

**CITY OF SEBASTOPOL, CALIFORNIA**  
**Reports on Internal Control, Compliance, and**  
**Federal Awards Programs**  
**For the Fiscal Year Ended June 30, 2010**

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**CITY OF SEBASTOPOL, CALIFORNIA**  
**Reports on Federal Awards Programs**  
**June 30, 2010**

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**Terry E. Krieg, CPA**  
Certified Public Accountant

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

I have audited the 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 as of and for the year ended June 30, 2010, which collectively comprise the City of Sebastopol, California's basic financial statements and have issued my report thereon dated March 18, 2011, which report was modified to disclose that the City adopted in fiscal 2010 the financial reporting requirements of Governmental Accounting Standards Board Statement Number 45, titled Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. I conducted my audit in accordance with auditing standards generally accepted in the 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Sebastopol, California'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 City of Sebastopol, California's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Sebastopol, California'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, or 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 City's financial statements will not be prevented or detected and corrected on a timely basis.

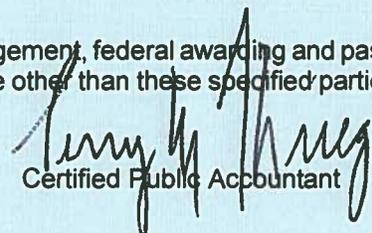
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sebastopol, California's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the City Council, Management, federal awarding and pass-through entities, and is not intended to and should not be used by anyone other than these specified parties.

March 18, 2011

  
Certified Public Accountant



**Terry E. Krieg, CPA**  
Certified Public Accountant

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

Compliance

I have audited the City of Sebastopol, California, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Sebastopol's major federal programs for the year ended June 30, 2010. City of Sebastopol's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Sebastopol's management. My responsibility is to express an opinion on the City of Sebastopol's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133*. Those standards and *OMB Circular A-133* require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sebastopol's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Sebastopol's compliance with those requirements.

In my opinion, the City of Sebastopol complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Sebastopol, California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Sebastopol, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

I have audited the 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, as of and for the year ended June 30, 2010, and have issued my report thereon dated March 18, 2011 which report was modified to disclose that the City in fiscal 2010 changed its accounting principles to implement the financial reporting requirements of Governmental Accounting Standards Board Statement Number 45, titled, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sebastopol, California's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 18, 2011

  
Certified Public Accountant

**CITY OF SEBASTOPOL, CALIFORNIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2010**

Federal Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Transportation:</b>			
<b>Pass-through Programs From:</b>			
<i>California State Department of Transportation:</i>			
Highway Planning and Construction Federal-Aid Highway Program:			
Street Smart Sebastopol Phase 2	20.205	CML-5123 (013)	\$ 308,278
Huntley Street Safe Routes to Schools	20.205	SRTSL-5123 (012)	8,477
Sebastopol Union School District Safe Routes to School	20.205	SRTSL-5123 (011)	68,551
ARRA Highway Planning and Construction Federal-Aid Highway Program:			
Street Resurfacing	20.205	ESPL-5123 (014)	<u>562,914</u>
Total U.S. Department of Transportation Pass through Programs			<u>948,220</u>
<b>U.S. Department of Housing and Urban Development:</b>			
<b>Pass-through Programs From:</b>			
<i>Sonoma County Community Development Commission:</i>			
ARRA Community Development Block Grants/Entitlement Grants			
Curb Ramps	14.253	CDBG-R	<u>8,371</u>
Total U.S. Department of Housing and Urban Development Pass through Program			<u>8,371</u>
<b>U.S. Department of Energy:</b>			
<b>Pass-through Programs From:</b>			
<i>City of Santa Rosa:</i>			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance			
Solar Sonoma	81.117	DE-FC36-08GO18098	<u>62,305</u>
Total U.S. Department of Energy Pass through Program			<u>62,305</u>
<b>U.S. Department of Homeland Security:</b>			
Direct Program:			
Staffing for Adequate Fire and Emergency Response(SAFER)	97.083	N/A	<u>104,726</u>
Total U.S. Department Homeland Security Direct Program			<u>104,726</u>
Total Expenditures of Federal Awards			<u>\$ 1,123,622</u>

See notes to schedule of expenditures of federal awards

**CITY OF SEBASOPOL, CALIFORNIA**  
**Notes to Schedule of Expenditures**  
**of Federal Awards**  
**June 30, 2010**

**Note 1. Summary of Significant Accounting Policies**

*Basis of Accounting.* The schedule of expenditures of federal awards is presented on the modified accrual basis of accounting. Under this basis, revenues are recognized when grant eligible reimbursement requirements have been satisfied by the City, and expenditures are recognized when the related fund liability is incurred.

**Note 2. Direct and Pass-through Programs**

Direct programs represent programs where the grantor federal agency remits federal funds direct to the City. Pass-through programs represent programs where the grantor federal agency remits funds to another government agency and that agency enters into a sub-recipient agreement with the City of Sebastopol and then reimburses the City with federal grant funds.

**CITY OF SEBASTOPOL, CALIFORNIA**  
**Schedule of Findings and Questioned Costs**  
**For The Fiscal Year Ended June 30, 2010**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**A. Financial Statements:**

1. Type of Auditor's report issued: Modified for Change in Accounting Principle to adopt GASB Statement 45 for Postemployment Benefits Other Than Pensions

2. Internal control over financial reporting:

Material weakness identified?	<u>      </u>	Yes	<u>  X  </u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	<u>      </u>	Yes	<u>  X  </u>	None reported
Noncompliance material to the financial statements noted?	<u>      </u>	Yes	<u>  X  </u>	No

**B. Federal Awards:**

1. Internal Control Over Major Programs:

Material weakness identified?	<u>      </u>	Yes	<u>  X  </u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	<u>      </u>	Yes	<u>  X  </u>	None reported

2. Type of auditor's report issued on compliance for major programs: Unqualified

3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133        Yes   X   No

4. Identification of major programs: 20.205 ARRA - Highway Planning and Construction  
Highway Planning and Construction

5. Dollar threshold used to distinguish between type A and type B programs \$300,000

6. Auditee qualifies as low-risk auditee        Yes   X   No

**CITY OF SEBASTOPOL, CALIFORNIA  
Schedule of Findings and Questioned Costs  
For The Fiscal Year Ended June 30, 2010**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.