

**City of Sebastopol
Basic Financial Statements
June 30, 2010**

CITY OF SEBASTOPOL, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2010
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FINANCIAL SECTION
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS
AND
NOTES TO THE FINANCIAL STATEMENTS



Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

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

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

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

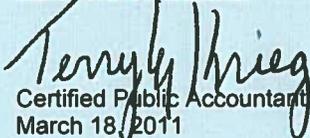
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sebastopol, California, as of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

The Management Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress on pages 2 through 11 and pages 41 through 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of 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 my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated March 18, 2011 on my consideration of the City of Sebastopol's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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


Certified Public Accountant
March 18, 2011

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, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by about \$99,744 over the course of this year's operations. The net assets of our governmental-type activities increased by \$70,917, and there was a \$28,827 increase in the net assets of our business-type activities funds. A combined increase of about 0.5% over 2009 ending net asset balances.

This small \$99,744 City-Wide increase in net assets, however, is after reductions for the one-time write-down of an affordable housing note receivable for \$1,004,665 and the \$797,975 expense for the payment to the State for a contribution to the Supplemental Education Revenue Augmentation Fund (SERAF).

- The general fund reported a 2010 year end fund balance of \$140,335. The City has designated all of the \$140,335 of this fund balance for future projects and financial funding purposes. The redevelopment project fund ended the year with a \$4,300,090 fund balance. The low and moderate fund ended fiscal 2010 with a deficit of \$810,186 as a result of spending for affordable housing projects. The city capital projects funds ended 2010 with \$712,214 (unreserved) for capital projects and there was an additional \$2,856,424 (unreserved) in the City's non major funds.
- In our business-type activity funds, the water enterprise ended fiscal 2010 with \$46,032 in cash and investments and the wastewater enterprise ended fiscal 2010 with about \$686,775 in cash and investments available for future use.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

- *Governmental activities* – Most of the City's basic services are included here, such as the police, 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 more significant funds of the City were:
 - The city's general fund which fund is used to account for unrestricted resources and general operations of the City
 - The redevelopment agency's administration fund used to account for tax increment revenues and other redevelopment activities.
 - The redevelopment agency's low and moderate income housing fund used to account for tax increment revenues and other resources used for affordable housing purposes.
 - The City's Federal ARRA Street Fund used to account for the stimulus grant awarded to the City for the purpose of providing financial assistance to the City in these difficult economic times.

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 CITYAS A WHOLE

Net Assets. The City's *combined* net assets increased about \$99,800 between fiscal years 2009 and 2010. (SeeTable A-1)

Table A-1
City of Sebastopol's Net Assets
(in rounded nearest one hundred dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2010	2009	2010	2009	2010	2009	
Current and other assets	\$13,186,200	\$14,376,100	\$1,386,900	\$2,997,200	\$14,573,100	\$17,373,300	-16.1%
Capital assets	10,062,200	9,370,400	7,781,500	6,413,600	17,843,700	15,784,000	13.1%
Total assets	23,248,400	23,746,500	9,168,400	9,410,800	32,416,800	33,157,300	-2.2%
Long-term debt outstanding	8,957,100	9,883,200	1,764,800	1,849,500	10,721,900	11,732,700	-8.6%
Other liabilities	1,322,600	965,600	211,300	397,800	1,533,900	1,363,400	12.5%
Total liabilities	10,279,700	10,848,800	1,976,100	2,247,300	12,255,800	13,096,100	-6.4%
Net assets							
Invested in capital assets net of related debt	1,911,300	1,187,800	6,016,700	4,564,100	7,928,000	5,751,900	37.8%
Restricted	11,476,900	11,200,900			11,476,900	11,200,900	2.5%
Unrestricted	(419,500)	509,000	1,175,600	2,599,400	756,100	3,108,400	-75.7%
Total net assets	\$12,968,700	\$12,897,700	\$7,192,300	\$7,163,500	\$20,161,000	\$20,061,200	0.5%

Net assets of the City's governmental activities increased about 0.5% percent or about \$71,000. About 85% of the net assets relating to governmental activities is represented the City's cash, investments, accounts and notes receivable. The City has about \$8.9 million in long-term debt being used to finance governmental activities; and of that amount \$4.9 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 about by one-half percent to \$ 7.19 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

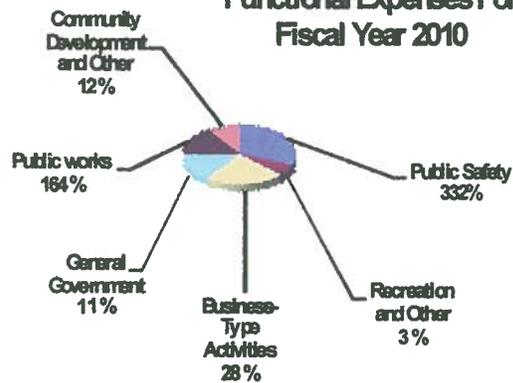
Changes in net assets. The City's total revenues increased by about \$386,700 to about \$13.27 million (See Table A-2.) in 2010 compared to \$12.89 million in 2009. About 43 percent of the City's revenue comes from property taxes, transient occupancy, sales taxes, and other taxes. Another 32 percent comes from fees charged for services, and most of the rest is state and local aid and grants.

The total cost of all programs and services increased approximately \$695,000 or about 6 percent to \$12.17 million. The City's expenses cover a range of services, with about 28 percent related to business type activities, 32 percent for public safety services, and the remaining 40 percent for general government, public works, parks and community programs.

Sources of Revenue for Fiscal Year 2010



Functional Expenses For Fiscal Year 2010



Governmental Activities

Revenues for the City's governmental activities increased by a net \$347,800, while total expenses increased by \$600,800 over fiscal year 2009.

Governmental activities recorded higher grant revenues in fiscal 2010 than in fiscal 2009, and that is why there is a \$483,100 increase in grants and contributions in fiscal 2010.

After all operations for 2010 were completed, the net assets of our governmental activities increased by about a net \$71,000. There were two main reasons for the small increase in net assets in fiscal 2010. The most significant reasons were the \$1,004,665 write down of an affordable housing project note receivable in order to make the program more viable in the current economic climate and the \$798,000 expense for the contribution required by the State to be made to the supplemental education revenue augmentation fund in order to provide financial assistance for education funding purposes.

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 rounded nearest one hundred dollars)**

	Governmental Activities		Business Type Activities		Total		Total Percentage Change
	2010	2009	2010	2009	2010	2009	2009-2010
Revenues							
Program revenues							
Charges for services	\$976,100	\$1,345,900	\$3,214,600	\$3,319,300	\$4,190,700	\$4,665,200	-10.2%
Grants and contributions	2,098,800	1,615,700	285,500	141,900	2,384,300	1,757,600	35.7%
General revenues							
Property taxes	2,959,500	2,698,400	-	-	2,959,500	2,698,400	9.7%
Other taxes	3,590,100	3,468,200			3,590,100	3,468,200	3.5%
Other	152,400	300,900			152,400	300,900	-49.4%
Total revenues	9,776,900	9,429,100	3,500,100	3,461,200	13,277,000	12,890,300	3.0%
Expenses							
General government	1,273,800	1,417,100			1,273,800	1,417,100	-10.1%
Public safety	3,851,400	3,907,500			3,851,400	3,907,500	-1.4%
Community development	333,900	366,200			333,900	366,200	-8.8%
Public works	1,731,600	1,695,500			1,731,600	1,695,500	2.1%
Parks and recreation	428,600	409,100			428,600	409,100	4.8%
SERAF payments	798,000	-			798,000	-	100.0%
Water			1,197,000	1,264,900	1,197,000	1,264,900	-5.4%
Wastewater			2,223,300	2,061,200	2,223,300	2,061,200	7.8%
Interest	334,900	356,000			334,900	356,000	-5.9%
Total expenses	8,752,200	8,151,400	3,420,300	3,326,100	12,172,500	11,477,500	6.1%
Increase in Net assets	1,024,700	1,277,700	79,800	135,100	1,104,500	1,412,800	-21.8%
Transfers	51,000	(2,900)	(51,000)	2,900	-	-	-
Special item:							
Forgiven indebtedness	(1,004,700)	-	-	-	(1,004,700)	-	100.0%
Change in net assets	71,000	1,274,800	28,800	138,000	99,800	1,412,800	-92.9%
Net assets, beginning	12,897,700	11,622,900	7,163,500	7,025,500	20,061,200	18,648,400	
Net asset, ending	\$12,968,700	\$12,897,700	\$7,192,300	\$7,163,500	\$20,161,000	\$20,061,200	0.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

- The cost of all *governmental* activities this year was \$8.75 million, about \$600,800 greater than the total cost as reported in fiscal year 2009. Most of the cost increases in fiscal 2010 was in the SERAF(Supplemental Educational Revenue Augmentation Fund) required payment to the State of California (\$798,00), Public Works (\$36,100), and Parks and Recreation (\$19,500) and all other areas posted a combined net \$252,800 decrease.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

- Of the \$8.75 million cost of the City's governmental activities programs, our taxpayers paid for \$5.67 million of the program costs. Some of the cost was paid by:
 - Those who directly benefited from the programs; \$976,100 or
 - Other governments and organizations that subsidized certain programs with grants and contributions; \$2,098,800
- The City paid for the \$5.67 million “public benefit” portion by using about 84% of the City's general tax revenues.

Table A-3
Cost of City Sebastopol's Governmental Activities
 (in rounded nearest one hundred dollars)

	Total Cost of Services		Percentage Change
	2010	2009	2009-2010
General Government	\$1,273,800	\$1,417,100	-10.1%
Public Safety	3,851,400	3,907,500	-1.4%
Community development	333,900	366,200	-8.8%
Public Works	1,731,600	1,695,500	2.1%
Parks and recreation	428,600	409,100	4.8
SERAF payments	798,000	-	100.0%
All other	334,900	356,000	-5.9
Total	\$8,752,200	\$8,151,400	7.4%

The most significant cost increase in fiscal 2010 in terms of dollars was in the SERAF payment to the State of California. General government costs decreases related to a reduction of personnel in the Administrative Services Department.

Business-type Activities

Revenues of the City's business-type increased by about \$38,900 as a result of a small number of additional service connections mainly centered in newly constructed affordable housing. Additional expenditures of \$94,200 were the result of litigation connected to a sewer line break near the Laguna.

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 \$7.55 million, about a \$19,000 decrease compared to the end of fiscal 2009. The reason for the decrease in fiscal 2010 compared to fiscal 2009 was that monies were expended in 2010 for development of public works projects and solar energy installations.

The City's spending for general fund operations was about \$526,000 more than general fund revenues. The general fund ended fiscal 2010 with a fund balance of about \$140,335. Of that fund balance, about \$140,335 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 \$1 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 capital projects fund had an additional \$314,375 in lease financing proceeds available for capital improvements. In addition, we had \$365,833 available in our clean renewable energy bond fund for energy conservation projects; the result of a special borrowing program where the City is charged zero interest on the borrowed funds. The mobile home park fund had a zero fund balance and since the closing of the campground due to accessibility issues, the income generated from the mobile home park no longer meets expenses. The City may expect a charge against the General Fund in future years from this area.

The City's water fund ended the 2010 fiscal year with about \$195,714 in unexpended lease financing proceeds available for future capital projects..

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 \$361,657 more than final budget amounts. These excess expenditures, primarily for legal, employee benefits, and public works purposes, were funded from available general fund resources. General fund revenues were about \$144,803 less than the final budget as a result of lower tax, permit and investment income revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010 the City had invested \$17.9 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 \$2.2 million or 14.0 percent, over last year.

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
	2010	2009	2010	2009	2010	2009	2009-2010
Land and CIP	\$ 3.5	\$ 2.7	\$ 2.4	\$.7	\$ 5.9	\$3.4	73.5%
Buildings	5.5	5.5	-	-	5.5	5.5	0%
Machinery and equipment	1.8	1.7	.6	.5	2.4	2.2	9.1%
Vehicles	2.3	2.3	-	-	2.3	2.3	0.0%
Infrastructure and systems	4.1	3.8	10.0	10.0	14.1	13.8	2.2%
Accumulated depreciation	(7.1)	(6.7)	(5.2)	(4.8)	(12.3)	(11.5)	7.0%
Total	\$ 10.1	\$ 6.3	\$ 7.8	\$ 6.4	\$ 17.9	\$15.7	14.1%

This year's major capital assets additions included:

- About \$1,079,000 expended for street system improvements
- About \$353,000 expended for solar power installations

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

Long-term Debt

On an overall basis, the City decreased its long-term debt obligations by about \$ 1 million in fiscal 2010. The decrease was the result of scheduled debt retirements.

Interest expense declined in fiscal 2010 as a result of scheduled principal retirements and the advance refunding made in fiscal 2008 to take advantage of lower interest rates. In fiscal 2010, no new debt was issued.

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

- The budget projects that there will only be about a 0.1percent decrease in general fund revenues
- The budget is balanced using \$0 of general fund resources available in unallocated reserves.
- A small increase in utility user fee rates are proposed for fiscal 2011, based on a user fee study
- No tax increases are proposed for fiscal 2011
- Selected general fund user fee increases are proposed for fiscal 2011

General fund 2011 budgeted appropriations are set at \$ 4.97 million. This is about a 2.8 percent decrease over fiscal 2010 actual general fund expenditures.

The 2011 budget has proposed capital project spending of about \$4,178,000 with \$1.4 million in street related projects.

As to the City's business-type activities, about \$4.2 million is expected to be spent in 2011 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, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,297,386	\$ 732,807	\$ 7,030,193
Net receivables	1,218,741	458,353	1,677,094
Total current assets	<u>7,516,127</u>	<u>1,191,160</u>	<u>8,707,287</u>
Noncurrent assets:			
Cash and cash equivalents	680,208	195,714	875,922
Long-term notes receivable	4,503,533	-	4,503,533
Other long-term receivables	285,000	-	285,000
Debt issuance costs	201,399	-	201,399
Net capital assets	10,062,145	7,781,537	17,843,682
Total noncurrent assets	<u>15,732,285</u>	<u>7,977,251</u>	<u>23,709,536</u>
Total assets	<u>\$ 23,248,412</u>	<u>\$ 9,168,411</u>	<u>\$ 32,416,823</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 503,292	\$ 161,212	\$ 664,504
Compensated absences	300,000	35,878	335,878
Deposits	142,081	8,879	150,960
Accrued interest payable	29,579	5,311	34,890
Bonds, leases, and agreements due within one year	886,329	150,271	1,036,600
Total current liabilities	<u>1,861,281</u>	<u>361,551</u>	<u>2,222,832</u>
Long-term liabilities due in more than one year:			
Tax allocation bonds	3,505,000	-	3,505,000
Special assessment bonds	275,000	-	275,000
Agreements and loans	85,244	71,792	157,036
Capital lease obligations	4,205,559	1,542,721	5,748,280
Loss on advance refundings	(97,972)	-	(97,972)
Net other post employment benefit obligation	63,954	-	63,954
Compensated absences	381,673	-	381,673
Total long-term liabilities	<u>8,418,458</u>	<u>1,614,513</u>	<u>10,032,971</u>
Total liabilities	<u>10,279,739</u>	<u>1,976,064</u>	<u>12,255,803</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,911,250	6,016,753	7,928,003
Restricted for:			
Capital projects	4,332,156	-	4,332,156
Housing	4,373,495	-	4,373,495
Debt service	322,710	-	322,710
Public safety	667,069	-	667,069
Streets	1,781,471	-	1,781,471
Unrestricted	(419,478)	1,175,594	756,116
Total net assets	<u>12,968,673</u>	<u>7,192,347</u>	<u>20,161,020</u>
Total liabilities and net assets	<u>\$ 23,248,412</u>	<u>\$ 9,168,411</u>	<u>\$ 32,416,823</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Redevelopment Administration Fund	Redevelopment Low and Moderate Income Housing	Federal ARRA Street Fund	Other Governmental Funds	Total Governmental Funds
Cash and investments	\$ 83,832	\$ 3,267,649	\$ 225,688	\$ 330,867	\$ 3,069,558	\$ 6,977,584
Taxes receivable	261,739	-	-	-	-	261,739
Due from other governments	21,593	718	-	444,928	488,763	957,002
Assessments receivable	-	-	-	-	285,000	285,000
Due from other funds	-	-	-	-	1,151,463	1,151,463
Notes receivable	-	54,715	4,150,681	-	298,137	4,503,533
Advances to other funds	-	1,033,000	-	-	-	1,033,000
Total assets	\$ 367,164	\$ 4,356,082	\$ 4,376,369	\$ 775,795	\$ 5,293,921	\$ 15,169,331

LIABILITIES AND FUND BALANCES

	General Fund	Redevelopment Administration Fund	Redevelopment Low and Moderate Income Housing	Federal ARRA Street Fund	Other Governmental Funds	Total Governmental Funds
Liabilities:						
Accounts payable	\$ 84,748	\$ 1,277	\$ 2,874	\$ 330,867	\$ 83,526	\$ 503,292
Due to other funds	-	-	-	444,928	706,535	1,151,463
Advances from other funds	-	-	1,033,000	-	-	1,033,000
Deposits	142,081	-	-	-	-	142,081
Deferred revenue	-	54,715	4,150,681	-	583,137	4,788,533
Total liabilities	226,829	55,992	5,186,555	775,795	1,373,198	7,618,369
Fund balances:						
Reserved	-	1,033,000	-	-	352,085	1,385,085
Unreserved, designated	140,335	-	-	-	-	140,335
Unreserved, undesignated	-	3,267,090	(810,186)	-	-	2,456,904
Unreserved reported in nonmajor:						
Capital projects funds	-	-	-	-	712,214	712,214
Special revenue funds	-	-	-	-	2,856,424	2,856,424
Total fund balances	140,335	4,300,090	(810,186)	-	3,920,723	7,550,962
Total liabilities and fund balances	\$ 367,164	\$ 4,356,082	\$ 4,376,369	\$ 775,795	\$ 5,293,921	\$ 15,169,331

Total Governmental Fund Balances

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						10,082,145
Other long-term notes receivable are not available to fund current period expenditures and are deferred in the funds						4,788,533
Debt issuance costs are recorded as an resource outflow in the funds, but are capitalized and amortized to expense in the statement of activities						201,399
Interest payable is accrued as a liability in the statement of net assets, but is reported in the funds only when due						(29,579)
Long term liabilities such as tax allocation notes, bonds, leases, claims, compensated absences and other post employment benefits are not due and payable in the current period and are therefore not reported in the funds						(9,804,787)
Net Assets of Governmental Activities						\$ 12,968,673

See accompanying notes to the basic financial statements

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

	General Fund	Redevelopment Administration Fund	Redevelopment Low and Moderate Income Housing	Federal ARRA Street Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 1,033,478	\$ 1,404,971	\$ 520,999	\$ -	\$ -	\$ 2,959,448
Sales taxes	1,385,478	-	-	-	493,466	1,878,944
Other taxes	1,042,117	-	-	-	-	1,042,117
Licenses and permits	223,679	-	-	-	-	223,679
Fines and forfeits	88,112	-	-	-	-	88,112
Intergovernmental	644,891	-	-	562,914	1,457,720	2,665,525
Interest and rents	47,574	18,119	2,167	-	17,143	85,003
Charges for services	333,146	-	-	-	364,159	697,305
Miscellaneous	69,137	8,906	475,672	-	74,830	628,545
Total revenues	4,867,612	1,431,996	998,838	562,914	2,407,318	10,268,678
EXPENDITURES						
Current:						
General government	1,269,400	-	-	-	-	1,269,400
Public safety	3,284,620	-	-	-	308,382	3,593,002
Community development	-	248,070	7,345	-	74,722	330,137
Parks and recreation	276,835	-	-	-	9,948	286,783
Public works	556,391	-	-	562,914	1,045,220	2,164,525
Education SERAF	-	797,975	-	-	-	797,975
Capital outlay	-	-	-	-	644,674	644,674
Debt service:						
Principal	5,009	592,014	39,984	-	289,103	926,110
Interest	1,908	195,168	45,529	-	84,050	326,655
Total expenditures	5,394,163	1,833,227	92,858	562,914	2,456,099	10,339,261
Excess (deficiency) of revenues over expenditures	(526,551)	(401,231)	905,980	-	(48,781)	(70,583)
OTHER FINANCING SOURCES (USES)						
Transfers in	99,805	-	-	-	1,489,789	1,589,594
Transfers out	(83,592)	-	(36,055)	-	(1,418,913)	(1,538,560)
Total other financing sources (uses)	16,213	-	(36,055)	-	70,876	51,034
Net change in fund balances	(510,338)	(401,231)	869,925	-	22,095	(19,549)
Fund balances, July 1	650,673	4,701,321	(1,680,111)	-	3,898,628	7,570,511
Fund balances, June 30	\$ 140,335	\$ 4,300,090	\$ (810,186)	\$ -	\$ 3,920,723	\$ 7,550,962

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, 2010

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (19,549)</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 \$1,166,699 exceeded depreciation \$474,976 in the current period.	691,723
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 reported as expenses in the statement of activities. Write downs or write offs of long-term receivables do not result in the use of current financial resources and are not reported as expenditures in the funds.	(1,496,613)
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	926,110
Governmental funds report the costs of other post employment benefits (OPEB) generally when premiums are paid, but the actuarially determined OPEB expense (ARC) is accrued as payable in the statement of net assets	(63,954)
Debt issuance costs are reported as financial outflows in the fund statements, but are capitalized and amortized to expense in the statement of activities	(16,784)
Losses on debt refundings are reported as a financial outflow in the fund statements but are capitalized and amortized to expense in the statement of activities	(8,146)
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>58,130</u>
Net adjustment to reconcile to changes in net assets	<u>90,466</u>
Change in Net Assets of Governmental Activities	<u>\$ 70,917</u>

See accompanying notes to the basic financial statements

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

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 46,032	\$ 686,775	\$ 732,807
Accounts receivable	184,271	274,082	458,353
Due from other funds	-	363,598	363,598
Total current assets	<u>230,303</u>	<u>1,324,455</u>	<u>1,554,758</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	195,714	-	195,714
Net other assets	<u>195,714</u>	<u>-</u>	<u>195,714</u>
Capital assets:			
Land	86,440	-	86,440
Pipelines and distribution system	4,202,790	-	4,202,790
Collection system	-	4,418,536	4,418,536
Reservoir	1,400,613	-	1,400,613
Equipment	144,687	484,568	629,255
Construction in progress	-	2,261,758	2,261,758
Less accumulated depreciation	<u>(2,900,849)</u>	<u>(2,317,006)</u>	<u>(5,217,855)</u>
Net capital assets	<u>2,933,681</u>	<u>4,847,856</u>	<u>7,781,537</u>
Total noncurrent assets	<u>3,129,395</u>	<u>4,847,856</u>	<u>7,977,251</u>
Total assets	<u>\$ 3,359,698</u>	<u>\$ 6,172,311</u>	<u>\$ 9,532,009</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 15,953	\$ 145,259	\$ 161,212
Compensated absences	14,351	21,527	35,878
Accrued interest payable	5,311	-	5,311
Due to other funds	363,598	-	363,598
Deposits	8,879	-	8,879
Long-term debt due in one year	104,551	45,720	150,271
Total current liabilities	<u>512,643</u>	<u>212,506</u>	<u>725,149</u>
Long-term debt due in more than one year:			
Capital lease obligations	797,882	744,839	1,542,721
Installment agreement	31,216	-	31,216
Loans	40,576	-	40,576
Total long-term debt due in more than one year	<u>869,674</u>	<u>744,839</u>	<u>1,614,513</u>
Total liabilities	<u>1,382,317</u>	<u>957,345</u>	<u>2,339,662</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,959,456	4,057,297	6,016,753
Unrestricted	17,925	1,157,669	1,175,594
Total net assets	<u>\$ 1,977,381</u>	<u>\$ 5,214,966</u>	<u>\$ 7,192,347</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, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 1,097,052	\$ 2,062,813	\$ 3,159,865
Other operating revenues	-	37,793	37,793
Total operating revenues	<u>1,097,052</u>	<u>2,100,606</u>	<u>3,197,658</u>
OPERATING EXPENSES			
Personnel services	272,687	213,273	485,960
Interfund charges for services	394,327	310,720	705,047
Contractual and other services	129,052	57,731	186,783
Intergovernmental treatment costs	-	1,324,040	1,324,040
Utilities	103,605	31,834	135,439
Supplies	61,631	35,948	97,579
Insurance, claims, and expenses	15,147	7,347	22,494
Depreciation	171,743	203,782	375,525
Total operating expenses	<u>1,148,192</u>	<u>2,184,675</u>	<u>3,332,867</u>
Operating income (loss)	<u>(51,140)</u>	<u>(84,069)</u>	<u>(135,209)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	3,125	10,536	13,661
Gain on disposal of capital assets	3,285	-	3,285
Interest expense	(48,813)	(38,549)	(87,362)
Net non-operating revenues (expenses)	<u>(42,403)</u>	<u>(28,013)</u>	<u>(70,416)</u>
Income before contributions and transfers	<u>(93,543)</u>	<u>(112,082)</u>	<u>(205,625)</u>
Contributions and transfers			
Transfers out	(55,106)	-	(55,106)
Transfers in	-	4,072	4,072
Capital contributions	91,471	194,015	285,486
Total contributions and transfers	<u>36,365</u>	<u>198,087</u>	<u>234,452</u>
Change in net assets	<u>(57,178)</u>	<u>86,005</u>	<u>28,827</u>
Total net assets, July 1	<u>2,034,559</u>	<u>5,128,961</u>	<u>7,163,520</u>
Total net assets, June 30	<u>\$ 1,977,381</u>	<u>\$ 5,214,966</u>	<u>\$ 7,192,347</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, 2010

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,110,314	\$ 2,113,547	\$ 3,223,861
Payments to suppliers	(349,245)	(1,600,041)	(1,949,286)
Payments to employees	(273,911)	(215,108)	(489,019)
Payments to other funds for services	(394,327)	(310,720)	(705,047)
Other operating receipts	-	37,793	37,793
Net cash provided by (used for) operating activities	<u>92,831</u>	<u>25,471</u>	<u>118,302</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(55,106)	-	(55,106)
Transfers in	-	4,072	4,072
Collections of loans to other funds	222,974	105,322	328,296
Repayment of advances from other funds	(105,322)	-	(105,322)
Net cash provided by noncapital financing activities	<u>62,546</u>	<u>109,394</u>	<u>171,940</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	91,471	194,015	285,486
Proceeds from sale of capital assets	3,285	-	3,285
Proceeds of long term debt	32,433	32,433	64,866
Principal payments on long-term debt	(103,896)	(45,643)	(149,539)
Interest paid on long-term debt	(48,813)	(38,549)	(87,362)
Purchases of capital assets	(86,846)	(1,656,639)	(1,743,485)
Net cash provided by (used for) capital and related financing activities	<u>(112,366)</u>	<u>(1,514,383)</u>	<u>(1,626,749)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	<u>3,125</u>	<u>10,536</u>	<u>13,661</u>
Net cash provided by investing activities	<u>3,125</u>	<u>10,536</u>	<u>13,661</u>
Net increase (decrease) in cash and cash equivalents	46,136	(1,368,982)	(1,322,846)
Cash and cash equivalents beginning of the year	<u>195,610</u>	<u>2,055,757</u>	<u>2,251,367</u>
Cash and cash equivalents end of the year	<u>\$ 241,746</u>	<u>\$ 686,775</u>	<u>\$ 928,521</u>

See accompanying notes to the basic financial statements

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

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (51,140)	\$ (84,069)	\$ (135,209)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	171,743	203,782	375,525
Change in assets and liabilities:			
Receivables, net	13,792	50,734	64,526
Accounts payable	(39,810)	(143,141)	(182,951)
Other liabilities	(1,754)	(1,835)	(3,589)
Net cash provided by (used for) operating activities	<u>\$ 92,831</u>	<u>\$ 25,471</u>	<u>\$ 118,302</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, 2010

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, 2010

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

The *Redevelopment Agency's Capital Projects Administration Fund* is maintained to account for the tax increment revenues used to fund debt service and other redevelopment activities. The *Low and Moderate Income Housing Fund* is used to account for resources that are restricted for use in affordable housing programs and activities.

The *Federal ARRA Street Fund* is a capital projects fund used to account for the resources made available under the American Recovery and Reinvestment Act for public improvements.

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, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, the Sonoma County Treasurer's Pool, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, bankers acceptances, repurchase agreements, certain money market and mutual funds, 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, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 1,000 (\$50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 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 are 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 and Other Post Employment Benefit Obligations

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. Amounts reported for other post employment benefit plan obligations are estimated using actuarial valuations of the City's OPEB Plans.

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 SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

8. Comparative Data

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

2. Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 10,062,145 difference are as follows:

Capital assets	\$ 17,192,936
Less: Accumulated depreciation	<u>(7,130,791)</u>
 Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	 <u>\$ 10,062,145</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 \$9,604,787 difference are as follows:

Long-Term Debt Obligations:	
Tax allocation bonds	\$ 3,795,000
Refunding capital lease	1,139,238
Installment agreement	1,025,309
Special assessment bonds	285,000
CEC Loan	107,243
Net other post employment benefit (OPEB) obligation	63,954
Capital lease obligations –Clean renewable energy bonds	1,830,000
Capital lease obligation – Mobile Home Park	739,916
Capital lease – Vac-Con Truck	35,426
Loss on advance refunding	(97,972)
Compensated absences	<u>681,673</u>
 Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	 <u>\$ (9,604,787)</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 \$ 90,466 difference and other significant components of the difference are as follows:

Capital outlay	\$ 1,166,699
Depreciation expense	(474,976)
Repayment of long-term debt principal	926,110
Forgiveness of long term debt (City notes receivable)	(1,004,665)
Other post employment benefit costs	(63,594)
Other items	<u>(458,748)</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>\$ 90,466</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

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 including transfers were significantly exceeded by the General Fund \$361,657; Sales Tax \$86,512, Renewable energy \$624,036, Street Smart 2 \$308,278, City capital \$164,264, Vehicle abatement \$51,859, Solar Sonoma \$95,573, Solar Well 4 \$222,974, Solar Community Center \$514,885, Fire Safer Fund \$86,730, Gas Tax \$38,404, Redevelopment administration \$462,554. The expenditures were funded by available resources.

4. Detailed Notes on All Funds

A. Deposits and Investments

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

Pooled demand deposits	\$ 687,917
Pooled investments	7,180,413
Investments with trustees	<u>37,785</u>
 Total deposits and investments	 <u>\$ 7,906,115</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, 2010, \$ 548,825 of the City's bank balances of \$ 846,510 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 548,825</u>
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Investments - At June 30, 2010, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Sonoma County Investment Pool	Average 486 days	\$ 6,304,516
GS Fin Sq Gov Fund – Mutual Fund	Average 43 days	365,808
FIMM Treasury Fund – Mutual Fund	Average 60 days	510,089
First American Treasury – Mutual Fund	Average 60 days	<u>37,785</u>
 Totals		 <u>\$ 7,218,198</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 investments have a maturity date of five years or less at the time of purchase. The investments in 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 was unrated.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments(Continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$913,682 investment other than the County Pool, the entire \$913,682 is 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. Composition of 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:

	<u>General Fund</u>	<u>Redevelopment Funds</u>	<u>Other Funds</u>	<u>Total Governmental</u>	<u>Water</u>	<u>Wastewater</u>
Accounts	\$ -	\$ -	\$ -	\$ -	\$ 184,271	\$ 274,082
Taxes	261,739	-	-	261,739	-	-
Governments	21,593	718	934,691	957,002	-	-
Notes/loans	-	4,205,396	298,137	4,503,533	-	-
Assessments	-	-	285,000	285,000	-	-
Totals	<u>\$ 283,332</u>	<u>\$ 4,206,114</u>	<u>\$ 1,517,828</u>	<u>\$ 6,007,274</u>	<u>\$ 184,271</u>	<u>\$ 274,082</u>

C. Interfund Transfers, receivables and payables

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

	<u>General Fund</u>	<u>Low Moderate Income Housing Fund</u>	<u>Nonmajor Funds</u>	<u>Wastewater Enterprise</u>	<u>Total Transfers Out</u>
Transfers In:					
Transfers Out:					
Nonmajor funds	\$ 99,805	\$ 36,055	\$ 1,402,700	\$ 55,106	\$ 1,593,666
Totals	<u>\$ 99,805</u>	<u>\$ 36,055</u>	<u>\$ 1,402,700</u>	<u>\$ 55,106</u>	<u>\$ 1,593,666</u>

The transfers out of the nonmajor funds were made primarily to fund solar energy projects and street related projects.

2. The composition of interfund balances was:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Redevelopment admin	Redevelopment low moderate income housing	\$ 1,033,000
Traffic impact fee fund:	County Street Smart 2 Fund	308,278
	Federal ARRA Fund	444,928
	County Street Smart Fund	308,278
	Other nonmajor funds	89,979
Wastewater	Water enterprise	363,598
	Total	<u>\$ 2,548,061</u>

The cash advances to the low and moderate income housing fund were made to fund land purchases and is to be repaid with future years' tax increment revenues. The advance to the water fund was made to fund cash flow operating needs. The other cash advances were made for cash flow management purposes.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

D. Long-Term Notes and Loans Receivable

<u>Party to Loan</u>	<u>Purpose of Loan</u>	<u>Amount</u>
Individual homeowners	Individual home rehabilitation	\$ 411,746
Burbank Housing Corporation	Acquisition and construction loan	595,335
Burbank Housing Corporation	Property acquisition loan	300,000
Affordable Housing Associates	Acquisition and construction loan	2,898,315
Individual home buyers	Solar power equipment installation	298,137
	Totals	<u>\$4,503,533</u>

The \$411,746 housing rehabilitation loans bear 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 City's Redevelopment 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 provided that the City shall loan Burbank up to \$50,000 for each of 20 units to be constructed; and the \$1,000,000 may used for any approved project costs. In addition, the City is to consider additional strategies to provide up to an additional \$600,000 of project financing. The \$1,600,000 loan was ultimately to be assumed on a proportionate basis by the homebuyers of the affordable units. In the 2010 fiscal year, the City, due in part to the economic condition of the housing market, agreed to forgive \$1,004,665 of the original \$1,600,000 loan which reduced the loan balance to the \$595,335 shown above.

The homebuyers are to execute a deed of trust in favor of the City's Redevelopment Agency for their proportionate share of the Agency's provided funding. The deeds of trust shall be junior to any first or second mortgage deeds of trust. The related Agency loan shall be repayable if the housing units are sold to non-qualifying buyers or there 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 closing of escrow on the land parcel. The City's Agency at its option may 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 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.

The \$298,137 solar equipment installation loans are repayable in equal bi-monthly installments over a period of about 33 years by the homeowners.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 724,480	\$ -	\$ -	\$ 724,480
Mobile Home Park land parcel	1,628,372	-	-	1,628,372
Construction in progress	<u>387,938</u>	<u>1,078,795</u>	<u>352,958</u>	<u>1,113,775</u>
Total capital assets, not being depreciated	<u>2,740,790</u>	<u>1,078,795</u>	<u>352,958</u>	<u>3,466,627</u>
Capital assets, being depreciated:				
Buildings	5,493,175	-	-	5,493,175
Machinery and equipment	1,734,508	87,906	-	1,822,414
Vehicles	2,332,533	-	-	2,332,533
Infrastructure – parks and skate parks	1,631,275	-	-	1,631,275
Infrastructure – solar power facilities	1,302,122	352,958	-	1,655,080
Infrastructure-Street system	<u>791,832</u>	<u>-</u>	<u>-</u>	<u>791,832</u>
Total capital assets being depreciated	<u>13,285,445</u>	<u>440,864</u>	<u>-</u>	<u>13,726,309</u>
Less accumulated depreciation for:				
Buildings	(4,008,246)	(71,028)	-	(4,079,274)
Infrastructure	(153,723)	(118,349)	-	(272,072)
Machinery and equipment	(927,326)	(169,587)	-	(1,096,913)
Vehicles	<u>(1,566,518)</u>	<u>(116,014)</u>	<u>-</u>	<u>(1,682,532)</u>
Total accumulated depreciation	<u>(6,655,813)</u>	<u>(474,978)</u>	<u>-</u>	<u>(7,130,791)</u>
Total capital assets, being depreciated, net	<u>6,629,632</u>	<u>(34,114)</u>	<u>-</u>	<u>6,595,518</u>
Governmental activities capital assets, net	<u>\$ 9,370,422</u>	<u>\$ 1,044,681</u>	<u>\$ 352,958</u>	<u>\$ 10,062,145</u>

Construction in progress costs of \$1,113,775 relates primarily to a solar energy implementation project.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 86,440	\$ -	\$ -	\$ 86,440
Construction in progress	<u>637,551</u>	<u>1,624,207</u>		<u>2,261,758</u>
Total capital assets, not being depreciated	<u>723,991</u>	<u>1,624,207</u>	<u>-</u>	<u>2,348,198</u>
Capital assets, being depreciated:				
Reservoirs	1,400,613	-	-	1,400,613
Pipelines and distribution system	4,148,377	54,413	-	4,202,790
Pipelines and collection system	4,418,536	-	-	4,418,536
Equipment	<u>564,389</u>	<u>64,866</u>	<u>-</u>	<u>629,255</u>
Total capital assets being depreciated	<u>10,531,915</u>	<u>119,279</u>	<u>-</u>	<u>10,651,194</u>
Less accumulated depreciation for:				
Reservoirs	(598,613)	(41,364)	-	(639,977)
Pipelines and distribution system	(2,085,840)	(125,563)	-	(2,211,403)
Pipelines and collection system	(1,778,600)	(196,738)	-	(1,975,338)
Equipment	<u>(379,277)</u>	<u>(11,860)</u>	<u>-</u>	<u>(391,137)</u>
Total accumulated depreciation	<u>(4,842,330)</u>	<u>(375,525)</u>	<u>-</u>	<u>(5,217,855)</u>
Total capital assets, being depreciated, net	<u>5,689,585</u>	<u>(256,246)</u>	<u>-</u>	<u>5,433,339</u>
Business-type activities capital assets, net	<u>\$ 6,413,576</u>	<u>\$ 1,367,961</u>	<u>\$ -</u>	<u>\$ 7,781,537</u>

Construction in progress at June 30, 2010 relates primarily to Morris Street pump station upgrade project.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 25,609
Public safety	217,005
Public works	93,831
Parks and recreation	<u>138,533</u>
Total depreciation expense-governmental activities	<u>\$ 474,978</u>
Business-type activities:	
Water	\$ 171,743
Wastewater	<u>203,782</u>
Total depreciation expense-business type activities	<u>\$ 375,525</u>

F. 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:

<u>Fiscal Year</u>	<u>Total</u>
2011	\$ 407,191
2012	407,191
2013	<u>407,121</u>
Total minimum lease payments	1,221,503
Less amounts representing interest	<u>(82,265)</u>
Present value of net minimum lease payments	<u>\$ 1,139,238</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

F. 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 2007 Series

On November 6, 2007 The City's Development Agency issued \$ 4,575,000 in subordinate tax allocation bonds, series 2007 to advance refund and retire the Agency's 1997 bond issues. The tax allocation bonds consist of \$4,575,000 in serial bonds bearing interest at rates from 3.3 percent to 4.0 percent.

The bonds are secured by a pledge of the Agency's tax increment revenues. Future debt service requirements are:

Fiscal Year	Principal	Interest	Total
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	330,000	95,151	425,151
2016-2020	1,835,000	283,675	2,118,675
2021	415,000	12,500	427,500
Totals	\$ 3,795,000	\$ 879,679	\$ 4,674,679

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
2011	\$ 10,000	\$ 18,385	\$ 28,385
2012	20,000	17,785	37,785
2013	15,000	16,585	31,585
2014	15,000	15,670	30,670
2015	20,000	14,755	34,755
2016-2020	115,000	53,485	168,485
2021-2023	90,000	12,730	102,730
Totals	\$ 285,000	\$ 149,395	\$ 434,395

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

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>
2011	\$ 53,443	\$ 4,102	\$ 57,545
2012	27,730	1,033	28,763
Totals	\$ 81,173	\$ 5,135	\$ 86,308

Capital Lease Obligations - Equipment

The City has entered into two capital lease agreements for the purpose principally of purchasing a fire truck and a Vac-Con Truck in an aggregate principal amount of \$777,000. The fire truck lease bears interest at 3.38 percent and is payable in annual installments of \$97,058. The Vac-Con Truck lease is payable in annual installments of \$27,668. 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>
2011	\$ 6,917	\$ 35,558
2012	6,917	35,558
2013	6,917	35,558
2014	6,917	35,558
2015	6,917	20,752
2016	6,917	20,751
Total minimum lease payments	41,502	183,854
Less amount representing interest	(6,076)	(27,549)
Present value net minimum lease payments	\$ 35,426	\$ 156,305

CEC Loan

The City obtained a loan from the California Energy Commission in an original principal amount of \$242,898. The loan is repayable in semi-annual installments of \$19,631 including principal and interest through fiscal year 2015 and bears interest at 4.5 percent per annum. Future debt service on the loan is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 32,497	\$ 6,764	\$ 39,261
2012	33,963	5,298	39,261
2013	35,521	3,740	39,261
2014	37,138	2,123	39,261
2015	19,197	434	19,631
Totals	\$ 158,316	\$ 18,359	\$ 176,675

The loan is being repaid by the water enterprise (33.26%) and by a governmental type fund, the special sales tax fund (66.74%) from available revenues.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

F. 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. The water and wastewater enterprises are responsible for paying the other 59 percent of the obligation. The obligation is repayable from any source of legally available funds.

Future minimum lease payment requirements are:

<u>Fiscal Year</u>	<u>Governmental</u>	<u>Business</u>	<u>Total</u>
2011	\$ 92,825	\$ 133,744	\$ 226,569
2012	92,825	133,744	226,569
2013	92,825	133,744	226,569
2014	92,825	133,744	226,569
2015	92,825	133,744	226,569
2016-2020	464,125	668,720	1,132,845
2021-2025	464,125	668,720	1,132,845
2026	92,825	133,744	226,569
Total minimum lease payments	1,485,200	2,139,904	3,625,104
Less amounts representing interest	(459,891)	(663,686)	(1,123,577)
Present value of net minimum lease payments	<u>\$ 1,025,309</u>	<u>\$1,476,218</u>	<u>\$ 2,501,527</u>

Clean Renewable Energy Bond Lease and Mobile Home Park Capital Lease

Clean Renewable Energy - The City entered into a capital lease arrangement with Municipal Finance Corporation pursuant to approval from the Internal Revenue Service for the issuance of Clean Renewable Energy Bonds in the principal amount of \$2,074,000 for the purpose of obtaining zero interest financing for renewable energy projects of the City. The arrangement provides for the lease of the projects to the Corporation by the City and the sublease of the projects back to the City by the Corporation in exchange for the rental payments by the City. The City's lease payments to the Corporation are payable from any source of legally available funds.

Mobile Home Park – The City also entered into a similar lease financing arrangement with the Municipal Finance Corporation for the purpose of obtaining partial financing for the purchase of an existing mobile home park as part of an open space program of the City. The capital lease was for \$817,500 and it also is payable for any source of legally available funds.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Clean Renewable Energy Bond Lease and Mobile Home Park Capital Lease

Future debt service payments on these two leases are as follows:

<u>Fiscal Year</u>	<u>Renewable Energy Lease</u>	<u>Mobile Home Park Lease</u>	<u>Total</u>
2011	\$ 122,000	\$ 64,584	\$ 186,584
2012	122,000	64,584	186,584
2013	122,000	64,584	186,584
2014	122,000	64,584	186,584
2015	122,000	64,584	186,584
2016-2020	610,000	322,920	932,920
2021-2025	610,000	322,920	932,920
2026-2027	-	129,168	129,168
Total minimum lease payments	1,830,000	1,097,928	2,927,928
Less amounts representing interest	-	(358,013)	(358,013)
Present value of net minimum lease payments	\$ 1,830,000	\$ 739,915	\$ 2,569,915

Changes in Long-term liabilities:

Long-term debt activity for the 2010 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:					
2007 tax allocation refunding bonds	\$ 4,050,000	\$ -	\$ 255,000	\$ 3,795,000	\$ 290,000
Special assessment bonds	295,000	-	10,000	285,000	10,000
Capital lease- capital projects	1,066,910	-	41,601	1,025,309	43,675
Capital lease-advance refunding	1,489,538	-	350,300	1,139,238	364,700
Capital lease obligations-equipment	134,869	-	99,443	35,426	5,245
CEC Loan	128,311	-	21,068	107,243	22,000
Capital lease – renewable energy	1,952,000	-	122,000	1,830,000	122,000
Capital lease – mobile home park	766,613	-	26,698	739,915	28,709
Compensated absences	739,804	141,869	200,000	681,673	300,000
Total	\$ 10,623,045	\$ 141,869	\$ 1,126,110	\$ 9,638,804	\$ 1,186,329
Business-Type Activities:					
Installment agreement	\$ 130,886	\$ -	\$ 49,713	\$ 81,173	\$49,957
Capital lease Vac-Con	121,327	-	15,052	106,275	15,735
Capital lease vehicles	-	64,866	14,836	50,030	11,234
Capital lease –capital projects	1,536,156	-	59,938	1,476,218	62,848
CEC Loan	61,088	-	10,015	51,073	10,497
Totals	\$ 1,849,457	\$ 64,866	\$ 149,554	\$ 1,764,769	\$ 150,271

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2010

5. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City, due to the costs of available coverage, participates as a member of the Redwood Empire Municipal Insurance Fund (REMIF).

REMIF provides joint protection programs for public entities covering automobile, general liability, errors and omissions, property and workers compensation claims. Under the program, the City has a \$5,000 retention limit similar to a deductible with the REMIF being responsible for losses above that amount up to \$500,000 for liability losses, \$1,000,000 for workers compensation claims, and \$25,000 for property damage. The Fund carries purchased excess commercial liability insurance of \$39.5 million in excess of its \$500,000 limit, and a commercial property policy for \$300 million. Financial information pertaining to REMIF can be obtained from its administrative offices at 414 W. Napa Street, Sonoma, California 95476. Liabilities of the City are reported in the statement of net assets for the when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The City's only exposure to claim liabilities would be for losses, if any, not covered by REMIF. There have been not significant changes in insurance coverages in fiscal 2010. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no significant uninsured claim liabilities at June 30, 2010.

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

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

5. Other Information(Continued)

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 City are established by and may be amended by PERS. Plan members are required to contribute 7 percent of their annual covered salary for regular employees and 9 percent for safety employees. The City is required to make contributions at actuarially determined rates. The current rates were 13.837 percent for regular employees, 20.02 percent for fire employees, and 28.63 percent for police employees. The City's annual pension cost for the most recent three year is as follows:

Three-year Trend of Information

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
<i>Regular employees</i>	6/30/08	\$ 269,646	100%	\$ -
	6/30/09	\$ 282,091	100%	\$ -
	6/30/10	\$ 273,114	100%	\$ -
<i>Safety employees</i>	6/30/08	\$ 373,021	100%	\$ -
	6/30/09	\$ 372,163	100%	\$ -
	6/30/10	\$ 358,982	100%	\$ -

The City also pays the employee's share of required contributions which amounts are not included in the above schedule.

E. Other Post Employment Benefits

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

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on a projected pay-as-you-go financing requirements, with additional amounts to prefund benefits determined annually by the City Council. For the fiscal year ended June 30,2010, the City contributed \$47,356 of current year premiums (100% of total premiums) and zero to prefund benefits. Plan members receiving benefits contributed no amounts to the total premiums.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

5 Other Information (Continued)

E Other Post Employment Benefits (Continued)

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

Annual required contribution (ARC)	\$ 111,310
Interest on net OPEB obligation	-
Adjustments to the ARC	-
	<hr/>
Annual OPEB expense	111,310
Contributions made	(47,356)
	<hr/>
Change in net OPEB obligation	63,954
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u>\$63,954</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 111,310	42.5%	\$ 63,954

Funding Status and Funding Progress. As of July 1, 2010, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$1,461,002, and the actuarial value of plan assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,461,002. The covered payroll (annual payroll of active employees covered by the plan) was \$3,209,464, and the ratio of the UAAL to covered payroll was 45.5 percent.

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

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

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2010

5 Other Information (Continued)

E Other Post Employment Benefits (Continued)

In the July 1, 2010 valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return based on assumed long-term return on plan assets or employer assets as appropriate. An annual health care trend rate of zero percent was used in the valuation. There were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of payroll over 30 years, the remaining amortization period at June 30, 2010.

F. Change in Accounting Principle

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

G. Proposition 1A Property Tax Receivable

Under the provision of Proposition 1A and as part of the 2009-2010 State budget package passed by the California Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenues, including those property taxes associated with the motor vehicle license fee, the triple flip sales tax and supplemental property tax apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten year period. The amount of the borrowing pertaining to the City was \$156,338.

Authorized with the 2009-2010 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority, a joint powers authority sponsored by the California Association of Counties and League of California Cities, to enable local governments to sell their Proposition 1A receivable to the Authority. Under the securitization program, the Authority simultaneously purchases the Proposition 1A receivables and issued bonds (Prop 1A bonds) to provide local agencies with cash proceeds in two equal installments on January 15, 2010 and May 2, 2010. The purchase price paid to local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value, and as a result, no gain or loss was reported.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2010**

H Restricted Net Assets, Reserved and Designated Fund Balances

The \$ 11,476,901 restricted amount in the governmental 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	Redevelopment Admin Fund	Nonmajor Funds
Debt service	\$ -	\$ 37,710
Capital projects	-	314,375
Advances to other funds	1,033,000	-
	\$ 1,033,000	\$ 352,085

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 plans are subject to change, have not been legally authorized, and may not result in expenditures. The \$140,335 in the general fund is designated for future contingencies.

I. Deficit Fund Balances

The City's low and moderate income housing fund has a \$810,816 fund deficit. The deficit is to be funded from future incremental property tax revenues.

J. Supplemental Education Revenue Augmentation Funds (SERAF)

Chapter 21, Statutes of 2009, requires redevelopment agencies to collectively shift \$1.7 billion in property tax revenues to K-12 schools during the 2009-2010 fiscal year via the SERAF that the Chapter created in each County. The amount required to be paid by the City's redevelopment agency in fiscal 2010 was \$797,975 reported as an education expense in the statement of activities.

K. Beginning Year Net Assets – Governmental Activities and Fund Balances

The beginning of year net assets of the governmental activities and governmental fund balances have been restated to correct an error in revenue accounting. The effect of the restatement was to reduce governmental activities net assets from \$13,022,756 to \$12,897,756 and reduce governmental fund balances from \$7,695,511 to \$7,570,511.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<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	\$ 650,673	\$ 650,673	\$ 650,673	\$ -
Resources (inflows):				
Property taxes	956,000	956,000	1,033,478	77,478
Sales taxes	1,567,000	1,567,000	1,385,478	(181,522)
Transient occupancy taxes	320,000	320,000	238,657	(81,343)
Other taxes	743,500	743,500	803,460	59,960
License permits	324,000	324,000	223,679	(100,321)
Fines and forfeits	94,000	94,000	88,112	(5,888)
Interest and rents	132,000	132,000	47,574	(84,426)
Intergovernmental	628,270	628,270	644,891	16,621
Charges for services	290,200	290,200	333,146	42,946
Miscellaneous	57,250	57,250	69,137	11,887
Transfers	-	-	99,805	99,805
	<u>5,762,893</u>	<u>5,762,893</u>	<u>5,618,090</u>	<u>(144,803)</u>
Amounts available for charges to appropriations				
Charges to appropriations:				
General government:				
Legislative	57,643	57,643	57,170	473
Manager	241,367	241,367	236,817	4,550
Finance	158,854	158,854	154,824	4,030
Legal	159,944	159,944	178,872	(18,928)
Insurance	-	-	1,566	(1,566)
Miscellaneous	61,921	61,921	103,456	(41,535)
Employee benefits	(1,980)	(1,980)	174,714	(176,694)
Government buildings	45,391	45,391	44,503	888
Community support	50,224	50,224	47,128	3,096
Planning	214,667	214,667	270,350	(55,683)
Public safety:				
Police	2,769,689	2,769,689	2,772,814	(3,125)
Animal control	10,400	10,400	9,782	618
Emergency	3,100	3,100	3,090	10
Fire	514,353	514,353	498,934	15,419
Public Works:				
Building inspection	146,981	146,981	150,301	(3,320)
Engineering	82,455	82,455	90,659	(8,204)
Corporation yard	50,619	50,619	46,958	3,661
Streets	242,135	242,135	245,648	(3,513)
Parking	24,025	24,025	22,825	1,200
Parks and recreation				
Parks	146,528	146,528	152,872	(6,344)
Pool	87,423	87,423	87,445	(22)
Recreation	43,442	43,442	36,518	6,924
Debt Service:				
Principal	5,009	5,009	5,009	-
Interest	1,908	1,908	1,908	-
Transfers out	-	-	83,592	(83,592)
Total charges to appropriations	<u>5,116,098</u>	<u>5,116,098</u>	<u>5,477,755</u>	<u>(361,657)</u>
Fund Balance, June 30	<u>\$ 646,795</u>	<u>\$ 646,795</u>	<u>\$ 140,335</u>	<u>\$ (506,460)</u>

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

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

Sources/inflows resources:

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ 5,618,090
Differences - budget to GAAP:	
Transfers in from other funds are a budgetary resource, but are not revenues for financial reporting purposes	(99,805)
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>(650,673)</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 4,867,612</u></u>
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Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 5,477,755
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(83,592)</u>

Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 5,394,163</u></u>
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Required Supplementary Information
CITY OF SEBASTOPOL
 Budgetary Comparison Schedule - Low and Moderate Income Housing Special Revenue Fund
 For The Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Fund Balance, July 1	\$ (1,680,111)	\$ (1,680,111)	\$ (1,680,111)	\$ -
Resources (inflows):				
Incremental property taxes	499,800	499,800	520,999	21,199
Interest and rents	-	-	2,167	2,167
Miscellaneous	25,000	25,000	475,672	450,672
Proceeds of state loans	-	-	-	-
Amounts available for charges to appropriations	<u>(1,155,311)</u>	<u>(1,155,311)</u>	<u>(681,273)</u>	<u>474,038</u>
Charges to appropriations:				
Community development:				
Housing projects	73,900	73,900	7,345	66,555
Debt Service	85,477	85,477	85,513	(36)
Transfers out	-	-	36,055	(36,055)
Total charges to appropriations	<u>159,377</u>	<u>159,377</u>	<u>128,913</u>	<u>30,464</u>
Fund Balance, June 30	<u>\$ (1,314,688)</u>	<u>\$ (1,314,688)</u>	<u>\$ (810,186)</u>	<u>\$ 504,502</u>

Exploation of Differences between Budgetary Inflows and GAAP revenues:

Sources/Inflows of resources:	
Actual amounts available for appropriation per above schedule	\$ (681,273)
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>1,680,111</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 998,838</u>
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Uses/Outflows of resources:	
Total charges to appropriations in the above schedule	\$ 128,913
Differences budget to GAAP:	
Transfers out are a budgetary use but are reported as an other financing use for financial reporting purposes	<u>(36,055)</u>

Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 92,858</u>
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**Required Supplementary Information
City of Sebastopol
Other Post Employment Benefits (OPEB)
Schedule of Funding Progress
June 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2010	\$ -	\$ 1,461,002	\$ 1,461,002	0.00%	\$ 3,209,464	45.52%

OPTIONAL SUPPLEMENTARY INFORMATION
NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS

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

Special Revenue Funds												
	Police Grants	Fire Safer	Fire Treating	Fire Tax	Special Construction	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special Sales Tax
Assets												
Cash and Investments	\$ 45,102	\$ -	\$ 648	\$ 881	\$ 299,091	\$ 202,588	\$ 34,853	\$ 3	\$ 5,843	\$ -	\$ 39,940	\$ 598,675
Receivables:												
- governments												
- Due from other funds	32,366	-	-	13,763	-	843,185	-	-	-	19,892	-	38,000
- Assessments receivable	-	-	-	-	-	-	-	-	-	-	-	-
- Notes receivable	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 77,468	\$ -	\$ 648	\$ 14,644	\$ 299,091	\$ 1,045,753	\$ 34,853	\$ 3	\$ 5,843	\$ 19,892	\$ 39,940	\$ 632,675
Liabilities and Fund Balances												
Liabilities:												
Accounts payable	\$ 5,151	\$ -	\$ -	\$ 881	\$ -	\$ 818	\$ 7,997	\$ -	\$ -	\$ -	\$ -	\$ 18,257
Due to other funds	20,409	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	25,560	-	-	881	-	818	7,997	-	-	-	-	18,257
Fund balances:												
- Reserved	-	-	-	-	-	-	-	-	-	-	-	-
- Unreserved	51,908	-	648	13,763	299,091	1,044,935	26,856	3	5,843	19,892	39,940	614,418
Total fund balances	51,908	-	648	13,763	299,091	1,044,935	26,856	3	5,843	19,892	39,940	614,418
Total liabilities and fund balances	\$ 77,468	\$ -	\$ 648	\$ 14,644	\$ 299,091	\$ 1,045,753	\$ 34,853	\$ 3	\$ 5,843	\$ 19,892	\$ 39,940	\$ 632,675

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

Special Revenue Funds

	Proposition 1B	Housing General Plan	Pavement Program	BIA Tourism	Vehicle Abatement	Solar Sequoia	Solar Well 4	Solar Youth Annex	Solar Community Center	Solar Garzot	Solar Sebastopol	State Park
Assets												
Cash and investments	\$ 378,338	\$ 32,122	\$ 271,010	\$ 18,362	\$ 89	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,648
Receivables:												
from other governments	-	-	-	9,894	-	-	-	-	-	-	-	-
from other funds	-	-	-	-	-	-	-	-	-	-	-	-
Assessments receivable	-	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 378,338	\$ 32,122	\$ 271,010	\$ 28,256	\$ 89	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,648
Liabilities and Fund Balances												
Liabilities:												
Accounts payable	\$ 1,504	\$ 725	\$ -	\$ 13,171	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	1,504	725	-	13,171	-	-	-	-	-	-	-	86
Fund balances:												
Reserved	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved	376,834	31,397	271,010	15,115	89	-	-	-	-	-	-	44,562
Total fund balances	376,834	31,397	271,010	15,115	89	-	-	-	-	-	-	44,562
Total liabilities and fund balances	\$ 378,338	\$ 32,122	\$ 271,010	\$ 28,286	\$ 89	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,648

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

	Capital Projects										Debt Service		Total Nonmajor Governmental Funds		
	City Capital Projects	CREBS	Mobile Home Park	CDBG	Undergrounding	REDCOM	Library ADA	TFCA	Solar Sonoma	Safe Roads To School	County/Street Smart	Street Smart 2		Laguna Wetlands	Woodstone Assessment district
Assets															
Cash and investments	\$ 314,375	\$ 365,833	\$ -	\$ 1,040	\$ 184,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,666	\$ -	\$ -	\$ 37,710	\$ 3,089,558
Receivables:															
Receivables from other governments	-	-	-	8,370	-	13,406	-	2,048	-	45,066	-	308,278	680	-	489,763
Due from other funds	-	-	-	-	-	-	-	-	-	308,278	-	-	-	-	1,151,463
Assessments receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	285,000	
Notes receivable	-	298,137	-	-	-	-	-	-	-	-	-	-	-	-	298,137
Total assets	\$ 314,375	\$ 665,970	\$ -	\$ 9,410	\$ 184,731	\$ 13,406	\$ -	\$ 2,048	\$ -	\$ 45,066	\$ 503,944	\$ 308,278	\$ 680	\$ 322,710	\$ 5,293,921
Liabilities and Fund Balances															
Liabilities:															
Accounts payable	\$ -	\$ -	\$ -	\$ 1,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,016	\$ -	\$ -	\$ -	\$ 83,526
Due to other funds	-	-	-	8,370	-	13,406	-	2,048	-	45,066	308,278	308,278	680	-	706,535
Deferred revenue	-	298,137	-	-	-	-	-	-	-	-	-	-	-	285,000	583,137
Total liabilities	-	298,137	-	9,410	-	13,406	-	2,048	-	45,066	342,294	308,278	680	285,000	1,373,186
Fund balances:															
Reserved	314,375	-	-	-	-	-	-	-	-	-	-	-	-	37,710	352,085
Unreserved	-	365,833	-	-	184,731	-	-	-	-	-	161,650	-	-	-	3,568,838
Total fund balances	314,375	365,833	-	-	184,731	-	-	-	-	161,650	-	-	-	37,710	3,920,723
Total liabilities and fund balances	\$ 314,375	\$ 665,970	\$ -	\$ 9,410	\$ 184,731	\$ 13,406	\$ -	\$ 2,048	\$ -	\$ 45,066	\$ 503,944	\$ 308,278	\$ 680	\$ 322,710	\$ 5,293,921

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

Special Revenue Funds

	Police Grants	Fire Safer	Fire Training	Gas Tax	Special Construction	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special sales Tax	Proposition 1B	Housing General Plan	Pavement Program
Revenues:															
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,142	\$ -	\$ 39,940	\$ 445,384	\$ -	\$ -	\$ -
Intergovernmental	215,971	65,581	2,550	136,799	-	-	-	-	-	70,463	-	-	-	51,289	-
Charges for services	-	-	-	-	127,985	80,639	89,097	-	-	-	-	-	-	-	-
Interest	209	5	12	-	1,574	6,064	161	-	33	413	-	3,067	2,314	183	1,510
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	25,333	-	-	-
Total revenues	216,180	95,586	2,562	136,799	129,559	86,703	89,258	-	8,175	70,876	39,940	473,804	2,314	51,482	1,510
Expenditures:															
Current:															
Public safety	195,576	104,726	5,430	-	-	-	-	-	-	-	-	-	-	-	-
Public works	-	-	-	100,562	-	-	65,108	-	-	50,983	-	-	24,535	-	13,008
Community development	-	-	-	-	-	-	-	-	7,744	-	-	-	-	20,085	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	32,767	23,481	-	-	-	-	-	72,880	-	-	-
Debt service	-	-	-	-	14,104	-	-	-	-	-	-	142,989	-	-	-
Principal	-	-	-	-	17,987	-	-	-	-	-	-	42,009	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	195,576	104,726	5,430	100,562	64,238	23,481	85,108	-	7,744	50,983	-	257,888	24,535	20,085	13,008
Excess (deficiency) of revenues over (under) expenditures	20,604	(9,140)	(2,868)	36,237	65,321	63,242	4,150	-	431	19,893	39,940	215,916	(22,221)	31,397	(11,486)
Other financing sources (uses):															
Transfers in	-	-	5	-	-	-	-	-	-	-	162,665	-	-	-	100,000
Transfers out	-	(5)	-	(36,139)	-	(27,583)	-	-	-	(104,314)	-	(100,000)	-	-	(58,652)
Total other financing sources (uses)	-	(5)	5	(36,139)	-	(27,583)	-	-	-	(104,314)	162,665	(100,000)	-	-	41,348
Net change in fund balances	20,604	(9,145)	(2,863)	88	65,321	35,659	4,150	-	431	(84,421)	202,905	115,916	(22,221)	31,397	29,852
Fund balances, July 1	31,304	9,145	3,511	13,665	233,770	1,009,278	22,806	3	5,412	104,313	(162,965)	498,502	389,055	-	241,158
Fund balances, June 30	\$ 51,908	\$ -	\$ 648	\$ 13,753	\$ 299,091	\$ 1,044,935	\$ 26,956	\$ 3	\$ 5,843	\$ 19,892	\$ 39,940	\$ 614,418	\$ 376,834	\$ 31,397	\$ 271,010

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

	Special Revenue Funds										Capital Projects		
	BIA Tourism	Vehicle Abatement	Solar Sequoia	Solar Well 4	Solar Youth Annex	Solar Community Center	Solar Garzot	Solar Sebastapol	Skate Park	City Capital Projects	CREBS	Mobile Home Park	
Revenues:													
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	
Charges for services	33,154	2,818	-	-	-	-	-	-	-	-	-	-	
Interest	-	120	-	-	-	-	25	-	2,250	216	115	-	
Miscellaneous	-	-	-	-	-	-	-	-	-	-	42,489	4,758	
Total revenues	33,154	2,738	-	-	-	-	25	-	2,250	216	42,804	4,758	
Expenditures:													
Current:													
Public safety	-	2,650	-	-	-	-	-	-	-	-	-	-	
Public works	-	-	-	-	-	-	-	-	-	-	-	-	
Community development	33,363	-	-	-	-	-	-	-	-	-	-	5,160	
Parks and recreation	-	-	-	-	-	-	8,680	-	1,286	-	-	-	
Capital outlay	-	-	-	-	-	514,886	-	-	-	-	-	-	
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	
Principal	-	-	-	-	-	-	-	-	-	-	-	-	
Interest	-	-	-	-	-	-	-	-	-	122,000	-	-	
Total expenditures	33,363	2,650	-	-	-	514,886	-	8,680	1,286	-	122,000	5,160	
Excess (deficiency) of revenues over (under) expenditures	(209)	89	-	-	-	(514,886)	-	(8,655)	982	216	(79,996)	(402)	
Other financing sources (uses):													
Transfers in	-	-	126,402	222,974	-	514,866	-	-	-	-	173,372	125,402	
Transfers out	-	(49,210)	-	(222,974)	(9,666)	-	(7,569)	(25)	-	(164,264)	(624,036)	-	
Total other financing sources (uses)	-	(49,210)	126,402	-	(9,666)	514,866	(7,569)	(25)	-	(164,264)	(450,664)	125,402	
Net change in fund balances	(209)	(49,121)	126,402	-	(9,666)	-	(7,569)	(8,680)	982	(164,048)	(530,060)	125,000	
Fund balances, July 1	15,324	49,210	(126,402)	-	9,666	-	7,569	8,680	43,600	478,423	895,693	(125,000)	
Fund balances, June 30	\$ 15,115	\$ 89	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,582	\$ 314,375	\$ 365,633	\$ -	

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

	Capital Projects										Debt Service		Total Nonmajor Governmental Funds
	CDBG	Undergrounding	REDCOM	Library ADA	TFCA	Solar Sonoma	Safe Routes To School	County Street Smart	Street Smart 2	Laguna Wetlands	Woodstone Assessment district		
Revenues:													
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 483,466
Intergovernmental	8,370	-	40,722	-	2,048	81,607	68,551	374,811	308,278	680	-	-	1,457,720
Charges for services	-	-	-	-	-	-	-	-	-	-	30,665	-	384,159
Interest	-	1,087	-	-	-	-	-	-	-	-	-	5	17,143
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	74,830
Total revenues	8,370	1,087	40,722	-	2,048	81,607	68,551	374,811	308,278	680	30,670	-	2,407,318
Expenditures:													
Current:													
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	308,382
Public Works	-	-	40,722	30,526	2,048	81,578	77,028	230,848	308,278	-	-	-	1,045,220
Community development	8,370	-	-	-	-	-	-	-	-	-	-	-	74,722
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	9,948
Capital outlay	-	-	-	-	-	-	-	-	-	680	-	-	644,674
Debt service	-	-	-	-	-	-	-	-	-	-	10,000	-	289,103
Principal	-	-	-	-	-	-	-	-	-	-	24,674	-	84,050
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	8,370	-	40,722	30,526	2,048	81,576	77,028	230,848	308,278	680	34,674	-	2,458,089
Excess (deficiency) of revenues over (under) expenditures	-	1,087	-	(30,526)	-	31	(8,477)	143,963	-	-	(4,004)	-	(48,781)
Other financing sources (uses):													
Transfers in	-	-	-	35,192	-	-	27,563	-	-	-	1,008	-	1,489,789
Transfers out	(458)	-	-	-	-	(13,998)	-	-	-	-	-	-	(1,418,913)
Total other financing sources (uses)	(458)	-	-	35,192	-	(13,998)	27,563	-	-	-	1,008	-	70,876
Net change in fund balances	(458)	1,087	-	4,666	-	(13,987)	18,108	143,963	-	-	(2,996)	-	22,085
Fund balances, July 1	458	183,644	-	(4,866)	-	13,967	(19,106)	17,687	-	-	40,706	-	3,898,828
Fund balances, June 30	\$ -	\$ 184,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,650	\$ -	\$ -	\$ 37,710	\$ -	\$ 3,920,723