

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

**Basic Financial Statements
for the
Fiscal Year Ended June 30, 2010**

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Basic Financial Statements
for the
Fiscal Year Ended June 30, 2010**

Table of Contents

	<u>Page</u>
TABLE OF CONTENTS	
FINANCIAL SECTION	
Report of Independent Accountants	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	12
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	13
Notes to the Basic Financial Statements	14
<hr/>	
REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Budgetary Comparison Schedule- Low and Moderate Income Housing Special Revenue Fund	23
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	24
COMPLIANCE REPORT	
Compliance With State of California Requirements	25

FINANCIAL SECTION



Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

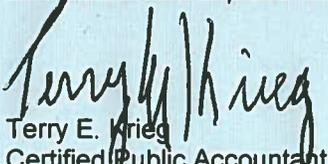
Board of Directors
Community Development Agency of the City of Sebastopol
Sebastopol, California

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

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, of the Community Development Agency of the City of Sebastopol, California, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 8 and page 23 through 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.


Terry E. Krieg
Certified Public Accountant
December 20, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sebastopol Community Development Agency's financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on June 30, 2010.

FINANCIAL HIGHLIGHTS

- The Agency's total net assets decreased by about \$ 394,065 over the course of this year's operations.
- Incremental property tax revenues increased in fiscal year 2010 by about 21.4 percent to a total of \$1,925,970. This was the result of the expiration of the AB 1389 reduction mandated by State Legislation during 2008-09.
- Investment revenues decreased in 2010 by about 75.7 percent compared to 2009 as a result of lower returns on invested funds.
- Operating expenses in fiscal 2010 increased a net \$800,000 or 137.9 percent more than in fiscal year 2009 as \$797,975 was mandated by the State to be paid to the State Education Revenue Augmentation Fund (SERAF)
- The Agency in fiscal 2010 wrote down a note receivable by \$1,004,665 in order to promote the effectiveness of one of the Agency's affordable housing programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Government-wide Statements

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

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

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

The Agency has only one kind of fund type:

- *Governmental funds* – All of the Agency's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net Assets. The Agency's *combined* net assets decreased by about \$394,000 between fiscal years 2010 and 2009. (See Table A-1.)

TABLE A-1 Net Assets of the Agency	Governmental Activities (Rounded to Nearest Thousand)		Total Percentage Change
	2010	2009	2009-2010
Current assets	\$ 3,494,000	\$ 3,056,000	14.3%
Other assets	4,407,000	5,869,000	-24.9%
Capital assets	724,000	724,000	0.0%
Total assets	8,625,000	9,649,000	-10.6%
Long-term debt outstanding	4,836,000	5,433,000	-11.0%
Other liabilities	20,000	53,000	-62.3%
Total liabilities	4,856,000	5,486,000	-14.0%
Net assets			
Invested in capital assets, net	(3,910,000)	(4,491,000)	12.9%
Restricted	4,373,000	5,982,000	-26.9%
Unrestricted	3,306,000	2,672,000	23.7%
Total net assets	\$3,769,000	\$4,163,000	-9.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS

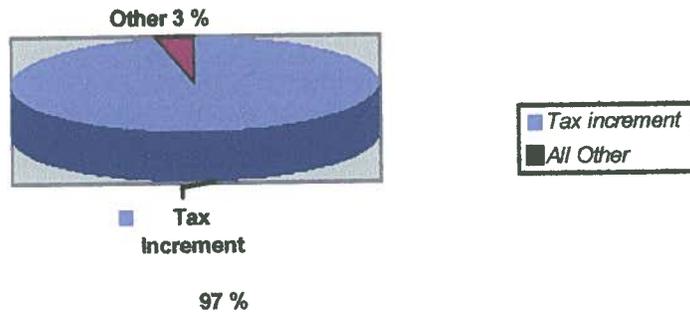
FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

This 2010 \$394,000 decrease in net assets resulted from expenses and special items exceeding revenues. The Agency at year end had about \$4.9 million in long-term debt obligations outstanding. At year end, the Agency had about \$ 3.49 million in cash and investments available for agency activities.

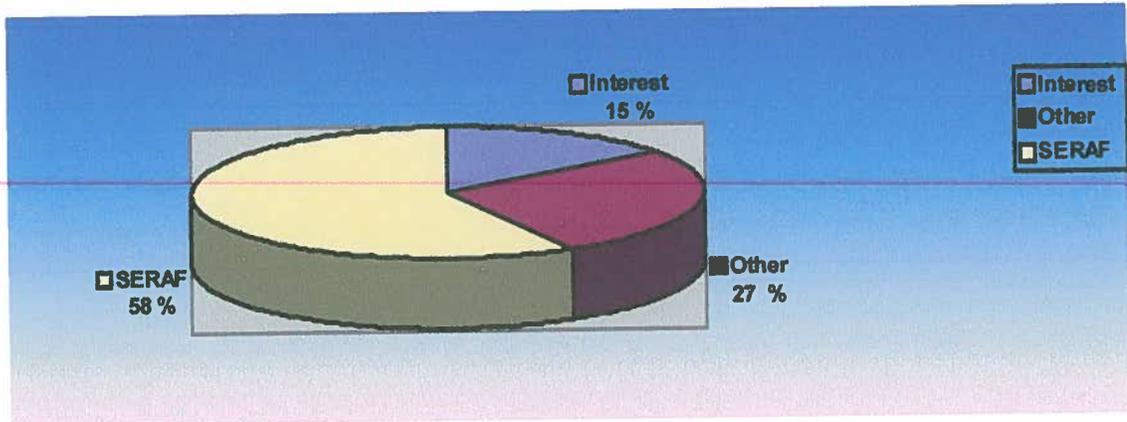
Changes in net assets. The Agency's total program and general revenues in 2010 increased by about \$234,000 to about \$1.99 million. (See Table A-2.) About 97 percent of the Agency's revenue comes from incremental property taxes; the remaining 3 percent comes from investment earnings and other revenues.

The total cost of all programs and services increased by about \$800,000 or about 137.9 percent.

**Agency Governmental-Type Activity Revenues
Fiscal Year 2010**



Agency Governmental-Type Activity Expenses - Fiscal Year 2010



About 15 percent of the Agency's expenses were for interest on borrowed funds and about 85 percent for housing activities, projects and educational support for the SERAF.

Total expenses increased by about \$800,000 primarily as a result of the requirement to pay about \$798,000 into the SERAF in fiscal 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

TABLE A-2
Agency Revenues and
Expenses

	Governmental Activities (rounded to nearest thousand)		Percentage Change 2009-2010
	2010	2009	
Revenues			
Program revenues			-48.3%
Charges for services	\$45,000	\$87,000	
General revenues:			21.4%
Property taxes	1,926,000	1,586,000	-76.1%
Interest	20,000	84,000	
Total revenues	1,991,000	1,757,000	13.3%
Expenses			
Housing	108,000	65,000	66.2%
Projects	265,000	284,000	-6.7%
SERAF payments	798,000	-	100.0%
Interest	209,000	231,000	-9.5%
Total expenses	1,380,000	580,000	137.9%
Excess (deficiency)	611,000	1,177,000	-48.1%
Special item: Forgiveness of debt	(1,005,000)	-	-100.0%
Increase (decrease) in net assets	\$(394,000)	\$ 1,177,000	-133.5%

Interest expense decreased 9.5 percent primarily because of the normal reductions in outstanding principal balances.

Project expenses decreased by about \$19,000 as a result of less spending on project activities.

The special item in fiscal 2010, forgiveness of indebtedness of \$1,005,000, was the result of the Agency voluntarily reducing the note receivable for financing provided by the Agency on an affordable housing project. The note was reduced as a result of the general economy and the condition of the housing market in our local area.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As the Agency completed the year, its governmental funds reported a *combined* fund balance of about \$3.49 million, about a \$468,000 increase from 2009. Of that increase, almost all was the result of the Agency spending less than revenues in fiscal 2010.

The combined ending \$ 3.49 million fund balance consisted of:

- About \$ 4.3 million in the Capital Projects Fund to be used for future projects and activities, Of this \$4.3 million, \$1.03 million is not available as it is reserved for the cash advance made to the Low and Moderate Income Housing Fund to acquire land.
- The \$810,186 deficit in the Low and Moderate Income Housing Fund exists because of the land purchase in fiscal 2004 and the borrowing of money from the Agency's capital projects fund. In fiscal 2010, the deficit decreased by about \$869,925 as a result of revenues exceeding spending.

The net changes in fund balances for the 2010 fiscal year were:

- About a \$401,000 decrease in the Capital Projects Fund
- About an \$870,000 increase in the Low and Moderate Income Housing Fund as a result of the less spending on affordable housing projects in fiscal 2010.

Low and Moderate Income Housing Special Revenue Fund Budgetary Highlights

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

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

During the 2010 fiscal year, the Agency's budget for the low moderate income housing was *not* amended. Actual expenditures in the Low and Moderate Income Housing Fund were \$30,464 less than final budget amounts. This positive spending variance from budget existed primarily because less spent on affordable housing loans and projects than was originally believed to be necessary.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Agency at year end had \$ 724,480 invested in capital assets which consisted principally of small remaining portions of parcels acquired for the future development of affordable housing. During the 2004 year, the Agency acquired several parcels for about \$2.9 million to be used to develop affordable housing for first-time home buyers. These parcels were sold during fiscal 2008 for about \$3,120,00 with a resulting special item gain of \$575,591 from the sales for affordable housing projects. In fiscal 2009, the Agency purchased an additional land parcel for \$377,193.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Debt

The long-term debt obligations of the Agency were about \$4.9 million at the end of 2010, and consisted primarily of the \$3,795,000 of 2007 tax allocation bonds and \$1,139,238 of the refunding capital lease arrangement. All debt service payments were made as required and debt service reserve requirements were maintained by the Agency.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2011 fiscal year, the Agency in its budget for 2011 has:

- Anticipated that the Agency will receive about \$2.1 million in tax increment revenues in 2011 which is a flat, zero percent increase over 2010 fiscal year
- Expected that operating expenditures will increase approximately \$320,000 with the Plaza restroom project and streetscape projects planned.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, City of Sebastopol, 7120 Bodega Avenue, Sebastopol, California 95473.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Statement of Net Assets
Governmental Activities
June 30, 2010

ASSETS

Cash and investments	\$	3,493,337
Taxes receivable		<u>718</u>
Total current assets		<u>3,494,055</u>
Noncurrent assets:		
Loans receivable - long term		4,205,396
Debt issue costs		201,399
Capital assets not being depreciated		<u>724,480</u>
Total noncurrent assets		<u>5,131,275</u>
Total assets	\$	<u><u>8,625,330</u></u>

LIABILITIES

Current liabilities		
Accounts payable	\$	4,151
Interest payable		15,476
Tax allocation bonds and capital leases due in one year		<u>654,700</u>
Total current liabilities		<u>674,327</u>
Noncurrent liabilities due in more than one year		
Tax allocation bonds		3,505,000
Capital Lease-Refunding		774,538
Loss on refunding		<u>(97,972)</u>
Total noncurrent liabilities		<u>4,181,566</u>
Total liabilities		<u>4,855,893</u>

NET ASSETS

Invested in capital assets, net of related debt		(3,910,387)
Restricted for:		
Housing projects		4,373,495
Unrestricted		<u>3,306,329</u>
Total net assets	\$	<u><u>3,769,437</u></u>

See accompanying notes to the basic financial statements

**Community Development Agency of The City of Sebastopol
Balance Sheet
Governmental Funds
June 30, 2010**

	Capital Project Fund	Low and Moderate Income Housing Fund	Total Governmental Funds
ASSETS			
Cash and investments	\$ 3,267,649	\$ 225,688	\$ 3,493,337
Receivables:			
Taxes	718	-	718
Notes and loans	54,715	4,150,681	4,205,396
Internal balances	1,033,000	-	1,033,000
	\$ 4,356,082	\$ 4,376,369	\$ 8,732,451
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,277	\$ 2,874	\$ 4,151
Internal balances	-	1,033,000	1,033,000
Deferred revenue	54,715	4,150,681	4,205,396
	55,992	5,186,555	5,242,547
Fund balances:			
Reserved for internal balances	1,033,000	-	1,033,000
Unreserved, undesignated	3,267,090	(810,186)	2,456,904
	4,300,090	(810,186)	3,489,904
Total liabilities and fund balances	\$ 4,356,082	\$ 4,376,369	\$ 8,732,451
Total Governmental Fund Balances			\$ 3,489,904
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets are not financial resources for governmental activities and therefore are not reported in the funds			724,480
Long-term notes are not available to pay obligations of the current period and therefore are deferred in the funds			4,205,396
Interest payable is not due and payable in the current period and is therefore not reported in the funds			(15,476)
Accounting losses on refunding transactions are capitalized in the statement of net assets and are amortized to expense in the statement of activities			97,972
Debt issue costs are capitalized in the statement of net assets, but are reported as an outflow of resources in the funds			201,399
Long-term debt obligations due to third parties are not due and payable in the current period and therefore are not reported in the funds.			(4,934,238)
Net Assets of Governmental Activities			\$ 3,769,437

See accompanying notes to the basic financial statements

**Community Development Agency of The City of Sebastopol
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010**

	Capital Project Fund	Low and Moderate Income Housing Fund	Total Governmental Funds
REVENUES			
Property taxes, incremental	\$ 1,404,971	\$ 520,999	\$ 1,925,970
Interest and rents	18,119	2,167	20,286
Miscellaneous	8,906	475,672	484,578
Total revenues	1,431,996	998,838	2,430,834
EXPENDITURES			
Current:			
Community development:			
Administration	105,105	-	105,105
Projects and studies	142,965	7,344	150,309
Educartion SERAF	797,975	-	797,975
Housing	-	100,641	100,641
Debt service:			
Principal	592,014	13,286	605,300
Interest	195,168	7,642	202,810
Total expenditures	1,833,227	128,913	1,962,140
Excess (deficiency) of revenues over expenditures	(401,231)	869,925	468,694
Net change in fund balances	(401,231)	869,925	468,694
Fund balances, July 1	4,701,321	(1,680,111)	3,021,210
Fund balances, June 30	<u>\$ 4,300,090</u>	<u>\$ (810,186)</u>	<u>\$ 3,489,904</u>

See accompanying notes to the basic financial statements

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

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 468,694</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Decrease in deferred revenue from long-term receivable collections are reported as outflows in the funds, but are not reported as revenues in the statement of activities	(440,354)
Interest on long-term debt is recorded as an expense in the statement of activities but does not require the use of current financial resources and are not recorded as expenditures in the funds until paid	1,890
Losses from refunding transactions are reported as expenditures in the funds but are capitalized and amortized to interest expense in the statement of activities	(8,146)
Debt issue costs are amortized to expense over the life of the debt in the statement of activities, but are reported in the funds as an expenditures when paid	(16,784)
Forgiveness of long-term obligations payable to the City arising from affordable housing projects notes receivable does not result in the use of current financial resources and is not reported in the funds	(1,004,665)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	<u>605,300</u>
Net adjustment to reconcile to changes in net assets	<u>(862,759)</u>
Change in Net Assets of Governmental Activities	<u>\$ (394,065)</u>

See accompanying notes to the basic financial statements

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Agency has no business-type activities.

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

Note 1 Summary of Significant Accounting Policies (Continued)

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

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

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

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

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

D. Asset, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

Investments for the Agency are reported at fair value. The Sonoma County Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The investment agreement is carried at cost because it is a fixed rate agreement not subject to market conditions.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

2. Receivables and Payables (Continued)

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

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

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

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental -type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Under the GASB 34 Implementation Rules, the Agency was not required to record infrastructure assets existing or acquired prior to July 1, 2003; and the Agency has not recorded such assets. The Agency may elect to record such infrastructure assets in the future.

5. Compensated Absences

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

6. Long-term Obligations

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

Note 1 Summary of Significant Accounting Policies (Continued)

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

7. Fund Equity

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

2. Reconciliation of Government-Wide and Fund Financial Statements

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

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statements of net assets. One element of that reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$ 4,934,238 difference are as follows:

Long-Term Debt Obligations:

Refunding capital lease	\$ 1,139,238
Tax allocation refunding bonds	<u>3,795,000</u>

Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (4,934,238)</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 proceeds of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The details of this \$ (862,759) difference are as follows:

Repayments of long-term debt recorded as expenditures in the funds	\$605,300
Forgiveness of indebtedness	(1,004,665)
Other items	<u>(463,394)</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>\$ (862,759)</u>
--	---------------------

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

4. Detailed Notes on All Funds

A. Deposits and Investments

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

Demand deposits	\$ -
Pooled investments held by the City of Sebastopol	<u>3,493,337</u>
Total cash and investments	<u>\$ 3,493,337</u>

Custodial credit risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency's policy for deposits is that they will be made only in institutions in California and they shall be insured or collateralized with securities. At June 30, 2010, all of the Agency's bank balances of zero were covered by Federal Depository Insurance, and none was exposed to credit risk. Investments at June 30, 2010 consisted of the following:

Investment	Maturity	Fait Value
Pooled investments with the City of Sebastopol-Sonoma County Treasurers Pool	Average 486 days	<u>\$3,493,337</u>
Totals		<u>\$3,493,337</u>

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

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

4. Detail Notes on All Funds (Continued)

B. Receivables – Long Term Loans

The Agency's receivables at year end consisted of:

Housing rehabilitation loans	Individual home rehabilitation loans	\$ 411,746
Burbank Housing Corporation	Land acquisition and construction loan	595,335
Burbank Housing Corporation	Property acquisition loan	300,000
Affordable Housing Associates	Land acquisition and construction loan	<u>2,898,315</u>
Totals		<u>\$ 4,205,396</u>

The \$411,746 housing rehabilitation loans bears interest at 3 to 6 percent with some loans deferred with no interest. Repayable loans are to be repaid in monthly installments of principal and interest taken together over terms of 15 to 30 years

The Agency has an agreement with Burbank Housing Corporation for the development and construction of affordable housing units within the City. Among other matters, the agreement provides that the City shall loan Burbank up to \$50,000 for each of the 20 units to be constructed; and the \$1,000,000 may be used for any Agency approved project costs. In addition, the City is to consider additional strategies to provide up to an additional \$600,000 of project financing. The \$1,000,000 initial loan is to be ultimately assumed on a proportionate basis by the homebuyers of the affordable units. In the 2010 fiscal year, the Agency agreed, due in part to the economic condition of the housing market, 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 Agency for their proportionate shares of the Agency provided funding. The deeds of trust shall be junior to any first and second mortgage deeds of trust. The related Agency loan shall be repayable if the housing units are sold to non-qualifying buyers or are otherwise violations of the affordability restrictions and covenants.

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

4. Detail Notes on All Funds (Continued)

C. Interfund Receivables, Payables, and Transfers

Internal balances (receivables and payables) at June 30, 2010 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Capital project	Low Moderate Income Housing	<u>\$ 1,033,000</u>
		<u>\$ 1,033,000</u>

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

D. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

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

E. Long-Term Debt

Changes in Long-term liabilities

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

<u>Governmental Activities:</u>	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Due In One Year</u>
Capital lease refunding	\$ 1,489,538	\$ -	\$ 350,300	\$1,139,238	\$ 364,700
Tax allocation bonds, 2007	4,050,000	-	255,000	3,795,000	290,000
Totals	<u>\$ 5,539,538</u>	<u>\$ -</u>	<u>\$ 605,300</u>	<u>\$4,934,238</u>	<u>\$ 654,700</u>

Capital Lease-Refunding

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

4. Detail Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Future minimum lease payments are:

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

Tax Allocation Refunding Bonds 2007 Series

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

Fiscal Year	Principal	Interest	Totals
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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information

A. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance.

The City is a member of the Redwood Empire Municipal Insurance Fund, a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims. Under the program, the City has a \$ 5,000 general liability retention limit similar to a deductible. The risk of loss is transferred to the Fund. The Fund is responsible for losses above that amount up to \$500,000 for liability losses, \$300,000 for workers compensation claims, and \$25,000 for property claims. The Fund carries purchased excess commercial liability coverage of \$9.5 million in excess of its \$500,000 retention limit, \$5 million in excess of the \$25,000 limit for property with an additional \$200 million in excess coverage. The Agency paid no material uninsured losses during the 2008-2009 fiscal year. There has been no significant changes in insurance coverages in fiscal 2010. Settlements have not exceeded coverage for each of the past three fiscal years.

Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The Agency had no material claim liabilities not covered by insurance at June 30, 2010 or June 30, 2009.

B. Contingencies and Commitments

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

C. Restricted Net Assets

The \$4,409,551 restricted for housing projects represents low and moderate income housing funds which by law can only be used for related housing projects and activities.

D. Supplemental Education Revenue Augmentation Funds

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 Agency in fiscal 2010 was \$797,975 reported as an education expense in the statement of activities.

REQUIRED SUPPLEMENTAL INFORMATION

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>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</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	-	-	2,167	2,167
Miscellaneous	25,000	25,000	475,672	450,672
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	7,344	66,556
Debt service:	85,477	85,477	121,569	(36,092)
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>

Required Supplementary Information
COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Budgetary Comparison Schedule - Low and Moderate Income Housing Fund Special Revenue Fund
Note to RSI
For the Fiscal Year Ended June 30, 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:	\$ (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	1,680,111
	1,680,111
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 998,838
	998,838



Terry E. Krieg, CPA
Certified Public Accountant

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

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

I have audited the component unit financial statements of the Community Development Agency of the City of Sebastopol as of and for the year ended June 30, 2010, and have issued my report thereon dated December 20, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

Internal Control Over Financial Reporting

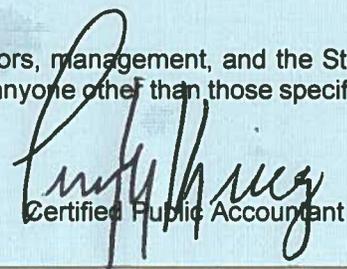
In planning and performing my audit, I considered the Community Development Agency of the City of Sebastopol's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

December 20, 2010


Certified Public Accountant