

City of Cotati
Basic Financial Statements
June 30, 2008

**CITY OF COTATI, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2008
Table of Contents**

	<u>Page</u>
FINANCIAL SECTION	
Report of Independent Accountants	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	15
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	16
Statement of Net Assets- Major Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets Major Proprietary Funds	18
Statement of Cash Flows- Major Proprietary Funds	19
Notes to the Basic Financial Statements	21
REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Budgetary Comparison Schedule - General Fund	35
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	36
SUPPLEMENTAL SECTION	
Combining Balance Sheet Nonmajor Governmental Funds	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	39

FINANCIAL SECTION
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS
AND
NOTES TO THE FINANCIAL STATEMENTS



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, 2008, 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.

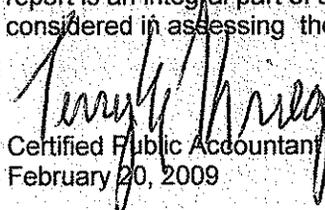
I conducted my audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I plan and perform 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, 2008, 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 and Budgetary Comparison Information on pages 2 through 11 and pages 35 through 38 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 February 20, 2009 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.


Certified Public Accountant
February 20, 2009

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, 2008. 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 \$3.5 million over the course of this year's operations. The net assets of our business-type activities increased about \$750,000 (about a 4.6 percent increase over 2007), and there was a \$2.7 million increase in the net assets of our governmental type activities (about a 15.6 percent increase over 2007).
- During the year, the City's expenses for its governmental activities were \$4.5 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 2008 about \$843,700 less than related charges for services. The City did in 2008 recognize about \$41,200 in capital contributions from these activities all related to capital impact and related fees restricted for future improvements.
- The general fund reported a 2008 year end fund balance of \$949,475; about a \$249,000 decrease compared to fiscal 2007.
- The City's other major and nonmajor governmental funds ended fiscal 2008 with about a \$13.8 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 nonmajor 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 nonmajor 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

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 the 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 2008 were:

The City's general fund, inclusionary housing fund, and South Sonoma Business Park debt service fund. Other major funds in fiscal 2008 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 funds. 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 proprietary fund 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 CITYAS A WHOLE

Net Assets. The City's *combined* net assets increased in 2008 about \$3.5 million to 34.6 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
	2007	2008	2007	2008	2007	2008	2007-2008
Current and other assets	\$13.0	\$ 15.5	\$10.3	\$9.7	\$23.3	\$ 25.2	8.1%
Long-term receivables	7.7	7.7	-	-	7.7	7.7	0%
Capital assets	12.7	12.9	6.5	7.9	19.2	20.8	1.1%
Total assets	33.4	36.1	16.8	17.6	50.2	53.7	1.1%
Long-term debt outstanding	17.5	17.1	-	-	17.5	17.1	-2.3%
Other liabilities	1.2	1.6	.3	.4	1.5	2.0	33.3%
Total liabilities	18.7	18.7	.3	.4	19.0	19.1	.5%
Net assets							
Invested in capital assets net of related debt	.9	1.4	6.5	7.9	7.4	9.3	25.6%
Restricted	12.4	15.3	7.3	7.2	19.7	22.5	14.2%
Unrestricted	1.4	.7	2.7	2.1	4.1	2.8	-31.7%
Total net assets	\$ 14.7	\$ 17.4	\$ 16.5	\$ 17.2	\$ 31.2	\$ 34.6	10.9%

Net assets of the City's governmental activities increased 18.4 percent to \$17.4 million. About 88% of the net assets relating to governmental activities is represented by cash, investments and receivables. The City has about \$17.1 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.

Although the net assets of our business-type activities increased by 4.2 percent to \$17.2 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.

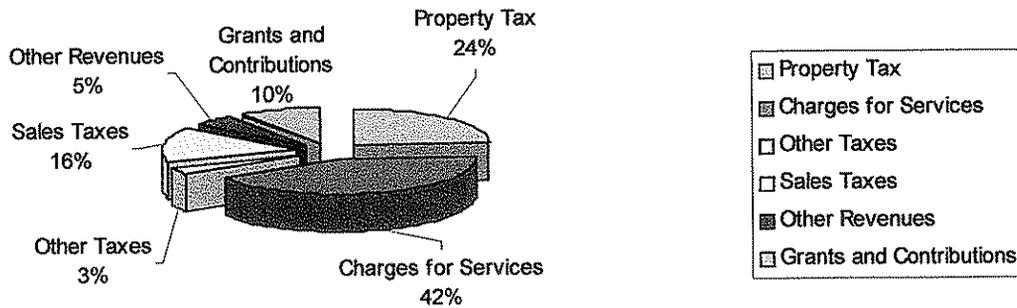
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

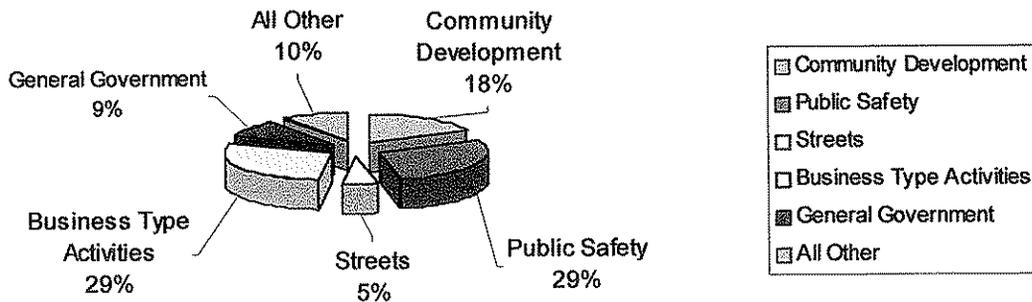
Changes in net assets. The City's total revenues in fiscal 2008 were about \$14.5 million (See Table A-2.) About 24 percent of the City's revenue comes from property taxes, another 16 percent from sales taxes and other taxes. Another 42 percent come from fees charged for services primarily from water 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 \$11.1 million. The City's expenses cover a range of services, with about 29 percent related to business type activities, 29 percent for public safety services, and the remaining 42 percent for general government, streets, parks and community development programs.

Sources of Revenue for Fiscal Year 2008



Functional Expenses for Fiscal Year 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

Revenues for the City's governmental activities increased by about 2 percent, while total expenses decreased 8.2 percent compared to the fiscal year 2007.

Most of the revenue increase was a net result in fiscal 2008 of lower charges for services such as planning fees and inclusionary housing fees which on a net basis were offset by a one-time capital grant for street improvements and by slight increases in other tax revenues.

Expenses of governmental activities decreased about \$700,000. Most of the significant cost decreases were due to a \$78,000 reduction in legal fees and a \$217,000 reduction in building costs associated with the reduction in the level of planning activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

	Governmental -Activities		Business-Type Activities		Total		Total Percent Change
	2007	2008	2007	2008	2007	2008	2007-2008
Revenues							
Program revenues							
Charges for services	\$2.6	\$1.8	\$4.0	\$4.1	\$6.6	\$5.9	-10.1%
Operating grants and contributions	.8	.9	-	-	.8	.9	12.5%
Capital grants and contributions	-	.5	.3	-	.3	.5	66.7%
General revenues							
Property taxes	3.4	3.4	-	-	3.4	3.4	0.0%
Other taxes	2.5	2.8	-	-	2.5	2.8	12.0%
Other	.9	1.0	-	-	.9	1.0	11.1%
Total revenues	10.2	10.4	4.3	4.1	14.5	14.5	0.0%
Expenses							
General government	1.5	1.0	-	-	1.5	1.0	-33.3%
Planning	1.0	.8	-	-	1.0	.8	-20.0%
Public safety	3.2	3.3	-	-	3.2	3.3	3.1%
Community development	.9	.8	-	-	.9	.8	-11.1%
Parks and recreation	.4	.4	-	-	.4	.4	0.0%
Streets	.5	.6	-	-	.5	.6	20.0%
Water	-	-	1.4	1.1	1.4	1.1	-21.4%
Wastewater	-	-	2.2	2.1	2.2	2.1	-4.5%
Interest	1.0	.9	-	-	1.0	.9	-10.0%
Total expenses	8.5	7.8	3.6	3.2	12.1	11.0	-9.1%
Excess (deficiency) before transfers	1.7	2.6	.7	.8	2.4	3.5	45.8%
Transfers	.1	.1	(.1)	-.1	-	-	
Increase (decrease) in net assets	1.8	2.7	.6	.8	2.4	3.5	45.8%
Net assets, beginning of period	12.9	14.7	15.9	16.5	28.7	31.1	
Net assets, end of period	\$14.7	\$17.4	\$16.5	17.2	\$31.1	\$34.6	11.3%

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 \$7.8 million, a decrease of about \$700,000 compared to fiscal 2007. The decrease was the result of declines in planning activity costs, legal fees, and building costs.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

- Of the \$7.8 million cost of the City's governmental activities programs, our taxpayers paid for only \$4.5 million of the program costs. Some of the cost was paid by:
 - Those who directly benefited from the programs \$1.8 million or
 - Other governments and organizations that subsidized certain programs with grants and contributions; another \$ 1.46 million

The City paid for the \$4.5 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
	2007	2008	2007-2008
General Government	\$1.5	\$ 1.0	-33.3%
Planning	1.0	.8	-20.0%
Public Safety	3.2	3.3	3.1%
Community development	.9	.8	-11.1%
Parks and recreation	.4	.4	0.0%
Streets	.5	.6	25.0%
All other	1.0	.9	-10.0%
Total	\$8.5	\$ 7.8	-8.3%

The most significant cost changes in fiscal 2008 were caused by a reduction in planning activity and lower legal fees.

Business-Type Activities

Revenues of the City's business-type activities decreased by about 4.7 percent to \$4.1 million as a result of lower capital grants and connection fees. Operating expenses in water and wastewater functions decreased by about \$400,000 in fiscal 2008. (Refer to Table A-2.)

The costs of operating the water system and wastewater systems in fiscal 2008 decreased to about \$3.2 million.

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 \$14.73 million, about a \$ 2.18 million increase over the last fiscal year.

The City's spending for general fund operations exceeded general fund revenues by about \$600,000 before interfund transfers. At year-end, the City's general fund had a \$.94 million fund balance available to start the 2009 fiscal year. This is the third consecutive year in which the general fund spending has exceeded its revenues by over \$600,000 in a year.

There was an additional \$1.8 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	\$3,481,455
Inclusionary Housing Fund	3,090,336
South Sonoma Business Park Debt Service Fund	790,226
Redevelopment Debt Service Fund	1,101,655

The City's non-major funds ended the fiscal 2008 year with a combined fund balance of about \$ 3.47 million; an increase of \$586,400 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 2008 with about \$ 561,500 set aside for future capital projects and the wastewater fund ended 2008 with about \$6.6 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 \$1.82 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 \$ 145,860 more than final budget amounts as a result of spending reductions by all departments except public safety and community development.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the City had invested \$20.9 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 2008 of about \$1,698,300.

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
	2007	2008	2007	2008	2007	2008	2007-2008
Land	\$4.3	4.3	\$ -	\$ -	\$ 4.3	\$4.3	-
Buildings	5.4	5.4	-	-	5.4	5.4	-
Equipment	.8	.9	.5	.6	1.3	1.5	15%
Improvements	4.9	6.5	.3	.3	5.2	6.8	31%
Vehicles	.6	.4	-	-	.6	.4	-34%
Water/wastewater system	-	-	8.0	9.8	8.0	9.8	23%
Construction in progress	2.1	1.3	1.1	1.0	3.2	2.3	-28%
Accumulated depreciation	(5.4)	(5.8)	(3.4)	(3.7)	(8.8)	(9.5)	8%
Total	\$12.7	\$ 13.0	\$6.5	\$ 8.0	\$19.2	\$20.9	9%

This year's major capital assets additions included:

- About \$651,000 added to construction in progress for improvements to East Cotati Avenue
- About \$1.4 million in capitalized construction costs for the East Cotati Avenue water line upgrade and an additional \$181,670 for the Cypress Avenue tank project
- About \$90,000 in construction in progress for the main sewer trunk line 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 2008. The City did retire \$320,000 in long-term bonded debt during fiscal 2008. All debt service payments were when and as required.

Additional information about the City's long-term obligations can be found starting on page 30 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2009 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 8 percent decrease in general fund revenues
- The budget will require use of general fund resources available from the 2008 fiscal year
- No Utility user fee rate increases have been anticipated in fiscal year 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The budget will require use of general fund resources available from the 2008 fiscal year
- No Utility user fee rate increases have been anticipated in fiscal year 2009.
- No tax increases are proposed for fiscal 2009.
- Minimal general fund user fee increases have been approved for fiscal 2009.

The 2009 budget has proposed capital project spending of about \$2.3 million with \$1.4 million for street related projects.

As to the City's business-type activities, about \$650,000 is expected to be spent in 2009 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, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 10,840,861	\$ 1,827,843	\$ 12,668,704
Net receivables	909,150	641,879	1,551,029
Prepayments	7,655	171	7,826
Total current assets	<u>11,757,666</u>	<u>2,469,893</u>	<u>14,227,559</u>
Noncurrent assets:			
Cash and cash equivalents	3,523,871	7,200,774	10,724,645
Long-term notes receivable	2,029,248	2,704	2,031,952
Other long-term receivables	5,655,610	-	5,655,610
Debt issuance costs	159,799	-	159,799
Net capital assets	12,988,337	7,890,474	20,878,811
Total noncurrent assets	<u>24,356,865</u>	<u>15,093,952</u>	<u>39,450,817</u>
Total assets	<u>\$ 36,114,531</u>	<u>\$ 17,563,845</u>	<u>\$ 53,678,376</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 405,517	\$ 169,574	\$ 575,091
Due to other governments	27,683	-	27,683
Compensated absences	60,000	118,192	178,192
Deposits	170,003	59,660	229,663
Deferred revenue	-	2,704	2,704
Accrued interest payable	308,776	-	308,776
Bonds due within one year	335,000	-	335,000
Total current liabilities	<u>1,306,979</u>	<u>350,130</u>	<u>1,657,109</u>
Long-term liabilities due in more than one year:			
Tax allocation bonds	11,660,000	-	11,660,000
Special assessment bonds	5,490,000	-	5,490,000
Bond discount	(133,206)	-	(133,206)
Compensated absences	405,554	-	405,554
Total long-term liabilities	<u>17,422,348</u>	<u>-</u>	<u>17,422,348</u>
Total liabilities	<u>18,729,327</u>	<u>350,130</u>	<u>19,079,457</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,371,342	7,890,474	9,261,816
Restricted for:			
Capital projects and redevelopment	5,252,162	7,200,774	12,452,936
Housing	7,552,628	-	7,552,628
Debt service	1,663,105	-	1,663,105
Other purposes	861,039	-	861,039
Unrestricted	684,928	2,122,467	2,807,395
Total net assets	<u>17,385,204</u>	<u>17,213,715</u>	<u>34,598,919</u>
Total liabilities and net assets	<u>\$ 36,114,531</u>	<u>\$ 17,563,845</u>	<u>\$ 53,678,376</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	City Government				
				Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
City government								
Governmental activities:								
General government	\$ 991,668	\$ 40,277	\$ 50,000	\$ -	\$ (901,391)	\$ -	\$ (901,391)	
Planning	787,894	431,438	-	-	(356,456)	-	(356,456)	
Public safety	3,263,238	216,398	147,641	-	(2,899,199)	-	(2,899,199)	
Streets	569,445	27,263	593,339	519,161	570,318	-	570,318	
Community development	765,362	861,644	152,725	-	249,007	-	249,007	
Parks and recreation	441,907	208,170	4,002	-	(229,735)	-	(229,735)	
Interest on long-term debt	946,866	-	-	-	(946,866)	-	(946,866)	
Total governmental activities	7,766,380	1,785,190	947,707	519,161	(4,514,322)	-	(4,514,322)	
Business-type activities:								
Water	1,144,360	1,504,255	-	19,989	-	379,884	379,884	
Wastewater	2,142,360	2,584,966	-	21,161	-	463,767	463,767	
Total business-type activities	3,286,720	4,089,221	-	41,150	-	843,651	843,651	
Total City government	\$ 11,053,100	\$ 5,874,411	\$ 947,707	\$ 560,311	(4,514,322)	843,651	(3,670,671)	
		General revenues:						
		Taxes:						
		Property taxes			561,593	-	561,593	
		Sales taxes			2,321,377	-	2,321,377	
		Other taxes			482,711	-	482,711	
		Incremental property taxes			2,872,817	-	2,872,817	
		Motor vehicle in lieu fees not restricted to a specific program			608,603	-	608,603	
		Interest and investment earnings			192,189	-	192,189	
		Other general revenues			99,185	-	99,185	
		Transfers			93,890	(93,890)	-	
		Total general revenues and transfers			7,232,365	(93,890)	7,138,475	
		Change in net assets			2,718,043	749,761	3,467,804	
		Net assets, beginning			14,667,161	16,463,954	31,131,115	
		Net assets, ending			\$ 17,385,204	\$ 17,213,715	\$ 34,598,919	

See accompanying notes to the basic financial statements

CITY OF COTATI
Balance Sheet
Governmental Funds
June 30, 2008

	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	\$ 444,534	\$ 1,864,139	\$ 3,492,709	\$ 3,090,336	\$ 788,771	\$ 1,101,655	\$ 3,582,588	\$ 14,364,732
Taxes receivable	214,521	-	-	-	-	-	-	214,521
Accounts receivable	56,231	-	-	-	1,455	-	977	58,683
Interest receivable	5,352	9,548	-	-	-	-	-	14,900
Due from other governments	21,762	-	-	-	-	-	599,304	621,066
Assessments receivable	-	-	-	-	5,655,000	-	610	5,655,610
Notes receivable	53,304	995,107	610,837	370,000	-	-	-	2,029,248
Prepayments	7,415	-	108	-	-	-	132	7,655
Advances to other funds	555,356	-	-	-	-	-	-	555,356
Total assets	\$ 1,358,475	\$ 2,868,794	\$ 4,103,654	\$ 3,460,336	\$ 6,445,226	\$ 1,101,655	\$ 4,183,611	\$ 23,521,751
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 238,693	\$ -	\$ 11,362	\$ -	\$ -	\$ -	\$ 155,462	\$ 405,517
Due other governments	-	27,683	-	-	-	-	-	27,683
Advances from other funds	-	-	-	-	-	-	555,356	555,356
Deposits	170,003	-	-	-	-	-	-	170,003
Deferred revenue	304	995,107	610,837	370,000	5,655,000	-	-	7,631,248
Total liabilities	409,000	1,022,790	622,199	370,000	5,655,000	-	710,818	8,789,807
Fund balances:								
Reserved	616,075	-	-	-	790,226	1,101,655	-	2,507,956
Unreserved, undesignated	333,400	1,846,004	3,481,455	3,090,336	-	-	-	8,751,195
Unreserved reported in nonmajor:								
Capital projects funds	-	-	-	-	-	-	1,686,934	1,686,934
Special revenue funds	-	-	-	-	-	-	1,785,859	1,785,859
Total fund balances	949,475	1,846,004	3,481,455	3,090,336	790,226	1,101,655	3,472,793	14,731,944
Total liabilities and fund balances	\$ 1,358,475	\$ 2,868,794	\$ 4,103,654	\$ 3,460,336	\$ 6,445,226	\$ 1,101,655	\$ 4,183,611	\$ 23,521,751
Total Governmental Fund Balances								\$ 14,731,944
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								12,988,337
Bond issuance costs and discounts are not current financial resources and are therefore not reported in the funds								293,005
Other long-term assets are not available to pay for current-period expenditures and are therefore offset by deferred revenue in the funds								7,631,248
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								(308,776)
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								(17,950,554)
Net Assets of Governmental Activities								\$ 17,385,204

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, 2008

	General Fund	Redevelopment				South Sonoma Business Park Debt Service Fund	Redevelopment Debt Service Fund	Other Governmental Funds	Total Governmental Funds
		Redevelopment Agency Tax Increment Fund	Low and Moderate Income Housing Fund	Inclusionary Housing Fund					
REVENUES									
Property taxes	\$ 561,593	\$ 1,970,360	\$ 902,457	\$ -	\$ -	\$ -	\$ -	\$ 3,434,410	
Sales taxes	2,321,377	-	-	-	-	-	-	2,321,377	
Other taxes	482,711	-	-	-	-	-	-	482,711	
Licenses and permits	7,900	-	-	-	-	-	-	7,900	
Fines and forfeits	116,381	-	-	-	-	-	-	116,381	
Intergovernmental	657,777	-	-	-	-	-	1,344,355	2,002,132	
Interest and rents	97,259	94,930	215,762	98,309	17,167	23,034	166,748	713,209	
Charges for services	538,217	-	-	78,535	450,784	-	68,714	1,136,250	
Miscellaneous	153,249	-	1,087	-	-	-	21,827	176,163	
Total revenues	4,936,464	2,065,290	1,119,306	176,844	467,951	23,034	1,601,644	10,390,533	
EXPENDITURES									
Current:									
General government	967,049	-	-	-	-	-	3,960	971,009	
Planning services	787,894	-	-	-	-	-	-	787,894	
Public safety	3,132,893	-	-	-	-	-	7,648	3,140,541	
Community development	-	143,753	-	2,846	-	-	570,205	716,804	
Parks and recreation	331,049	-	-	-	-	-	-	331,049	
Highways and streets	317,447	-	-	-	-	-	34,150	351,597	
Capital outlay	-	-	-	-	-	-	740,497	740,497	
Debt service:									
Principal	-	-	-	-	80,000	240,000	-	320,000	
Interest	-	-	-	-	369,550	570,102	-	939,652	
Total expenditures	5,536,332	-	143,753	2,846	449,550	810,102	1,356,460	8,299,043	
Excess (deficiency) of revenues over expenditures	(599,868)	2,065,290	975,553	173,998	18,401	(787,068)	245,184	2,091,490	
OTHER FINANCING SOURCES (USES)									
Transfers in	361,868	-	80,573	-	-	808,490	1,426,502	2,677,433	
Transfers out	(10,513)	(1,414,056)	(72,260)	-	-	(1,400)	(1,085,314)	(2,593,543)	
Total other financing sources (uses)	351,355	(1,414,056)	8,313	-	-	807,090	341,188	93,890	
Net change in fund balances	(248,513)	651,234	983,866	173,998	18,401	20,022	586,372	2,185,380	
Fund balances, July 1	1,197,988	1,194,770	2,497,589	2,916,338	771,825	1,081,633	2,886,421	12,546,564	
Fund balances, June 30	\$ 949,475	\$ 1,846,004	\$ 3,481,455	\$ 3,090,336	\$ 790,226	\$ 1,101,655	\$ 3,472,793	\$ 14,731,944	

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, 2008

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 2,185,380</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.	285,571
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	(11,270)
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	(48,558)
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	320,000
Governmental funds report interest expenditures when payment is due, but interest expense is accrued in the statement of activities	4,056
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>(17,136)</u>
Net adjustment to reconcile to changes in net assets	<u>532,663</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,718,043</u>

See accompanying notes to the basic financial statements

CITY OF COTATI
Statement of Net Assets
Proprietary Funds
June 30, 2008

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 973,698	\$ 854,145	\$ 1,827,843
Accounts receivable	295,988	345,891	641,879
Prepayments	89	82	171
Total current assets	<u>1,269,775</u>	<u>1,200,118</u>	<u>2,469,893</u>
Noncurrent assets:			
Other assets:			
Notes receivable	1,018	1,686	2,704
Cash and cash equivalents	561,546	6,639,228	7,200,774
Net other assets	<u>562,564</u>	<u>6,640,914</u>	<u>7,203,478</u>
Capital assets:			
Reservoirs	1,160,215	-	1,160,215
Pipelines and meters	3,063,894	4,251,861	7,315,755
Water wells	1,278,585	-	1,278,585
Improvements	187,018	134,393	321,411
Equipment	283,810	335,692	619,502
Less accumulated depreciation	<u>(2,016,638)</u>	<u>(1,742,298)</u>	<u>(3,758,936)</u>
	3,956,884	2,979,648	6,936,532
Construction in progress	558,504	395,438	953,942
Net capital assets	<u>4,515,388</u>	<u>3,375,086</u>	<u>7,890,474</u>
Total noncurrent assets	<u>5,077,952</u>	<u>10,016,000</u>	<u>15,093,952</u>
Total assets	<u>\$ 6,347,727</u>	<u>\$ 11,216,118</u>	<u>\$ 17,563,845</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 91,174	\$ 5,474	\$ 96,648
Accrued liabilities	72,926	-	72,926
Compensated absences	64,583	53,609	118,192
Deferred revenue	1,018	1,686	2,704
Deposits	59,660	-	59,660
Total current liabilities	<u>289,361</u>	<u>60,769</u>	<u>350,130</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,515,388	3,375,086	7,890,474
Restricted	561,546	6,639,228	7,200,774
Unrestricted	981,432	1,141,035	2,122,467
Total net assets	<u>\$ 6,058,366</u>	<u>\$ 11,155,349</u>	<u>\$ 17,213,715</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, 2008

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 1,365,695	\$ 2,208,196	\$ 3,573,891
Other operating revenues	50,018	125,420	175,438
Total operating revenues	<u>1,415,713</u>	<u>2,333,616</u>	<u>3,749,329</u>
OPERATING EXPENSES			
Personnel services	336,797	306,233	643,030
Contractual services	111,969	36,607	148,576
Intergovernmental treatment costs	-	1,561,979	1,561,979
Utilities	41,220	1,582	42,802
Purchased water	378,629	-	378,629
Supplies and materials	67,618	52,168	119,786
Insurance, claims, and expenses	46,417	43,974	90,391
Depreciation	161,710	139,817	301,527
Total operating expenses	<u>1,144,360</u>	<u>2,142,360</u>	<u>3,286,720</u>
Operating income (loss)	<u>271,353</u>	<u>191,256</u>	<u>462,609</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	<u>88,542</u>	<u>251,350</u>	<u>339,892</u>
Net non-operating revenues (expenses)	<u>88,542</u>	<u>251,350</u>	<u>339,892</u>
Income before contributions and transfers	<u>359,895</u>	<u>442,606</u>	<u>802,501</u>
Contributions and transfers			
Capital contributions	19,989	21,161	41,150
Transfers out	<u>(40,796)</u>	<u>(53,094)</u>	<u>(93,890)</u>
Total contributions and transfers	<u>(20,807)</u>	<u>(31,933)</u>	<u>(52,740)</u>
Change in net assets	339,088	410,673	749,761
Total net assets, July 1	<u>5,719,278</u>	<u>10,744,676</u>	<u>16,463,954</u>
Total net assets, June 30	<u>\$ 6,058,366</u>	<u>\$ 11,155,349</u>	<u>\$ 17,213,715</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, 2008

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,377,590	\$ 2,322,724	\$ 3,700,314
Payments to suppliers	(670,040)	(1,726,617)	(2,396,657)
Payments to employees	(339,553)	(310,762)	(650,315)
Net cash provided by (used for) operating activities	<u>367,997</u>	<u>285,345</u>	<u>653,342</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	<u>(40,796)</u>	<u>(53,094)</u>	<u>(93,890)</u>
Net cash provided by noncapital financing activities	<u>(40,796)</u>	<u>(53,094)</u>	<u>(93,890)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	19,989	21,161	41,150
Purchases of capital assets	<u>(1,522,630)</u>	<u>(118,731)</u>	<u>(1,641,361)</u>
Net cash provided by (used for) capital and related financing activities	<u>(1,502,641)</u>	<u>(97,570)</u>	<u>(1,600,211)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	<u>88,542</u>	<u>251,350</u>	<u>339,892</u>
Net cash provided by investing activities	<u>88,542</u>	<u>251,350</u>	<u>339,892</u>
Net increase (decrease) in cash and cash equivalents	(1,086,898)	386,031	(700,867)
Cash and cash equivalents-beginning of the year	<u>2,622,142</u>	<u>7,107,342</u>	<u>9,729,484</u>
Cash and cash equivalents-end of the year	<u>\$ 1,535,244</u>	<u>\$ 7,493,373</u>	<u>\$ 9,028,617</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, 2008

	<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)	\$ 271,353	\$ 191,256	\$ 462,609
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	161,710	139,817	301,527
Change in assets and liabilities:			
Receivables, net	(34,875)	(9,300)	(44,175)
Prepayments	(89)	(82)	(171)
Accounts payable	(24,187)	(30,225)	(54,412)
Other liabilities	(5,915)	(6,121)	(12,036)
 Net cash provided by (used for) operating activities	 <u>\$ 367,997</u>	 <u>\$ 285,345</u>	 <u>\$ 653,342</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, 2008

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, 2008

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, 2008

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, 2008

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

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.

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, 2008

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 \$ 12,988,337 difference are as follows:

Capital assets	\$ 18,877,069
Less: Accumulated depreciation	<u>(5,888,732)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 12,988,337</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 \$17,950,554 difference are as follows:

Long-Term Debt Obligations	
Tax allocation bonds	\$ 11,910,000
Special assessment bonds	5,575,000
Compensated absences	<u>465,554</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (17,950,554)</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 \$ 532,663 difference and other significant components of the difference are as follows:

Capital outlay	\$ 868,659
Depreciation expense	(567,940)
Loss on disposal of capital assets	(15,148)
Repayment of long-term debt principal	320,000
Other items	<u>(72,908)</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>\$ 532,663</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2008

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 Inclusionary Housing fund (\$2,846) and the general fund (\$145,860). The expenditures were funded by available resources.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2008 consisted of the following:

Pooled demand deposits	\$ 187,048
Pooled investments	22,098,780
Investments with trustees	<u>1,107,521</u>

Total deposits and investments \$ 23,393,349

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, 2008, \$294,591 of the City's bank balances of \$ 394,591 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 294,591</u>
--	-------------------

Investments - At June 30, 2008 the City had the following investments.

Investment	Maturities	Fair Value
State Investment Pool(LAIF)	Average 212 days	\$ 20,938,601
Sonoma County Investment Pool	Average 394 days	365,372
BlackRock Provident T-Fund Shares	Average 120 days	1,107,812
Tamarack Money Market Fund	Average 120 days	48,935
Negotiable Certificates of Deposit	Average 270 days	<u>745,581</u>
Totals		<u>\$ 23,206,301</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, 2008

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 \$745,581 investment other than the Pools and mutual funds, the entire \$745,581 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.

Restricted Cash and Cash Equivalents – The \$3,523,871 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 \$7,200,774 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	\$ 56,231	\$ 1,455	\$ 977	\$ 58,663	\$295,988	\$ 345,891
Taxes	214,521	-	-	214,521	-	-
Governments	21,762	-	599,304	621,066	-	-
Interest	5,352	9,548	-	14,900	-	-
Notes and loans	53,304	1,975,944	-	2,029,248	1,018	1,686
Assessments	-	5,655,000	610	5,655,610	-	-
Totals	<u>\$ 351,170</u>	<u>\$ 7,641,947</u>	<u>\$ 600,891</u>	<u>\$ 8,594,008</u>	<u>\$297,006</u>	<u>\$ 347,577</u>

C. Interfund Transfers, receivables and payables

1. The composition of interfund transfers of June 30, 2008, is as follows:

Transfers In:	General Fund	Redevelopment Debt Service Fund	Other Governmental Funds	Total Transfers Out
Transfers Out:				
General fund	\$ -	\$ -	\$ 10,513	\$ 10,513
Tax Increment fund	-	-	1,414,056	1,414,056
Low Moderate fund	-	-	72,260	72,260
Other funds	267,978	808,490	10,246	1,086,714
Water/wastewater	93,890	-	-	93,890
Totals	<u>\$ 361,868</u>	<u>\$ 808,490</u>	<u>\$ 1,507,075</u>	<u>\$ 2,677,433</u>

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

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2008

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	\$ 530,117
	Gas tax fund	18,002
	South Sonoma Business Park fund	3,131
	CDBG Fund	<u>4,106</u>
	Total	<u>\$ 555,356</u>

The advances were made for cash flow purposes.

D. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2008 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	\$ 4,343,833	\$ -	\$ -	\$ 4,343,833
Construction in progress	<u>2,047,076</u>	<u>779,094</u>	<u>(1,508,585)</u>	<u>1,317,585</u>
Total capital assets, not being depreciated	<u>6,390,909</u>	<u>779,094</u>	<u>(1,508,585)</u>	<u>5,661,418</u>
Capital assets, being depreciated:				
Buildings	5,440,189	-	-	5,440,189
Machinery and equipment	790,079	74,668	-	864,747
Vehicles	567,282	-	(118,127)	449,155
Improvements	<u>4,938,078</u>	<u>1,523,482</u>	<u>-</u>	<u>6,461,560</u>
Total capital assets being depreciated	<u>11,735,628</u>	<u>1,598,150</u>	<u>(118,127)</u>	<u>13,215,651</u>
Less accumulated depreciation for:				
Buildings	(850,864)	(137,253)	-	(988,117)
Machinery and equipment	(695,566)	(63,172)	6	(758,732)
Vehicles	(397,011)	(36,118)	101,501	(331,628)
Improvements	<u>(3,480,330)</u>	<u>(331,397)</u>	<u>1,472</u>	<u>(3,810,255)</u>
Total accumulated depreciation	<u>(5,423,771)</u>	<u>(567,940)</u>	<u>102,979</u>	<u>(5,888,732)</u>
Total capital assets, being depreciated, net	<u>6,311,857</u>	<u>1,030,210</u>	<u>(15,148)</u>	<u>7,326,919</u>
Governmental activities capital assets, net	<u>\$ 12,702,766</u>	<u>\$ 1,809,304</u>	<u>\$ (1,523,733)</u>	<u>\$ 12,988,337</u>

Construction in progress, at June 30, 2008, 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, 2008

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2008 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>1,143,707</u>	<u>177,730</u>	<u>(367,495)</u>	<u>953,942</u>
Total capital assets, not being depreciated	<u>1,143,707</u>	<u>177,730</u>	<u>(367,495)</u>	<u>953,942</u>
Capital assets, being depreciated:				
Water wells	1,278,584	-	-	1,278,584
Reservoirs	1,160,215	-	-	1,160,215
Improvements	292,932	28,479	-	321,411
Pipelines and collection system	5,516,695	1,799,060	-	7,315,755
Equipment	<u>542,990</u>	<u>76,51</u>	-	<u>619,503</u>
Total capital assets being depreciated	<u>8,791,416</u>	<u>1,904,052</u>	-	<u>10,695,468</u>
Less accumulated depreciation for:				
Water wells	(651,110)	(30,677)	-	(681,787)
Reservoirs	(275,551)	(29,005)	-	(304,556)
Improvements	(176,081)	(20,938)	-	(197,019)
Pipelines and collection system	(1,980,295)	(180,612)	-	(2,160,907)
Equipment	<u>(374,372)</u>	<u>(40,295)</u>	-	<u>(414,667)</u>
Total accumulated depreciation	<u>(3,457,409)</u>	<u>(301,527)</u>	-	<u>(3,758,936)</u>
Total capital assets, being depreciated, net	<u>5,334,007</u>	<u>1,602,525</u>	-	<u>6,936,532</u>
Business-type activities capital assets, net	<u>\$ 6,477,714</u>	<u>\$ 1,780,255</u>	<u>\$ (367,495)</u>	<u>\$ 7,890,474</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2008

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	\$ 87,214
Public safety	150,769
Infrastructure-Streets	219,099
Parks and recreation	<u>110,858</u>
Total depreciation expense-governmental activities	<u>\$ 567,940</u>
Business-type activities:	
Water	\$ 161,710
Wastewater	<u>139,817</u>
Total depreciation expense-governmental activities	<u>\$ 301,527</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>
2009	\$ 185,000	\$ 231,493	\$ 416,493
2010	190,000	225,395	415,395
2011	200,000	218,465	418,465
2012	205,000	210,768	415,768
2013	215,000	202,362	417,362
2014-2018	1,220,000	860,703	2,080,703
2019-2023	1,390,000	548,744	1,938,744
2024-2028	280,000	314,500	594,500
2029-2033	300,000	299,813	599,813
2034-2036	<u>900,000</u>	<u>69,188</u>	<u>969,188</u>
Totals	<u>\$ 5,085,000</u>	<u>\$ 3,181,431</u>	<u>\$ 8,266,431</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2008

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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 65,000	\$ 329,714	\$ 394,714
2010	65,000	327,553	392,553
2011	65,000	325,310	390,310
2012	70,000	322,878	392,878
2013	80,000	319,983	399,983
2014-2018	450,000	1,546,817	1,996,817
2019-2023	770,000	1,414,907	2,184,907
2024-2028	2,475,000	1,049,875	3,524,875
2029-2032	2,785,000	287,125	3,072,125
Totals	<u>\$ 6,825,000</u>	<u>\$ 5,924,162</u>	<u>\$12,749,162</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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 85,000	\$ 359,612	\$ 444,612
2010	95,000	353,763	448,763
2011	100,000	350,676	450,676
2012	105,000	340,763	445,763
2013	115,000	333,613	448,613
2014-2018	685,000	1,543,591	2,228,591
2019-2023	935,000	1,282,288	2,217,288
2024-2028	1,280,000	925,277	2,205,277
2029-2033	1,755,000	435,339	2,190,339
2034	420,000	13,650	433,650
Totals	<u>\$ 5,575,000</u>	<u>\$ 5,938,572</u>	<u>\$ 11,513,572</u>

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2008

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 \$21,015,593. Debt service on the bonds is expected to require less than 42 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 \$810,102 and \$1,970,360, respectively.

Changes in Long-term liabilities

Long-term debt activity for the 2008 fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
2001 tax allocation bonds, series A	\$ 6,885,000	\$ -	\$ 60,000	\$ 6,825,000	\$ 65,000
2004 tax allocation bonds, series A	5,265,000	-	180,000	5,085,000	185,000
Special assessment bonds	5,655,000	-	80,000	5,575,000	85,000
Compensated absences	448,418	77,136	60,000	465,554	60,000
Total	\$ 18,253,418	\$ 77,136	\$ 380,000	\$ 17,950,554	\$ 395,000

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, \$300,000 for workers compensation claims, and \$25,000 for property damage. The Fund carries purchased excess commercial liability insurance of \$9.5 million in excess of its \$500,000 limit, and a commercial property policy for \$200 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 2008. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no claim liabilities at June 30, 2008.

CITY OF COTATI
Notes to the Basic Financial Statements
June 30, 2008

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 at June 30, 2007 \$34,039 and at June 30, 2008 had \$566,302 in excess funds (as defined in regulations) 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

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, 2008

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 12.072 percent for regular employees and 48.853 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>	6/30/06	\$ 164,217	100%	\$ -
	6/30/07	\$ 187,722	100%	\$ -
	6/30/08	\$ 229,410	100%	\$ -
<i>Safety employees</i>	6/30/06	\$ 354,243	100%	\$ -
	6/30/07	\$ 356,641	100%	\$ -
	6/30/08	\$ 551,417	100%	\$ -

E. Other Post Employment Benefits

The City provides post employment health insurance benefits to certain former employees pursuant to a local agreement. The agreement is limited to the specified former employees and does not cover other former employees, current employees, or future employees. There are four former employees receiving such medical insurance benefits. The City funds these costs on a pay as you go basis. For the fiscal year ended June 30, 2008, the City paid \$19,950 for such benefits.

F. Restricted Net Assets and Designated Fund Balances

The \$ 15,328,934 restricted amount in the governmental activities and the \$7,200,774 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	\$ -	\$ 1,891,881
Prepayments	7,415	
Advances to other funds	555,356	-
Long-term notes receivable	53,304	-
	<u>\$ 616,075</u>	<u>\$ 1,891,881</u>

REQUIRED SUPPLEMENTARY INFORMATION

**Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance, July 1	\$ 1,197,988	\$ 1,197,988	\$ 1,197,988	\$ -
Resources (inflows):				
Property taxes	508,816	557,621	561,593	3,972
Sales taxes	2,105,093	2,353,496	2,321,377	(32,119)
Transfer taxes	125,000	109,951	77,990	(31,961)
Other taxes	396,193	393,701	404,721	11,020
License permits	25,500	14,990	7,900	(7,090)
Fines and forfeits	84,000	108,966	116,381	7,415
Interest and rents	134,965	96,852	97,259	407
Intergovernmental	623,606	613,166	657,777	44,611
Charges for services	213,075	142,233	538,217	395,984
Miscellaneous	122,500	180,814	153,249	(27,565)
Transfers in	364,319	364,319	361,868	(2,451)
Amounts available for charges to appropriations	<u>5,901,055</u>	<u>6,134,097</u>	<u>6,496,320</u>	<u>362,223</u>
Charges to appropriations:				
General government:				
Legislative	81,814	83,271	80,396	2,875
Clerk	238,406	241,418	226,865	14,553
Finance	109,239	135,675	111,935	23,740
Legal	110,200	166,400	158,864	7,536
Nondepartmental	218,378	250,340	244,962	5,378
Public info	46,011	47,931	7,471	40,460
Government buildings	148,440	158,451	136,556	21,895
Community development and planning	540,459	438,638	787,894	(349,256)
Public safety:				
Police	3,112,737	3,073,508	3,132,893	(59,385)
Highways and streets				
Streets	301,791	305,810	280,283	25,527
Engineering	36,275	43,419	37,164	6,255
Parks and recreation				
Recreation	101,648	104,725	99,302	5,423
Cultural	5,637	1,938	1,938	-
Park maintenance	248,210	244,736	229,809	14,927
Transfers out	<u>16,349</u>	<u>104,725</u>	<u>10,513</u>	<u>94,212</u>
Total charges to appropriations	<u>5,315,594</u>	<u>5,400,985</u>	<u>5,546,845</u>	<u>(145,860)</u>
Fund Balance, June 30	<u>\$ 585,461</u>	<u>\$ 733,112</u>	<u>\$ 949,475</u>	<u>\$ 216,363</u>

Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2008

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:	\$ 6,496,320
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	(1,197,988)
Transfers in are a budgetary resource but are not a current year revenue for financial reporting purposes	<u>(361,868)</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 4,936,464</u></u>

Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 5,546,845
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(10,513)</u>
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 5,536,332</u></u>

**Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - Inclusionary Housing Fund
For the Fiscal Year Ended June 30, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Fund Balance, July 1	\$ 2,916,338	\$ 2,916,338	\$ 2,916,338	\$ -
Resources (inflows):				
Interest and rents	170,000	170,000	98,309	(71,691)
Charges for services:				
Inclusionary housing fees	650,000	650,000	78,535	(571,465)
Transfers in	-	-	-	-
Amounts available for charges to appropriations	<u>3,736,338</u>	<u>3,736,338</u>	<u>3,093,182</u>	<u>(643,156)</u>
Charges to appropriations:				
Community development:				
Legal	-	-	2,846	(2,846)
Transfers out	-	-	-	-
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>2,846</u>	<u>(2,846)</u>
Fund Balance, June 30	<u>\$ 3,736,338</u>	<u>\$ 3,736,338</u>	<u>\$ 3,090,336</u>	<u>\$ (646,002)</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: \$ 3,093,182

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 (2,916,338)

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

\$ 176,844

Required Supplementary Information
CITY OF COTATI
Budgetary Comparison Schedule - Redevelopment Low and Moderate Income Housing Fund
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Fund Balance, July 1	\$ 2,497,589	\$ 2,497,589	\$ 2,497,589	\$ -
Resources (inflows):				
Property taxes	871,917	871,917	902,457	30,540
Interest and rents	200,000	200,000	215,762	15,762
Miscellaneous	1,000	1,000	1,087	87
Transfers in	80,573	80,573	80,573	-
 Amounts available for charges to appropriations	 <u>3,651,079</u>	 <u>3,651,079</u>	 <u>3,697,468</u>	 <u>46,389</u>
Charges to appropriations:				
Community Development:				
Administration:				
Salaries and benefits	104,839	104,839	90,587	14,252
Legal	4,000	4,000	37,595	(33,595)
Property tax admin fees	11,000	11,000	11,316	(316)
Other administrative costs	4,800	4,800	4,255	545
Housing Loans	80,000	80,000	-	80,000
Contributions	25,000	25,000	-	25,000
Other projects	19,228	19,228	-	19,228
Transfers out	<u>72,260</u>	<u>72,260</u>	<u>72,260</u>	<u>-</u>
Total charges to appropriations	<u>321,127</u>	<u>321,127</u>	<u>216,013</u>	<u>105,114</u>
Fund Balance, June 30	<u>\$ 3,329,952</u>	<u>\$ 3,329,952</u>	<u>\$ 3,481,455</u>	<u>\$ 151,503</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: \$ 3,697,468

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 (2,497,589)

Transfers in are budgetary resources but also are not a current year revenue for financial reporting purposes (80,573)

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances \$ 1,119,306

Total charges to appropriations in budgetary comparison schedule above \$ 216,013

Transfers out are a use of budgetary resources but are not reported as expenditures of resources for financial reporting purposes (72,260)

Total expenditures as reported in the statement of revenues, expenditures, and changes in fund balances \$ 143,753

OPTIONAL SUPPLEMENTARY INFORMATION
NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS

City of Cotati
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2008

	Special Revenue Funds									
	Landscapes and Lighting	Gas Tax	Parks and Recreation	Park In Lieu	Community Service	MTC Street	Traffic Mitigation	Recycling	State Grant	CDBG
Assets										
Cash and investments	\$ 36,754	\$ -	\$ -	\$ 913,580	\$ 20	\$ 544,403	\$ 128,385	\$ 54,031	\$ -	\$ -
Receivables:										
Receivables from other governments	-	47,846	-	16,217	-	-	-	-	530,188	5,053
Accounts	-	-	-	-	-	-	-	977	-	-
Prepayments	-	-	-	-	-	-	-	-	-	-
Assessments receivable	610	-	-	-	-	-	-	-	-	-
Total assets	\$ 37,364	\$ 47,846	\$ -	\$ 929,797	\$ 20	\$ 544,403	\$ 128,385	\$ 55,008	\$ 530,188	\$ 5,053
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ 1,990	\$ -	\$ -	\$ 4,977	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ 947
Advances from other funds	-	18,002	-	-	-	-	-	-	530,117	4,106
Total liabilities	1,990	18,002	-	4,977	20	-	-	-	530,117	5,053
Fund balances:										
Unreserved	35,374	29,844	-	924,820	-	544,403	128,385	55,008	71	-
Total fund balances	35,374	29,844	-	924,820	-	544,403	128,385	55,008	71	-
Total liabilities and fund balances	\$ 37,364	\$ 47,846	\$ -	\$ 929,797	\$ 20	\$ 544,403	\$ 128,385	\$ 55,008	\$ 530,188	\$ 5,053

City of Cotati
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2008

	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	
Assets										
Cash and investments	\$ -	\$ 12,595	\$ 52,616	\$ 858	\$ 1,885	\$ 3,313	\$ 200,703	\$ -	\$ 1,633,445	\$ 3,562,588
Receivables:										
from other governments	-	-	-	-	-	-	-	-	-	589,304
Accounts	-	-	-	-	-	-	-	-	-	977
Prepayments	-	-	-	-	-	132	-	-	-	132
Assessments receivable	-	-	-	-	-	-	-	-	-	610
Total assets	\$ -	\$ 12,595	\$ 52,616	\$ 858	\$ 1,885	\$ 3,445	\$ 200,703	\$ -	\$ 1,633,445	\$ 4,183,611
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,445	\$ -	\$ -	\$ 144,083	\$ 155,462
Advances from other funds	-	-	-	-	-	-	-	3,131	-	555,356
Total liabilities	-	-	-	-	-	3,445	-	3,131	144,083	710,818
Fund balances:										
Unreserved	-	12,595	52,616	858	1,885	-	200,703	(3,131)	1,489,362	3,472,793
Total fund balances	-	12,595	52,616	858	1,885	-	200,703	(3,131)	1,489,362	3,472,793
Total liabilities and fund balances	\$ -	\$ 12,595	\$ 52,616	\$ 858	\$ 1,885	\$ 3,445	\$ 200,703	\$ -	\$ 1,633,445	\$ 4,183,611

CITY OF COTATI
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2008

	Special Revenue Funds								
	Gas Tax	Parks and Recreation	Park in Lieu	Community Service	MTC Street	Traffic Mitigation	Recycling	State Grant	CDBG
Revenues:									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	130,707	-	447,675	-	-	519,161	5,053
Charges for services	18,679	-	31,692	2,085	-	-	16,258	-	-
Interest	-	785	27,867	-	3,120	4,979	-	-	-
Miscellaneous	-	-	-	120	-	-	75	-	1,883
Total revenues	18,679	142,544	190,266	2,205	450,795	4,979	16,333	519,161	6,936
Expenditures:									
Current:									
General government	-	-	-	3,960	-	-	-	-	-
Public safety	-	-	-	-	-	-	6,000	-	-
Highways and streets	30,155	3,985	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	519,161	5,053
Capital outlay	-	-	56,477	-	-	-	-	-	-
Total expenditures	30,155	3,985	56,477	3,960	-	-	6,000	519,161	5,053
Excess (deficiency) of revenues over (under) expenditures	(11,476)	138,549	133,789	(1,755)	450,795	4,979	10,333	-	1,883
Other financing sources (uses):									
Transfers in	10,573	-	-	1,874	-	-	-	-	-
Transfers out	(992)	(138,549)	-	-	-	-	-	-	-
Total other financing sources (uses)	9,581	(138,549)	-	1,874	-	-	-	-	-
Net change in fund balances	(1,885)	-	133,789	119	450,795	4,979	10,333	-	1,883
Fund balances, July 1	37,259	29,844	791,031	(119)	93,608	123,406	44,675	71	(1,883)
Fund balances, June 30	\$ 35,374	\$ 29,844	\$ 924,820	\$ -	\$ 544,403	\$ 128,385	\$ 55,008	\$ 71	\$ -

CITY OF COTATI
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2008

	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:										
Property taxes	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	100,000	-	-	-	-	-	-	-	1,344,355
Charges for services	-	-	-	-	-	-	-	-	-	68,714
Interest	-	-	306	-	-	-	-	-	129,691	166,748
Miscellaneous	-	110	18,532	1,107	-	-	-	-	-	21,827
Total revenues	-	100,110	18,838	1,107	-	-	-	-	129,691	1,601,644
Expenditures:										
Current:										
General government	-	-	-	-	-	-	-	-	-	3,960
Public safety	-	-	-	1,648	-	-	-	-	-	7,648
Highways and streets	-	-	-	-	-	-	-	-	-	34,150
Community development	-	-	-	-	-	570,205	-	-	-	570,205
Capital outlay	-	-	-	-	-	-	17,224	-	142,582	740,497
Total expenditures	-	-	-	1,648	-	570,205	17,224	-	142,582	1,356,460
Excess (deficiency) of revenues over (under) expenditures	-	100,110	18,838	(541)	-	(570,205)	(17,224)	-	(12,891)	245,184
Other financing sources (uses):										
Transfers in	-	-	-	-	-	1,414,055	-	-	-	1,426,502
Transfers out	-	(100,000)	-	(1,933)	-	(843,850)	-	-	-	(1,085,314)
Total other financing sources (uses)	-	(100,000)	-	(1,933)	-	570,205	-	-	-	341,188
Net change in fund balances	-	110	18,838	(2,474)	-	-	(17,224)	-	(12,891)	586,372
Fund balances, July 1	-	12,485	33,778	3,332	1,885	-	217,927	(3,131)	1,502,253	2,866,421
Fund balances, June 30	\$	\$ 12,595	\$ 52,616	\$ 858	\$ 1,885	\$	\$ 200,703	\$ (3,131)	\$ 1,489,362	\$ 3,472,793