

City of Cotati
Basic Financial Statements
June 30, 2010

CITY OF COTATI, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2010
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Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Cotati
Cotati, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cotati, California, (the City) as of and for the year ended June 30, 2010 which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Cotati's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cotati, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress on pages 2 through 11 and pages 38 through 42 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. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Cotati's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated March 16, 2011 on my consideration of the City of Cotati's internal control over financial reporting and on my 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 my 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 my audit.

As discussed in note 5-G to these financial statements, the City in fiscal year 2010, implemented the provisions of Governmental Accounting Standards Board Statement Number 45, titled, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.


Certified Public Accountant
March 16, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Cotati's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by about \$350,000 over the course of this year's operations. The net assets of our business-type activities had a negligible decrease (about \$69,000) from 2009, and there was a \$436 thousand increase in the net assets of our governmental type activities (about a 2 percent increase over 2009).
- During the year, the City's expenses for its governmental activities were \$5.5 million more than revenues from user charges, operating and capital grants. This short fall was funded from general tax revenues such as property taxes, sales taxes, incremental property taxes and other taxes.
- The City's expenses for business-type activities were in 2010 about \$43,000 more than related charges for services. The City did in 2010 recognize about \$31,000 in capital contributions from these activities all related to capital impact and related fees restricted for future improvements.
- The general fund reported a 2010 year end fund balance of \$812,555 about a \$111,000 increase compared to fiscal 2009.
- The City's other major and non-major governmental funds ended fiscal 2010 with about a \$14 million fund balance; most of which is restricted for specific purposes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of five parts – an *introductory section*, a *management's discussion and analysis* (this section), the *basic financial statements, required supplementary information*, and an optional section that presents *combining statements* for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the water and wastewater system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major funds, each of which are added together and presented in single columns in the basic financial statements.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Figure A-1
Major Features of City of Cotati's Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the water and wastewater systems.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements of the City are divided into two categories:

- *Governmental activities* – Most of the City's basic services are included here, such as police, streets, parks, community development, and general administration. Property taxes, sales taxes, incremental property taxes, and state and federal grants finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and wastewater system are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. The more significant governmental funds in fiscal 2010 were:

The city's general fund, inclusionary housing fund, and South Sonoma Business Park debt service fund. Other major funds in fiscal 2010 included the component unit redevelopment agency's capital projects tax increment fund, special revenue low and moderate income housing fund, and tax allocation bond debt service fund. All other governmental type funds are aggregated and are presented in a separate single column in the fund financial statements.

The City's water and wastewater enterprise funds are also presented as major funds in separate columns in the fund financial statements.

The City has two kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
 - *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's *combined* net assets increased in 2010 about \$300 thousand to 39.8 million. (See Table A-1.)

Table A-1
City of Cotati's Net Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2009	2010	2009	2010	2009	2010	2009-2010
Current and other assets	\$15.5	\$ 15.3	\$10.4	\$10.5	\$25.9	\$ 25.8	-0.4%
Long-term receivables	7.6	7.5	-	-	7.6	7.5	-1.3%
Capital assets	16.8	16.9	7.8	7.7	24.6	24.6	0.0%
Total assets	39.9	39.7	18.2	18.2	58.1	57.9	-0.3%
Long-term debt outstanding	17.2	16.8	-	-	17.2	16.8	-2.3%
Other liabilities	1.1	0.9	.3	.4	1.4	1.3	-7.1%
Total liabilities	18.3	17.7	.3	.4	18.6	18.1	-2.3%
Net assets							
Invested in capital assets net of related debt	5.5	5.8	7.8	7.7	13.3	13.5	1.5%
Restricted	15.5	15.9	7.3	7.4	22.8	23.3	2.1%
Unrestricted	.6	.3	2.8	2.7	3.4	3.0	-11.9%
Total net assets	\$ 21.6	\$ 22.0	\$ 17.9	\$ 17.8	\$ 39.5	\$ 39.8	0.8%

Net assets of the City's governmental activities increased 1.9 percent to \$22.0 million. About 58% of the net assets relating to governmental activities is represented by cash, investments and receivables. The City has about \$16.8 million in long-term debt being used to finance governmental activities. There is no long-term debt in regard to the City's business-type activities.

The net assets of our business-type activities decreased by .6 percent to \$17.8 million. These resources cannot be used for governmental activities. The City generally can only use these net assets to finance the continuing operations of the water, and wastewater systems and for capital improvements to those systems.

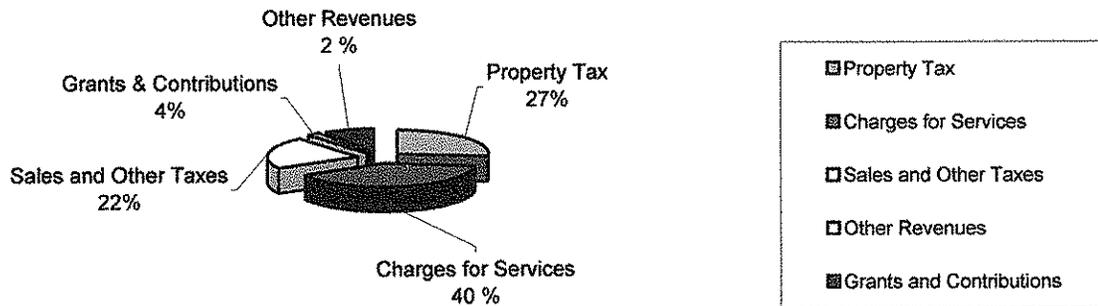
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

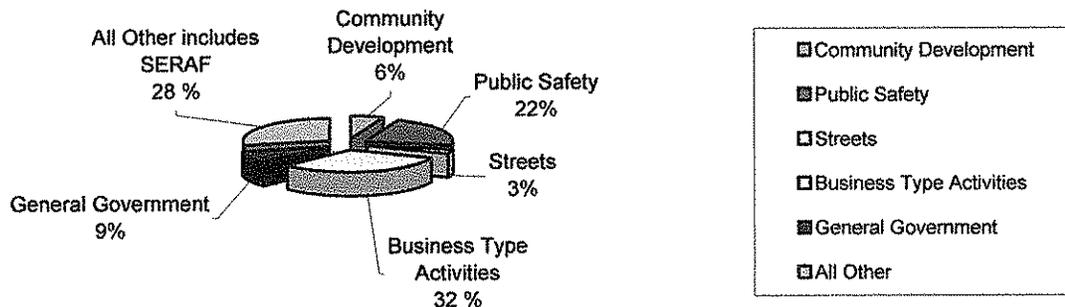
Changes in net assets. The City's total revenues in fiscal 2010 were about \$11.3 million (See Table A-2.) About 28 percent of the City's revenue comes from property taxes, another 22 percent from sales taxes and other taxes. Another 39 percent come from fees charged for services primarily from water and wastewater services, and most of the rest is state and local aid and development

The total cost of all programs and services was about \$11 million. The City's expenses cover a range of services, with about 32 percent related to business type activities, 22 percent for public safety services, and the remaining 46 percent for general government, streets, parks and community development programs.

Sources of Revenue for Fiscal Year 2010



Functional Expenses for Fiscal Year 2010



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Governmental Activities

Revenues for the City's governmental activities decreased by about 30 percent, while total expenses increased 6 percent compared to the fiscal year 2009.

Expenses of governmental activities increased about \$400,000. Most of the significant cost increase was the result of SERAF or streets related activities. All other categories remained static or decreased from 2009.

**Table A-2
Changes in City of Cotati's Net Assets
(in millions of dollars)**

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2009	2010	2009	2010	2009	2010	2009-2010
Revenues							
Program revenues							
Charges for services	\$1.2	\$1.0	\$3.8	\$3.5	\$5.0	\$4.5	-10.0%
Operating grants and contributions	.5	.4	-	-	.5	.4	-20.0%
Capital grants and contributions	3.3	.6	.1	-	3.4	.6	-82.4%
General revenues							
Property taxes	2.9	3.1	-	-	2.9	3.1	6.9%
Other taxes	2.8	2.5	-	-	2.8	2.5	-10.7%
Other	.5	.2	-	-	.5	.2	-60.0%
Total revenues	11.2	7.8	3.9	3.5	15.1	11.3	25.2%
Expenses							
General government	1.0	1.0	-	-	1.0	1.0	0.0%
Planning	.4	.3	-	-	.4	.3	-25.0%
Public safety	3.0	2.4	-	-	3.0	2.4	-20.0%
Community development	.9	.7	-	-	.9	.7	-22.2%
Parks and recreation	.5	.3	-	-	.5	.3	-40.0%
Streets	.4	.6	-	-	.4	.6	-50.0%
SERAF	-	1.3	-	-	-	1.3	100.0%
Water	-	-	1.1	1.2	1.1	1.2	9.1%
Wastewater	-	-	2.1	2.3	2.1	2.3	9%
Interest	.9	.9	-	-	.9	.9	0.0%
Total expenses	7.1	7.5	3.2	3.5	10.3	11.0	6.7%
Excess (deficiency) before transfers	4.1	.3	.7	-.	4.8	.3	-93.8%
Transfers	.1	.1	(.1)	(.1)	-	-	
Increase (decrease) in net assets	4.2	.4	.6	(.1)	4.8	.3	-93.8%
Net assets, beginning of period	17.4	21.6	17.2	17.8	34.6	39.4	
Net assets, end of period	\$21.6	\$22.0	\$17.8	17.7	\$39.4	\$39.7	0.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-3 presents the cost of each of the City's largest governmental programs – administration or general government, safety, community development, and streets

- The cost of all *governmental* activities this year was \$7.5 million, an increase of about \$400,000 compared to fiscal 2009.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

- Of the \$7.5 million cost of the City's governmental activities programs, our taxpayers paid for only \$5.5 million of the program costs. Some of the cost was paid by:
 - Those who directly benefited from the programs \$1.0 million or
 - Other governments and organizations that subsidized certain programs with grants and contributions; another \$990,000.

The City paid for the \$5.5 million “public benefit” portion with essentially using the City's general tax revenues.

Table A-3
Cost of City Cotati's Governmental Activities

(in millions of dollars)

	Total Cost of Services		Percentage Change
	2009	2010	2009-2010
General Government	\$1.0	\$ 1.0	0.0%
Planning	.4	.3	-25.0%
Public Safety	3.0	2.4	-20.0%
Community development	.9	.7	-22.2%
Parks and recreation	.5	.3	40.0%
Streets	.4	.6	50.0%
All other	.9	2.2	144.4%
Total	\$7.1	\$ 7.5	5.6%

The most significant cost changes in fiscal 2010 were caused by a reduction in public safety activities.

Business-Type Activities

Revenues of the City's business-type activities decreased by about 10 percent to \$3.5 million as a result of lower capital grants and connection fees. Operating expenses in water and wastewater increased 9.4 percent compared to fiscal 2010 to 3.5 million. (Refer to Table A-2.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of \$14.86 million, about a \$65,000 decrease over the last fiscal year.

The City's spending for general fund operations exceeded general fund revenues by about \$200,000 before inter-fund transfers. At year-end, the City's general fund had a \$812,000 fund balance available to start the 2011 fiscal year. This is the first year in the last five in which the general fund spending has not exceeded its revenues by over \$600,000 in a year.

There was an additional \$1.6 million fund balance at year-end in the Redevelopment Agency's Tax Increment Fund. Following are the other major funds and their associated year end fund balances:

Redevelopment Low and Moderate Housing Fund	\$4,650,658
Inclusionary Housing Fund	3,176,991
South Sonoma Business Park Debt Service Fund	806,875
Redevelopment Debt Service Fund	1,102,632

The City's non-major funds ended the fiscal 2010 year with a combined fund balance of about \$2.6 million; an increase of \$139,000 over the last fiscal year. Most of these resources can only be used for street projects, community development projects, and other special purposes.

The City's water fund ended 2010 with about \$600,000 set aside for future capital projects and the wastewater fund ended 2010 with about \$6.8 million in its capital improvement accounts. Most of these restricted monies have been generated by capital connection\impact fees related to new development within the City. In addition, these two funds also had about \$2.53 million in cash available for other purposes

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into two categories:

- Changes made at the midyear budget review for unanticipated revenues and costs.
- Increases in appropriations to prevent budget overruns.

Actual expenditures were \$ 87,208 less than final budget amounts as a result of spending reductions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had invested \$24.6 million in a broad range of capital assets, including equipment, vehicles, buildings, park facilities, and water and wastewater systems. (See Table A-4.) Because this amount is net of accumulated depreciation, there was a net change in the total net investment in capital assets in fiscal 2010 of about \$100 thousand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Management (Continued)

Table A-4
City of Cotati's Capital Assets
(net of depreciation, in millions of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2009	2010	2009	2010	2009	2010	2009-2010
Land	\$7.7	7.7	\$ -	\$ -	\$ 7.7	\$7.7	0.0%
Buildings	5.4	5.4	-	-	5.4	5.4	0.0%
Equipment	.9	.8	.6	.6	1.5	1.4	-6.7%
Improvements	6.5	9.0	.3	.3	6.8	9.3	36.8%
Vehicles	.5	.6			.5	.6	20.0%
Water/wastewater system	-	-	9.8	10.2	9.8	10.2	4.1%
Construction in progress	2.3	.7	1.1	.9	3.4	1.6	-52.9%
Accumulated depreciation	(6.5)	(7.3)	(4.1)	(4.3)	(10.6)	(11.6)	9.4%
Total	\$16.8	\$ 16.9	\$7.7	\$ 7.7	\$24.5	\$24.6	0.4%

This year's major capital assets additions included:

- About \$2 million added for improvements to East Cotati Avenue
- About \$582,000 added to construction in progress for Old Redwood Highway South improvements
- \$278,000 added to construction in progress for the Ryan Lane affordable housing project

Additional information about capital assets can be found starting on page 28 and 29 of the notes to the basic financial statements.

Long-term Debt

No new long-term debt was issued in fiscal year 2010. The City did retire \$350,000 in long-term bonded debt during fiscal 2010. All debt service payments were when and as required.

Additional information about the City's long-term obligations can be found starting on page 32 of the notes to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2011 fiscal year, general fund revenue projections have been conservative compared to higher revenue projections in the past years.

- The budget projects that there will be about a 12 percent decrease in general fund revenues. The increase is consistent with the estimated revenue that will be received from the Measure A transaction and use tax passed by Cotati voters in April 2010.
- The budget will require use of general fund resources available from the 2010 fiscal year
- No utility user fee rate increases have been anticipated in fiscal year 2011.
- No tax increases, other than the Measure A transaction and use taxes are proposed for fiscal 2011
- No general fund user fee increases have been approved for fiscal 2011

The 2011 budget has proposed capital project spending of about \$3.6 million with \$250,000 for street related projects.

As to the City's business-type activities, about \$598,000 is expected to be spent in 2011 to make capital improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administrative Services, City of Cotati, 201 West Sierra Avenue, Cotati, CA 94931.

CITY OF COTATI
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 11,775,904	\$ 2,534,534	\$ 14,310,438
Net receivables	889,624	555,475	1,445,099
Prepayments	10,702	8,885	19,587
Total current assets	<u>12,676,230</u>	<u>3,098,894</u>	<u>15,775,124</u>
Noncurrent assets:			
Cash and cash equivalents	2,521,923	7,397,555	9,919,478
Long-term notes receivable	2,090,938	-	2,090,938
Other long-term receivables	5,397,260	-	5,397,260
Debt issuance costs	147,507	-	147,507
Net capital assets	16,929,253	7,679,258	24,608,511
Total noncurrent assets	<u>27,086,881</u>	<u>15,076,813</u>	<u>42,163,694</u>
Total assets	<u>\$ 39,763,111</u>	<u>\$ 18,175,707</u>	<u>\$ 57,938,818</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 110,187	\$ 127,673	\$ 237,860
Due to other governments	-	-	-
Compensated absences	60,000	215,509	275,509
Deposits	286,852	66,850	353,702
Deferred revenue	-	-	-
Accrued interest payable	299,762	-	299,762
Bonds due within one year	365,000	-	365,000
Total current liabilities	<u>1,121,801</u>	<u>410,032</u>	<u>1,531,833</u>
Long-term liabilities due in more than one year:			
Tax allocation bonds	11,140,000	-	11,140,000
Special assessment bonds	5,295,000	-	5,295,000
Bond discount	(122,959)	-	(122,959)
Compensated absences	250,847	-	250,847
Net other post employment benefit obligation	10,037	-	10,037
Total long-term liabilities	<u>16,572,925</u>	<u>-</u>	<u>16,572,925</u>
Total liabilities	<u>17,694,726</u>	<u>410,032</u>	<u>18,104,758</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,794,719	7,679,258	13,473,977
Restricted for:			
Capital projects and redevelopment	3,967,729	7,397,555	11,365,284
Housing	8,828,597	-	8,828,597
Debt service	1,609,745	-	1,609,745
Other purposes	1,505,294	-	1,505,294
Unrestricted	362,301	2,688,862	3,051,163
Total net assets	<u>22,068,385</u>	<u>17,765,675</u>	<u>39,834,060</u>
Total liabilities and net assets	<u>\$ 39,763,111</u>	<u>\$ 18,175,707</u>	<u>\$ 57,938,818</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Redevelopment Agency Tax Increment Fund	Redevelopment Low and Moderate Income Housing Fund	Inclusionary Housing Fund	South Sonoma Business Park Debt Service Fund	Redevelopment Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and investments	\$ 773,112	\$ 1,665,036	\$ 4,652,468	\$ 3,183,737	\$ 767,833	\$ 1,102,632	\$ 2,153,009	\$ 14,297,827
Taxes receivable	166,258	21,033	-	-	-	-	-	187,291
Accounts receivable	20,245	-	-	-	39,042	-	38,605	97,892
Interest receivable	-	2,843	-	-	-	-	-	2,843
Due from other governments	17,028	-	-	-	-	-	584,570	601,598
Assessments receivable	-	-	-	-	5,395,000	-	2,260	5,397,260
Notes receivable	53,000	1,036,990	630,948	370,000	-	-	-	2,090,938
Prepayments	7,979	-	309	-	-	-	2,414	10,702
Due from other funds	127,260	-	-	-	-	-	417,285	544,545
Total assets	\$ 1,164,882	\$ 2,725,902	\$ 5,283,725	\$ 3,553,737	\$ 6,201,875	\$ 1,102,632	\$ 3,198,143	\$ 23,230,896

LIABILITIES AND FUND BALANCES

Liabilities:								
Accounts payable	\$ 65,474	\$ 21,960	\$ 2,119	\$ 6,746	\$ -	\$ -	\$ 13,887	\$ 110,186
Due to other funds	-	-	-	-	-	-	544,545	544,545
Deposits	286,853	-	-	-	-	-	-	286,853
Deferred revenue	-	1,036,990	630,948	370,000	5,395,000	-	-	7,432,938
Total liabilities	352,327	1,056,950	633,067	376,746	5,395,000	-	558,432	8,374,522
Fund balances:								
Reserved	60,979	-	309	-	806,875	1,102,632	-	1,970,795
Unreserved, designated	165,000	-	-	-	-	-	-	165,000
Unreserved, undesignated	586,576	1,666,952	4,650,349	3,176,991	-	-	-	10,060,868
Unreserved reported in nonmajor:								
Capital projects funds	-	-	-	-	-	-	1,057,960	1,057,960
Special revenue funds	-	-	-	-	-	-	1,581,751	1,581,751
Total fund balances	812,555	1,666,952	4,650,658	3,176,991	806,875	1,102,632	2,639,711	14,856,374
Total liabilities and fund balances	\$ 1,164,882	\$ 2,725,902	\$ 5,283,725	\$ 3,553,737	\$ 6,201,875	\$ 1,102,632	\$ 3,198,143	\$ 23,230,896

Total Governmental Fund Balances

Amounts reported for governmental activities in the statement of net assets are different because:
 Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds
 Bond issuance costs and discounts are not current financial resources and are therefore not reported in the funds
 Other long-term assets are not available to pay for current-period expenditures and are therefore offset by deferred revenue in the funds
 Interest payable is accrued as a liability in the statement of net assets but is reported as a liability in the funds only when due
 The net obligation for other post-employment benefits does not require the use of current financial resources and is therefore not reported in the funds
 Some liabilities including tax allocation notes, claims and compensated absences are not due and payable in the current period and therefore are not reported in the funds

Net Assets of Governmental Activities

See accompanying notes to the basic financial statements

CITY OF COTATI
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Redevelopment					Total Governmental Funds
	General Fund	Redevelopment Agency Tax Increment Fund	Low and Moderate Income Housing Fund	Inclusionary Housing Fund	South Sonoma Business Park Debt Service Fund	
REVENUES						
Property taxes	\$ 520,877	\$ 1,785,680	\$ 841,812	\$ -	\$ -	\$ 3,148,369
Sales taxes	1,412,656	-	-	-	-	1,412,656
Other taxes	510,184	-	-	-	-	510,184
Licenses and permits	17,340	-	-	-	-	17,340
Fines and forfeits	99,200	-	-	-	-	99,200
Intergovernmental	575,894	-	-	-	-	575,894
Interest and rents	127,970	31,850	62,157	17,627	241	1,481,938
Charges for services	230,267	-	-	30,132	459,027	256,109
Miscellaneous	158,086	-	4,249	-	-	771,091
						170,821
						8,486
						982,284
Total revenues	3,652,474	1,817,530	908,218	47,759	241	7,867,708
EXPENDITURES						
Current:						
General government	771,046	-	-	-	-	771,046
Planning services	300,790	-	-	-	-	300,790
Public safety	2,370,190	-	-	-	-	2,385,619
Community development	-	-	143,569	47,033	-	15,429
Parks and recreation	140,385	-	-	-	-	455,656
Highways and streets	262,740	-	-	-	-	140,385
Education (Payment to SERAF)	-	1,313,688	-	-	-	279,786
Capital outlay	8,390	11,578	275,830	-	-	1,313,688
Debt service:						
Principal	-	-	-	-	255,000	945,582
Interest	-	-	-	-	553,102	350,000
						910,364
						8,043,518
Total expenditures	3,853,541	1,325,266	419,399	47,033	808,102	8,043,518
Excess (deficiency) of revenues over expenditures	(201,067)	492,264	488,819	726	(807,861)	(175,810)
OTHER FINANCING SOURCES (USES)						
Transfers in	420,770	-	-	-	807,948	3,062,132
Transfers out	(107,825)	(1,232,845)	(70,351)	-	(1,400)	(2,951,248)
						110,884
Total other financing sources (uses)	312,945	(1,232,845)	(70,351)	-	806,548	110,884
Net change in fund balances	111,878	(740,581)	418,468	726	(1,313)	(64,926)
Fund balances, July 1	700,677	2,407,533	4,232,190	3,176,265	1,103,945	14,921,300
Fund balances, June 30	\$ 812,555	\$ 1,666,952	\$ 4,650,658	\$ 3,176,991	\$ 1,102,632	\$ 14,856,374

See accompanying notes to the basic financial statements

CITY OF COTATI
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (64,926)</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	100,632
Governmental funds report debt issuance costs and bond discounts as expenditures. However, in the statement of activities, debt issuance costs and bond discounts are capitalized and amortized to expense over the life of the debt	(11,269)
Governmental funds report long-term receivables but defer revenue from them until collections are actually received. In the statement of activities, principal collections on receivables are not reported as revenues. Disbursements made for long-term loans are recorded as expenditures in the funds, but are not recorded as additions to receivables in the statement of activities	(64,187)
Governmental funds report payments on long-term debt as expenditures, but such payments reduce liabilities in the statement of net assets and therefore are not recorded as expenses in the statement of activities	350,000
The net obligation for other postemployment benefits does not require the use of current financial resources and is therefore not reported in the funds	(10,037)
Governmental funds report interest expenditures when payment is due, but interest expense is accrued in the statement of activities	4,581
Long-term obligations such as claims and compensated are recorded in the governmental funds only when due, but are recorded as liabilities in the statement of net assets when incurred	<u>131,195</u>
Net adjustment to reconcile to changes in net assets	<u>500,915</u>
Change in Net Assets of Governmental Activities	<u>\$ 435,989</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Net Assets
Proprietary Funds
June 30, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,272,748	\$ 1,261,786	\$ 2,534,534
Accounts receivable	215,484	339,991	555,475
Prepayments	7,887	998	8,885
Total current assets	<u>1,496,119</u>	<u>1,602,775</u>	<u>3,098,894</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	599,589	6,797,966	7,397,555
Net other assets	<u>599,589</u>	<u>6,797,966</u>	<u>7,397,555</u>
Capital assets:			
Reservoirs	1,160,215	-	1,160,215
Pipelines and meters	3,064,683	4,642,034	7,706,717
Water wells	1,278,585	-	1,278,585
Improvements	187,018	134,393	321,411
Equipment	277,076	323,355	600,431
Less accumulated depreciation	<u>(2,330,753)</u>	<u>(1,993,875)</u>	<u>(4,324,628)</u>
	3,636,824	3,105,907	6,742,731
Construction in progress	900,103	36,424	936,527
Net capital assets	<u>4,536,927</u>	<u>3,142,331</u>	<u>7,679,258</u>
Total noncurrent assets	<u>5,136,516</u>	<u>9,940,297</u>	<u>15,076,813</u>
Total assets	<u>\$ 6,632,635</u>	<u>\$ 11,543,072</u>	<u>\$ 18,175,707</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 87,652	\$ 30,800	\$ 118,452
Accrued liabilities	9,195	26	9,221
Compensated absences	139,104	76,405	215,509
Deposits	66,850	-	66,850
Total current liabilities	<u>302,801</u>	<u>107,231</u>	<u>410,032</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,536,927	3,142,331	7,679,258
Restricted	599,589	6,797,966	7,397,555
Unrestricted	1,193,318	1,495,544	2,688,862
Total net assets	<u>\$ 6,329,834</u>	<u>\$ 11,435,841</u>	<u>\$ 17,765,675</u>

See accompanying notes to the basic financial statements

CITY OF COTATI

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2010**

	Enterprise Funds		
	Water	Wastewater	Totals
OPERATING REVENUES			
Charges for services	\$ 1,183,283	\$ 2,094,825	\$ 3,278,108
Other operating revenues	74,029	73,016	147,045
Total operating revenues	1,257,312	2,167,841	3,425,153
OPERATING EXPENSES			
Personnel services	420,016	300,818	720,834
Contractual services	90,683	16,368	107,051
Intergovernmental treatment costs	-	1,662,543	1,662,543
Utilities	36,074	1,867	37,941
Purchased water	373,595	-	373,595
Supplies and materials	93,419	95,432	188,851
Insurance, claims, and expenses	36,816	34,879	71,695
Depreciation	165,568	140,249	305,817
Total operating expenses	1,216,171	2,252,156	3,468,327
Operating income (loss)	41,141	(84,315)	(43,174)
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	10,280	43,879	54,159
Net non-operating revenues (expenses)	10,280	43,879	54,159
Income before contributions and transfers	51,421	(40,436)	10,985
Contributions and transfers			
Capital contributions	6,556	24,252	30,808
Transfers in	11,712	-	11,712
Transfers out	(56,242)	(66,354)	(122,596)
Total contributions and transfers	(37,974)	(42,102)	(80,076)
Change in net assets	13,447	(82,538)	(69,091)
Total net assets, July 1	6,316,387	11,518,379	17,834,766
Total net assets, June 30	\$ 6,329,834	\$ 11,435,841	\$ 17,765,675

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,304,646	\$ 2,172,645	\$ 3,477,291
Payments to suppliers	(616,753)	(1,786,119)	(2,402,872)
Payments to employees	(401,511)	(288,514)	(690,025)
Net cash provided by (used for) operating activities	<u>286,382</u>	<u>98,012</u>	<u>384,394</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	11,712	-	11,712
Transfers to other funds	(56,242)	(66,354)	(122,596)
Net cash provided by noncapital financing activities	<u>(44,530)</u>	<u>(66,354)</u>	<u>(110,884)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	6,556	24,252	30,808
Purchases of capital assets	(195,894)	(34,248)	(230,142)
Net cash provided by (used for) capital and related financing activities	<u>(189,338)</u>	<u>(9,996)</u>	<u>(199,334)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	<u>10,280</u>	<u>43,879</u>	<u>54,159</u>
Net cash provided by investing activities	<u>10,280</u>	<u>43,879</u>	<u>54,159</u>
Net increase (decrease) in cash and cash equivalents	62,794	65,541	128,335
Cash and cash equivalents-beginning of the year	<u>1,809,543</u>	<u>7,994,211</u>	<u>9,803,754</u>
Cash and cash equivalents-end of the year	<u>\$ 1,872,337</u>	<u>\$ 8,059,752</u>	<u>\$ 9,932,089</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 41,141	\$ (84,315)	\$ (43,174)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	165,568	140,249	305,817
Change in assets and liabilities:			
Receivables, net	39,827	4,804	44,631
Prepayments	(5,848)	814	(5,034)
Accounts payable	12,298	24,151	36,449
Other liabilities	33,396	12,309	45,705
 Net cash provided by (used for) operating activities	 <u>\$ 286,382</u>	 <u>\$ 98,012</u>	 <u>\$ 384,394</u>

Noncash capital financing activities:
None.

See accompanying notes to the basic financial statements

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Cotati is a municipal corporation governed by an elected five member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

The Redevelopment Agency of the City of Cotati and the Cotati Facilities Financing Authority are legally separate entities for which the City is financially accountable and it is governed by the elected City Council. The financial activities of the Agency and Authority are blended with those of the City and are reported in the City's governmental funds, and as capital assets of the City and debt obligations of the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the *proprietary fund financial statements*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Property taxes, sales taxes, other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Redevelopment Agency's Tax Increment Fund* (a Capital Projects Type Fund) is maintained to account for the tax increment revenues used to fund debt service and other redevelopment activities. The *Redevelopment Agency's Debt Service Fund* is used to account for payments of principal and interest on tax allocation bonds.

The *Redevelopment Agency's Low and Moderate Income Housing Fund* is maintained to account for the 20% of tax increment revenues required to be used for affordable housing.

The *City's Inclusionary Housing Fund* used to account for in lieu impact fees restricted in use to inclusionary housing purposes.

The *South Sonoma Business Park* special assessment debt service fund used to charge landowners for the financing provided to develop the business park.

The City reports the following major proprietary funds:

The *water fund* accounts for the operations of the City's water treatment and distribution system. The *wastewater fund* accounts for the operation of the City's wastewater collection activities.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, bankers acceptances, repurchase agreements, and time deposits and savings and demand accounts.

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

Investments for the City are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Sonoma collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 1,000 (\$50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2002 at the date these new financial reporting standards were implemented; and the City has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30
Public domain infrastructure	50
System infrastructure	10-40
Vehicles and equipment	7 - 10

5. Compensated Absences and Other Post Employment Benefits

It is the government's policy to permit employees to accumulate earned but unused leave bank (vacation and sick pay benefits). There is a liability for a portion of unpaid accumulated sick leave since the City does have a policy to pay certain amounts when employees separate from service with the City. All leave bank pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The City's obligation for post employment benefits other than pensions (OPEB) are reported as a liability in the government-wide financial statements.

6. Long-term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

8. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 16,929,253 difference are as follows:

Capital assets	\$ 24,190,081
Less: Accumulated depreciation	<u>(7,260,828)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 16,929,253</u>

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$17,110,847 difference are as follows:

Long-Term Debt Obligations	
Tax allocation bonds	\$ 11,405,000
Special assessment bonds	5,395,000
Compensated absences	<u>310,847</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (17,110,847)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 500,915 difference and other significant components of the difference are as follows:

Capital outlay	\$ 971,282
Depreciation expense	(870,650)
Other post employment benefits	(10,037)
Repayment of long-term debt principal	350,000
Other items	<u>60,320</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 500,915</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds. Expenditure budgets were exceeded by the grant fund (\$10,095) Park in lieu fund (\$220,458) and inclusionary housing fund (\$22,105). The expenditures were funded by available resources.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2010 consisted of the following:

Pooled demand deposits	\$ 342,501
Pooled investments	22,735,321
Investments with trustees	<u>1,152,094</u>
 Total deposits and investments	 <u>\$ 24,229,916</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than three years. At June 30, 2009, \$49,655 of the City's bank balances of \$ 299,655 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 49,655</u>
--	------------------

Investments - At June 30, 2009 the City had the following investments.

Investment	Maturities	Fair Value
State Investment Pool(LAIF)	Average 203 days	\$ 21,508,622
Sonoma County Investment Pool	Average 394 days	377,174
BlackRock Provident T-Fund Shares	Average 120 days	1,152,094
Prime Money Market Fund RBC Investor	Average 120 days	626
Negotiable Certificates of Deposit	Average 270 days	<u>848,899</u>
 Totals		 <u>\$ 23,887,415</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities prescribed in Sections 53600 through 53609 of the California Government Code which for the City is securities with a maturity of five years or less at the time of purchase.

Credit Risk - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investment in mutual funds was rated Aaa by Moody's Investor Service. The State and County Investment Pools are unrated.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments(Continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$849,525 investment other than the Pools and mutual funds, the entire \$849,525 in underlying securities are held by the investment's counterparty in the name of the City. The City's investment policy specifies that securities are to be held by a third party, other than the counterparty, in the City's name, whenever possible. The investment in the State and County Pool and mutual funds are not subject to custodial credit risk because the investments are not evidenced by specific securities.

Noncurrent Cash and Cash Equivalents – The \$2,521,919 restricted in the governmental activities statement of net assets represents resources in the City's debt service funds and the tax allocation bond proceeds fund. The \$7,195,313 in the business-type activities statement of net assets represents capital improvement funds to be used for funding major capital assets and facilities.

B. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Other Major Funds	Nonmajor Funds	Total Governmental	Water	Wastewater
Accounts	\$ 20,245	\$ 39,042	\$ 38,605	\$ 97,892	\$215,484	\$ 339,991
Taxes	166,258	21,033	-	187,291	-	-
Governments	17,028	-	584,570	601,598	-	-
Interest	-	2,843	-	2,843	-	-
Notes and loans	53,000	2,037,938	-	2,090,938	-	-
Assessments	-	5,395,000	2,260	5,397,260	-	-
Totals	\$ 256,531	\$ 7,495,856	\$ 625,435	\$ 8,377,822	\$215,484	\$ 339,991

C. Interfund Transfers, receivables and payables

1. The composition of interfund transfers of June 30, 2010, is as follows:

Transfers In:	General Fund	Redevelopment Debt Service Fund	Other Governmental Funds	Total Transfers
Transfers Out:				
General fund	\$ -	\$ -	\$ 107,825	\$ 107,825
Tax Increment fund	-	807,948	424,897	1,232,845
Low Moderate fund	-	-	70,351	70,351
Other funds	309,886	-	1,230,341	1,540,227
Water/wastewater	110,884	-	-	110,884
Totals	\$ 420,770	\$ 807,948	\$ 1,833,414	\$ 3,062,132

The primary transfers out of the nonmajor funds were made to fund redevelopment projects, debt service on the tax allocation bonds, to provide funds to the City's general fund for projects carried out by the general fund, and to transfer grant funds into the City's capital projects fund. These are recurring types of transfers.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

2. The composition of interfund balances was:

<u>Receivable Fund</u>	<u>Nonmajor Payable Fund</u>	<u>Amount</u>
General:		
	State grant fund	\$ 88,354
	K9	948
	South Sonoma Business Park fund	3,131
	CDBG Fund	<u>34,827</u>
	Subtotal	127,260
City capital projects	Grant fund	<u>417,285</u>
	Total	<u>\$ 544,545</u>

The advances were made for temporary cash flow purposes.

D. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 7,689,675	\$ 2,705	\$ -	\$ 7,692,380
Construction in progress	<u>2,326,642</u>	<u>941,440</u>	<u>(1,999,073)</u>	<u>1,269,009</u>
Total capital assets, not being depreciated	<u>10,016,317</u>	<u>944,145</u>	<u>(1,999,073)</u>	<u>8,961,389</u>
Capital assets, being depreciated:				
Buildings	5,440,189	-	-	5,440,189
Machinery and equipment	883,383	14,919	(133,281)	765,021
Vehicles	550,188	-	-	550,188
Improvements	<u>6,462,003</u>	<u>2,011,291</u>	<u>-</u>	<u>8,473,294</u>
Total capital assets being depreciated	<u>13,335,763</u>	<u>2,026,210</u>	<u>(133,281)</u>	<u>15,228,692</u>
Less accumulated depreciation for:				
Buildings	(1,124,122)	(136,005)	-	(1,260,127)
Machinery and equipment	(811,877)	(29,502)	133,281	(708,098)
Vehicles	(373,376)	(36,968)	-	(410,344)
Improvements	<u>(4,214,084)</u>	<u>(668,175)</u>	<u>-</u>	<u>(4,882,259)</u>
Total accumulated depreciation	<u>(6,523,459)</u>	<u>(870,650)</u>	<u>133,281</u>	<u>(7,260,828)</u>
Total capital assets, being depreciated, net	<u>6,812,304</u>	<u>1,155,560</u>	<u>-</u>	<u>7,967,864</u>
Governmental activities capital assets, net	<u>\$ 16,828,621</u>	<u>\$ 2,099,705</u>	<u>\$ (1,999,073)</u>	<u>\$ 16,929,253</u>

Construction in progress, at June 30, 2010, represents primarily cost incurred related to construction improvements to the city's street system.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	<u>1,096,560</u>	<u>230,140</u>	<u>(390,173)</u>	<u>936,527</u>
Total capital assets, not being depreciated	<u>1,096,560</u>	<u>230,140</u>	<u>(390,173)</u>	<u>936,527</u>
Capital assets, being depreciated:				
Water wells	1,278,585	-	-	1,278,585
Reservoirs	1,160,215	-	-	1,160,215
Improvements	321,411	-	-	321,411
Pipelines and collection system	7,316,544	390,173	-	7,706,717
Equipment	<u>637,146</u>	<u>-</u>	<u>(36,715)</u>	<u>600,431</u>
Total capital assets being depreciated	<u>10,713,901</u>	<u>390,173</u>	<u>(36,715)</u>	<u>11,067,359</u>
Less accumulated depreciation for:				
Water wells	(710,418)	(28,631)	-	(739,049)
Reservoirs	(333,561)	(29,005)	-	(362,566)
Improvements	(212,424)	(15,404)	-	(227,828)
Pipelines and collection system	(2,338,065)	(186,931)	-	(2,524,996)
Equipment	<u>(461,058)</u>	<u>(45,846)</u>	<u>36,715</u>	<u>(470,189)</u>
Total accumulated depreciation	<u>(4,055,526)</u>	<u>(305,817)</u>	<u>36,715</u>	<u>(4,324,628)</u>
Total capital assets, being depreciated, net	<u>6,658,375</u>	<u>84,356</u>	<u>-</u>	<u>6,742,731</u>
Business-type activities capital assets, net	<u>\$ 7,754,935</u>	<u>\$ 314,496</u>	<u>\$ (390,173)</u>	<u>\$ 7,679,258</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:			
General government	\$	178,800	
Public safety		142,759	
Infrastructure-Streets		370,044	
Parks and recreation		<u>179,047</u>	
Total depreciation expense-governmental activities	\$	<u>870,650</u>	
 Business-type activities:			
Water	\$	165,568	
Wastewater		<u>140,249</u>	
Total depreciation expense-governmental activities	\$	<u>305,817</u>	

E. Long-Term Debt

Tax Allocation Refunding Bonds 2004-Series A

In June, 2004, the Cotati Facilities Financing Authority issued \$5,610,000 in its 2004 Series A tax allocation refunding bonds. The Authority is authorized to issue up to \$20 million in tax allocation bonds. The Authority entered into a loan agreement with the City's Redevelopment Agency wherein the Agency in substance is to pay the principal and interest on the bonds. Because of this special financing arrangement between two component units of the City, the transactions between the Agency and the Authority as well as related receivables and payables have been eliminated from these basic financial statements.

Future debt service requirements are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 200,000	\$ 218,465	\$ 418,465
2012	205,000	210,768	415,768
2013	215,000	202,362	417,362
2014	225,000	193,230	418,230
2015	230,000	183,445	413,445
2016-2020	1,335,000	744,270	2,079,270
2021-2025	1,100,000	418,500	1,518,500
2026-2030	-	307,500	307,500
2031-2035	900,000	238,313	1,138,313
2036	<u>300,000</u>	<u>7,688</u>	<u>307,688</u>
Totals	<u>\$ 4,710,000</u>	<u>\$ 2,724,541</u>	<u>\$ 7,434,541</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt(Continued)

Tax Allocation refunding Bonds 2004-Series A-(Continued)

Payment of bond debt service on the 2004 tax allocation bonds is secured by a first pledge and lien on all of the Agency's revenues. Such revenues are the tax increment allocated to the project area less statutory housing obligations and the County, Library, and Fire District's share of such tax increment. Payment of interest and principal on the bonds is also insured by a financial guaranty policy. Interest and principal on the bonds is payable each March 1 and September 1 through 2036. The bonds bear interest at rates from 1.60 to 5.125 percent.

Tax Allocation Bonds 2001 Series A

On November 14, 2001, The City's Redevelopment Agency issued \$ 6,960,000 in subordinate tax allocation bonds, series 2001A, to advance refund and retire two capital leases and provide additional project funds. The tax allocation bonds consisted of \$1,510,000 in serial bonds bearing interest at rates from 2 percent to 4.5 percent maturing each September 1 through 2021, \$2,050,000 in term bonds bearing interest at 5 percent and maturing September 1, 2026, and \$3,400,000 in 5 percent term bonds maturing September 1, 2031. The term bonds are subject to mandatory sinking fund early redemption. Future debt service requirements are:

Fiscal Year	Principal	Interest	Total
2011	\$ 65,000	\$ 325,310	\$ 390,310
2012	70,000	322,878	392,878
2013	80,000	319,983	399,983
2014	80,000	316,783	396,783
2015	85,000	313,398	398,398
2016-2020	540,000	1,503,438	2,043,438
2021-2025	1,235,000	1,325,609	2,560,609
2026-2030	3,080,000	765,500	3,845,500
2031-2032	1,460,000	74,000	1,534,000
Totals	<u>\$ 6,695,000</u>	<u>\$ 5,266,899</u>	<u>\$11,961,899</u>

Special Assessment Bonds With Governmental Commitment

The special assessment bonds were issued in an original amount of \$5,875,000 for the purpose of facilitating a wetlands mitigation project. The bonds are secured solely by assessments levied against property owners within the assessment district and from monies on deposit in a reserve fund. The City has no obligation to advance funds for payment of bond debt service. The City has indicated, however, that it may at its own option and in its sole discretion elect to advance funds to pay bond debt service to the extent of delinquencies. The bonds consist of 6.50 percent term bonds due September 2, 2033. The term bonds are subject to mandatory redemption prior to maturity commencing September 2, 2004. Future debt service is:

Fiscal Year	Principal	Interest	Total
2011	\$ 100,000	\$ 347,425	\$ 447,425
2012	105,000	340,763	445,763
2013	115,000	333,613	448,613
2014	120,000	325,975	445,975
2015	130,000	317,850	447,850
2016-2020	775,000	1,497,601	2,272,601
2021-2025	1,060,000	1,219,564	2,279,564
2026-2030	1,455,000	839,313	2,294,313
2031-2034	1,535,000	304,038	1,839,038
Totals	<u>\$ 5,395,000</u>	<u>\$ 5,526,142</u>	<u>\$ 10,921,142</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

Long-Term Debt (Continued)

Tax Allocation Bonds Pledged Revenues

The City's component unit redevelopment agency has pledged future tax increment revenues to pay debt service on the 2001 and 2004 tax allocation bonds. Total principal and interest remaining on the Agency's bonds are \$19,396,400. Debt service on the bonds is expected to require less than 44 percent of tax increment revenues excluding the 20 percent set aside amounts. For the current fiscal year, principal and interest paid by the Agency and the tax increment revenues (excluding the 20 percent set aside) was \$812,354 and \$1,882,075, respectively.

Changes in Long-term liabilities

Long-term debt activity for the 2010 fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental					
Activities:					
2001 tax allocation bonds, series A	\$ 6,760,000	\$ -	\$ 65,000	\$ 6,695,000	\$ 65,000
2004 tax allocation bonds, series A	4,900,000	-	190,000	4,710,000	200,000
Special assessment bonds	5,490,000	-	95,000	5,395,000	100,000
Compensated absences	442,042	50,000	181,195	310,847	60,000
Total	<u>\$ 17,592,042</u>	<u>\$ 50,000</u>	<u>\$ 531,195</u>	<u>\$ 17,110,847</u>	<u>\$ 425,000</u>

5. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City, due to the costs of available coverage, participates as a member of the Redwood Empire Municipal Insurance Fund (REMIF). REMIF provides joint protection programs for public entities covering automobile, general liability, errors and omissions, property and workers compensation claims. Under the program, the City has a \$5,000 retention limit similar to a deductible with the REMIF being responsible for losses above that amount up to \$500,000 for liability losses, \$1,000,000 for workers compensation claims, and \$25,000 for property damage. The Fund carries purchased excess commercial liability insurance of \$39.5 million in excess of its \$500,000 limit, and a commercial property policy for \$300 million. Financial information pertaining to REMIF can be obtained from its administrative offices at 414 W. Napa Street, Sonoma, California 95476.

Liabilities of the City are reported in the statement of net assets for the when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The City's only exposure to claim liabilities would be for losses, if any, not covered by REMIF. There have been no significant changes in insurance coverages in fiscal 2009. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no claim liabilities at June 30, 2010.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information (Continued)

B. Contingencies and Commitments

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

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

Landfill Remediation. The City has been notified by the County that a leachate problem has been identified at a central solid waste landfill site. Under a proposed remediation plan, the City would be required to share in and fund a portion of such environmental remediation costs. Preliminary estimates are that the City's share of such costs could exceed \$ 2 million. This matter has not yet been resolved, and no liability has been recorded in these financial statements pending resolution and determination of the actual remediation costs and how and by whom those costs are to be funded.

Surplus Housing Funds. The component unit Redevelopment Agency had excess funds (as defined in the regulations) of \$34,039 at June 30, 2007, \$566,302 at June 30, 2008 and \$1,236,548 at June 30, 2009, and \$3,414,111 at June 30, 2010 in its low and moderate income housing fund. The Agency is required under regulations to expend or encumber surplus funds, as defined, within a statutory 3 year period, pay the excess over to another housing agency, or be subject to sanctions imposed under related regulations. The Agency had satisfied \$275,830 of the \$3,414,111 cumulative requirement.

C. Jointly Governed Organizations and Operating Agreements

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. The City is a participant in the following organizations other than the insurance authority described in the preceding notes. The City is a party to the following agreement agreements:

Santa Rosa Subregional Wastewater System. The City has an agreement with System for the treatment of wastewater as the City does not own or operate its own wastewater treatment plant. The City's obligations under the agreement are to pay to the System its share of the costs of operating the system and treatment of wastewater. The City records these payments as operating expenses in its wastewater enterprise fund

D. Public Employees Retirement System

Plan Description. The City of Cotati contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer, public employee, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by the State statute and City ordinance. The PERS issues publicly available financial report that includes the financial statements and required supplementary information for the PERS Copies of PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information (Continued)

D. Public Employees Retirement System

Funding Policy and Annual Pension Cost. Non-safety plan members are required to contribute 7 percent of their annual covered salary and safety members are required to contribute 9 percent. The City has voluntarily agreed to fund all of the plan members required contributions. In addition, non-safety members are required to fund a portion of the employer's required contribution that is attributable to an enhancement of the plan benefits for non-safety members. The City is required to contribute at actuarially determined rates. The current rate is 19.75 percent for regular employees and 38.27 percent for safety employees. Contribution requirements of plan members and the City are established by and may be amended by PERS. The City's annual pension cost for the most recent three year period was as follows:

Three-year Trend of Information

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
<i>Regular employees</i>	6/30/08	\$ 229,410	100%	\$ -
	6/30/09	\$ 168,474	100%	\$ -
	6/30/10	\$ 319,047	100%	\$ -
<i>Safety employees</i>	6/30/08	\$ 551,417	100%	\$ -
	6/30/09	\$ 408,220	100%	\$ -
	6/30/10	\$ 354,183	100%	\$ -

E. Restricted Net Assets and Designated Fund Balances

The \$ 15,911,365 restricted amount in the governmental activities and the \$7,397,555 in the business-type activities statement net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments.

Reserved fund balances consisted of the following:

Purpose	General Fund	Other Funds
Debt service	\$ -	\$ 1,909,507
Prepayments	7,979	309
Long-term notes receivable	53,000	-
	<u>\$ 60,979</u>	<u>\$ 1,909,816</u>

The \$165,000 designated fund balance in the general fund represents tentative management plans that may not ultimately result in the use or expenditure of financial resources. The \$165,000 represents \$45,000 designated for future capital projects and \$120,000 designated for future contingencies.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

5 Other Information (Continued)

F. Post Employment Benefits Other Than Pensions

Plan Description. The City administers the city's retired employees health care plan, a single employer defined benefit health care plan. The plan provides medical benefits to a limited number of eligible retired employees. The plan is closed to current and future City employees. City resolutions and agreements assign the authority to establish and amend benefit provisions to the City. A separate OPEB trust account has not been established by the City for the OPEB Plan.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on a projected pay as you go financing requirement, with additional amounts to prefund benefits determined annually by the City Council. For the fiscal year ended June 30, 2010, the City contributed \$28,455 of current premiums (100% of total premiums) and zero to prefund benefits. Plan members receiving benefits contributed no amounts of total premiums.

Annual OPEB Costs and Net OPEB Obligation. The city's annual other post employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement Number 45. The ARC represents a level of funding, that if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB costs for the year, the amounts actually contributed to the Plan, and changes in the City's net OPEB obligation to the Plan:

Annual required contribution (ARC)	\$ 38,492
Interest on net OPEB obligation	-
Adjustments to the ARC	-
	-
Annual OPEB expense	38,492
Contributions made	(28,455)
Change in net OPEB obligation	10,037
Net OPEB Obligation , beginning of year	-
Net, OPEB obligation, end of year	\$ 10,037

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 (the first year of implementation) was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2010	\$38,492	73.9%	\$ 10,037

Funding status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$659,654 and the actuarial value of plan assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$659,654. The covered payroll (the annual payroll of active employees covered by the plan) was \$2,190,328 and the UAAL as a percentage of covered payroll was 30.1 percent.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

5 . Other Information (Continued)

F. Post Employment Benefits Other Than Pensions (Continued)

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and health care trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information, following the notes to these financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to actuarial liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) includes the types of benefits provided at the time of each valuation and the historical pattern of sharing costs between the employer and the plan members to that point in time. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 valuation, the projected unit credit actuarial cost method was used under the Alternate Measurement Method. The actuarial assumptions include a 4 percent rate of return based on assumed long-term returns on employer assets. An annual health care trend rate of 10 percent initially decreasing to 5 percent in year number eleven. There were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of payrolls over 30 years, the remaining amortization period at June 30, 2010.

G. Change in Accounting Principle

The City as required by Governmental Accounting Standards Board Statement Number 45, titled, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, implemented in fiscal 2010 the provisions of the standard that requires financial reporting about retiree medical benefit plans, the employers annual required contribution (ARC), contributions made and other matters. The implementation of the standard had no effect on the beginning net assets of the City because the City reported a zero net other post employment benefit obligation at the beginning of the 2010 fiscal year.

H. Proposition 1A Receivable

Under provisions of Proposition 1A and as part of the 2009-2010 State budget package passed by the California legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenues, including those property taxes associated with the in lieu motor vehicle license fee, the triple flip sales tax, and supplemental property tax apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of the initial borrowing, the California legislature may consider only one additional borrowing within a ten year period. The amount of the borrowing pertaining to the City was \$124,535.

Authorized with the 2009-2010 State Budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority, a joint powers authority sponsored by the California Association of Counties and League of California Cities to enable local governments to sell their Proposition 1A receivables to the Authority.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information (Continued)

H Proposition 1A Receivable (Continued)

Under the program, the Authority simultaneously purchases the Proposition 1A receivables and issued bonds (Prop 1A Bonds) to provide local agencies with cash in two equal installments on January 15, 2010 and May 2, 2010. The purchase price paid to local agencies equaled 100% of the amount of the property tax allocation reduction. All transaction costs of issuance and interest were paid by the State of California. Participating agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the program and accordingly, property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value, and as a result, no gain or loss was reported.

I. Supplemental Educational Revenue Augmentation Funds (SERAF)

Chapter 21, Statutes of 2009, requires redevelopment agencies to collectively shift \$1.7 billion in property tax revenues to K-12 schools during the 2009-2010 fiscal year via the SERAF that the Chapter created in each County. The amount required to be paid by the City's redevelopment agency in fiscal 2010 was \$1,313,688 reported as an education expense in the statement of activities.

Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Fund Balance, July 1	\$ 705,121	\$ 700,677	\$ 700,677	\$ -
Resources (inflows):				
Property taxes	470,495	481,227	520,877	39,650
Sales taxes	1,385,717	1,198,078	1,412,656	214,578
Transfer taxes	70,000	90,000	85,537	(4,463)
Other taxes	413,202	420,495	424,647	4,152
License permits	7,000	7,086	17,340	10,254
Fines and forfeits	67,500	70,070	99,200	29,130
Interest and rents	120,856	120,125	127,970	7,845
Intergovernmental	443,478	578,060	575,894	(2,166)
Charges for services	53,250	98,354	230,267	131,913
Miscellaneous	66,357	138,960	158,086	19,126
Transfers in	340,027	426,562	420,770	(5,792)
	<u>4,143,003</u>	<u>4,329,694</u>	<u>4,773,921</u>	<u>444,227</u>
Amounts available for charges to appropriations				
Charges to appropriations:				
General government:				
Legislative	61,533	44,876	44,494	382
Clerk	145,579	154,032	140,568	13,464
Finance	83,564	74,260	87,286	(13,026)
Legal	63,000	116,608	111,779	4,829
Nondepartmental	230,820	487,063	331,652	155,411
Public info	7,500	7,000	635	6,365
Government buildings	63,189	52,713	54,632	(1,919)
Community development and planning	239,360	220,659	300,790	(80,131)
Public safety:				
Police	2,632,773	2,430,344	2,370,190	60,154
Highways and streets				
Streets	262,663	259,047	225,585	33,462
Engineering	20,765	28,879	37,155	(8,276)
Parks and recreation				
Recreation	-	-	(33)	33
Park maintenance	157,636	139,093	140,418	(1,325)
Capital outlay	45,178	34,000	8,390	25,610
Transfers out	-	-	107,825	(107,825)
	<u>4,013,560</u>	<u>4,048,574</u>	<u>3,961,366</u>	<u>87,208</u>
Total charges to appropriations				
Fund Balance, June 30	<u>\$ 129,443</u>	<u>\$ 281,120</u>	<u>\$ 812,555</u>	<u>\$ 531,435</u>

Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2010

Note A. Explanation of Difference Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows resources:

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ 4,773,921
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(700,677)
Transfers in are a budgetary resource but are not a current year revenue for financial reporting purposes	<u>(420,770)</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 3,652,474</u></u>

Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 3,961,366
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(107,825)</u>
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 3,853,541</u></u>

Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - Redevelopment Low and Moderate Income Housing Fund
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Fund Balance, July 1	\$ 4,167,994	\$ 4,167,994	\$ 4,232,190	\$ 64,196
Resources (inflows):				
Property taxes	852,675	852,675	841,812	(10,863)
Interest and rents	160,000	160,000	62,157	(97,843)
Miscellaneous	-	-	4,249	4,249
Transfers in	-	80,573	-	(80,573)
 Amounts available for charges to appropriations	 <u>5,180,669</u>	 <u>5,261,242</u>	 <u>5,140,408</u>	 <u>(120,834)</u>
Charges to appropriations:				
Community Development:				
Administration:				
Salaries and benefits	91,208	92,920	86,174	6,746
Legal	50,000	50,000	30,189	19,811
Property tax admin fees	12,000	12,000	12,195	(195)
Other administrative costs	3,900	3,900	5,513	(1,613)
Housing Loans	-	-	-	-
Contract services	62,000	62,000	9,498	52,502
Capital outlays	2,200,000	2,200,000	275,830	1,924,170
Transfers out	<u>66,737</u>	<u>70,351</u>	<u>70,351</u>	<u>-</u>
Total charges to appropriations	<u>2,485,845</u>	<u>2,491,171</u>	<u>489,750</u>	<u>2,001,421</u>
Fund Balance, June 30	<u>\$ 2,694,824</u>	<u>\$ 2,770,071</u>	<u>\$ 4,650,658</u>	<u>\$ 1,944,783</u>

Note A.

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows resources:

Actual amounts available for appropriation from budgetary comparison schedule above: \$ 5,140,408

Difference - budget to GAAP

The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes (4,232,190)

Transfers in are budgetary resources but also are not a current year revenue for financial reporting purposes -

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances \$ 908,218

Total charges to appropriations in budgetary comparison schedule above \$ 489,750

Transfers out are a use of budgetary resources but are not reported as expenditures of resources for financial reporting purposes (70,351)

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances \$ 419,399

**Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - Inclusionary Housing Fund
For the Fiscal Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Fund Balance, July 1	\$ 3,173,716	\$ 3,176,265	\$ 3,176,265	\$ -
Resources (inflows):				
Interest and rents	60,000	13,088	17,627	4,539
Charges for services:				
Inclusionary housing fees	-	-	30,132	30,132
Amounts available for charges to appropriations	<u>3,233,716</u>	<u>3,189,353</u>	<u>3,224,024</u>	<u>34,671</u>
Charges to appropriations:				
Community development:				
Legal	<u>10,000</u>	<u>61,000</u>	<u>47,033</u>	<u>13,967</u>
Total charges to appropriations	<u>10,000</u>	<u>61,000</u>	<u>47,033</u>	<u>13,967</u>
Fund Balance, June 30	<u><u>\$ 3,223,716</u></u>	<u><u>\$ 3,128,353</u></u>	<u><u>\$ 3,176,991</u></u>	<u><u>\$ 48,638</u></u>

Note A.

**Explanation of Difference Between Budgetary
Inflows and Outflows and GAAP Revenues and Expenditures:**

Sources/inflows resources:

Actual amounts available for appropriation from
budgetary comparison schedule above: \$ 3,224,024

Difference - budget to GAAP

The fund balance at the beginning of the year is a
budgetary resource but is not a current year revenue
for financial reporting purposes (3,176,265)

Total revenues as reported in the statement of
revenues, expenditures and changes in fund
balances - governmental funds

\$ 47,759

Required Supplementary Information
CITY OF COTATI
Other Post Employment Benefits Other Than Pensions
Schedule of Funding Progress
June 30, 2010
 (Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess) as a Percentage of Covered Payroll [(b-a)/c]
7/1/2009	\$ -	\$ 659,654	\$ 659,654	0.0%	\$ 2,190,328	30.1%

**City of Cotati
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

Special Revenue Funds

	Landscape and Lighting	Gas Tax	Parks and Recreation	Park in Lieu	Community Service	MTC Street	Traffic Mitigation	Recycling	Grants Fund	CDRG
Assets										
Cash and investments	\$ 59,159	\$ 128,990	\$ -	\$ 618,205	\$ 626	\$ 481,922	\$ 133,060	\$ 37,912	\$ -	\$ -
Receivables:										
from other governments	-	31,902	-	-	-	-	-	-	505,696	34,858
Accounts	-	-	-	-	-	-	-	38,605	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-
Prepayments	-	-	-	-	-	-	-	-	-	-
Assessments receivable	2,260	-	-	-	-	-	-	-	-	-
Total assets	\$ 61,419	\$ 160,892	\$ -	\$ 618,205	\$ 626	\$ 481,922	\$ 133,060	\$ 76,517	\$ 505,696	\$ 34,858
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ 2,017	\$ -	\$ -	\$ 334	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ 31
Due to other funds	-	-	-	-	-	-	-	-	505,639	34,827
Total liabilities	2,017	-	-	334	20	-	-	-	505,639	34,858
Fund balances:										
Unreserved	59,402	160,892	-	617,871	606	481,922	133,060	76,517	57	-
Total fund balances	59,402	160,892	-	617,871	606	481,922	133,060	76,517	57	-
Total liabilities and fund balances	\$ 61,419	\$ 160,892	\$ -	\$ 618,205	\$ 626	\$ 481,922	\$ 133,060	\$ 76,517	\$ 505,696	\$ 34,858

**City of Cotati
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

	Special Revenue					Capital Projects			Total Nonmajor Governmental Funds	
	Police Volunteer	Public Safety	Asset Forfeiture	K-9 Program	Police Employer	Redevelopment Projects	City Capital Projects	South Sonoma Business Park		Redevelopment 2001 Tax Allocation Bonds Project
Assets										
Cash and investments	\$ -	\$ 638	\$ 38,556	\$ -	\$ 1,310	\$ 1,173	\$ -	\$ -	\$ 851,458	\$ 2,153,009
Receivables:										
Receivables from other governments	-	11,957	157	-	-	-	-	-	-	584,570
Accounts	-	-	-	-	-	-	-	-	-	38,605
Due from other funds	-	-	-	-	-	-	417,285	-	-	417,285
Prepayments	-	-	-	-	-	2,414	-	-	-	2,414
Assessments receivable	-	-	-	-	-	-	-	-	-	2,260
Total assets	\$ -	\$ 12,595	\$ 38,713	\$ -	\$ 1,310	\$ 3,587	\$ 417,285	\$ -	\$ 651,458	\$ 3,198,143
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ 246	\$ -	\$ 3,587	\$ 2,110	\$ -	\$ 5,542	\$ 13,887
Due to other funds	-	-	-	948	-	-	-	3,131	-	544,545
Total liabilities	-	-	-	1,194	-	3,587	2,110	3,131	5,542	568,432
Fund balances:										
Unreserved	-	12,595	38,713	(1,194)	1,310	-	415,175	(3,131)	645,916	2,639,711
Total fund balances	-	12,595	38,713	(1,194)	1,310	-	415,175	(3,131)	645,916	2,639,711
Total liabilities and fund balances	\$ -	\$ 12,595	\$ 38,713	\$ -	\$ 1,310	\$ 3,587	\$ 417,285	\$ -	\$ 651,458	\$ 3,198,143

CITY OF COTATI
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Special Revenue Funds									
	Landscaping and Lighting	Gas Tax	Parks and Recreation	Park in Lieu	Community Service	MTC Street	Traffic Mitigation	Recycling	Grants Fund	CDBG
Revenues:										
Intergovernmental	\$ -	\$ 198,507	\$ -	\$ -	\$ -	\$ 38,163	\$ -	\$ -	\$ 501,184	\$ 68,190
Charges for services	33,247	-	-	-	1,824	-	-	16,794	-	-
Interest	-	360	-	3,785	-	2,888	735	-	-	-
Miscellaneous	-	-	-	-	1,000	-	-	6	-	-
Total revenues	33,247	198,867	-	3,785	2,824	41,051	735	16,800	501,184	68,190
Expenditures:										
Current:										
Public safety	-	-	-	-	-	-	-	6,000	-	-
Highways and streets	13,012	4,034	-	-	-	-	-	-	-	-
Community development	-	-	-	-	2,318	-	-	-	-	-
Capital outlay	-	-	-	3,192	-	-	-	-	8,753	68,190
Total expenditures	13,012	4,034	-	3,192	2,318	-	-	6,000	8,753	68,190
Excess (deficiency) of revenues over (under) expenditures	20,235	194,833	-	593	306	41,051	735	10,800	492,431	-
Other financing sources (uses):										
Transfers in	-	-	-	-	300	-	-	-	-	-
Transfers out	(1,107)	(127,306)	-	-	-	(38,162)	-	(300)	(492,445)	-
Total other financing sources (uses)	(1,107)	(127,306)	-	-	300	(38,162)	-	(300)	(492,445)	-
Net change in fund balances	19,128	67,527	-	593	606	2,889	735	10,500	(14)	-
Fund balances, July 1	40,274	93,365	-	617,278	-	479,033	132,325	66,017	71	-
Fund balances, June 30	\$ 59,402	\$ 160,892	\$ -	\$ 617,871	\$ 606	\$ 481,922	\$ 133,060	\$ 76,517	\$ 57	\$ -

CITY OF COTATI
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Special Revenue					Capital Projects				Total Nonmajor Governmental Funds		
	Police Volunteer	Public Safety	Asset Forfeiture	K-9 Program	Police Explorer	Redevelopment Projects	City Capital Projects	South Sonoma Business Park	Redevelopment 2001 Tax Allocation Bonds Project			
Revenues:												
Intergovernmental	\$	100,000	\$	-	\$	-	\$	-	\$	906,044		
Charges for services	-	-	-	-	-	-	-	-	-	51,665		
Interest	-	-	-	-	-	-	-	-	8,321	16,089		
Miscellaneous	-	-	-	7,480	-	-	-	-	-	8,486		
Total revenues	-	100,000	-	7,480	-	-	-	-	8,321	982,284		
Expenditures:												
Current:												
Public safety	571	-	753	7,530	575	-	-	-	-	15,429		
Highways and streets	-	-	-	-	-	-	-	-	-	17,046		
Community development	-	-	-	-	-	453,338	-	-	-	455,656		
Capital outlay	-	-	-	-	-	-	549,343	-	20,306	649,784		
Total expenditures	571	-	753	7,530	575	453,338	549,343	-	20,306	1,137,815		
Excess (deficiency) of revenues over (under) expenditures	(571)	100,000	(753)	(50)	(575)	(453,338)	(549,343)	-	(11,985)	(155,631)		
Other financing sources (uses):												
Transfers in	571	-	-	-	-	1,232,845	599,698	-	-	1,833,414		
Transfers out	-	(100,000)	-	-	-	(779,507)	-	-	-	(1,539,827)		
Total other financing sources (uses)	571	(100,000)	-	-	-	453,338	599,698	-	-	294,587		
Net change in fund balances	-	-	(753)	(50)	(575)	-	50,355	-	(11,985)	138,956		
Fund balances, July 1	-	12,595	39,466	(1,144)	1,885	-	364,820	(3,131)	657,901	2,500,755		
Fund balances, June 30	\$	12,595	\$	38,713	\$	(1,194)	\$	1,310	\$	645,916	\$	2,639,711