

**City of Sebastopol
Basic Financial Statements
June 30, 2006**

CITY OF SEBASTOPOL, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2006
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	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	16
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	17
Statement of Net Assets- Major Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets Major Proprietary Funds	19
Statement of Cash Flows- Major Proprietary Funds	20
Notes to the Basic Financial Statements	22
REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Budgetary Comparison Schedule - General Fund	39
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	40
Schedule of Funding Progress - Public Employees Retirement System Plans	41
SUPPLEMENTAL SECTION	
Combining Balance Sheet Nonmajor Governmental Funds	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	45



Terry E. Krieg, CPA

Certified Public Accountant

50 Old Courthouse Square, Suite 603, Santa Rosa, CA 95404

(707) 544-5684
FAX (707) 544-5686

Independent Auditor's Report

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

We 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 Sebastopol, California, (the City) as of and for the year ended June 30, 2006, 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 Sebastopol's management. Our responsibility is to express an opinion on these financial statements based on our audit.

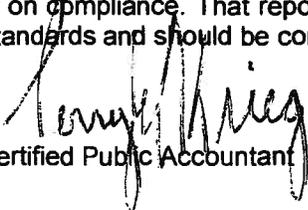
We conducted our audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sebastopol, California, as of June 30, 2006, 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 39 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinions on the financial statements that collectively comprise the City of Sebastopol'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 our 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, we have also issued our report dated January 17, 2007 on our consideration of the City of Sebastopol's, California internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


Certified Public Accountant

January 17, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the *City of Sebastopol's* annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2006. 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 \$3.6 million over the course of this year's operations. The net assets of our business-type activities increased \$833,962 or nearly 16.7 percent), and there was a \$2,763,144 increase in the net assets of our governmental activities funds; an increase of about 74% over 2005 ending net asset balances.
- During the year, the City's expenses were \$3,150,020 more than revenues from user charges, operating and capital grants. This shortfall was funded from general tax revenues such as property taxes, sales taxes, incremental property taxes and other taxes.
- The general fund reported a 2006 year end fund balance of \$1,992,604. Of the \$1,992,604, the City has designated \$1,992,604 for future projects and financial funding purposes. The redevelopment project fund ended the year with a \$4,273,225 fund balance, and \$1,416,827 of that amount consists of the advance made to the Agency's low and moderate income housing fund to provide cash to purchase land.
- The overall increase in the net assets of our governmental activities type funds for fiscal year 2006 was about \$2.7 million, including 1.2 million reserved for capital projects and 1.25 million in special revenue funds.
- In our business-type activity funds, total expenses in fiscal year 2006 decreased by about \$173,385 as a result of savings in contractual, utilities, supplies and personnel costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Figure A-1

Major Features of City of Sebastopol's Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
<u>Scope</u>	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.
<u>Required financial statements</u>	<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
<u>Accounting basis and measurement focus</u>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<u>Type of asset/liability information</u>	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
<u>Type of inflow/outflow information</u>	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*.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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, fire, public works, parks and community development departments and general administration. Property taxes, sales taxes, transient occupancy 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.

- Some funds are required by State law such as state gas funds and the low and moderate income housing fund of the Agency.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes, grants or fees such as police grants and impact fees.

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. The City reports its general fund and the Community Development Agency's Administration Fund as major governmental funds. All other governmental funds are aggregated together and reported in a separate column.
- *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.
 - The City reports its water enterprise and wastewater enterprise funds as major funds with the financial information for each of these funds reported in a separate column in the proprietary fund's financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets. The City's *combined* net assets increased about \$1.6 million between fiscal years 2005 and 2006. (See Table A-1.)

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2005	2006	2005	2006	2005	2006	2005-2006
Current and other assets	\$7.0	\$8.0	\$2.0	\$2.7	\$9.0	\$10.7	18.9%
Internal balances	-.1	.0	1.0	1.7	.9	1.7	88.8%
Capital assets	6.0	8.4	3.8	3.7	9.8	12.1	23.5%
Total assets	12.9	16.4	6.7	8.1	19.6	24.5	25.0%
Long-term debt outstanding	8.6	8.9	.9	1.9	9.5	10.8	13.7%
Other liabilities	.9	1.3	.8	.4	1.7	1.7	0.0%
Total liabilities	9.5	10.2	1.7	2.3	11.2	12.5	11.6%
Net assets							
Invested in capital assets	(2.2)	(1.4)	2.9	3.2	0.7	1.8	157.1%
Restricted	5.0	6.3	.2	.0	5.2	6.3	21.2%
Unrestricted	.6	1.3	1.9	2.6	2.5	3.9	56.0%
Total net assets	\$3.4	\$6.2	\$5.0	\$5.8	\$8.4	\$12.0	42.9%

Net assets of the City's governmental activities increased about 82% percent to about \$ 6.2 million. About 65% of the net assets relating to governmental activities is represented the City's investment in land buildings, equipment, and systems. The City has about \$9.2 million in long-term debt being used to finance governmental operations; and of that amount \$7.3 million in debt relates to the City's Community Development Agency and related redevelopment activities.

Although the net assets of our business-type activities increased by 16 percent to \$5.8 million, these resources cannot be used for governmental activities. The City generally can only use these net assets to finance the continuing operations of the water and wastewater operations.

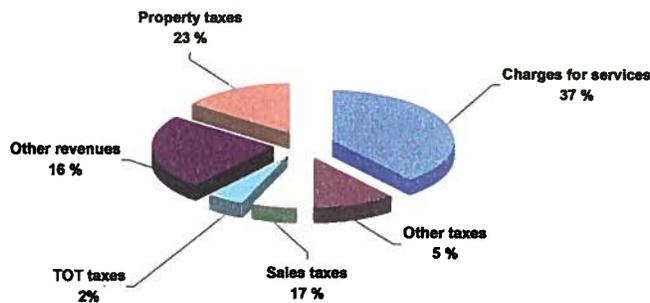
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

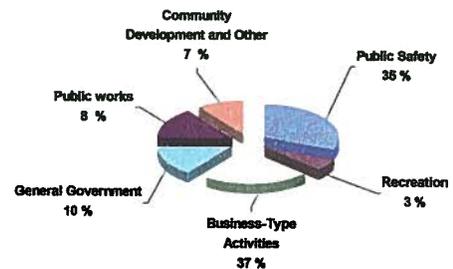
Changes in net assets. The City's total revenues increased to about \$12.8 million (See Table A-2.) in 2006 compared to \$10.4 million in 2005. About 47 percent of the City's revenue comes from property taxes, transient occupancy, sales taxes, and other taxes. Another 37 percent comes from fees charged for services, and most of the rest is state and local aid.

The total cost of all programs and services increased approximately \$400,000, or about 4.5 percent to \$9.2 million. The City's expenses cover a range of services, with about 37 percent related to business type activities, 35 percent for public safety services, and the remaining 28 percent for general government, public works, parks and community programs.

Sources of Revenue for Fiscal Year 2006



Functional Expenses For Fiscal Year 2006



Governmental Activities

Revenues for the City's governmental activities increased by \$1.9 million, while total expenses increased by \$500,000 over fiscal year 2005.

Governmental activities recorded greater grant revenues in fiscal 2006 than in fiscal 2005, increasing from \$600,000 to \$1.2 million.

After all operations for 2006 were completed, the net assets of our governmental activities increased by about a net \$2.8 million. This 2006 increase was about 100% greater than the increase in fiscal year 2005. This 2006 operating increase resulted from the City maintaining fiscal control over spending patterns.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

	Governmental Activities		Business-type Activities		Total		Total
	2005	2006	2005	2006	2005	2006	Percentage Change
							2005-2006
Revenues							
Program revenues							
Charges for services	\$.7	\$ 1.2	\$ 3.0	\$ 3.1	\$ 3.7	\$ 4.3	16.2%
State grants and entitlements	.6	1.2	-	-	.6	1.2	100%
General revenues							
Property taxes	2.3	2.5	.2	.3	2.5	2.8	12.0%
Other taxes	3.2	3.7	-	-	3.2	3.7	15.6%
Other	.2	.3	.2	.5	.4	.8	100%
Total revenues	7.0	8.9	3.4	3.9	10.4	12.8	23.1%
Expenses							
General government	.9	1.0	-	-	.9	1.0	11.1%
Public safety	3.1	3.3	-	-	3.1	3.3	6.5%
Community development	.2	.3	-	-	.2	.3	50.0%
Public works	.7	.7	-	-	.7	.7	0.0%
Parks and recreation	.3	.4	-	-	.3	.4	33.3%
Water	-	-	1.1	1.0	1.1	1.0	-9.1%
Wastewater	-	-	2.1	2.1	2.1	2.1	0.0
Interest	.4	.4	-	-	.4	.4	0.0%
Total expenses	5.6	6.1	3.2	3.1	8.8	9.2	4.5%
Excess (deficiency) before transfers	1.4	2.8	.2	.8	1.6	3.6	125.0%
Transfers	-	-	-	-	-	-	-
Increase (decrease) in net assets	\$ 1.4	\$ 2.8	\$.2	\$.8	\$ 1.6	\$ 3.6	125.0%

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

- The cost of all *governmental* activities this year was \$6.1 million, about \$500,000 greater than the total cost as reported in fiscal year 2005. The costs in fiscal 2006 reflected some functional changes. Public safety expenses that normally increase significantly each fiscal year, were held to about the same level as fiscal year 2005 through use of special grant funding and use of volunteer police reserve officers to reduce personnel costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

- Of the \$6.1 million cost of the City's governmental activities programs, our taxpayers paid for only \$3.7 million of the program costs. Some of the cost was paid by:
 - Those who directly benefited from the programs (\$1,241,000), or
 - Other governments and organizations that subsidized certain programs with grants and contributions(\$1,230,760) .
- The City paid for the \$3.7 million "public benefit" portion by using about 60% of the City's general tax revenues.

Table A-3
Cost of City Sebastopol's Governmental Activities
(in millions of dollars)

	<u>Total Cost of Services</u>		<u>Percentage</u>
	<u>2005</u>	<u>2006</u>	<u>Change</u>
General Government	\$.9	\$ 1.0	11.1%
Public Safety	3.1	3.3	6.6%
Community development	.2	.3	50.0%
Public Works	.7	.7	0.0%
Parks and recreation	.3	.4	33.3%
All other	.4	.4	0%
Total	<u>\$ 5.6</u>	<u>\$ 6.1</u>	<u>8.9%</u>

The most significant cost increase in fiscal 2006 in terms of dollars was in public safety as the City increased spending in this area. General government costs increases also related to higher employer pension contributions to the PERS.

Business-type Activities

Revenues of the City's business-type increased by about \$500,000 as a result of one-time type revenues such as contributions, capital connection fees and settlements. Expenses decreased about \$100,000 to about \$3.1 million as a result of increased operating efficiencies such as variable speed drives installed in municipal water pumps to save on energy costs.

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 \$8.9 million, about a *\$2,900,000 increase* over the last fiscal year. This was the result primarily of capital project funding received through a capital lease in June, 2006.

The City's spending for general fund operations was about \$284,000 less than general fund revenues before inter fund transfers. The general fund ended fiscal 2006 with a fund balance of about \$2.0 million. Of that fund balance, about \$2.0 million is designated for anticipated future financial needs and for emergencies that might arise in compliance with the financial management policy adopted by the City Council.

There was an additional \$4.3 million fund balance at year end in the Redevelopment Agency's Administration fund. Of that amount, about \$500,000 is set aside as debt service funds , and an additional *\$1.4 million is not available because* of cash advanced to the low and moderate income housing fund to help finance the purchase of land for affordable housing projects. The Agency intends that the cash advance will be repaid over the next several years from the 20 percent of tax increment revenues to be set aside in the low and moderate fund.

The City's non major special revenue funds ended the fiscal 2006 year with a combined fund balance of about \$1.4 million. This combined fund balance exists because of the \$760,083 fund balance in the traffic impact fee fund, the \$516,789 fund balance in the special sales tax fund and the \$163,045 net fund balance of all other non major funds.

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.

Even with these adjustments, actual expenditures and transfers out were \$189,297 more than final budget amounts. These excess expenditures, primarily transfers out to other funds, were funded from available general fund resources. General fund revenues were about \$52,000 more than the final budget as a result of increases in all revenues except property taxes, sales taxes, and transient occupancy tax.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had invested \$10.2 million in a broad range of capital assets, including equipment, vehicles, streets, buildings, park facilities, and water and wastewater systems. (See Table A-4.) This amount represents a net increase (including additions and deductions) of about \$500,000, or 5.2 percent, over last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2005	2006	2005	2006	2005	2006	2005-2006
Land	\$ 2.9	\$ 2.9	\$.1	\$.1	\$ 3.0	\$ 3.0	0.0%
Buildings	5.2	5.3	-	-	5.2	5.3	1.9%
Machinery and equipment	.9	1.1	.4	.4	1.3	1.5	15.4%
Vehicles	2.4	2.1	-	-	2.4	2.1	-12.5%
Infrastructure and systems	.1	.8	7.0	7.2	7.1	8.0	12.7%
Accumulated depreciation	(5.5)	(5.7)	(3.8)	(4.0)	(9.3)	(9.7)	4.3%
Total	\$ 6.0	\$ 6.5	\$ 3.7	\$ 3.7	\$ 9.7	\$ 10.2	5.2%

This year's major capital assets additions included:

- Street improvements of \$675,000
- Purchased 2 replacement vehicles for police patrol use.

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

Long-term Debt

The long-term debt obligations of the City on an overall basis increased by about a net \$2 million in fiscal year 2006. The City's most significant long-term debt obligation is the Development Agency's \$ 5 million in tax allocation bonds and \$3 million refunding lease arrangement. The Agency has pledged its tax increment revenues as security for the payment of principal and interest on the tax allocation notes. In fiscal year 2006, the City entered into a financing arrangement to obtain \$2.9 million in funds for future capital projects. The general fund will be responsible for paying debt service on the governmental activities portion of the lease obligation which is about 41% of the total obligation. The City had reductions on an overall basis of approximately \$950,000 on its older, long-term debt obligations.

Additional information about the City's long-term obligations can be found starting on page 31 of the notes to the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2007 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 0.5 percent decrease in general fund revenues
- The budget is balanced without using general fund resources available in unallocated reserves.
- A small increase in utility user fee rates are proposed for fiscal 2007, based on a user fee study
- No tax increases are proposed for fiscal 2007
- Selected general fund user fee increases are proposed for fiscal 2007

General fund 2007 budgeted appropriations are set at \$ 4.8 million This is about a 6.7 percent increase over fiscal 2006 actual general fund expenditures.

The 2007 budget has proposed capital project spending of about \$421,000with \$100,000 for street related projects.

As to the City's business-type activities, about \$3.2 million is expected to be spent in 2007 to conduct operations and make capital improvements. In this regard the City expects to:

- Increase water and wastewater rates by a small percentage
- Pay for operating costs from charges for services to system users

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 Finance Director, City of Sebastopol, 7120 Bodega Avenue, Sebastopol, CA 95472.

CITY OF SEBASTOPOL
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 7,356,801	\$ 2,175,040	\$ 9,531,841
Net receivables	703,106	474,760	1,177,866
Total current assets	8,059,907	2,649,800	10,709,707
Noncurrent assets:			
Cash and cash equivalents	1,180,000	1,735,534	2,915,534
Long-term notes receivable	324,031	-	324,031
Other long-term receivables	325,000	-	325,000
Debt issuance costs	30,078	-	30,078
Net capital assets	6,528,069	3,709,399	10,237,468
Total noncurrent assets	8,387,178	5,444,933	13,832,111
Total assets	\$ 16,447,085	\$ 8,094,733	\$ 24,541,818
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 122,893	\$ 32,940	\$ 155,833
Compensated absences	300,000	35,280	335,280
Deposits	231,268	11,879	243,147
Accrued interest payable	39,015	7,350	46,365
Bonds, leases, and agreements due within one year	661,069	348,340	1,009,409
Total current liabilities	1,354,245	435,789	1,790,034
Long-term liabilities due in more than one year:			
Tax allocation bonds	4,640,000	-	4,640,000
Special assessment bonds	315,000	-	315,000
Agreements	-	221,849	221,849
Capital lease obligations	3,566,579	1,648,026	5,214,605
Compensated absences	370,334	-	370,334
Total long-term liabilities	8,891,913	1,869,875	10,761,788
Total liabilities	10,246,158	2,305,664	12,551,822
NET ASSETS			
Invested in capital assets, net of related debt	(1,441,501)	3,191,184	1,749,683
Restricted for:			
Capital projects	3,004,889	35,534	3,040,423
Housing	1,012,171	-	1,012,171
Debt service	387,432	-	387,432
Public safety	702,155	-	702,155
Streets	1,101,116	-	1,101,116
Parks and recreation	115,811	-	115,811
Unrestricted	1,318,854	2,562,351	3,881,205
Total net assets	6,200,927	5,789,069	11,989,996
Total liabilities and net assets	\$ 16,447,085	\$ 8,094,733	\$ 24,541,818

See accompanying notes to the basic financial statements

**Net (Expenses) Revenue and
Changes in Net Assets**

City Government

Governmental Activities	Business-type Activities	Total
\$ (584,999)	\$ -	\$ (584,999)
(2,898,990)	-	(2,898,990)
(256,991)	-	(256,991)
641,411	-	641,411
(205,248)	-	(205,248)
(399,371)	-	(399,371)
<u>(3,704,188)</u>	<u>-</u>	<u>(3,704,188)</u>
-	283,818	283,818
-	270,350	270,350
-	554,168	554,168
<u>(3,704,188)</u>	<u>554,168</u>	<u>(3,150,020)</u>
\$ 863,289	\$ 279,794	\$ 1,143,083
2,167,368	-	2,167,368
689,326	-	689,326
249,462	-	
562,092	-	562,092
1,648,133	-	1,648,133
166,607	-	166,607
121,055	-	121,055
<u>6,467,332</u>	<u>279,794</u>	<u>6,747,126</u>
2,763,144	833,962	3,597,106
<u>3,437,783</u>	<u>4,955,107</u>	<u>8,392,890</u>
<u>\$ 6,200,927</u>	<u>\$ 5,789,069</u>	<u>\$ 11,989,996</u>

CITY OF SEBASTOPOL
Balance Sheet
Governmental Funds

June 30, 2006

	<u>General Fund</u>	<u>Redevelopment Administration Fund</u>	<u>City Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 2,156,799	\$ 2,862,555	\$ 1,180,000	\$ 2,337,447	\$ 8,536,801
Taxes receivable	140,520	-	-	-	140,520
Interest	-	718	-	-	718
Due from other governments	3,873	-	-	557,995	561,868
Assessments receivable	-	-	-	325,000	325,000
Notes receivable	-	50,190	-	273,841	324,031
Advances to other funds	-	1,416,827	-	-	1,416,827
Total assets	\$ 2,301,192	\$ 4,330,290	\$ 1,180,000	\$ 3,494,283	\$ 11,305,765
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 77,320	\$ 6,875	\$ -	\$ 38,698	\$ 122,893
Advances from other funds	-	-	-	1,416,827	1,416,827
Deposits	231,268	-	-	-	231,268
Deferred revenue	-	50,190	-	598,841	649,031
Total liabilities	308,588	57,065	-	2,054,366	2,420,019
Fund balances:					
Reserved	-	1,416,827	-	89,245	1,506,072
Unreserved, designated	1,992,604	-	1,180,000	-	3,172,604
Unreserved, undesignated	-	-	-	-	-
Unreserved reported in nonmajor:					
Capital projects funds	-	2,856,398	-	100,301	2,956,699
Special revenue funds	-	-	-	1,250,371	1,250,371
Total fund balances	1,992,604	4,273,225	1,180,000	1,439,917	8,885,746
Total liabilities and fund balances	\$ 2,301,192	\$ 4,330,290	\$ 1,180,000	\$ 3,494,283	\$ 11,305,765
Total Governmental Fund Balances					\$ 8,885,746
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities and debt issue costs are not financial resources and therefore are not reported in the funds					6,558,147
Other long-term assets are not available to pay for current-period expenditures and are therefore offset by deferred revenue in the funds					649,031
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					(39,015)
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					(9,852,982)
Net Assets of Governmental Activities					\$ 6,200,927

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOLE
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Redevelopment Administration Fund</u>	<u>City Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property taxes	\$ 863,289	\$ 1,228,261	\$ -	\$ 419,872	\$ 2,511,422
Sales taxes	1,527,395	-	-	599,064	2,126,459
Other taxes	533,268	-	-	-	533,268
Licenses and permits	402,492	-	-	-	402,492
Fines and forfeits	74,181	-	-	-	74,181
Intergovernmental	711,966	-	-	1,104,555	1,816,521
Interest and rents	48,350	89,936	-	66,333	204,619
Charges for services	505,045	-	-	449,526	954,571
Miscellaneous	128,741	1,825	-	141,866	272,432
Total revenues	<u>4,794,727</u>	<u>1,320,022</u>	<u>-</u>	<u>2,781,216</u>	<u>8,895,965</u>
EXPENDITURES					
Current:					
General government	1,020,583	-	-	-	1,020,583
Public safety	2,840,652	-	-	234,368	3,075,020
Community development	-	220,154	-	124,484	344,638
Parks and recreation	271,307	-	-	18,853	290,160
Public works	369,721	-	-	1,023,776	1,393,497
Capital outlay	-	-	-	109,024	109,024
Debt service:					
Principal	7,549	483,542	-	102,356	593,447
Interest	1,347	345,885	-	51,938	399,170
Total expenditures	<u>4,511,159</u>	<u>1,049,581</u>	<u>-</u>	<u>1,664,799</u>	<u>7,225,539</u>
Excess (deficiency) of revenues over expenditures	<u>283,568</u>	<u>270,441</u>	<u>-</u>	<u>1,116,417</u>	<u>1,670,426</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of long-term debt	-	-	1,180,000	-	1,180,000
Transfers in	-	-	-	204,753	204,753
Transfers out	(145,806)	(40,000)	-	(18,947)	(204,753)
Total other financing sources (uses)	<u>(145,806)</u>	<u>(40,000)</u>	<u>1,180,000</u>	<u>185,806</u>	<u>1,180,000</u>
Net change in fund balances	<u>137,762</u>	<u>230,441</u>	<u>1,180,000</u>	<u>1,302,223</u>	<u>2,850,426</u>
Fund balances, July 1	<u>1,854,842</u>	<u>4,042,784</u>	<u>-</u>	<u>137,694</u>	<u>6,035,320</u>
Fund balances, June 30	<u>\$ 1,992,604</u>	<u>\$ 4,273,225</u>	<u>\$ 1,180,000</u>	<u>\$ 1,439,917</u>	<u>\$ 8,885,746</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
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, 2006

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 2,850,426</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.	
	520,163
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	
	43,450
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	
	593,447
Governmental funds report proceeds of long-term debt as a current financial inflow but issuing debt increases liabilities in the statement of net assets and therefore is not reported in the statement of activities	
	(1,180,000)
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>(64,342)</u>
Net adjustment to reconcile to changes in net assets	<u>(87,282)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,763,144</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Net Assets
Proprietary Funds
June 30, 2006

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 2,175,040	\$ 2,175,040
Accounts receivable	201,015	273,745	474,760
Total current assets	<u>201,015</u>	<u>2,448,785</u>	<u>2,649,800</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	900,000	835,534	1,735,534
Advances to other funds	-	459,315	459,315
Net other assets	<u>900,000</u>	<u>1,294,849</u>	<u>2,194,849</u>
Capital assets:			
Land	86,440	-	86,440
Pipelines and distribution system	3,378,773	-	3,378,773
Collection system	-	2,475,594	2,475,594
Reservoir	1,400,613	-	1,400,613
Equipment	67,037	361,700	428,737
Less accumulated depreciation	<u>(2,258,573)</u>	<u>(1,802,185)</u>	<u>(4,060,758)</u>
Net capital assets	<u>2,674,290</u>	<u>1,035,109</u>	<u>3,709,399</u>
Total noncurrent assets	<u>3,574,290</u>	<u>2,329,958</u>	<u>5,904,248</u>
Total assets	<u>\$ 3,775,305</u>	<u>\$ 4,778,743</u>	<u>\$ 8,554,048</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 26,340	\$ 6,600	\$ 32,940
Compensated absences	15,523	19,757	35,280
Accrued interest payable	7,350	-	7,350
Advances from other funds	459,315	-	459,315
Deposits	11,879	-	11,879
Long-term debt due in one year	68,891	279,449	348,340
Total current liabilities	<u>589,298</u>	<u>305,806</u>	<u>895,104</u>
Long-term debt due in more than one year:			
Capital lease obligations	872,475	775,551	1,648,026
Installment agreement	221,849	-	221,849
Total long-term debt due in more than one year	<u>1,094,324</u>	<u>775,551</u>	<u>1,869,875</u>
Total liabilities	<u>1,683,622</u>	<u>1,081,357</u>	<u>2,764,979</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,411,075	780,109	3,191,184
Restricted	-	35,534	35,534
Unrestricted	<u>(319,392)</u>	<u>2,881,743</u>	<u>2,562,351</u>
Total net assets	<u>\$ 2,091,683</u>	<u>\$ 3,697,386</u>	<u>\$ 5,789,069</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 1,041,481	\$ 1,995,354	\$ 3,036,835
Other operating revenues	2,360	31,233	33,593
Total operating revenues	<u>1,043,841</u>	<u>2,026,587</u>	<u>3,070,428</u>
OPERATING EXPENSES			
Personnel services	175,540	132,366	307,906
Interfund charges for services	358,198	266,675	624,873
Contractual and other services	153,157	233,796	386,953
Intergovernmental treatment costs	-	1,254,277	1,254,277
Utilities	70,045	16,883	86,928
Supplies	50,184	30,356	80,540
Insurance, claims, and expenses	-	12,558	12,558
Depreciation	143,005	96,128	239,133
Total operating expenses	<u>950,129</u>	<u>2,043,039</u>	<u>2,993,168</u>
Operating income (loss)	<u>93,712</u>	<u>(16,452)</u>	<u>77,260</u>
NON-OPERATING REVENUES (EXPENSES)			
Property taxes	-	279,794	279,794
Interest and investment revenue	13,273	63,154	76,427
Water well damage recovery	150,000	-	150,000
Capital lease settlement	(82,261)	-	(82,261)
Interest expense	(21,378)	(28,907)	(50,285)
Net non-operating revenues (expenses)	<u>59,634</u>	<u>314,041</u>	<u>373,675</u>
Income before contributions and transfers	<u>153,346</u>	<u>297,589</u>	<u>450,935</u>
Contributions			
Capital contributions	<u>130,472</u>	<u>252,555</u>	<u>383,027</u>
Total contributions	<u>130,472</u>	<u>252,555</u>	<u>383,027</u>
Change in net assets	283,818	550,144	833,962
Total net assets, July 1	<u>1,807,865</u>	<u>3,147,242</u>	<u>4,955,107</u>
Total net assets, June 30	<u>\$ 2,091,683</u>	<u>\$ 3,697,386</u>	<u>\$ 5,789,069</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,011,575	\$ 1,964,207	\$ 2,975,782
Payments to suppliers	(259,450)	(1,572,519)	(1,831,969)
Payments to employees	(174,050)	(130,470)	(304,520)
Payments to other funds for services	(358,198)	(266,675)	(624,873)
Other operating receipts	2,360	31,233	33,593
Net cash provided by (used for) operating activities	<u>222,237</u>	<u>25,776</u>	<u>248,013</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Property taxes	-	279,794	279,794
Repayment of advances from other funds	(293,207)	371,235	78,028
Net cash provided by noncapital financing activities	<u>(293,207)</u>	<u>651,029</u>	<u>357,822</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	130,472	252,555	383,027
Water well recovery	150,000	-	150,000
Proceeds of long-term debt financing	900,000	800,000	1,700,000
Capital lease settlement	(82,261)	-	(82,261)
Principal payments on long-term debt	(123,845)	(230,000)	(353,845)
Interest paid on long-term debt	(21,378)	(28,907)	(50,285)
Purchases of capital assets	(88,893)	(99,569)	(188,462)
Net cash provided by (used for) capital and related financing activities	<u>864,095</u>	<u>694,079</u>	<u>1,558,174</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	13,273	63,154	76,427
Net cash provided by investing activities	<u>13,273</u>	<u>63,154</u>	<u>76,427</u>
Net increase (decrease) in cash and cash equivalents	806,398	1,434,038	2,240,436
Cash and cash equivalents beginning of the year	93,602	1,576,536	1,670,138
Cash and cash equivalents-end of the year	<u>\$ 900,000</u>	<u>\$ 3,010,574</u>	<u>\$ 3,910,574</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	<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)	\$ 93,712	\$ (16,452)	\$ 77,260
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	143,005	96,128	239,133
Change in assets and liabilities:			
Receivables, net	(23,010)	(31,147)	(54,157)
Inventory	7,605	1,793	9,398
Accounts payable	(911)	(26,442)	(27,353)
Other liabilities	1,836	1,896	3,732
Net cash provided by (used for) operating activities	<u>\$ 222,237</u>	<u>\$ 25,776</u>	<u>\$ 248,013</u>

Noncash capital financing activities:
None.

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2006

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Sebastopol 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 Sebastopol is a legally separate entity for which the City is financially accountable and it is governed by the elected City Council. The financial activities of the Agency 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 SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2006

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 1993 Capital Projects Administration Fund* is maintained to account for the tax increment revenues used to fund debt service and other redevelopment activities.

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 SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2006

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, the Sonoma County Treasurer's Pool, 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 Sonoma County 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 SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

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, 2003 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	40
Public domain infrastructure	50
System infrastructure	15-40
Vehicles and equipment	5 - 15

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused 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 vacation pay and applicable sick leave 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 management plans in compliance with adopted general financial policies of the City and are tentative and are subject to change

CITY OF SEBASTOPOLE

**Notes to the Basic Financial Statements
June 30, 2006**

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 \$ 6,558,147 difference are as follows:

Capital assets and debt issuance costs	\$ 12,219,801
Less: Accumulated depreciation	<u>(5,661,654)</u>
 Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	 <u>\$ 6,558,147</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 \$9,852,982 difference are as follows:

Long-Term Debt Obligations:	
Tax allocation bonds	\$ 4,845,000
Refunding capital lease	2,460,037
Installment agreement	1,180,000
Special assessment bonds	325,000
Capital lease obligations-equipment	372,611
Compensated absences	<u>670,334</u>
 Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	 <u>\$ (9,852,982)</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 \$ 87,282 difference and other significant components of the difference are as follows:

Capital outlay	\$ 815,621
Depreciation expense	(295,458)
Repayment of long-term debt principal	593,447
Long-term receivables deferred in the funds	43,450
Proceeds of long-term debt	(1,180,000)
Other items	<u>(64,342)</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>\$ (87,282)</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

3. 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 significantly exceeded by the General Fund (\$39,491); SCWA Zone A (\$9,115); State Park (\$5,491); Pavement Management (\$6,376) and Fire Safer Fund (\$17,039). The expenditures were funded by available resources.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2006 consisted of the following:

Pooled demand deposits	\$ 1,275,444
Pooled investments	10,617,174
Investments with trustees	<u>554,757</u>
Total deposits and investments	<u>\$12,447,375</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than five years. At June 30, 2006, \$ 1,148,352 of the City's bank balances of \$ 1,369,439 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 1,148,352</u>
--	---------------------

Investments - At June 30, 2006, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Sonoma County Investment Pool	Average 344 days	\$ 7,737,174
Investment agreement	November 25, 2021	481,512
Lease proceeds- money market	Average 60 days	2,880,000
Wells Fargo / First American Funds	Average 200 days	<u>73,245</u>
Totals		<u>\$ 11,171,931</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. The investment agreement and mutual funds are investments made pursuant to trust indentures for related debt.

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 County Investment Pool and investment agreement are unrated.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

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 \$3,434,757 investment other than the County Pool, the entire \$3,434,757 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.

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	Redevelopment Admin. Fund	Nonmajor Funds	Total Governmental	Water	Wastewater
Accounts	\$ -	\$ -	\$ -	\$ -	\$ 201,015	\$ 273,745
Taxes	140,520	-	-	140,520	-	-
Interest	-	718	-	718	-	-
Governments	3,873	-	557,995	561,868	-	-
Notes Moans	-	50,190	273,841	324,031	-	-
Assessments	-	-	325,000	325,000	-	-
Totals	\$ 144,393	\$ 50,908	\$ 1,156,836	\$ 1,352,137	\$ 201,015	\$ 273,745

C. Interfund Transfers, receivables and payables

1. The composition of interfund transfers of June 30, 2006, is as follows:

	General Fund	Redevelopment Admin Fund	Nonmajor Funds	Water and Wastewater	Total Transfers Out
Transfers In:					
Transfers Out:					
General fund	\$ -	\$ -	\$ 145,806	\$ -	\$ 145,806
Redevelopment	-	-	40,000	-	40,000
Nonmajor funds	-	-	18,947	-	18,947
Totals	\$ -	\$ -	\$ 204,753	\$ -	\$ 204,753

The primary transfers out of the general fund were made to fund routine project costs.

2. The composition of interfund balances was:

Receivable Fund	Payable Fund	Amount
Redevelopment admin	Redevelopment low moderate income housing	\$ 1,416,827
Wastewater enterprise	Water enterprise	459,315
	Total	\$ 1,876,142

The cash advances to the low and moderate income housing fund were made to fund land purchases, and the advance to the water fund was made to fund cash flow operating needs. The \$1.4 million advance to the low moderate fund is long-term to be repaid from future tax increment revenues.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2006 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	\$ 2,891,696	\$ -	\$ -	\$ 2,891,696
Total capital assets, not being depreciated	<u>2,891,696</u>	<u>-</u>	<u>-</u>	<u>2,891,696</u>
Capital assets, being depreciated:				
Buildings	5,263,683	-	-	5,263,683
Machinery and equipment	1,044,110	85,866	-	1,129,976
Vehicles	2,226,263	54,807	(168,533)	2,112,537
Infrastructure-Street system	116,883	674,948	-	791,831
Total capital assets being depreciated	<u>8,650,939</u>	<u>815,621</u>	<u>(168,533)</u>	<u>9,298,027</u>
Less accumulated depreciation for:				
Buildings	(3,676,715)	(103,945)	-	(3,780,660)
Machinery and equipment	(571,808)	(71,750)	-	(643,558)
Vehicles	<u>(1,286,206)</u>	<u>(119,763)</u>	<u>168,533</u>	<u>(1,237,436)</u>
Total accumulated depreciation	<u>(5,534,729)</u>	<u>(295,458)</u>	<u>168,533</u>	<u>(5,661,654)</u>
Total capital assets, being depreciated, net	<u>3,116,210</u>	<u>520,163</u>	<u>-</u>	<u>3,636,373</u>
Governmental activities capital assets, net	\$ <u>6,007,906</u>	\$ <u>520,163</u>	\$ <u>-</u>	\$ <u>6,528,069</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2006 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	\$ 86,440	\$ -	\$ -	\$ 86,440
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>86,440</u>	<u>-</u>	<u>-</u>	<u>86,440</u>
Capital assets, being depreciated:				
Reservoirs	1,400,613	-	-	1,400,613
Pipelines and distribution system	3,310,690	68,083	-	3,378,773
Pipelines and collection system	2,381,770	93,824	-	2,475,594
Equipment	402,182	26,555	-	428,737
Total capital assets being depreciated	<u>7,495,255</u>	<u>188,462</u>	<u>-</u>	<u>7,683,717</u>
Less accumulated depreciation for:				
Reservoirs	(465,202)	(30,439)	-	(495,641)
Pipelines and distribution system	(1,617,568)	(110,705)	-	(1,728,273)
Pipelines and collection system	(1,392,873)	(89,337)	-	(1,482,210)
Equipment	(345,982)	(8,652)	-	(354,634)
Total accumulated depreciation	<u>(3,821,625)</u>	<u>(239,133)</u>	<u>-</u>	<u>(4,060,758)</u>
Total capital assets, being depreciated, net	<u>3,673,630</u>	<u>(50,671)</u>	<u>-</u>	<u>3,622,959</u>
Business-type activities capital assets, net	<u>\$ 3,760,070</u>	<u>\$ (50,671)</u>	<u>\$ -</u>	<u>\$ 3,709,399</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

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	\$ 2,540
Public safety	187,685
Public works	42,738
Parks and recreation	62,495
Total depreciation expense-governmental activities	\$ 295,458
 Business-type activities:	
Water	\$ 143,005
Wastewater	96,128
Total depreciation expense-business type activities	\$ 239,133

E. Long-Term Debt

Capital Lease Obligation - Advance Refunding Lease

In March of 2004, the City and its Development Agency entered into a capital lease arrangement with West America Bank in an original amount of \$3,217,000 in order to obtain financing to advance refund and defease the Agency's \$3,485,000 1994 Certificates of Participation. The lease bears interest at 4.05 percent and is payable in semi-annual installments of about \$203,500 each June and December 1 through June 1,2013.

Future minimum lease payment requirements are:

Fiscal Year	Total
2007	\$ 407,125
2008	407,119
2009	407,191
2010	407,121
2011	407,191
2012-2013	814,312
Total minimum lease payments	2,850,059
Less amounts representing interest	(390,021)
Present value of net minimum lease payments	\$2,460,038

All 1994 Certificates have been retired.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

E. Long-Term Debt(Continued)

The City has covenanted to make annual appropriations in its budget to provide funds for all lease payments. The lease receivable by the Agency and lease payable by the City to the Agency have been eliminated from the accompanying financial statements as the Agency is a component unit of the City.

Tax Allocation Refunding Bonds 1997 Series

On September 16, 1997 The City's Development Agency issued \$ 6,300,000 in subordinate tax allocation bonds, series 1997 to advance refund and retire the Agency's 1986 and 1991 bond issues. The tax allocation bonds consisted of \$3,195,000 in serial bonds bearing interest at rates from 3.5 percent to 5.2 percent and \$3,105,000 in term bonds. The term bonds are subject to mandatory sinking fund early redemption commencing October 1, 2013. The bonds are secured by a pledge of the Agency's tax increment revenues. Future debt service requirements are:

Fiscal Year	Principal	Interest	Total
2007	\$ 205,000	\$ 241,651	\$ 446,651
2008	215,000	232,199	447,199
2009	225,000	222,019	447,019
2010	235,000	211,092	446,092
2011	275,000	198,715	473,715
2012-2016	1,585,000	767,633	2,352,633
2017-2021	2,055,000	279,300	2,334,300
2022	50,000	1,313	51,313
Totals	\$ 4,845,000	\$ 2,153,922	\$ 6,998,922

Special Assessment Bonds With Governmental Commitment

The special assessment bonds were issued in an original amount of \$732,475 for the purpose of facilitating improvements to the Woodstone Center. 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 4.25 to 6.7 percent serial bonds maturing through September 2, 2022. Future debt service is:

Fiscal Year	Principal	Interest	Total
2007	\$ 10,000	\$ 22,360	\$ 32,360
2008	10,000	21,775	31,775
2009	15,000	21,020	36,020
2010	15,000	20,130	35,130
2011	15,000	13,880	28,880
2012-2016	90,000	80,521	170,521
2017-2021	105,000	45,221	150,221
2022-2023	65,000	4,524	69,524
Totals	\$ 325,000	\$ 229,431	\$ 554,431

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

General Obligation Wastewater Bonds

The general obligation voter-approved wastewater bonds were issued in an original amount of \$2,500,000 for the purpose of facilitating improvements to the City's wastewater system. The bonds are secured by levies of ad valorem taxes. In addition, the City may pay debt service from sewer service charges. The bonds bear interest at 7.0 percent payable each February 1 and August 1 through 2007. Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 255,000	\$ 13,988	\$ 268,988
Totals	\$ 255,000	\$ 13,988	\$ 268,988

Installment Sale Agreement

The City entered into an installment sale agreement with an original amount of \$550,000 for the purpose of facilitating construction of a water well. The agreement bears interest at 6.39 percent per annum and is payable in semi-annual installments of \$28,773 through October 23, 2011. Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 41,356	\$ 16,189	\$ 57,545
2008	44,051	13,494	57,545
2009	46,911	10,634	57,545
2010	49,957	7,588	57,545
2011	53,200	4,345	57,545
2012	27,740	1,033	28,773
Totals	\$ 263,215	\$ 53,283	\$ 316,498

Capital Lease Obligations - Equipment

The City has entered into four capital lease agreements for the purpose principally of purchasing a fire truck, other equipment and constructing a water reservoir(\$810,000). The fire truck lease bears interest at 3.38 percent and is payable in annual installments of \$97,058. The water asset lease is payable in semiannual installments in amounts sufficient to retire the obligation by November 1, 2005. The assets have been capitalized in the governmental and business activities capital assets. Future debt service is:

<u>Fiscal Year Ending June 30</u>	<u>Governmental</u>	<u>Business-Type</u>
2007	\$106,954	-
2008	103,730	-
2009	97,058	-
2010	97,058	-
Total minimum lease payments	404,800	-
Less amount representing interest	(32,190)	-
Present value net minimum lease payments	\$372,610	-

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Capital Lease Obligation – Capital Projects

In the 2006 fiscal year, the city entered into a financing arrangement to obtain \$2,880,000 in funds for future capital projects. The general fund will be responsible for paying debt service on the governmental activities portion of the lease obligation which is about 41 percent of the total obligation.

Future minimum lease payment requirements are:

<u>Fiscal Year</u>	<u>Governmental</u>	<u>Business</u>	<u>Total</u>
2007	\$ 92,825	\$ 133,743	\$ 226,568
2008	92,825	133,743	226,568
2009	92,825	133,743	226,568
2010	92,825	133,743	226,568
2011	92,825	133,743	226,568
2012-2016	464,125	668,715	1,132,840
2017-2021	464,125	668,715	1,132,840
2022-2026	464,125	668,715	1,132,840
Total minimum lease payments	1,856,500	2,674,860	4,531,360
Less amounts representing interest	(676,500)	(974,860)	(1,651,360)
Present value of net minimum lease payments	\$ 1,180,000	\$1,700,000	\$ 2,880,000

Changes in Long-term liabilities

Long-term debt activity for the 2006 fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
1997 tax allocation refunding bonds	\$5,040,000	\$ -	\$ 195,000	\$ 4,845,000	\$ 205,000
Special assessment bonds	335,000	-	10,000	325,000	10,000
Capital lease- capital projects	-	1,180,000	-	1,180,000	35,927
Capital lease-advance refunding	2,758,740	-	298,702	2,460,038	310,600
Capital lease obligations-equipment	462,355	-	89,745	372,610	99,502
Compensated absences	606,002	64,342	-	670,344	300,000
Total	\$ 9,202,097	\$ 1,244,342	\$ 593,447	\$ 9,852,992	\$ 961,029
Business-Type Activities:					
General obligation bonds	\$ 485,000	\$ -	\$ 230,000	\$ 255,000	\$ 255,000
Installment agreement	302,060	-	38,845	263,215	41,366
Capital lease obligations	85,000	1,700,000	85,000	1,700,000	51,974
Totals	\$ 872,060	\$ 1,700,000	\$ 353,845	\$ 2,218,215	\$ 348,340

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

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 not significant changes in insurance coverages in fiscal 2006. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no claim liabilities at June 30, 2006.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2006

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.

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 Sebastopol 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. Copies of PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Pension Cost. The contribution requirements of plan members and the Town are established by and may be amended by PERS. The City's annual pension cost for the most recent year and related information for each plan is as follows:

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

5. Other Information(Continued)

D. Public Employees Retirement System (Continued)

Annual Pension Cost and Related Information

	<u>Regular Employees</u>	<u>Safety Employees</u>
Contribution rates:		
City	12.948%	29.68%
Plan members	7.00%	9.00%
Annual employer's pension cost	\$224,634	\$314,331
Contributions made employer's cost	\$224,634	\$314,331
Actuarial valuation date	June 30, 2004	June 30,2004
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level % pay, closed	Level % pay, closed
Remaining amortization period	14 years	15 years
Asset valuation method	15 year smoothed market	15 year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	3.25 to 14.45%	3.25 to 13.15%
Inflation	3.00%	3.00%

Three-year Trend of Information

<u>Plan</u>	<u>Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<i>Regular employees</i>	6/30/04	\$ 16,868	100%	\$ -
	6/30/05	\$ 126,260	100%	\$ -
	6/30/06	\$ 224,634	100%	\$ -
<i>Safety employees</i>	6/30/04	\$ 49,081	100%	\$ -
	6/30/05	\$ 225,581	100%	\$ -
	6/30/06	\$ 314,331	100%	\$ -

The City also pays the employee's share of required contributions.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2006**

5. Other Information(Continued)

E. Other Post Employment Benefits

The City provides post employment health insurance benefits, as per the requirements of a local resolution, for retirees and their dependents. The benefits are paid at amounts specified by a City resolution for retirees having at least 10 years of employment with the City. For the fiscal year ended June 30, 2006, there were 23 retired employees receiving such benefits and the City paid \$43,254 in premiums. The City funds these costs on a pay as you go basis. All annual required contributions (ARC) were paid during the year and the City has no net benefit obligation at year end.

F. Restricted Net Assets and Designated Fund Balances

The \$ 6,332,574 restricted amount in the governmental activities and the \$35,534 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	<u>General Fund</u>	<u>Redevelopment Admin Fund</u>	<u>Nonmajor Funds</u>
Debt service	\$ -	\$ -	\$89,245
Advances to other funds	-	1,416,827	-
Inventory	-	-	-
Long-term notes receivable	-	-	-
	<u>\$ -</u>	<u>\$ 1,416,827</u>	<u>\$89,245</u>

Portions of unreserved fund balances in the fund financial statements may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances were:

Purpose	<u>General Fund</u>	<u>Capital Projects</u>
Retirees medical premiums	\$ 583,357	\$ -
Employee vacation and sick leave	572,413	-
Workers compensation	50,000	-
Capital projects	-	1,180,000
Equipment replacements	269,820	-
Buildings	170,000	-
Economic uncertainty	347,014	-
Totals	<u>\$ 1,992,604</u>	<u>\$ 1,180,000</u>

Required Supplementary Information
CITY OF SEBASTOPOL
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2006

	<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	\$ 1,854,842	\$ 1,854,842	\$ 1,854,842	\$ -
Resources (inflows):				
Property taxes	978,040	978,040	863,289	(114,751)
Sales taxes	1,603,300	1,603,300	1,527,395	(75,905)
Transient occupancy taxes	260,000	283,000	249,462	(33,538)
Other taxes	228,790	278,870	283,806	4,936
License permits	246,300	333,750	402,492	68,742
Fines and forfeits	64,000	64,000	74,181	10,181
Interest and rents	13,000	13,000	48,350	35,350
Intergovernmental	642,520	642,520	711,966	69,446
Charges for services	464,045	464,950	505,045	40,095
Miscellaneous	61,272	81,272	128,741	47,469
Transfers in	-	-	-	-
Amounts available for charges to appropriations	<u>6,416,109</u>	<u>6,597,544</u>	<u>6,649,569</u>	<u>52,025</u>
Charges to appropriations:				
General government:				
Legislative	45,647	47,057	46,831	226
Manager	201,414	239,428	235,027	4,401
Finance	139,363	153,380	166,858	(13,478)
Legal	109,526	150,526	151,815	(1,289)
Insurance	-	(17,611)	(20,714)	3,103
Miscellaneous	-	48,787	48,829	(42)
Nondepartmental	37,705	-	-	-
Employee benefits	-	-	42,446	(42,446)
Government buildings	43,078	43,078	41,898	1,180
Community support	44,231	44,231	55,009	(10,778)
Planning	256,811	258,857	252,584	6,273
Public safety:				
Police	2,367,454	2,420,644	2,368,502	52,142
Animal control	8,000	13,000	15,644	(2,644)
Emergency	2,350	4,800	5,174	(374)
Fire	449,687	450,953	451,332	(379)
Public Works:				
Building inspection	104,902	115,721	116,668	(947)
Engineering	128,845	133,953	124,873	9,080
Corporation yard	34,541	44,242	67,818	(23,576)
Streets	127,023	51,909	42,737	9,172
Parking	19,590	19,590	16,765	2,825
Street cleaning	1,000	1,000	860	140
Street lighting	10,548	-	-	-
Parks and recreation				
Parks	127,711	132,259	136,993	(4,734)
Pool	78,358	69,153	82,249	(13,096)
Recreation	46,711	46,711	52,065	(5,354)
Debt Service	-	-	8,896	(8,896)
Transfers out	-	-	145,806	(145,806)
Total charges to appropriations	<u>4,384,495</u>	<u>4,471,668</u>	<u>4,656,965</u>	<u>(185,297)</u>
Fund Balance, June 30	<u>\$ 2,031,614</u>	<u>\$ 2,125,876</u>	<u>\$ 1,992,604</u>	<u>\$ (133,272)</u>

**Required Supplementary Information
CITY OF SEBASTOPOL
Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2006**

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:	\$ 6,649,569
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	<u>(1,854,842)</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 4,794,727</u></u>
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Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 4,656,965
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(145,806)</u>

Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 4,511,159</u></u>
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**Required Supplementary Information
CITY OF SEBASTOPOL
Regular Employees Retirement System
Schedule of Funding Progress
June 30, 2006
(Amounts in Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded (overfunded) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess) as a Percentage of Covered Payroll [(b-a)/c]
Regular Employees:						
6/30/2002	\$ 7,256	\$ 7,233	\$ (23)	100.3%	\$ 1,676	(-1.4%)
6/30/2003	\$ 2,372,879	\$ 2,596,966	\$ 224,087	91.4%	\$ 725,020	30.9%
6/30/2004	\$ 2,460,945	\$ 2,746,096	\$ 285,151	89.6%	\$ 743,692	38.3%
Safety Employees:						
6/30/2002	\$ 8,151	\$ 8,537	\$ 386	95.5%	\$ 1,169	33.0%
6/30/2003	\$ 4,662,432	\$ 5,488,655	\$ 826,223	85.0%	\$ 660,187	125.1%
6/30/2003	\$ 5,310,136	\$ 6,380,125	\$ 1,069,989	83.2%	\$ 724,703	147.6%

Note to Schedule of Funding Progress:

For periods ending before June 30, 2003, this schedule presents data for the specific plan of the City. For periods ending June 30, 2003 and thereafter, this schedule presents data for the risk pools of the PERS. Because the City has less than 100 plan participants, the City is required to participate in the risk pools of the PERS.

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Special Revenue Funds

	Police Grants	Fire Safer	Fire Training	Gas Tax	Special Construction	Redevelopment Agency Low and Moderate Income Housing	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special Sales Tax
Assets													
Cash and investments	\$ 127,380	\$ -	\$ 3,250	\$ -	\$ 219,285	\$ 748,058	\$ 264,583	\$ 18,845	\$ 2	\$ -	\$ 84,819	\$ 38,630	\$ 516,789
Receivables:													
from other governments	26,402	9,086	-	21,991	-	-	495,500	-	-	-	-	-	-
Assessments receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	273,841	-	-	-	-	-	-	-
Total assets	\$ 153,782	\$ 9,086	\$ 3,250	\$ 21,991	\$ 219,285	\$ 1,021,899	\$ 760,083	\$ 18,845	\$ 2	\$ -	\$ 84,819	\$ 38,630	\$ 516,789
Liabilities and Fund Balances													
Liabilities:													
Accounts payable	\$ -	\$ 8,486	\$ -	\$ 3,735	\$ -	\$ 9,728	\$ -	\$ 172	\$ -	\$ -	\$ -	\$ 33	\$ -
Advances from other funds	-	-	-	-	-	1,416,827	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	273,841	-	-	-	-	-	-	-
Total liabilities	-	8,486	-	3,735	-	1,700,396	-	172	-	-	-	33	-
Fund balances:													
Reserved	153,782	600	3,250	18,256	219,285	(705,310)	760,083	18,673	2	-	84,819	38,597	516,789
Unreserved	153,782	600	3,250	18,256	219,285	(678,497)	760,083	18,673	2	-	84,819	38,597	516,789
Total liabilities and fund balances	\$ 153,782	\$ 9,086	\$ 3,250	\$ 21,991	\$ 219,285	\$ 1,021,899	\$ 760,083	\$ 18,845	\$ 2	\$ -	\$ 84,819	\$ 38,630	\$ 516,789

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	Capital Projects										Debt Service	Total Nonmajor Governmental Funds
	CDBG	Undergrounding	SCWA Zone A Project	Laguna de Santa Rosa Projects	Wildlife Habitat Restoration	Flooding	Pevement Management	Federal Funds	Street Rehab	Equipment Replacement	Woodstone Assessment district	
Assets												
Cash and investments	\$ 136	\$ 94,058	\$ 129	\$ 8,466	\$ -	\$ (1,531)	\$ 2,283	\$ (371)	\$ (450)	\$ -	\$ 62,432	\$ 2,337,447
Receivables:												
from other governments	-	-	-	-	-	-	-	-	-	-	-	557,995
Assessments receivable	-	-	-	-	-	-	-	-	-	-	325,000	325,000
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	273,841
Total assets	\$ 136	\$ 94,058	\$ 129	\$ 8,466	\$ -	\$ (1,531)	\$ 2,283	\$ (371)	\$ (450)	\$ -	\$ 387,432	\$ 3,494,283
Liabilities and Fund Balances												
Liabilities:												
Accounts payable	\$ 136	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,283	\$ -	\$ -	\$ -	\$ -	\$ 38,998
Advances from other funds	-	-	-	-	-	-	-	-	-	-	-	1,416,627
Deferred revenue	-	-	-	-	-	-	-	-	-	-	325,000	598,841
Total liabilities	136	-	-	-	-	-	2,283	-	-	-	325,000	2,054,366
Fund balances:												
Reserved	-	-	-	-	-	-	-	-	-	-	62,432	89,245
Unreserved	-	94,058	129	8,466	-	(1,531)	-	(371)	(450)	-	-	1,350,672
Total fund balances	-	94,058	129	8,466	-	(1,531)	-	(371)	(450)	-	62,432	1,439,917
Total liabilities and fund balances	\$ 136	\$ 94,058	\$ 129	\$ 8,466	\$ -	\$ (1,531)	\$ 2,283	\$ (371)	\$ (450)	\$ -	\$ 387,432	\$ 3,494,283

**CITY OF SEBASTOPOLE
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Fiscal Year Ended June 30, 2006**

	Police Grants	Fire Safer	Fire Training	Gas Tax	Special Construction	Redevelopment Agency Low and Moderate Income Housing	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special sales Tax
Revenues:													
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 419,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	176,077	-	-	687,307	-	-	-	9,743	38,139	560,925
Intergovernmental	206,269	17,039	-	-	152,100	-	128,956	85,804	-	-	-	-	-
Charges for services	-	-	-	(1,237)	4,049	28,321	12,545	574	-	(8)	2,200	539	9,078
Interest	3,934	-	-	-	-	59,034	-	-	-	-	-	-	-
Miscellaneous	-	-	4,720	-	-	-	-	-	-	-	-	-	-
Total revenues	210,203	17,039	4,720	174,840	156,149	507,227	828,808	86,378	-	(8)	11,943	38,678	570,003
Expenditures:													
Current:													
General government	-	-	-	-	-	-	-	-	-	-	-	-	-
Public safety	201,655	17,039	1,470	-	-	-	-	-	-	-	-	-	14,204
Public works	-	-	-	245,244	-	-	678,488	84,110	-	-	-	81	-
Community development	-	-	-	-	-	112,673	-	-	-	8,938	-	-	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-	58,718
Debt service	-	-	-	-	-	10,160	-	-	-	-	-	-	82,196
Principal	-	-	-	-	-	13,048	-	-	-	-	-	-	14,653
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	201,655	17,039	1,470	245,244	-	135,881	676,498	84,110	-	8,938	-	81	169,879
Excess (deficiency) of revenues over (under) expenditures	8,548	-	3,250	(70,404)	156,149	371,346	152,310	2,268	-	(8,946)	11,943	38,597	400,024
Other financing sources (uses):													
Transfers in	-	600	-	88,660	-	-	-	-	-	8,612	-	-	-
Transfers out	-	-	-	-	-	-	(12,571)	-	-	-	-	-	(8,376)
Total other financing sources (uses)	-	600	-	88,660	-	-	(12,571)	-	-	8,612	-	-	(6,376)
Net change in fund balances	8,548	600	3,250	18,256	156,149	371,346	139,739	2,268	-	(134)	11,943	38,597	393,648
Fund balances, July 1	145,234	-	-	-	63,136	(1,049,843)	620,344	18,405	2	134	72,876	-	123,141
Fund balances, June 30	\$ 153,782	\$ 600	\$ 3,250	\$ 18,256	\$ 219,285	\$ (678,497)	\$ 760,083	\$ 18,673	\$ 2	\$ -	\$ 84,819	\$ 38,597	\$ 516,789

CITY OF SEBASTOPOLE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006

Special Revenue Funds

	BIA Tourism	Vehicle Abatement	Ives Park Grant	Pool	Solar Pool	Skate Park Grant	Ives Pool Energy	Solar Mitigation	Skate Park
Revenues:									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-
Charges for services	8,880	-	-	-	-	-	-	11,332	-
Interest	-	763	-	141	1,883	22	89	45	544
Miscellaneous	-	-	-	-	34,162	-	-	-	43,950
Total revenues	8,880	763	-	141	35,845	22	89	11,377	44,494
Expenditures:									
Current:									
General government	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	4,965	8,397	5,491
Capital outlay	-	-	-	-	-	809	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	809	4,965	8,397	5,491
Excess (deficiency) of revenues over (under) expenditures	8,880	763	-	141	35,845	(787)	(4,876)	2,980	39,003
Other financing sources (uses):									
Transfers in	2,544	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	2,544	-	-	-	-	-	-	-	-
Net change in fund balances	11,424	763	-	141	35,845	(787)	(4,876)	2,980	39,003
Fund balances, July 1	(11,424)	26,971	88	10,000	17,575	2,414	11,258	170	-
Fund balances, June 30	\$ -	\$ 27,734	\$ 88	\$ 10,141	\$ 53,420	\$ 1,627	\$ 6,382	\$ 3,150	\$ 39,003

CITY OF SEBASTOPOLE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2006

	Capital Projects										Debt Service		Total Nonmajor Governmental Funds
	CDBG	Undergrounding	SCWA Zone A Project	Laguna de Santa Rosa Projects	Wildlife Habitat Restoration	Flooding	Pavement Management	Federal Funds	Street Rehab	Equipment Replacement	Woodstone Assessment district		
Revenues:													
Property taxes	-	-	-	\$ -	-	-	-	-	-	-	-	-	\$ 419,872
Sales taxes	-	-	-	-	-	-	-	-	-	-	-	-	589,064
Intergovernmental	-	-	-	-	-	-	-	-	8,120	-	-	-	1,104,555
Charges for services	-	31,450	-	165	-	-	-	-	-	-	30,839	-	449,528
Interest	(790)	2,156	129	-	-	-	-	-	(493)	-	2,049	-	66,333
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	141,888
Total revenues	(790)	33,606	129	165	-	-	-	-	7,627	-	32,888	-	2,781,216
Expenditures:													
Current:													
General government	-	-	-	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	234,368
Public Works	-	-	9,115	-	1,531	-	6,376	450	-	-	-	-	1,023,778
Community development	2,873	-	-	-	-	-	-	-	-	-	-	-	124,484
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	18,853
Capital outlay	-	-	-	-	-	-	-	-	48,499	-	-	-	109,024
Debt service	-	-	-	-	-	-	-	-	-	-	10,000	-	102,356
Principal	-	-	-	-	-	-	-	-	-	-	24,027	-	51,938
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	2,873	-	9,115	-	1,531	6,376	450	450	49,499	34,027	-	-	1,664,799
Excess (deficiency) of revenues over (under) expenditures	(3,663)	33,606	(8,986)	165	(1,531)	(6,376)	(450)	(450)	(41,872)	(1,139)	-	-	1,118,417
Other financing sources (uses):													
Transfers in	56,760	-	-	-	1,220	-	6,376	-	39,781	-	-	-	204,753
Transfers out	-	-	-	-	-	-	-	-	-	-	-	-	(18,947)
Total other financing sources (uses)	56,760	-	-	-	1,220	6,376	-	-	39,781	-	-	-	185,806
Net change in fund balances	53,097	33,608	(8,986)	165	1,220	(1,531)	(450)	(450)	(2,091)	(1,139)	(1,139)	-	1,302,223
Fund balances, July 1	(53,097)	60,452	9,115	8,301	(1,220)	-	-	-	2,091	63,571	-	-	137,894
Fund balances, June 30	\$ -	\$ 94,058	\$ 129	\$ 8,466	\$ -	\$ (1,531)	\$ -	\$ (450)	\$ -	\$ -	\$ 62,432	\$ -	\$ 1,439,917