

**COMMUNITY DEVELOPMENT AGENCY  
OF THE  
CITY OF SEBASTOPOL**

**Basic Financial Statements  
for the  
Fiscal Year Ended June 30, 2009**

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Basic Financial Statements**  
**for the**  
**Fiscal Year Ended June 30, 2009**

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**Terry E. Krieg, CPA**

Certified Public Accountant

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**Independent Auditor's Report**

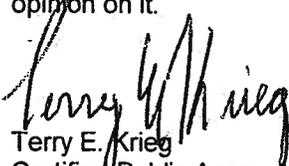
Board of Directors  
Community Development Agency of the City of Sebastopol  
Sebastopol, California

I have audited the accompanying financial statements of the governmental activities, each major fund, of the Community Development Agency of the City of Sebastopol, California, (the Agency) as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on our audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, of the Community Development Agency of the City of Sebastopol, California, as of June 30, 2009, and the respective changes in financial position 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 8 and page 23 through 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

  
Terry E. Krieg  
Certified Public Accountant  
December 1, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sebastopol Community Development Agency's financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on June 30, 2009.

### FINANCIAL HIGHLIGHTS

- The Agency's total net assets increased by about \$ 1,177,518 over the course of this year's operations.
- Incremental property tax revenues decreased in fiscal year 2009 by about 20.9 percent to a total of \$1,586,000. This was the result of a \$333,885 AB1389 reduction mandated by State Legislation.
- Investment revenues decreased in 2009 by about 34.4 percent compared to 2008 as a result of lower returns on invested funds.
- Operating expenses in fiscal 2009 decreased a net \$79,000 or 11.9 percent less than in fiscal year 2008 as less was spent on projects and interest expenses declined as a result of debt retirements and last year's advance refunding of the tax allocation bonds

### OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements and note disclosures*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the Agency:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Agency's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Agency, reporting the Agency's operations in more detail than the government-wide statements.
  - The *governmental funds* statements tell how *general government* services like community development projects were financed in the *short term* as well as what remains for future spending.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Figure A-1 Major Features of the Agency's Financial Statements**

	<u>Government-Wide Statements</u>	<u>Fund Statements</u>
<u>Scope</u>	<ul style="list-style-type: none"> <li>• Entire Agency</li> </ul>	<p>The activities of the Agency that are not proprietary or fiduciary, such as community development projects, capital outlay, and debt service</p>
<u>Required financial statements</u>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>
<u>Accounting basis and measurement focus</u>	<ul style="list-style-type: none"> <li>• Accrual accounting and economic resources focus</li> </ul>	<p>Modified accrual accounting and current financial resources focus</p>
<u>Type of asset/liability information</u>	<ul style="list-style-type: none"> <li>• All assets and liabilities, both financial and capital, and short-term and long-term</li> </ul>	<p>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included and no long-term debt obligations included</p>
<u>Type of inflow/outflow information</u>	<ul style="list-style-type: none"> <li>• All revenues and expenses during year, regardless of when cash is received or paid</li> </ul>	<p>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</p>

**Government-wide Statements**

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

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

The government-wide financial statements of the Agency are divided into one category:

- *Governmental activities* – All of the Agency's basic services are included here, such as administration, projects, and debt service. Incremental property taxes and loans from the City have in the past financed most of these activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Fund Financial Statements

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

- The Capital Projects Fund to keep track of proceeds from the sale of the tax allocation bonds (loaned to the Agency by the City's Financing Authority) to be used for future improvement projects and operations of the Agency. This is the Agency's main capital projects fund.
- The Low and Moderate Income Housing Fund required by law to be maintained to account for the 20 percent set-aside of tax increment required to be used to provide and or improve low and moderate income housing.

The Agency has only one kind of fund type:

- *Governmental funds* – All of the Agency'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 Agency'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.

### FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

**Net Assets.** The Agency's *combined* net assets increased about \$1,177,000 between fiscal years 2008 and 2009. (See Table A-1.)

TABLE A-1 Net Assets of the Agency	Governmental Activities (Rounded to Nearest Thousand)		Total Percentage Change
	2009	2008	2008-2009
Current assets	\$ 3,056,000	\$2,834,000	7.8%
Other assets	5,869,000	5,874,000	-0.1%
Capital assets	724,000	347,000	108.6%
<b>Total assets</b>	<b>9,649,000</b>	<b>9,055,000</b>	<b>6.6%</b>
Long-term debt outstanding	5,433,000	6,012,000	-9.6%
Other liabilities	53,000	57,000	-7.0%
<b>Total liabilities</b>	<b>5,486,000</b>	<b>6,069,000</b>	<b>-9.6%</b>
Net assets			
Invested in capital assets, net	(4,498,000)	(5,430,000)	17.2%
Restricted	5,982,000	5,448,000	9.8%
Unrestricted	2,679,000	2,968,000	-9.7%
<b>Total net assets</b>	<b>\$4,163,000</b>	<b>\$2,986,000</b>	<b>39.4%</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

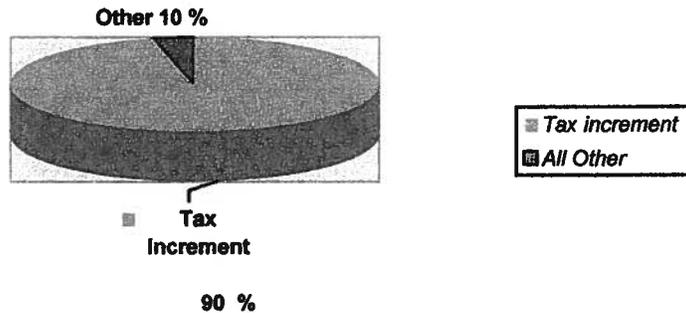
**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE**

This 2008 \$1.17 million increase in net assets resulted from revenues exceeding expenses. The Agency at year end had about \$5.5 million in long-term debt obligations outstanding. At year end, the Agency had about \$ 3.05 million in cash and investments available for agency activities. Capital assets increased as the Agency made an acquisition of land for future affordable housing projects.

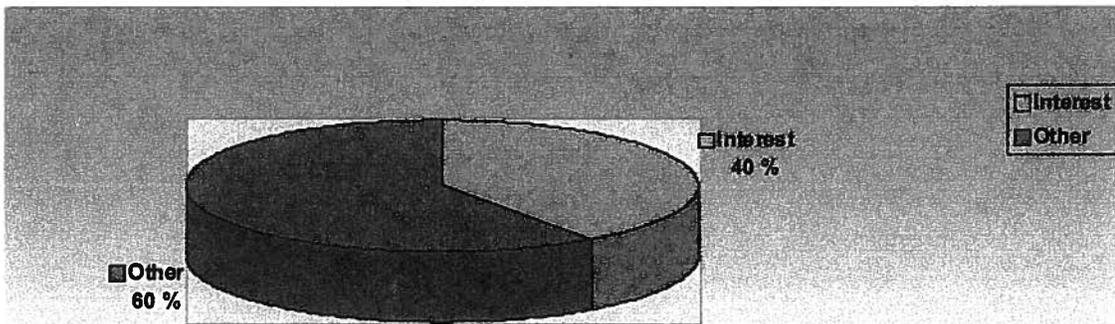
**Changes in net assets.** The Agency's total program and general revenues in 2009 decreased by about \$439,000 to about \$1.75 million. (See Table A-2.) About 90 percent of the Agency's revenue comes from incremental property taxes; the remaining 10 percent comes from investment earnings and other revenues.

The total cost of all programs and services decreased by about \$100,000 or about 13.2 percent.

**Agency Governmental-Type Activity Revenues  
Fiscal Year 2009**



**Agency Governmental-Type Activity Expenses - Fiscal Year 2009**



About 40 percent of the Agency's expenses are for interest on borrowed funds and about 60 percent for housing activities and other projects.

Total expenses decreased by about \$79,000 or about 11.9 percent less was spent on housing and projects in 2009.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE**

TABLE A-2  
Agency Revenues and  
Expenses

	Governmental Activities (rounded to nearest Thousand)		Percentage Change 2008-2009
	2009	2008	
<b>Revenues</b>			
Program revenues			
Charges for services	\$87,000	\$62,000	40.3%
General revenues:			
Property taxes	1,586,000	2,006,000	-20.9%
Interest	84,000	128,000	-34.4%
<b>Total revenues</b>	<b>1,757,000</b>	<b>2,196,000</b>	<b>-20.0%</b>
<b>Expenses</b>			
Housing	65,000	11,000	490.9%
Projects	284,000	359,000	-20.9%
Interest	231,000	289,000	-20.1%
<b>Total expenses</b>	<b>580,000</b>	<b>659,000</b>	<b>-11.9%</b>
Excess (deficiency)	1,177,000	1,537,000	-23.2%
Special item: Gain on sale of land	-	576,000	-100.0%
<b>Increase (decrease) in net assets</b>	<b>\$1,177,000</b>	<b>\$ 2,113,000</b>	<b>-44.2%</b>

Interest expense decreased 20.1 percent primarily because of the normal reductions in outstanding principal balances and the advance refunding of the 1997 tax allocation bonds with a 2007 series of tax allocation bonds having lower interest rates.

Project expenses decreased by about \$75,000 as a result of less spending on the Northwest Area Alternative Plan Study.

The special item in fiscal 2008, gain on the sale land of about \$576,000, was the result of the sale of land parcels for \$3,120,000 having a book value less than the sales prices. These parcels were sold for the purpose of enabling the development of affordable housing within the City.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

As the Agency completed the year, its governmental funds reported a *combined* fund balance of about \$ 3.02 million, about a \$225,000 increase from 2008. Of that increase, almost all was the result of the Agency spending less resources than revenues in fiscal 2009.

The combined ending \$ 3.02 million fund balance consisted of:

- About \$ 4.70 million in the Capital Projects Fund to be used for future projects and activities, Of this \$4.70 million, \$2.06 million is not available as it is reserved for the cash advance made to the Low and Moderate Income Housing Fund to acquire land.
- The \$ 1.68 million deficit in the Low and Moderate Income Housing Fund exists because of the land purchase in fiscal 2004 and the borrowing of money from the Agency's capital projects fund. In fiscal 2009, the deficit decreased by about \$415,000 as a result of revenues exceeding spending.

The net changes in fund balances for the 2009 fiscal year were:

- About a \$189,000 decrease in the Capital Projects Fund
- About a \$415,000 increase in the Low and Moderate Income Housing Fund as a result of the less spending on affordable housing projects in fiscal 2009

#### **Low and Moderate Income Housing Special Revenue Fund Budgetary Highlights**

Over the course of a year, the Agency may have a need to revise its adopted budget. When budget amendments are made, the amendments would fall into two categories:

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

During the 2009 fiscal year, the Agency's budget for the low moderate income housing was *not* amended. Actual expenditures in the Low and Moderate Income Housing Fund were \$2,716,005 less than final budget amounts. This positive spending variance from budget existed primarily because less spent on affordable housing loans and projects than was originally believed to be necessary.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

The Agency at year end had \$ 724,480 invested in capital assets which consisted principally of small remaining portions of parcels acquired for the future development of affordable housing. During the 2004 year, the Agency acquired several parcels for about \$2.9 million to be used to develop affordable housing for first-time home buyers. These parcels were sold during fiscal 2008 for about \$3,120,00 with a resulting special item gain of \$575,591 from the sales for affordable housing projects.

In fiscal 2009, the Agency purchased an additional land parcel for \$377,193.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Long-term Debt**

The long-term debt obligations of the Agency were about \$5.5 million at the end of 2009, and consisted primarily of the \$4,050,000 of 2007 tax allocation bonds and \$1,489,538 of the refunding capital lease arrangement. All debt service payments were made as required and debt service reserve requirements were maintained by the Agency.

During the 2008 fiscal year, the Agency issued its 2007 tax allocation refunding bonds in order to advance refund the 1997 tax allocation bonds and reduce future debt service payments by taking advantage of lower interest rates.

Additional information about the Agency's long-term obligations can be found in the notes to the basic financial statements on page 20

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

For the 2010 fiscal year, the Agency in its budget for 2010 has:

- Anticipated that the Agency will receive about \$2.1 million in tax increment revenues in 2010 which is about a 25 percent increase over 2009 fiscal year
- Expected that operating expenditures will be about the same level as in 2009 with no additional capital asset purchases planned; and no additional land sales or development loan activity.

### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency'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, California 95473.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Statement of Net Assets**  
**Governmental Activities**  
**June 30, 2009**

**ASSETS**

Cash and investments	\$	3,055,375
Taxes receivable		<u>772</u>
<b>Total current assets</b>		<u><b>3,056,147</b></u>
<b>Noncurrent assets:</b>		
Loans receivable - long term		5,650,415
Debt issue costs		218,183
Capital assets not being depreciated		<u>724,480</u>
<b>Total noncurrent assets</b>		<u><b>6,593,078</b></u>
<b>Total assets</b>	<b>\$</b>	<u><b>9,649,225</b></u>

**LIABILITIES**

<b>Current liabilities</b>		
Accounts payable	\$	34,937
Interest payable		17,366
Tax allocation bonds and capital leases due in one year		<u>605,300</u>
<b>Total current liabilities</b>		<u><b>657,603</b></u>
<b>Noncurrent liabilities due in more than one year</b>		
Tax allocation bonds		3,795,000
Capital Lease-Refunding		1,139,238
Loss on refunding		<u>(106,118)</u>
<b>Total noncurrent liabilities</b>		<u><b>4,828,120</b></u>
<b>Total liabilities</b>		<u><b>5,485,723</b></u>

**NET ASSETS**

Invested in capital assets, net of related debt		(4,490,757)
<b>Restricted for:</b>		
Housing projects		5,981,677
Unrestricted		<u>2,672,582</u>
<b>Total net assets</b>	<b>\$</b>	<u><b>4,163,502</b></u>

See accompanying notes to the basic financial statements



Community Development Agency of The City of Sebastopol  
 Balance Sheet  
 Governmental Funds  
 June 30, 2009

	<u>Capital Project Fund</u>	<u>Low and Moderate Income Housing Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 2,650,585	\$ 404,790	\$ 3,055,375
Receivables:			
Taxes	772	-	772
Notes and loans	54,715	5,595,700	5,650,415
Internal balances	2,066,088	-	2,066,088
	<u>2,066,088</u>	<u>-</u>	<u>2,066,088</u>
Total assets	<u>\$ 4,772,160</u>	<u>\$ 6,000,490</u>	<u>\$ 10,772,650</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 16,124	\$ 18,813	\$ 34,937
Internal balances	-	2,066,088	2,066,088
Deferred revenue	54,715	5,595,700	5,650,415
	<u>54,715</u>	<u>5,595,700</u>	<u>5,650,415</u>
Total liabilities	<u>70,839</u>	<u>7,680,601</u>	<u>7,751,440</u>
Fund balances:			
Reserved for internal balances	2,066,088	-	2,066,088
Unreserved, undesignated	2,635,233	(1,680,111)	955,122
	<u>2,635,233</u>	<u>(1,680,111)</u>	<u>955,122</u>
Total fund balances	<u>4,701,321</u>	<u>(1,680,111)</u>	<u>3,021,210</u>
Total liabilities and fund balances	<u>\$ 4,772,160</u>	<u>\$ 6,000,490</u>	<u>\$ 10,772,650</u>
 Total Governmental Fund Balances			 \$ 3,021,210
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets are not financial resources for governmental activities and therefore are not reported in the funds			724,480
Long-term notes are not available to pay obligations of the current period and therefore are deferred in the funds			5,650,415
Interest payable is not due and payable in the current period and is therefore not reported in the funds			(17,366)
Accounting losses on refunding transactions are capitalized in the statement of net assets and are amortized to expense in the statement of activities			106,118
Debt issue costs are capitalized in the statement of net assets, but are reported as an outflow of resources in the funds			218,183
Long-term debt obligations due to third parties are not due and payable in the current period and therefore are not reported in the funds.			(5,539,538)
			<u>(5,539,538)</u>
Net Assets of Governmental Activities			<u>\$ 4,163,502</u>

See accompanying notes to the basic financial statements

**Community Development Agency of The City of Sebastopol  
Statements of Revenues, Expenditures, and  
Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2009**

	<u>Capital Project Fund</u>	<u>Low and Moderate Income Housing Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes, incremental	\$ 1,064,100	\$ 522,115	\$ 1,586,215
Interest and rents	56,641	26,930	\$ 83,571
Miscellaneous	48,568	27,231	75,799
Total revenues	<u>1,169,309</u>	<u>576,276</u>	<u>1,745,585</u>
<b>EXPENDITURES</b>			
Current:			
Community development:			
Administration	97,928	-	97,928
Projects and studies	92,666	76,634	169,300
Housing	-	64,585	64,585
Capital outlay	377,193	-	377,193
Debt service:			
Principal	573,575	13,025	586,600
Interest	217,368	7,466	224,834
Total expenditures	<u>1,358,730</u>	<u>161,710</u>	<u>1,520,440</u>
Excess (deficiency) of revenues over expenditures	<u>(189,421)</u>	<u>414,566</u>	<u>225,145</u>
Net change in fund balances	(189,421)	414,566	225,145
Fund balances, July 1	<u>4,890,742</u>	<u>(2,094,677)</u>	<u>2,796,065</u>
Fund balances, June 30	<u>\$ 4,701,321</u>	<u>\$ (1,680,111)</u>	<u>\$ 3,021,210</u>

See accompanying notes to the basic financial statements

**COMMUNITY DEVELOPMENT AGENCY OF THE 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, 2009**

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 225,145</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Increases in deferred revenue from long-term receivables are reported as outflows in the funds, but are not reported as expenses in the statement of activities	11,703
Interest on long-term debt is recorded as an expense in the statement of activities but does not require the use of current financial resources and are not recorded as expenditures in the funds until paid	1,823
Losses from refunding transactions are reported as expenditures in the funds but are capitalized and amortized to interest expense in the statement of activities	(8,163)
Debt issue costs are amortized to expense over the life of the debt in the statement of activities, but are reported in the funds as an expenditures when paid	(16,783)
Expenditures for capital assets such as land are reported as a financial outflow in the funds but are capitalized in the statement of net assets and are not reported as expenses in the statement of activities	377,193
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	<u>586,600</u>
Net adjustment to reconcile to changes in net assets	<u>952,373</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,177,518</u>

See accompanying notes to the basic financial statements

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

*Component unit.* The Sebastopol Community Development Agency is a separate entity created for the purpose of revitalizing and improving the condition of the City through the removal of blight, construction of public improvements, and stimulation of business. The Agency is governed by members of the City Council, and it is reported as if it were part of the primary government because the City Council has ultimate control of the Agency. The Agency's activities are accounted for as part of the City's special revenue fund types within the governmental activities section of the City's financial report. These separate financial statements present financial data for only the Community Development Agency.

**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 Agency. 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 Agency has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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. Major individual governmental 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*. 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.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**Note 1 Summary of Significant Accounting Policies (Continued)**

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

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. Property taxes 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

The *Capital Projects Fund* is the agency's project operating fund. It is used to account for financial resources and proceeds of long-term debt to be used for major agency projects.

The *Low and Moderate Income Housing special revenue fund* accounts for the resources accumulated to provide low and moderate income housing as well as to account for the 20 percent of tax increment set-aside required by law to be deposited into this fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are loans from or to the City of Sebastopol. Elimination of these loans would distort the statement of net assets and the Agency's assets or obligations.

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. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**D. Asset, Liabilities, and Net Assets or Equity**

**1. Deposits and Investments**

State statutes authorize the Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, the State Treasurer's Investment Pool, and other permitted investments. The Agency has followed a policy of investing its idle cash primarily only with the City of Sebastopol in the City's pooled investments in the Sonoma County Investment Pool and an investment agreement and money market funds held by a trustee bank.

Investments for the Agency 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. The investment agreement is carried at cost because it is a fixed rate agreement not subject to market conditions.

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."

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies (Continued)**

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

**2. Receivables and Payables (Continued)**

Advances between Agency funds, if any, are reported in the fund financial statements and 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 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 Agency 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 Agency. The Agency recognizes property tax revenues in the fiscal year in which they are due to the Agency.

**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 purchased. 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.

**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 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 \$ 3,000 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 Agency was not required to record infrastructure assets existing or acquired prior to July 1, 2003; and the Agency has not recorded such assets. The Agency may elect to record such infrastructure assets in the future.

**5. Compensated Absences**

The Agency has no employees to accumulate earned but unused vacation and sick pay benefits. The obligation for these liabilities is recorded in the government-wide financial statements when the liability is incurred; and they are recorded in the fund financial statements only when payment is due such as for employee terminations.

**6. Long-term Obligations**

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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**Note 1 Summary of Significant Accounting Policies (Continued)**

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

**7. Fund Equity**

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

**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 a 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 "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$ 5,539,538 difference are as follows:

Long-Term Debt Obligations:

Refunding capital lease	\$ 1,489,538
Tax allocation refunding bonds	<u>4,050,000</u>
 Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	 \$ <u>(5,539,538)</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 a 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 proceeds of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The details of this \$ 952,373 difference are as follows:

Repayments of long-term debt recorded as expenditures in the funds	\$586,600
Capital assets purchased during the year	377,193
Other items	<u>(11,420)</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>952,373</u>

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**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. All annual appropriations lapse at fiscal year end. On or before the end of each fiscal year, all agencies of the City submit requests for appropriations to the City Manager so that a budget may be prepared. The proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is approved by the Council. The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. Encumbrance accounting is not employed in governmental funds

**4. Detailed Notes on All Funds**

**A. Deposits and Investments**

Cash and investments consisted of the following at June 30, 2009:

Demand deposits	\$ -
Pooled investments held by the City of Sebastopol	<u>3,055,375</u>
<b>Total cash and investments</b>	<b><u>\$ 3,055,375</u></b>

*Custodial credit risk-Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency's policy for deposits is that they will be made only in institutions in California and they shall be insured or collateralized with securities. At June 30, 2008, all of the Agency's bank balances of zero were covered by Federal Depository Insurance, and none was exposed to credit risk. Investments at June 30, 2008 consisted of the following:

Investment	Maturity	Fait Value
Pooled investments with the City of Sebastopol-Sonoma County Treasurers Pool	Average 265 days	<u>\$3,055,375</u>
<b>Totals</b>		<b><u>\$3,055,375</u></b>

*Interest rate risk-* As a means of limiting its exposure to fair value losses arising from interest rates, the Agency limits its investments to maturities prescribed in the California Government Code which is five years for purchased securities.

*Credit Risk -* State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. The County Investment Pool is unrated.

*Custodial Credit Risk-* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The County Pool is not subject to custodial credit risk as it is not evidenced by specific securities.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**4. Detail Notes on All Funds (Continued)**

**B. Receivables – Long Term Loans**

The Agency's receivables at year end consisted of:

Housing rehabilitation loans	Individual home rehabilitation loans	\$ 402,415
Burbank Housing Corporation	Land acquisition and construction loan	1,600,000
Burbank Housing Corporation	Property acquisition loan	300,000
Affordable Housing Associates	Land acquisition and construction loan	3,340,000
Chamber of Commerce	Business development loan	8,000
		<hr/>
	Totals	<u>\$ 5,650,415</u>

The \$402,415 housing rehabilitation loans bears interest at 3 to 6 percent with some loans deferred with no interest. Repayable loans are to be repaid in monthly installments of principal and interest taken together over terms of 15 to 30 years

The Agency has an agreement with Burbank Housing Corporation for the development and construction of affordable housing units within the City. Among other matters, the agreement provides that the City shall loan Burbank up to \$50,000 for each of the 20 units to be constructed; and the \$1,000,000 may be used for any Agency approved project costs. In addition, the City is to consider additional strategies to provide up to an additional \$600,000 of project financing. The \$1,000,000 initial loan is to be ultimately assumed on a proportionate basis by the homebuyers of the affordable units.

If Burbank is unable to obtain additional financing to complete the project, the project may be returned to the Agency and all Agency loans maybe forgiven. The monies advanced to Burbank as of June 30, 2008 have been primarily for project design costs and land acquisition costs. Under the arrangement, the Agency shall sell a two acre parcel of land to Burbank as the Project site. The sales price shall be \$900,000 or a lesser price if agreed to by the parties. At June 30, 2008, the escrow for the purchase of the two acre parcel had closed.

The homebuyers are to execute a deed of trust in favor of the Agency for their proportionate shares of the Agency provided funding. The deeds of trust shall be junior to any first and second mortgage deeds of trust. The related Agency loan shall be repayable if the housing units are sold to non-qualifying buyers or are otherwise violations of the affordability restrictions and covenants.

The \$300,000 property acquisition loan bears interest at 3 percent and is to be repaid partially upon the sale of each unit of affordable housing to be constructed on the site. The entire balance of the loan is due in full five years after the closing of escrow on the land parcel. The Agency at its option make further extend the maturity date of this loan.

The Agency has an agreement with Affordable Housing Associates for the development of affordable housing including a \$1,920,000 loan for land acquisition and \$1,420,000 loan for construction financing. The loan bears interest at 3 percent per annum payable out of residual receipts from operation of the facility, should such residual receipts be generated, and in any event all unpaid principal and interest is due and payable 55 years after a certificate of occupancy is issued for the facility. The loan is secured by a deed of trust and a regulatory agreement.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**4. Detail Notes on All Funds (Continued)**

**C. Interfund Receivables, Payables, and Transfers**

Internal balances (receivables and payables) at June 30, 2009 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Capital project	Low Moderate Income Housing	<u>\$ 2,066,088</u>
		<u>\$ 2,066,088</u>

The internal receivable in the capital project fund was made to provide financing to the Low and Moderate Income Housing Fund for the purpose of purchasing two sites for the development of affordable housing. The advance is repayable from future tax increment revenues to be deposited into the housing fund (the 20 percent set-aside amount).

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

Capital assets not being depreciated:	<u>Beginning Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>End of Year</u>
Land	<u>\$347,287</u>	<u>\$ 377,193</u>	<u>\$ -</u>	<u>\$ 724,480</u>
Total capital assets	<u>\$347,287</u>	<u>\$ 377,193</u>	<u>\$ -</u>	<u>\$ 724,480</u>

**E. Long-Term Debt**

*Changes in Long-term liabilities*

Long-term debt activity for the 2009 fiscal year was as follows:

<b>Governmental Activities:</b>	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Due In One Year</u>
Capital lease refunding	\$ 1,826,138	\$ -	\$ 336,600	\$1,489,538	\$ 350,300
Tax allocation bonds, 2007	4,300,000	-	250,000	4,050,000	255,000
<b>Totals</b>	<u>\$ 6,126,138</u>	<u>\$ -</u>	<u>\$ 586,600</u>	<u>\$5,539,538</u>	<u>\$ 605,300</u>

*Capital Lease-Refunding*

In March 2004, the City and its 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 semiannual installments of about \$203,500 each June 1 and December 1 through June 1, 2013. The Agency entered into the lease arrangement to advance refund the outstanding All 1994 certificates have been retired.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**4. Detail Notes on All Funds (Continued)**

**E. Long-Term Debt (Continued)**

Future minimum lease payments are:

Fiscal Year	Total
2010	407,121
2011	407,191
2012	407,170
2013	407,141
Total minimum lease payments	1,628,623
Amounts representing interest	(139,085)
Present value of net minimum lease payments	\$ 1,489,538

*Tax Allocation Refunding Bonds 2007 Series*

On November 6, 2007, the Agency issued \$4,575,000 in 2007 tax allocation bonds to advance refund and retire the Agency's 1997 bond issue. The tax allocation bonds consisted of \$4,575,000 in serial bonds bearing interest at rates from 3.3 percent to 4.0 percent. The bonds are subject to mandatory sinking fund early redemption as specified in the bond indenture. The bonds are secured by a pledge of the Agency's tax increment revenues. Future debt service is:

Fiscal Year	Principal	Interest	Totals
2010	\$ 255,000	\$ 145,993	\$ 400,993
2011	290,000	137,147	427,147
2012	300,000	127,348	427,348
2013	305,000	117,298	422,298
2014	320,000	106,560	426,560
2015-2019	1,770,000	350,326	2,120,326
2020-2021	810,000	41,000	851,000
Totals	\$ 4,050,000	\$ 1,025,672	\$ 5,075,672

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**5. Other Information**

**A. Risk Management**

The Agency 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 is a member of the Redwood Empire Municipal Insurance Fund, a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims. Under the program, the City has a \$ 5,000 general liability retention limit similar to a deductible. The risk of loss is transferred to the Fund. The Fund is responsible for losses above that amount up to \$500,000 for liability losses, \$300,000 for workers compensation claims, and \$25,000 for property claims. The Fund carries purchased excess commercial liability coverage of \$9.5 million in excess of its \$500,000 retention limit, \$5 million in excess of the \$25,000 limit for property with an additional \$200 million in excess coverage. The Agency paid no material uninsured losses during the 2008-2009 fiscal year. There has been no significant changes in insurance coverages in fiscal 2009. Settlements have not exceeded coverage for each of the past three fiscal years.

Liabilities of the Agency are reported 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 Agency had no material claim liabilities not covered by insurance at June 30, 2008 or June 30, 2009.

**B. Contingencies and Commitments**

*Litigation.* The Agency and City are involved in litigation incurred in the normal course of conducting City business. City management believes that, based upon consultation with its counsel, these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City or Agency

**C. Restricted Net Assets**

The \$5,981,677 restricted for housing projects represents low and moderate income housing funds which by law can only be used for related housing projects and activities.

**Required Supplementary Information**  
**CITY OF SEBASTOPOL**  
**Budgetary Comparison Schedule - Low and Moderate Income Housing Special Revenue Fund**  
**For the Fiscal Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance, July 1</b>	\$ (2,094,677)	\$ (2,094,677)	\$(2,094,677)	\$ -
Resources (inflows):				
Incremental property taxes	490,000	490,000	522,115	32,115
Interest	-	-	26,930	26,930
Miscellaneous	25,000	25,000	27,231	2,231
Amounts available for charges to appropriations	<u>(1,579,677)</u>	<u>(1,579,677)</u>	<u>(1,518,401)</u>	<u>61,276</u>
<b>Charges to appropriations:</b>				
<b>Community Development:</b>				
Housing projects	2,856,500	2,856,500	141,219	2,715,281
Debt service:	21,215	21,215	20,491	724
Total charges to appropriations	<u>2,877,715</u>	<u>2,877,715</u>	<u>161,710</u>	<u>2,716,005</u>
Fund Balance, June 30	<u>\$ (4,457,392)</u>	<u>\$ (4,457,392)</u>	<u>\$(1,680,111)</u>	<u>\$ 2,777,281</u>

**Required Supplementary Information**  
**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL**  
**Budgetary Comparison Schedule - Low and Moderate Income Housing Fund Special Revenue Fund**  
**Note to RSI**  
**For the Fiscal Year Ended June 30, 2009**

**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:	\$ (1,518,401)
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>2,094,677</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 576,276</u></u>



**Terry E. Krieg, CPA**

Certified Public Accountant

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Board of Directors  
Community Development Agency of the City of Sebastopol  
Sebastopol, California

*Report On Compliance and On Internal Control Over Financial Reporting  
Based On an Audit of Financial Statements Performed In Accordance  
With Auditing Standards Generally Accepted in the United States of America*

I have audited the basic financial statements of the Community Development Agency of the City of Sebastopol as of and for the year ended June 30, 2009, and have issued my report thereon dated December 1, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Community Development Agency of the City of Sebastopol are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Community Development Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Auditing Standards Generally Accepted in the United States of America*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Community Development Agency of the City of Sebastopol internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community Development Agency of the City of Sebastopol's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Community Development Agency of the City of Sebastopol's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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

This report is intended solely for the information and use of the Board of Directors, management, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

December 1, 2009

  
Certified Public Accountant