (Budgetary Basis) | Final Budget |
| | | | | Positive |
| | | | | (Negative) |
| Revenues | | | | |
| Tax Increment | \$ - | \$ - | \$ - | \$ - |
| Interest | 62,980 | 62,980 | 20,773 | (42,207) |
| Other income | - | - | - | - |
| Total revenues | 62,980 | 62,980 | 20,773 | (42,207) |
| Expenditures | | | | |
| Administration | 180,120 | 180,120 | 81,860 | 98,260 |
| Redevelopment Projects | 1,051,295 | 1,051,295 | 396,664 | 654,631 |
| Total expenditures | 1,231,415 | 1,231,415 | 478,524 | 752,891 |
| Excess of revenues over expenditures | (1,168,435) | (1,168,435) | (457,751) | 710,684 |
| Other financing sources (uses) | | | | |
| Transfer In (Out) | - | - | 781,320 | 781,320 |
| Net change in fund balance | (1,168,435) | (1,168,435) | 323,569 | 1,492,004 |
| Fund Balance at June 30, 2009 | 2,259,936 | 2,259,936 | 2,259,936 | - |
| Fund Balance at June 30, 2010 | \$ 1,091,501 | \$ 1,091,501 | \$ 2,583,505 | \$ 1,492,004 |

See accompanying Notes to Required Supplemental Information

Supplemental Information

Sonoma County Community Redevelopment Agency
Computation of Excess Surplus
June 30, 2010

Computation of Housing Fund Excess Surplus

The State of California Health and Safety Code Section 33334.12 requires Excess Surplus to be determined on the first day of a fiscal year. The following calculation is calculated as of 07/01/09. The calculation considers the sum of tax increment deposited over the previous four fiscal years and the Agency's adjusted beginning fund balance. This beginning balance is the prior year's ending balance plus or minus adjustments. Agencies are allowed to exclude the amount of unspent proceeds from the sale of bonds and the difference between the price of land sold during the reporting period compared to the land's fair market value. Excess Surplus occurs when the adjusted unencumbered balance exceeds the greater of \$1,000,000 or the sum of tax revenue deposited over the preceding four fiscal years. Excess surplus is measured at the agency-wide level.

| | | |
|---|---------------------|------------------|
| Opening Fund Balance - July 1, 2009 | | \$ 5,013,264 |
| Bond proceeds | | - |
| Sale of land | | - |
| Available beginning housing fund balance | | <u>5,013,264</u> |
| Limitation #1: | <u>\$ 1,000,000</u> | |
| Limitation #2 | | |
| Housing tax revenues for previous four fiscal years | | |
| 2005-06 | \$1,086,999 | |
| 2006-07 | 1,184,257 | |
| 2007-08 | 1,567,809 | |
| 2008-09 | <u>1,579,969</u> | |
| | <u>\$ 5,419,034</u> | |
| Greater of limitation #1 or #2 | | 5,419,034 |
| Computed Excess Surplus | | <u>\$ -</u> |

Sonoma County Community Redevelopment Agency
Combining Balance Sheet – Non-major Governmental Funds
June 30, 2010

| | Roseland Housing | Roseland Debt Service | The Springs Debt Service | Total |
|---|---------------------|-----------------------------|--------------------------------|---------------------|
| Assets | | | | |
| Cash and investments | \$ 1,240,985 | \$ 246,358 | \$ 290,418 | \$ 1,777,761 |
| Investments held by trustee | - | 433,882 | 2,686,876 | 3,120,758 |
| Other Recievables | | | | |
| Due from other funds | - | - | - | - |
| Assets held for resale | - | - | - | - |
| Notes receivable, net of allowance for uncollectible | 422,790 | - | - | 422,790 |
| Interest receivable, net of allowance for uncollectible | 72,609 | - | - | 72,609 |
| Total assets | <u>\$ 1,736,384</u> | <u>\$ 680,240</u> | <u>\$ 2,977,294</u> | <u>\$ 5,393,918</u> |
| Liabilities | | | | |
| Accounts payable | \$ 2,837 | \$ - | \$ - | \$ 2,837 |
| Due to other agencies | 2,021 | - | - | 2,021 |
| Deferred revenue - loans | 495,399 | - | - | 495,399 |
| Due to other funds | - | - | - | - |
| Total liabilities | <u>500,257</u> | <u>-</u> | <u>-</u> | <u>500,257</u> |
| Fund balance | | | | |
| Reserved for debt service | - | 680,240 | 2,977,294 | 3,657,534 |
| Reserved for low mod housing | 1,236,127 | - | - | 1,236,127 |
| Unreserved, reported in: | | | | |
| General fund | - | - | - | - |
| Special revenue fund | - | - | - | - |
| Total fund balances | <u>1,236,127</u> | <u>680,240</u> | <u>2,977,294</u> | <u>4,893,661</u> |
| Total liabilities and fund balances | <u>\$ 1,736,384</u> | <u>\$ 680,240</u> | <u>\$ 2,977,294</u> | <u>\$ 5,393,918</u> |

Sonoma County Community Redevelopment Agency
Schedule of Revenues, Expenditures & Changes in Fund Balance – Non-major Governmental Funds
For the Year Ended June 30, 2010

| | Roseland Housing | Roseland Debt Service | The Springs Debt Service | Total |
|---|---------------------|-----------------------------|--------------------------------|---------------------|
| Revenues | | | | |
| Interest | \$ 10,771 | \$ 12,764 | \$ 418 | \$ 23,953 |
| Taxes | - | - | - | 0 |
| Other income | 300 | - | - | 300 |
| Total revenues | <u>11,071</u> | <u>12,764</u> | <u>418</u> | <u>24,253</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration | 46,605 | - | - | 46,605 |
| Redevelopment | 197,222 | - | - | 197,222 |
| Debt service: | | | | |
| Principal | - | 80,000 | 185,000 | 265,000 |
| Interest | - | 45,030 | 844,900 | 889,930 |
| Total expenditures | <u>243,827</u> | <u>125,030</u> | <u>1,029,900</u> | <u>1,398,757</u> |
| Excess of revenues over (under) expenditures | <u>(232,756)</u> | <u>(112,266)</u> | <u>(1,029,482)</u> | <u>(1,374,504)</u> |
| Other financing sources | | | | |
| Transfers in (out) | <u>289,900</u> | <u>125,030</u> | <u>475,000</u> | <u>889,930</u> |
| Total other financing sources and (uses) | <u>289,900</u> | <u>125,030</u> | <u>475,000</u> | <u>889,930</u> |
| Net change in fund balances | 57,144 | 12,764 | (554,482) | (484,574) |
| Fund balance at June 30, 2009 | <u>1,178,983</u> | <u>667,476</u> | <u>3,531,776</u> | <u>5,378,235</u> |
| Fund balance | | | | |
| Reserved for: | | | | |
| Asset held for resale | - | - | - | - |
| Debt service | - | 667,476 | 3,531,776 | 4,199,252 |
| Low mod housing | - | - | - | - |
| Unreserved, reported in: | | | | |
| Special revenue fund | <u>1,236,127</u> | <u>12,764</u> | <u>(554,482)</u> | <u>694,409</u> |
| Fund balance at June 30, 2010 | <u>\$ 1,236,127</u> | <u>\$ 680,240</u> | <u>\$ 2,977,294</u> | <u>\$ 4,893,661</u> |

Compliance

WALLACE ROWE & ASSOCIATES

Accounting Firm

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Pleasant Hill, CA 94523

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wroweassoc@aol.com

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*

To the Board of Commissioners
Sonoma County Community
Redevelopment Agency
Santa Rosa, California

We have audited the financial statements of the Sonoma County Community Redevelopment Agency as of and for the year ended June 30, 2010 and have issued our report thereon dated December 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, the Board of Commissioners, the County of Sonoma general government, others within the entity, pass-through entities and awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

William Brown & Associates

December 14, 2010

ATTACHMENT B

| 2010-11 Top Twenty Secured Taxpayers | | | | | |
|---|--|-------------|---|----------------|------------|
| Sonoma County Community Development Commission - The Springs Project Area | | | | | |
| Rank | Taxpayer | No. Parcels | Land Use | Assessed Value | % of Value |
| 1 | SMI REAL ESTATE LLC | 10 | Vacant, Commercial, Office, Parking Lot | \$12,472,735 | 5.21% |
| 2 | UPJOHN RICHARD M & JODEE SACCO ET AL | 2 | Commercial | \$5,751,840 | 2.40% |
| 3 | REDBIRD INVESTMENT GROUP LLC ET AL | 1 | Commercial | \$3,393,602 | 1.42% |
| 4 | WEILER JACK EST OF ET AL | 2 | Commercial, Mobile Home Park | \$2,875,293 | 1.20% |
| 5 | AGUA CALIENTE LLC | 1 | Vacant Residential | \$2,159,733 | 0.90% |
| 6 | FAZIO PETER SAL & SHARI ANNE | 3 | Residential | \$1,947,149 | 0.81% |
| 7 | BROOKSIDE MOBILE MANOR LLC | 1 | Mobile Home Park | \$1,515,346 | 0.63% |
| 8 | SONOMA CREEK INN LLC | 2 | Hotel, Parking Lot | \$1,494,541 | 0.62% |
| 9 | ROSS DRULIS PARTNERS | 1 | Office | \$1,338,923 | 0.56% |
| 10 | MAZZA MERRILL L TR | 1 | Residential | \$1,311,319 | 0.55% |
| 11 | COLLINS AIDAN CHARLES & DENNEHY PATRICIA M ET AL | 1 | Residential | \$1,280,829 | 0.54% |
| 12 | CATON CARLTON B TR & CATON SANDRA B TR | 2 | Commercial | \$1,269,937 | 0.53% |
| 13 | MOLAVI SAIED & DOLORES HANSEN TR | 2 | Commercial | \$1,241,237 | 0.52% |
| 14 | BURKE RANCH LLC | 1 | Industrial | \$1,167,263 | 0.49% |
| 15 | MURRAY WILLIAM B | 1 | Commercial | \$1,149,867 | 0.48% |
| 16 | VARLOW TED | 2 | Residential | \$1,141,726 | 0.48% |
| 17 | VAILETTI MARCO | 2 | Vacant, Commercial | \$1,107,616 | 0.46% |
| 18 | MARCHAND DANIEL W & LINDA C | 2 | Mobile Home Park, Private Road | \$1,075,855 | 0.45% |
| 19 | LARBRE MICHAEL ANTHONY TR & LARBRE RITA LORRAINE T | 1 | Commercial | \$1,058,938 | 0.44% |
| 20 | 2 BROTHERS PROPERTIES LP | 1 | Residential | \$1,051,511 | 0.44% |
| Total | | 39 | | \$45,805,260 | 19.14% |
| (1) Total Secured Net Assessed Valuation: | | | | \$239,348,933 | |

Source: Sonoma County Assessor

ATTACHMENT C

| Top 20 Taxpayer Assessment Appeal History | | | | |
|---|-------------|-------------------|----------------------------|--|
| Sonoma County Community Development Commission - The Springs Project Area | | | | |
| Owner | Year | Number of Appeals | Number Outstanding Appeals | Potential Reduction of Outstanding Appeals (1) |
| SMI REAL ESTATE LLC | 2010-11 | 10 | 10 | \$8,720,735 |
| | 2009-10 | 10 | 10 | \$8,750,373 |
| | 2008-09 (2) | 10 | 0 | \$0 |
| | Total | 30 | 20 | \$17,471,108 |
| FAZIO, PETER SAL AND SHARI ANNE | 2010-11 | 0 | 0 | \$0 |
| | 2009-10 | 1 | 1 | \$746,694 |
| | 2008-09 (2) | 1 | 0 | \$0 |
| | Total | 2 | 1 | \$746,694 |
| MAZZA MERRILL L TR | 2010-11 | 1 | 1 | \$161,319 |
| | 2009-10 | 0 | 0 | \$0 |
| | 2008-09 | 0 | 0 | \$0 |
| | Total | 1 | 1 | \$161,319 |
| All Top 20 Taxpayers | Total | 33 | 22 | \$18,379,121 |
| (1) Potential Reduction is calculated as net assessed value of parcels with outstanding appeals minus applicant's opinion of value. | | | | |
| (2) All resolved appeals from Top 20 Taxpayers have been withdrawn or denied with no changes in value. | | | | |

Source: Sonoma County Assessor

ATTACHMENT D

Sonoma County Community Development Commission The Springs Redevelopment Project Projected Debt Service Coverage

| Bond Year Ending August 1st | Projected Tax Revenues | Debt Service on the 2008 Bonds | Debt Service Coverage on the 2008 Bonds |
|--------------------------------|---------------------------|--------------------------------------|---|
| 2011 | 1,535,493.06 | 1,129,600.00 | 1.36 |
| 2012 | 1,534,593.26 | 1,132,600.00 | 1.35 |
| 2013 | 1,552,312.76 | 1,130,000.00 | 1.37 |
| 2014 | 1,580,103.53 | 1,132,000.00 | 1.40 |
| 2015 | 1,618,350.91 | 1,132,550.00 | 1.43 |
| 2016 | 1,657,363.38 | 1,131,575.00 | 1.46 |
| 2017 | 1,697,156.70 | 1,129,000.00 | 1.50 |
| 2018 | 1,737,744.95 | 1,129,750.00 | 1.54 |
| 2019 | 1,779,145.52 | 1,128,487.50 | 1.58 |
| 2020 | 1,821,374.15 | 1,130,112.50 | 1.61 |
| 2021 | 1,864,446.88 | 1,129,327.50 | 1.65 |
| 2022 | 1,908,381.13 | 1,131,925.00 | 1.69 |
| 2023 | 1,953,194.64 | 1,131,625.00 | 1.73 |
| 2024 | 1,998,904.53 | 1,129,525.00 | 1.77 |
| 2025 | 2,045,528.25 | 1,127,800.00 | 1.81 |
| 2026 | 2,093,083.65 | 1,128,800.00 | 1.85 |
| 2027 | 2,141,590.94 | 1,132,200.00 | 1.89 |
| 2028 | 2,191,068.71 | 1,127,675.00 | 1.94 |
| 2029 | 2,241,535.96 | 1,130,550.00 | 1.98 |
| 2030 | 2,293,012.07 | 1,130,175.00 | 2.03 |
| 2031 | 2,345,517.84 | 1,131,550.00 | 2.07 |
| 2032 | 2,399,073.49 | 1,129,350.00 | 2.12 |
| 2033 | 2,453,700.66 | 1,128,575.00 | 2.17 |
| 2034 | 2,509,420.40 | 1,128,900.00 | 2.22 |

ATTACHMENT E

Assessment Appeal History

Sonoma County Community Development Commission - The Springs Project Area

| Fiscal Year | Stipulated/ Reduced | Withdrawn/ Denied/ No Change/ No Appear/ Invalid | Pending | Total (1) | AV of All Appeals | Granted Reductions | Average Reduction | Potential Value of Outstanding Appeals |
|-------------|------------------------|--|---------|-----------|----------------------|-----------------------|----------------------|---|
| 2010-11 | 2 | 0 | 13 | 15 | \$14,674,943 | \$315,722 | \$157,861 | \$9,132,243 |
| 2009-10 | 14 | 3 | 13 | 30 | 22,350,618 | 1,899,558 | 135,683 | 9,749,913 |
| 2008-09 | 2 | 12 | 0 | 14 | 14,914,637 | 184,974 | 92,487 | 0 |
| 2007-08 | 0 | 2 | 0 | 2 | 2,103,800 | 0 | 0 | 0 |
| 2006-07 | 1 | 2 | 0 | 3 | 2,242,856 | 44,086 | 44,086 | 0 |
| Total | 19 | 19 | 26 | 64 | \$ 56,286,854 | \$2,444,340 | \$128,649 | \$18,882,156 |

Historical Rate of Granted Appeals

50.0%

Average Granted Reduction as Percentage of Requested Reduction

81.2%

Total Project Area Assessed Value

\$239,348,933

(1) As of 3/4/2011, there were four outstanding appeals in Sonoma County that had not been entered into County databases,

Source: Sonoma County Assessor

1440 Guerneville Road, Santa Rosa, CA 95403-4107

Johanna K. Tokunaga
Vice President
The Bank of New York Mellon Trust Company, N.A.
700 South Flower Street, Suite 500
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Sonoma County Community Development Commission
Housing Authority • Redevelopment Agency
1440 Guerneville Road, Santa Rosa, CA 95403-4107

**SONOMA COUNTY COMMUNITY REDEVELOPMENT AGENCY
THE SPRINGS REDEVELOPMENT PROJECT**

**PLAN LIMIT CERTIFICATE
PURSUANT TO SECTION 5.18 OF THE INDENTURE**

The undersigned, the Executive Director of the Sonoma County Community Redevelopment Agency (the "Agency"), hereby certifies, pursuant to Sections 5.18 of the Indenture of Trust dated as of December 1, 2008 (the "Indenture"), by and between the Agency and The Bank of New York Mellon Trust Company, as trustee (the "Trustee"), hereby certifies as follows:

(i) The amount of tax increment revenue allocated to or received by the Agency through Fiscal Year 2009-2010 under the Redevelopment Plan (but not including any tax increment revenue otherwise excluded under the Redevelopment Plan's limitation on the amount of tax increment revenue that can be allocated to the Agency) is \$23,732,706.

(ii) (a) The amount of tax increment revenue remaining available to be received by the Agency under the Redevelopment Plan (but not including any tax increment revenue otherwise excluded under the Redevelopment Plan's limitation on tax increment revenue that can be allocated to the Agency) is \$96,267,294.

(b) The amount of Tax Revenues remaining available to be received by the Agency under the Redevelopment Plan, based on the tax increment revenue available to be received by the Agency under the Redevelopment Plan, as set forth in (a) above, is \$75,436,293.

(iii) (a) The amount of tax increment revenue expected to be received for each of the next three Fiscal Years is set forth below:

| Fiscal Year | Tax Increment Revenue |
|-------------|-----------------------|
| 2010- 2011 | \$1,971,928 |
| 2011- 2012 | \$1,971,928 |
| 2012- 2013 | \$1,991,647 |

(b) The amount of tax increment revenue remaining available to be received by the Agency under the Redevelopment Plan (but not including any tax increment revenue otherwise excluded under the Redevelopment Plan's limitation on tax increment revenue that can be allocated to the Agency), after receipt of the revenues identified in (iii)(a) in each of the next three years is set forth below:

| Fiscal Year | Tax Increment Revenue Remaining to be Received |
|-------------|---|
| 2010- 2011 | \$94,295,366 |
| 2011- 2012 | \$92,323,438 |
| 2012- 2013 | \$90,331,791 |

(c) The amount of Tax Revenues remaining available to be received by the Agency under the Redevelopment Plan, based on the tax increment revenue available to be received by the Agency under the Redevelopment Plan, as set forth in (b) above, in each of the next three years, is:

| Fiscal Year | Tax Revenues Remaining to be Received |
|-------------|--|
| 2010- 2011 | \$75,436,283 |
| 2011- 2012 | \$73,858,750 |
| 2012- 2013 | \$72,265,433 |

(iv) The future remaining cumulative Annual Debt Service, estimated future fees of the Trustee and any other obligations of the Agency payable from Tax Revenues that are senior to the Bonds (including the Senior Bonds) and payments on obligations that are subordinate to the Bonds, calculated as provided in Sections 5.18, is, for each of the next three years is:

| Fiscal Year | Remaining Obligations |
|-------------|--------------------------|
| 2010- 2011 | \$45,600,956 |
| 2011- 2012 | \$44,292,467 |
| 2012- 2013 | \$42,291,493 |

(v) The amount specified in (iv) is less than ninety percent (90%) of the amount set forth in (ii)(b) with respect to tax increment revenues available to be received as of the prior Fiscal Year or the amount set forth in (iii)(c) with respect to the tax increment revenues available to be received during any of the next three Fiscal Years.

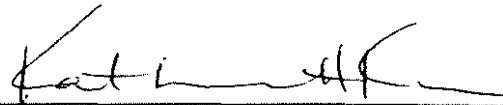
(vi) The amount of tax increment revenue allocated to the Agency during the prior Fiscal Year was \$2,203,964.

(vii) The amount of tax increment revenue, if any, used or escrowed during the prior Fiscal Year for use to pay interest on and principal of and redemption premiums, if any, on the Bonds (other than regularly scheduled debt service), was \$0.00.

(viii) Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

Dated: November 29, 2010

SONOMA COUNTY COMMUNITY
REDEVELOPMENT AGENCY

BY: 
Kathleen H. Kane
Executive Director