

**City of Sebastopol  
Basic Financial Statements  
June 30, 2011**

**CITY OF SEBASTOPOL, CALIFORNIA**  
**Basic Financial Statements**  
**Fiscal Year Ended June 30, 2011**  
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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

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**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, 2011 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

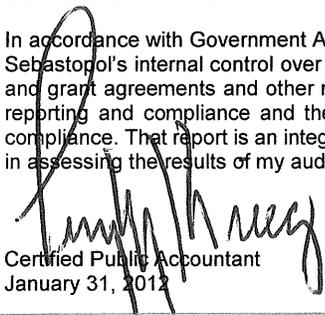
The accompanying financial statements have been prepared assuming that the City, including its blended component unit redevelopment agency, will continue as a going concern. As discussed in note 5 J to these financial statements, the California Supreme Court announced its ruling upholding Assembly Bill 1X 26 (dissolution of redevelopment agencies), but overturning Assembly Bill 1X 27 (allowing redevelopment agencies to continue with voluntary payments to regulatory bodies). The ruling provides for the dissolution of all redevelopment agencies effective February 1, 2012. Management's understanding in regard to these matters are also discussed in note 5 J to these financial statements. The blended component unit redevelopment agency represents about 68 percent of the total assets of all City governmental funds, about 38 percent of the total revenues of all City governmental funds, and about 47 percent of the total fund balances of all City governmental funds. These financial statements do not include any adjustments that will result from the dissolution provisions of the Court's ruling.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress on pages 2 through 12 and pages 44 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in note 5-F to these financial statements, the City in fiscal year 2011, implemented the provisions of Governmental Accounting Standards Board Statement Number 54, and titled, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with Government Auditing Standards, I have also issued my report dated January 31, 2012 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 assurance on 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.

  
Certified Public Accountant  
January 31, 2012

## **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, 2011. 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 \$1,137,722 over the course of this fiscal year's operations. The net assets of our governmental-type activities increased by \$1,198,110; and there was a \$60,388 decrease in the net assets of our business-type activities funds. A combined increase of about 5.6% over 2010 ending net asset balances.
- The general fund reported a 2011 year end *unassigned* fund balance of \$286,698. The City has not committed or restricted those funds, but has classified them as residual positive net resources of the general fund.
- The redevelopment project fund ended the year with a \$3,749,949 fund balance. The low and moderate fund income housing fund ended fiscal 2011 with a deficit of \$547,826 as a result of spending for affordable housing projects. Overall, the City's governmental activities ended 2011 with \$10.7 million restricted for redevelopment, street projects, public safety and other purposes. The negative \$146,947 in unrestricted net assets of our governmental activities arises from the accrual of liabilities for compensated absences and other post employment benefit obligations.
- In our business-type activity funds, the water enterprise ended fiscal 2011 with \$171,540 in cash and investments, and the wastewater enterprise ended fiscal 2011 with \$561,166 in cash and investments available for future use. In addition, there was \$195,747 restricted cash for capital improvements in the water fund; and \$240,114 restricted cash for capital improvements in the sewer fund.

### **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-term* 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		Fund Statements	
	Government-Wide 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>	Statement of net assets  Statement of activities	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses, and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
<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 is used to account for unrestricted resources and general operations of the City.

The redevelopment agency's administration fund is used to account for tax increment revenues and other redevelopment activities.

The redevelopment agency's low and moderate income housing fund is used to account for tax increment revenues and other resources used for affordable housing purposes.

All other governmental funds are aggregated together and reported in a separate column.

- **Proprietary funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information.

In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

The City reports its water enterprise and wastewater enterprise funds as major funds with the financial information for each of these funds reported in a separate column in the proprietary fund's financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Net Assets.** The City's *combined* net assets increased about \$1,137,722 between fiscal years 2010 and 2011. ( See Table 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
	2011	2010	2011	2010	2011	2010	2010/2011
Current and other assets	\$13,981,500	\$16,342,300	\$1,644,000	\$1,386,900	\$15,625,500	\$17,729,200	-11.9%
Capital assets	11,318,600	10,062,200	7,280,100	7,781,500	18,598,700	17,843,700	4.23%
<b>Total assets</b>	<b>\$25,300,100</b>	<b>\$26,404,500</b>	<b>\$8,924,100</b>	<b>\$9,168,400</b>	<b>\$34,224,200</b>	<b>\$35,572,900</b>	<b>-3.8%</b>
Long-term debt outstanding	10,055,900	12,113,200	1,611,300	1,764,800	11,667,200	13,878,000	-15.9%
Other liabilities	1,077,400	1,322,600	180,800	211,300	1,258,200	1,533,900	-17.9%
<b>Total liabilities</b>	<b>\$11,133,300</b>	<b>\$13,435,800</b>	<b>\$1,792,100</b>	<b>\$1,976,100</b>	<b>\$12,925,400</b>	<b>\$15,411,900</b>	<b>-16.1%</b>
<b>Net assets</b>							
Invested in capital assets							
net of related debt	3,598,600	1,911,300	5,668,900	6,016,700	9,267,500	7,928,000	16.9%
Restricted	10,715,100	11,476,900	435,900	0	11,151,000	11,476,900	-2.9%
Unrestricted	(146,900)	(419,500)	1,027,200	1,175,600	880,300	756,100	16.4%
<b>Total net assets</b>	<b>\$14,166,800</b>	<b>\$12,968,700</b>	<b>\$7,132,000</b>	<b>\$7,192,300</b>	<b>\$21,298,800</b>	<b>\$20,161,000</b>	<b>5.6%</b>

Net assets of the City's governmental activities increased about 9.2% percent or about \$1,198,100. About 75% of the net assets relating to governmental activities is represented the City's cash, investments, accounts and notes receivable. The City has about \$10.0 million in long-term debt being used to finance governmental activities; and of that amount \$2.9 million in debt relates to the City's Community Development Agency and related redevelopment activities.

The net assets of the City's business-type activities decreased by .4% to \$7.13 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.

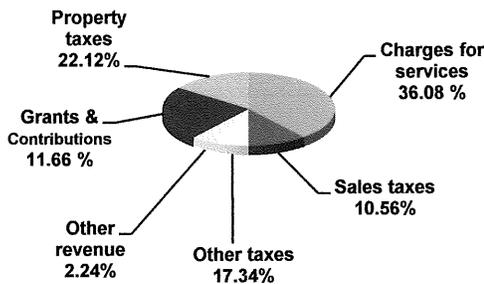
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

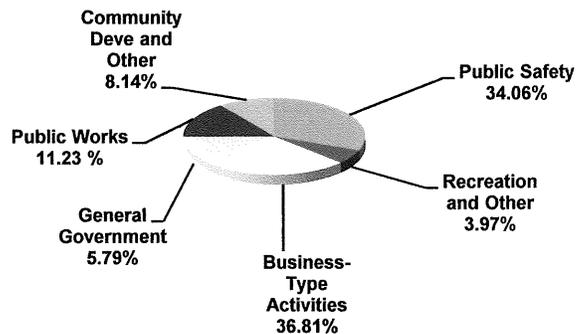
**Changes in net assets.** The City's total revenues decreased by about \$422,000 to about 12.9 million (See Table A-2.) in 2011 compared to \$13.4 million in 2010. About 69 percent of the City's revenue comes from property taxes, transient occupancy, sales taxes, and other taxes. Another 16 percent 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 decreased approximately \$455,000 or about -3.7 percent to \$11.8 million. The City's expenses cover a range of services, with about 31 percent related to business type activities, 34 percent for public safety services, and the remaining 35 percent for general government, public works, parks and community programs.

**Sources of Revenue for  
Fiscal Year 2011**



**Functional Expenses  
For Fiscal Year 2011**



**Governmental Activities**

Revenues for the City's governmental activities decreased by a net \$580,000; and total expenses decreased by \$754,000 over fiscal year 2010.

Governmental activities recorded lower grant revenues in fiscal 2011 than in fiscal 2010; resulting in an overall decrease of \$1,050,400. This was primarily because of work completed on the Street Smart II and Federal ARRA Street resurfacing and maintenance projects.

After all operations for 2011 were completed, the net assets of our governmental activities increased by about a net \$1,137,700.

**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
	2011	2010	2011	2010	2011	2010	2010/2011
<b>Revenues</b>							
Program revenues							
Charges for services	\$1,530,400	\$976,100	\$3,183,800	\$3,214,600	\$4,714,200	\$4,190,700	12.5%
Grants and contributions	1,057,300	2,098,800	475,400	285,500	1,532,700	2,384,300	-35.7%
General revenues:							
Property taxes	2,890,600	2,959,500			2,890,600	2,959,500	-2.3%
Other taxes	3,640,400	3,590,100			3,640,400	3,590,100	1.4%
Other	164,600	239,600			164,600	239,600	-31.2%
<b>Total revenues</b>	<b>\$9,283,300</b>	<b>\$9,864,100</b>	<b>\$3,659,200</b>	<b>\$3,500,100</b>	<b>\$12,942,500</b>	<b>\$13,364,200</b>	<b>-3.2%</b>
<b>Expenses</b>							
General government	693,600	1,273,800			693,600	1,273,800	-45.5%
Public safety	4,077,600	3,851,400			4,077,600	3,851,400	5.8%
Community development	933,500	333,900			933,500	333,900	179.6%
Public works	1,343,800	1,731,600			1,343,800	1,731,600	-22.4%
Parks and recreation	475,100	428,600			475,100	428,600	10.8%
SERAF payments	164,300	798,000			164,300	798,000	-79.4%
Water	0	0	1,181,100	1,197,000	1,181,100	1,197,000	-1.3%
Wastewater	0	0	2,538,500	2,223,300	2,538,500	2,223,300	14.2%
Interest	397,300	422,100			397,300	422,100	-5.7%
<b>Total expenses</b>	<b>\$8,085,200</b>	<b>\$8,839,400</b>	<b>\$3,719,600</b>	<b>\$3,420,300</b>	<b>\$11,804,800</b>	<b>\$12,259,700</b>	<b>-3.7%</b>
<b>Increase in Net assets</b>	<b>1,198,100</b>	<b>1,024,700</b>	<b>(60,400)</b>	<b>79,800</b>	<b>1,137,700</b>	<b>1,104,500</b>	<b>3.0%</b>
<b>Transfers</b>	<b>-</b>	<b>51,000</b>	<b>-</b>	<b>(51,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contributed Capital:</b>							
<b>Forgiven indebtedness</b>	<b>-</b>	<b>(1,004,700)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,004,700)</b>	<b>100.0%</b>
<b>Change in net assets</b>	<b>1,198,100</b>	<b>71,000</b>	<b>(60,400)</b>	<b>28,800</b>	<b>1,137,700</b>	<b>99,800</b>	<b>1040.0%</b>
<b>Net assets, beginning</b>	<b>12,968,700</b>	<b>12,897,700</b>	<b>7,192,300</b>	<b>7,163,500</b>	<b>20,161,000</b>	<b>20,061,200</b>	
<b>Net asset, ending</b>	<b>\$14,166,800</b>	<b>\$12,968,700</b>	<b>\$7,131,900</b>	<b>\$7,192,300</b>	<b>\$21,298,700</b>	<b>\$20,161,000</b>	<b>5.6%</b>

**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 \$8.09 million, about \$754,000 less than the total cost as reported in fiscal year 2010. Most of the decrease occurred in the General government expenses category.

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

- Of the \$8.09 million cost of the City's governmental activities programs, the taxpayers paid for \$5.49 million of the program costs. Some of the cost was paid by:
  - Those who directly benefited from the programs; \$1,530,400 or
  - Other governments and organizations that subsidized certain programs with grants and contributions; \$1,057,200
- The City paid for the \$5.49 million “public benefit” portion by using about 82% 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
	2011	2010	2010/2011
General Government	\$693,600	\$1,273,800	-45.5%
Public Safety	4,077,600	3,851,400	5.8%
Comm Development	933,500	333,900	179.6%
Public Works	1,343,800	1,731,600	-22.4%
Parks and recreation	475,100	428,600	10.8%
SERAF payments	164,300	798,000	-79.4%
All other	397,300	422,100	5.8%
<b>Total</b>	<b>\$8,085,200</b>	<b>\$8,839,400</b>	<b>-8.5%</b>

General government costs decreases related to a reduction of personnel in the Administrative Services Department, and an increase in employee's contributions towards health and retirement benefits.

**Business-type Activities**

Revenues of the City's business-type activities increased by \$159,100, primarily due to a connection fees for several low-income housing projects. The revenue collected for the charges for services category decreased by \$30,800 in fiscal 2011, from the previous fiscal year. Water and Sewer connection fees increased by \$189,900. Additional expenses of \$299,300 were the result of sewer main maintenance and repairs.

## **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 \$6.83 million, about a \$720,000 decrease compared to the end of fiscal 2010. The reason for the decrease in fiscal 2011 compared to fiscal 2010 was that monies were expended in 2011 for development of public works projects and low income housing projects.

The City's spending for general fund operations was about \$98,295 more than general fund revenues. The general fund ended fiscal 2011 with an unassigned, uncommitted fund balance of \$286,698.

There was an additional \$3.7 million fund balance at year end in the Redevelopment Agency's Administration fund. Of that amount, \$783,000 is *non-spendable* because of cash advanced to the low and moderate income housing fund to help finance the purchase of land for affordable housing projects. The original cash advance of approximately \$2,066,000 million in 2007/08 was for the low income housing projects on Covert Lane and Walker Ave. Since then, the agency has repaid \$1,283,088 of the original cash advance. The Agency intends repay the full debt over the next several years from the 20 percent of tax increment revenues to be set aside in the low and moderate fund.

The City's non major Governmental funds had a combined fund balance of \$3,342,290 at the fiscal year end. Included in this group are a Police grant at \$19,106; City permit fee funds (consisting of Traffic Impact, Park in Lieu, General Plan housing, Inclusionary Housing funds, and Undergrounding funds aggregating \$1,620,848).

The remaining \$1,702,336 consists of the State Gas Tax fund at \$24,877; Street Lighting Assessment and Woodstone Assessment Districts at \$68,923; County Measure M fund for streets at \$81,689; the ¼ cent City Special Sales tax at \$514,259; Skate Park at \$44,286; Prop 1B for streets at \$37,975; City's Pavement Management program at \$215,339; City Capital projects at \$314,344; CREBS Bond at \$372,747; and other miscellaneous funds totaling \$27,897.

In the City permit fee category the combined fund balance of \$1,620,848 is defined as special revenue funds. In that category the Traffic Impact fund balance is \$791,112, In fiscal 2011, the City spent approximately \$59,557 on bikeways, and \$328,297 on the Lynch Road traffic signal. The Park in Lieu fund balance is \$461,149. The City spent approximately \$60,100 for the Skate Garden and Village Park projects from Park in Lieu, and in fiscal 2012, a total of \$20,000 is budgeted for the Skate Garden expansion. The General Plan housing funds of \$54,731 will be used for the general plan update in the future. The Inclusionary Housing funds of \$128,270 will be used for unidentified low-income housing in the future. The \$185,586 Undergrounding fees will be used for underground utilities in the future. Some of the balance of \$514,259 in the Special Sales tax fund will be used in the next fiscal year for a variety of uses, and the City has budgeted \$573,072 in fiscal 2012 for capital expenditures, public safety, and street maintenance. In fiscal 2011 the City spent approximately \$582,075 of the Special Sales tax fund on Council approved expenditures. The City has committed \$215,339 for street pavement management and all of that is budgeted in 2011/12 for projects. The \$314,344 held in the Capital projects fund will be used for unidentified street or infrastructure maintenance; this balance remained unchanged from the last fiscal year. The balance of \$364,071 in the CREBS Bond fund is restricted for debt service payments.

The City's water fund ended the 2011 fiscal year with \$195,714 in unexpended lease financing proceeds. The City will use those funds in fiscal 2012 on the Water Zone Connect project.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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.

General fund revenues were \$205,868 more than originally budgeted, but the bulk of that increase was due to inter-fund transfers from the City's street reserve to fund employee negotiated benefits during the year.

Actual expenditures were \$34,814 more than the final budget amounts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2011 the City had invested \$18.6 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 but excluding depreciation) of about \$1.7 million or 10.0 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
	2011	2010	2011	2010	2011	2010	2010/2011
Land and CIP	\$ 2.35	\$ 3.50	\$ .09	\$ 2.40	\$ 2.44	5.90	-58.64%
Buildings	5.49	5.50	-	-	5.49	5.50	-.018%
Machinery and equipment	1.82	1.80	.62	.60	2.44	2.40	1.66%
Vehicles	3.09	2.30	-	-	3.09	2.30	34.34%
Infrastructure and systems	6.14	4.10	12.28	10.0	18.42	14.10	30.63%
Accumulated depreciation	(7.59)	(7.10)	(5.71)	(5.20)	(13.30)	(12.30)	8.130%
<b>Total</b>	<b>\$ 11.30</b>	<b>\$ 10.10</b>	<b>\$ 7.28</b>	<b>\$ 7.80</b>	<b>\$ 18.58</b>	<b>17.90</b>	<b>3.79%</b>

**This year's major capital assets additions included:**

- About \$2.2 million expended for business-type pipelines and collection system
- About \$762,000 expended for vehicles, including a new fire truck
- About \$515,000 for solar projects
- About \$146,000 for parks and skate park
- About \$1.4 million for streets

Additional information about capital assets can be found starting on page 30 of the notes to the basic financial statements.

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

### **Long-term Debt**

New debt was issued in fiscal 2011 for the purchase of a new fire truck \$640,256; and to record a \$843,934 residential redevelopment loan draw down from the California Housing Finance Agency for the Burbank Housing Project. Overall, the City reduced its long-term liabilities (excluding its net OPEB obligations) by \$3,995,063 in 2011 with about 56 percent of the reductions for repayments made on the residential development loan.

The interest expense category decreased in fiscal 2011, as a result of the Hollyhock low income housing project. The loans are paid by Burbank Housing to the City, and the City repays the California HFA for the original \$4 million dollar loan granted to Burbank Housing.

Additional information about the City's long-term obligations can be found starting on page 33 of the notes to the basic financial statements.

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

#### **General City Affairs:**

For the 2012 fiscal year, general fund revenue projections have been conservative compared to higher revenue projections in the past years.

- The budget projects that there will be a 3.9% decrease in general fund revenues.
- The budget is balanced using \$0 of general fund resources available in unallocated reserves.
- No tax increases are proposed for fiscal 2012.
- Selected general fund user fee increases are proposed for fiscal 2012.

General fund 2012 budgeted appropriations are set at \$ 5.03 million. This is about a 2 percent increase over fiscal 2011 actual general fund expenditures.

The 2012 budget has proposed capital project spending of about \$2,513,753 with \$1.4 million in street related projects.

As to the City's business-type activities, about \$3.6 million is expected to be spent in 2012 to conduct operations and make capital improvements. In this regard the City expects to:

- Increase water and wastewater rates upon voter approval.
- Pay for operating costs from charges for services to system users.

#### **Dissolution of Redevelopment Agency:**

On December 29, 2011, The California Supreme Court issued its ruling to uphold Assembly Bill (1X 26 (AB26)). As a result, all redevelopment agencies are required to dissolve and transfer their assets and liabilities to successor agencies that will wind down redevelopment agencies' affairs. Based on the decision, all redevelopment agencies will be dissolved as of February 1, 2012.

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

### **Dissolution of Redevelopment Agency:**

The outcome is a devastating blow to the City of Sebastopol's customary and usual financial affairs. There are several immediate obligations that must be met under AB 1X 26 as modified by the ruling. The most significant actions that the City must deal with in fiscal 2012 are:

- 1) Determining if the City will serve as the Successor Agency in charge of winding down its redevelopment agency's financial affairs
- 2) Conducting a separate accounting of all agency assets, liabilities and obligations
- 3) Preparing a preliminary draft enforceable obligation payment schedule (EOPS) by January 31, 2012, and as the Successor Agency, prepare a subsequent draft recognized obligation payment schedule by March 1, 2012 that includes information on funds that will be needed to carry out the dissolution process.
- 4) Decide whether or not to retain the redevelopment agency's affordable housing fund assets and functions currently in the Agency's low and moderate income housing fund.

In addition, the City will be dealing with the financial challenges that will surface as a result of the dissolution of the City's blended component unit redevelopment agency and related changes in staffing levels and workloads, personnel assignments and the loss of the financial revenue stream of our former agency.

### **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 City Treasurer or Administrative Services, City of Sebastopol, 7120 Bodega Avenue, Sebastopol, CA 95472.

**CITY OF SEBASTOPOL**  
**Statement of Net Assets**  
**June 30, 2011**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,472,929	\$ 732,706	\$ 7,205,635
Net receivables	507,358	475,353	982,711
<b>Total current assets</b>	<u>6,980,287</u>	<u>1,208,059</u>	<u>8,188,346</u>
Noncurrent assets:			
Cash and cash equivalents	314,344	435,861	750,205
Long-term notes receivable	6,227,199	-	6,227,199
Other long-term receivables	275,000	-	275,000
Debt issuance costs	184,615	-	184,615
Net capital assets	11,318,605	7,280,137	18,598,742
<b>Total noncurrent assets</b>	<u>18,319,763</u>	<u>7,715,998</u>	<u>26,035,761</u>
<b>Total assets</b>	<u>\$ 25,300,050</u>	<u>\$ 8,924,057</u>	<u>\$ 34,224,107</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 187,173	\$ 137,733	\$ 324,906
Compensated absences	300,000	29,208	329,208
Deposits	276,347	8,194	284,541
Accrued interest payable	23,329	5,711	29,040
Bonds, leases, and agreements due within one year	1,635,708	134,075	1,769,783
<b>Total current liabilities</b>	<u>2,422,557</u>	<u>314,921</u>	<u>2,737,478</u>
Long-term liabilities due in more than one year:			
Tax allocation bonds	3,205,000	-	3,205,000
Special assessment bonds	255,000	-	255,000
Agreements and loans	1,197,417	22,974	1,220,391
Capital lease obligations	3,762,733	1,454,201	5,216,934
Loss on advance refundings	(89,826)	-	(89,826)
Net other post employment benefit obligation	125,448	-	125,448
Compensated absences	254,938	-	254,938
<b>Total long-term liabilities</b>	<u>8,710,710</u>	<u>1,477,175</u>	<u>10,187,885</u>
<b>Total liabilities</b>	<u>11,133,267</u>	<u>1,792,096</u>	<u>12,925,363</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,598,601	5,668,887	9,267,488
Restricted for:			
Capital projects	187,753	435,861	623,614
Community development projects	2,966,949	-	2,966,949
Community development housing	4,425,843	-	4,425,843
Debt service	974,993	-	974,993
Public safety	533,368	-	533,368
Streets	1,346,251	-	1,346,251
Other purposes	279,972	-	279,972
Unrestricted	(146,947)	1,027,213	880,266
<b>Total net assets</b>	<u>14,166,783</u>	<u>7,131,961</u>	<u>21,298,744</u>
<b>Total liabilities and net assets</b>	<u>\$ 25,300,050</u>	<u>\$ 8,924,057</u>	<u>\$ 34,224,107</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>City Government</b>							
<b>Governmental activities:</b>							
General government	693,583	\$ 415,118	\$ -	\$ -	\$ (278,465)	\$ -	\$ (278,465)
Public safety	4,077,632	347,576	334,021	-	(3,396,035)	-	(3,396,035)
Community development	933,449	154,344	32,389	-	(746,716)	-	(746,716)
Education SERAF	164,289	-	-	-	(164,289)	-	(164,289)
Public works	1,343,813	561,378	329,667	360,895	(91,873)	-	(91,873)
Parks and recreation	475,111	52,032	-	255	(422,824)	-	(422,824)
Interest on long-term debt	397,315	-	-	-	(397,315)	-	(397,315)
<b>Total governmental activities</b>	<b>8,085,192</b>	<b>1,530,448</b>	<b>696,077</b>	<b>361,150</b>	<b>(5,497,517)</b>	<b>-</b>	<b>(5,497,517)</b>
<b>Business-type activities:</b>							
Water	1,181,086	1,108,006	-	157,297	-	84,217	84,217
Wastewater	2,538,474	2,075,731	-	318,138	-	(144,605)	(144,605)
<b>Total business-type activities</b>	<b>3,719,560</b>	<b>3,183,737</b>	<b>-</b>	<b>475,435</b>	<b>-</b>	<b>(60,388)</b>	<b>(60,388)</b>
<b>Total City government</b>	<b>\$ 11,804,752</b>	<b>\$4,714,185</b>	<b>\$ 696,077</b>	<b>\$ 836,585</b>	<b>(5,497,517)</b>	<b>(60,388)</b>	<b>(5,557,905)</b>
		<b>General revenues:</b>					
		<b>Taxes:</b>					
		Property taxes			\$ 1,001,252	\$ -	\$ 1,001,252
		Sales taxes			1,379,949	-	1,379,949
		Motor vehicle in lieu taxes			596,548	-	596,548
		Transient occupancy taxes			269,984	-	269,984
		Other taxes			1,393,950	-	1,393,950
		Incremental property taxes			1,889,318	-	1,889,318
		Unrestricted interest and rents			157,632	-	157,632
		Other general revenues			6,994	-	6,994
		<b>Total general revenues</b>			<b>6,695,627</b>	<b>-</b>	<b>6,695,627</b>
		<b>Change in net assets</b>			<b>1,198,110</b>	<b>(60,388)</b>	<b>1,137,722</b>
		Net assets, beginning			12,968,673	7,192,349	20,161,022
		Net assets, ending			<u>\$ 14,166,783</u>	<u>\$ 7,131,961</u>	<u>\$ 21,298,744</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	General Fund	Redevelopment Administration Fund	Redevelopment Low and Moderate Income Housing	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 309,287	\$ 2,985,371	\$ 235,174	\$ 3,257,441	\$ 6,787,273
Accounts receivable	29,614	-	-	14,392	44,006
Taxes receivable	249,373	-	-	-	249,373
Due from other governments	21,390	718	-	180,486	202,594
Assessments receivable	-	-	-	286,385	286,385
Due from other funds	-	-	-	98,243	98,243
Notes receivable	-	-	5,937,738	289,461	6,227,199
Advances to other funds	-	783,000	-	-	783,000
<b>Total assets</b>	<b>\$ 609,664</b>	<b>\$ 3,769,089</b>	<b>\$ 6,172,912</b>	<b>\$ 4,126,408</b>	<b>\$ 14,678,073</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 46,619	\$ 19,140	\$ -	\$ 121,414	\$ 187,173
Due to other funds	-	-	-	98,243	98,243
Advances from other funds	-	-	783,000	-	783,000
Deposits	276,347	-	-	-	276,347
Deferred revenue	-	-	5,937,738	564,461	6,502,199
<b>Total liabilities</b>	<b>322,966</b>	<b>19,140</b>	<b>6,720,738</b>	<b>784,118</b>	<b>7,846,962</b>
<b>Fund balances:</b>					
Nonspendable	-	783,000	-	-	783,000
<b>Restricted for:</b>					
Equipment and infrastructure	-	-	-	1,289,752	1,289,752
Highways and streets	-	-	-	1,154,544	1,154,544
Public safety	-	-	-	19,109	19,109
Community promotion	-	-	-	25,727	25,727
Community development	-	2,966,949	-	-	2,966,949
Debt service	-	-	-	410,532	410,532
Affordable housing	-	-	-	183,001	183,001
Parks and recreation	-	-	-	44,286	44,286
Committed for street projects	-	-	-	215,339	215,339
Unassigned	286,698	-	(547,826)	-	(261,128)
<b>Total fund balances</b>	<b>286,698</b>	<b>3,749,949</b>	<b>(547,826)</b>	<b>3,342,290</b>	<b>6,831,111</b>
<b>Total liabilities and fund balances</b>	<b>\$ 609,664</b>	<b>\$ 3,769,089</b>	<b>\$ 6,172,912</b>	<b>\$ 4,126,408</b>	<b>\$ 14,678,073</b>
<b>Total Governmental Fund Balances</b>					<b>\$ 6,831,111</b>
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					11,318,605
Other long-term notes receivable are not available to fund current period expenditures and are deferred in the funds					6,502,199
Debt issuance costs are recorded as an resource outflow in the funds, but are capitalized and amortized to expense in the statement of activities					184,615
Interest payable is accrued as a liability in the statement of net assets, but is reported in the funds only when due					(23,329)
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					(10,646,418)
<b>Net Assets of Governmental Activities</b>					<b>\$ 14,166,783</b>

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, 2011**

	<b>General Fund</b>	<b>Redevelopment Administration Fund</b>	<b>Redevelopment Low and Moderate Income Housing</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Property taxes	\$ 1,001,252	\$ 1,371,015	\$ 518,303	\$ -	\$ 2,890,570
Sales taxes	1,379,949	-	-	516,853	1,896,802
Other taxes	1,038,819	-	-	-	1,038,819
Licenses and permits	370,070	-	-	-	370,070
Fines and forfeits	94,597	-	-	-	94,597
Intergovernmental	610,226	-	-	999,807	1,610,033
Interest and rents	31,877	9,864	252,706	12,704	307,151
Charges for services	415,233	-	-	637,321	1,052,554
Miscellaneous	6,059	-	2,253,749	164,323	2,424,131
Total revenues	<u>4,948,082</u>	<u>1,380,879</u>	<u>3,024,758</u>	<u>2,331,008</u>	<u>11,684,727</u>
<b>EXPENDITURES</b>					
Current:					
General government	763,251	-	-	-	763,251
Public safety	3,483,640	-	-	348,067	3,831,707
Community development	-	863,131	912,290	6,751	1,782,172
Parks and recreation	332,724	-	-	551	333,275
Public works	458,844	-	-	435,804	894,648
Education SERAF	-	164,289	-	-	164,289
Capital outlay	-	-	-	2,054,271	2,054,271
Debt service:					
Principal	5,245	639,591	2,297,553	599,140	3,541,529
Interest	2,673	174,742	260,356	85,855	523,626
Total expenditures	<u>5,046,377</u>	<u>1,841,753</u>	<u>3,470,199</u>	<u>3,530,439</u>	<u>13,888,768</u>
Excess (deficiency) of revenues over expenditures	<u>(98,295)</u>	<u>(460,874)</u>	<u>(445,441)</u>	<u>(1,199,431)</u>	<u>(2,204,041)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Loans and capital leases issued	-	-	843,934	640,256	1,484,190
Transfers in	244,658	-	193,755	513,113	951,526
Transfers out	-	(89,267)	(329,888)	(532,371)	(951,526)
Total other financing sources (uses)	<u>244,658</u>	<u>(89,267)</u>	<u>707,801</u>	<u>620,998</u>	<u>1,484,190</u>
Net change in fund balances	146,363	(550,141)	262,360	(578,433)	(719,851)
Fund balances, July 1	<u>140,335</u>	<u>4,300,090</u>	<u>(810,186)</u>	<u>3,920,723</u>	<u>7,550,962</u>
Fund balances, June 30	<u>\$ 286,698</u>	<u>\$ 3,749,949</u>	<u>\$ (547,826)</u>	<u>\$ 3,342,290</u>	<u>\$ 6,831,111</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (719,851)</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 \$1,721,438 exceeded depreciation \$464,978 in the current period.	1,256,460
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.	(2,286,334)
Disbursements made for long-term loans are recorded as expenditures in the funds, but are not reported as expenses in the statement of activities.	843,934
Governmental funds report interest payable when it is due for payment, but interest expense is accrued as incurred in the statement of activities	6,261
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	3,541,519
Long-term obligations issued during the period provide current financial resources but are reported as liabilities in the government-wide statements	(1,484,190)
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	(61,494)
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>126,735</u>
Net adjustment to reconcile to changes in net assets	<u>1,917,961</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,198,110</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 171,540	\$ 561,166	\$ 732,706
Accounts receivable	201,762	273,591	475,353
Total current assets	<u>373,302</u>	<u>834,757</u>	<u>1,208,059</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	195,747	240,114	435,861
Net other assets	<u>195,747</u>	<u>240,114</u>	<u>435,861</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>(3,080,746)</u>	<u>(2,638,509)</u>	<u>(5,719,255)</u>
Net capital assets	<u>2,753,784</u>	<u>4,526,353</u>	<u>7,280,137</u>
Total noncurrent assets	<u>2,949,531</u>	<u>4,766,467</u>	<u>7,715,998</u>
Total assets	<u>\$ 3,322,833</u>	<u>\$ 5,601,224</u>	<u>\$ 8,924,057</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 8,348	\$ 1,213	\$ 9,561
Contract retentions	-	128,172	128,172
Compensated absences	11,683	17,525	29,208
Accrued interest payable	3,020	2,691	5,711
Deposits	8,194	-	8,194
Long-term debt due in one year	<u>86,014</u>	<u>48,061</u>	<u>134,075</u>
Total current liabilities	<u>117,259</u>	<u>197,662</u>	<u>314,921</u>
Long-term debt due in more than one year:			
Capital lease obligations	757,402	696,799	1,454,201
Loans	22,974	-	22,974
Total long-term debt due in more than one year	<u>780,376</u>	<u>696,799</u>	<u>1,477,175</u>
Total liabilities	<u>897,635</u>	<u>894,461</u>	<u>1,792,096</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,887,394	3,781,493	5,668,887
Restricted for capital improvements	195,747	240,114	435,861
Unrestricted	<u>342,057</u>	<u>685,156</u>	<u>1,027,213</u>
Total net assets	<u>\$ 2,425,198</u>	<u>\$ 4,706,763</u>	<u>\$ 7,131,961</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, 2011**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,102,966	\$ 2,040,528	\$ 3,143,494
Other operating revenues	1,050	35,021	36,071
Total operating revenues	<u>1,104,016</u>	<u>2,075,549</u>	<u>3,179,565</u>
<b>OPERATING EXPENSES</b>			
Personnel services	252,792	177,663	430,455
Interfund charges for services	406,575	318,483	725,058
Contractual and other services	104,292	206,591	310,883
Intergovernmental treatment costs	-	1,398,991	1,398,991
Utilities	114,929	30,674	145,603
Supplies	60,074	34,527	94,601
Insurance, claims, and expenses	17,303	8,857	26,160
Depreciation	179,898	321,503	501,401
Total operating expenses	<u>1,135,863</u>	<u>2,497,289</u>	<u>3,633,152</u>
Operating income (loss)	<u>(31,847)</u>	<u>(421,740)</u>	<u>(453,587)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	3,990	182	4,172
Interest expense	<u>(45,223)</u>	<u>(41,185)</u>	<u>(86,408)</u>
Net non-operating revenues (expenses)	<u>(41,233)</u>	<u>(41,003)</u>	<u>(82,236)</u>
Income before contributions and transfers	<u>(73,080)</u>	<u>(462,743)</u>	<u>(535,823)</u>
Contributions and transfers			
Transfers out	-	(363,598)	(363,598)
Transfers in	363,598	-	363,598
Capital contributions	<u>157,297</u>	<u>318,138</u>	<u>475,435</u>
Total contributions and transfers	<u>520,895</u>	<u>(45,460)</u>	<u>475,435</u>
Change in net assets	447,815	(508,203)	(60,388)
Total net assets, July 1	<u>1,977,383</u>	<u>5,214,966</u>	<u>7,192,349</u>
Total net assets, June 30	<u>\$ 2,425,198</u>	<u>\$ 4,706,763</u>	<u>\$ 7,131,961</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, 2011**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,084,790	\$ 2,041,019	\$ 3,125,809
Payments to suppliers	(304,203)	(1,695,514)	(1,999,717)
Payments to employees	(255,460)	(181,665)	(437,125)
Payments to other funds for services	(406,575)	(318,483)	(725,058)
Other operating receipts	1,050	35,021	36,071
Net cash provided by (used for) operating activities	<u>119,602</u>	<u>(119,622)</u>	<u>(20)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	157,297	318,138	475,435
Principal payments on long-term debt	(107,835)	(45,699)	(153,534)
Interest paid on long-term debt	(47,513)	(38,494)	(86,007)
Net cash provided by (used for) capital and related financing activities	<u>1,949</u>	<u>233,945</u>	<u>235,894</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest receipts	<u>3,990</u>	<u>182</u>	<u>4,172</u>
Net cash provided by investing activities	<u>3,990</u>	<u>182</u>	<u>4,172</u>
Net increase (decrease) in cash and cash equivalents	125,541	114,505	240,046
Cash and cash equivalents beginning of the year	<u>241,746</u>	<u>686,775</u>	<u>928,521</u>
Cash and cash equivalents-end of the year	<u>\$ 367,287</u>	<u>\$ 801,280</u>	<u>\$ 1,168,567</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (31,847)	\$ (421,740)	\$ (453,587)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	179,898	321,503	501,401
Change in assets and liabilities:			
Receivables, net	(17,491)	491	(17,000)
Accounts payable	(7,605)	(15,874)	(23,479)
Other liabilities	(3,353)	(4,002)	(7,355)
Net cash provided by (used for) operating activities	<u>\$ 119,602</u>	<u>\$ (119,622)</u>	<u>\$ (20)</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, 2011

#### 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, 2011

**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 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, 2011**

**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, 2011

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 Balances – Governmental Funds

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the City is bound to honor constraints about the specific purposes for which amounts in those funds can be spent. Those classifications include (1) nonspendable, (2) restricted, (3) committed, (4) assigned, and (5) unassigned amounts.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements  
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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

7. Fund Balances – Governmental Funds (Continued)

Nonspendable amounts generally are items not expected to be converted into cash such as inventories and prepaid amounts. Restricted amounts include those where constraints placed on the use of resources are externally imposed by grantors, contributors, other governments, or laws and regulations. Committed amounts are those amounts that can only be used for a specific purpose as determined by the City Council. Such committed amounts may be redeployed for other uses only by the direction of the City Council. Assigned amounts are fund balance amounts constrained by the City's intent to be used for specific purposes as determined by the City Manager or Finance Director. Unassigned fund balance amounts are the residual classification of the general fund only or deficit fund balance amounts.

When expenditures are incurred for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, the City considers restricted amounts to have been spent first. When expenditures are incurred for which any class of unrestricted fund balance could be used, the City considers committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

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 \$ 11,318,605 difference are as follows:

Capital assets	\$ 18,914,374
Less: Accumulated depreciation	<u>(7,595,769)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 11,318,605</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

**2. Reconciliation of Government-Wide and Fund Financial Statements (Continued)**

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 \$10,646,418 difference are as follows:

<b>Long-Term Debt Obligations:</b>	
Tax allocation bonds	\$ 3,505,000
Refunding capital lease	774,418
Installment agreement	981,667
Special assessment bonds	275,000
CEC Loan	85,230
CalFHA Loan	1,747,069
Net other post employment benefit (OPEB) obligation	125,448
Capital lease obligations –Clean renewable energy bonds	1,366,248
Capital lease obligation – Mobile Home Park	710,522
Capital lease – Vac-Con Truck	30,180
Capital lease fire truck	580,524
Loss on advance refunding	(89,826)
Compensated absences	<u>554,938</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	 <u>\$ (10,646,418)</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 \$ 1,917,961 difference and other significant components of the difference are as follows:

Capital outlay	\$ 1,721,438
Depreciation expense	(464,978)
Repayment of long-term debt principal	3,541,519
Long-term debt issued	(1,484,190)
Increase in long term loans	(1,442,400)
Other post employment benefit costs	(61,494)
Other items	<u>108,066</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>\$ 1,917,961</u>

**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 \$228,568; Sales Tax \$707,527, Renewable energy \$24,080, Street Smart 2 \$51,907, Pavement \$151,074, Vehicle abatement \$3,725, Solar Sequoia \$24,080, REDCOM \$37,111, Police grant DUI \$21,498, FEMA Fire Fund \$29,450, Gas Tax \$38,404, Redevelopment administration \$94,727 and Redevelopment Low and Moderate income housing fund, \$3,308,960 The expenditures were funded by available resources.

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

**4. Detailed Notes on All Funds**

**A. Deposits and Investments**

Deposits and investments at June 30, 2011 consisted of the following:

Pooled demand deposits	\$ 720,106
Pooled investments	6,610,901
Investments with trustees	<u>624,833</u>
 Total deposits and investments	 <u>\$ 7,955,840</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, 2011, \$ 499,912 of the City's bank balances of \$ 953,697 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 499,912</u>
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Investments - At June 30, 2011, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Sonoma County Investment Pool	Average 751 days	\$ 6,610,901
GS Fin Sq Gov Fund – Mutual Fund	Average 43 days	76,959
FIMM Treasury Fund – Mutual Fund	Average 60 days	510,189
First American Treasury – Mutual Fund	Average 60 days	<u>37,785</u>
 Totals		 <u>\$ 7,235,734</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, 2011**

**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 \$624,933 investment other than the County Pool, the entire \$624,933 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	\$ 29,614	\$ -	\$ 14,392	\$ 44,006	\$ 201,762	\$ 273,591
Taxes	249,373	-	-	249,373	-	-
Governments	21,390	718	180,486	202,594	-	-
Notes/loans	-	5,937,738	289,461	6,227,199	-	-
Assessments	-	-	286,385	286,385	-	-
Totals	<u>\$ 300,377</u>	<u>\$ 5,938,456</u>	<u>\$ 770,724</u>	<u>\$ 7,009,557</u>	<u>\$ 201,762</u>	<u>\$ 273,591</u>

**C. Interfund Transfers, receivables and payables**

1. The composition of interfund transfers for the governmental funds as of June 30, 2011, was as follows:

	<u>General Fund</u>	<u>Low Moderate Income Housing Fund</u>	<u>Nonmajor Fund CREBS</u>	<u>Other Non Major Funds</u>	<u>Total Transfers Out</u>
Transfers In:					
Transfers Out:					
Low Moderate	\$ -	\$ -	\$ 329,888	\$ -	\$ 329,888
Redevelopment	-	-	-	89,267	89,267
Nonmajor funds	244,658	193,755	-	93,958	532,371
Totals	<u>\$ 244,658</u>	<u>\$ 193,755</u>	<u>\$ 329,888</u>	<u>\$ 183,225</u>	<u>\$ 951,526</u>

The transfers out of the Low Moderate income housing fund were made to fund debt service costs applicable to solar improvements made to facilities related to affordable housing. The \$363,598 interfund transfers between the wastewater and water enterprise funds were for the purpose of writing down interfund receivables to reflect net realizable values.

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	\$ 783,000
	Total	<u>\$ 783,000</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.

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

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

**D. Long-Term Notes and Loans Receivable**

Party to Loan	Purpose of Loan	Amount
Individual homeowners	Individual home rehabilitation	\$ 397,019
Burbank Housing Corporation	Sequoia Village affordable housing	595,335
Burbank Housing Corporation	Property acquisition loan Hollyhock	300,000
Burbank Housing Corporation	Hollyhock affordable housing	1,747,069
Affordable Housing Associates	Acquisition and construction loan	2,898,315
Individual home buyers	Solar power equipment installation loans	289,461
	<b>Totals</b>	<b><u>\$6,227,177</u></b>

The \$397,109 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 be 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 \$289,461 solar equipment installation loans are repayable in equal bi-monthly installments over a period of about 33 years by the homeowners.

The \$1,747,069 is the balance owed to the City on an initial \$4,000,000 loan made to Burbank Housing Development Corporation for construction of the Hollyhock Subdivision. The loan was funded by a loan from CALFHA to the City which proceeds were then loaned to Burbank. The balance on the loan is repayable as homes are sold and in any event is due and payable no later than July 23, 2012. The loan bears interest at 3 percent per annum and is secured by the residential units.

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

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

**E. Capital Assets**

Capital asset activity relating to governmental activities for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
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>1,113,775</u>	<u>-</u>	<u>1,113,775</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,466,627</u>	<u>-</u>	<u>1,113,775</u>	<u>2,352,852</u>
Capital assets, being depreciated:				
Buildings	5,493,175	-	-	5,493,175
Machinery and equipment	1,822,414	-	-	1,822,414
Vehicles	2,332,533	762,281	-	3,094,814
Infrastructure – parks and skate parks	1,631,275	146,383	-	1,777,658
Infrastructure – solar power facilities	1,655,080	514,886	-	2,169,966
Infrastructure-Street system	<u>791,832</u>	<u>1,411,663</u>	<u>-</u>	<u>2,203,495</u>
Total capital assets being depreciated	<u>13,726,309</u>	<u>2,835,213</u>	<u>-</u>	<u>16,561,522</u>
Less accumulated depreciation for:				
Buildings	(4,079,274)	(71,028)	-	(4,150,302)
Infrastructure	(272,072)	(118,349)	-	(390,421)
Machinery and equipment	(1,096,913)	(159,587)	-	(1,256,500)
Vehicles	<u>(1,682,532)</u>	<u>(116,014)</u>	<u>-</u>	<u>(1,798,546)</u>
Total accumulated depreciation	<u>(7,130,791)</u>	<u>(464,978)</u>	<u>-</u>	<u>(7,595,769)</u>
Total capital assets, being depreciated, net	<u>6,595,518</u>	<u>2,370,235</u>	<u>-</u>	<u>8,965,753</u>
Governmental activities capital assets, net	<u>\$10,062,145</u>	<u>\$ 2,370,235</u>	<u>\$ 1,113,775</u>	<u>\$ 11,318,605</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, 2011

4. Detailed Notes on All Funds (Continued)

E. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 86,440	\$ -	\$ -	\$ 86,440
Construction in progress	2,261,758	-	2,261,758	-
Total capital assets, not being depreciated	<u>2,348,198</u>	<u>-</u>	<u>2,261,758</u>	<u>86,440</u>
Capital assets, being depreciated:				
Reservoirs	1,400,613	-	-	1,400,613
Pipelines and distribution system	4,202,790	-	-	4,202,790
Pipelines and collection system	4,418,536	2,261,758	-	6,680,294
Equipment	629,255	-	-	629,255
Total capital assets being depreciated	<u>10,651,194</u>	<u>2,261,758</u>	<u>-</u>	<u>12,912,952</u>
Less accumulated depreciation for:				
Reservoirs	(639,977)	(41,364)	-	(681,341)
Pipelines and distribution system	(2,211,403)	(138,534)	-	(2,349,937)
Pipelines and collection system	(1,975,338)	(309,643)	-	(2,284,981)
Equipment	(391,136)	(11,860)	-	(402,996)
Total accumulated depreciation	<u>(5,217,854)</u>	<u>(501,401)</u>	<u>-</u>	<u>(5,719,255)</u>
Total capital assets, being depreciated, net	<u>5,433,340</u>	<u>1,760,357</u>	<u>-</u>	<u>7,193,697</u>
Business-type activities capital assets, net	<u>\$ 7,781,538</u>	<u>\$ 1,760,357</u>	<u>\$2,261,758</u>	<u>\$ 7,280,137</u>

Construction in progress related primarily to Morris Street pump station upgrade project.

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

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

**E. Capital Assets (Continued)**

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

<b>Governmental activities:</b>	
General government	\$ 25,609
Public safety	207,005
Public works	93,831
Parks and recreation	<u>138,533</u>
Total depreciation expense-governmental activities	<u>\$ 464,978</u>
<b>Business-type activities:</b>	
Water	\$ 179,898
Wastewater	<u>321,503</u>
Total depreciation expense-business type activities	<u>\$ 501,401</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:

Fiscal Year	Total
2012	\$ 407,191
2013	<u>407,121</u>
Total minimum lease payments	814,312
Less amounts representing interest	<u>(39,894)</u>
Present value of net minimum lease payments	<u>\$ 774,418</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

**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
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	340,000	83,222	423,222
2017-2021	1,910,000	212,953	2,122,953
<b>Totals</b>	<b>\$ 3,505,000</b>	<b>\$ 742,532</b>	<b>\$ 4,247,532</b>

*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
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	20,000	13,515	33,515
2017-2021	120,000	46,000	166,000
2022-2023	65,000	6,700	71,700
<b>Totals</b>	<b>\$ 275,000</b>	<b>\$ 131,010</b>	<b>\$ 406,010</b>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

**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>
2012	\$ 27,881	1,033	28,914
Totals	<u>\$ 27,881</u>	<u>\$ 1,033</u>	<u>\$ 28,914</u>

*Capital Lease Obligations - Equipment*

The City has entered into two capital lease agreements for the purpose principally of purchasing a truck and a Vac-Con Truck in an aggregate principal amount of \$245,741. The truck lease bears interest at 7.2 percent and is payable in annual installments of \$14,837. The Vac-Con Truck lease is payable in annual installments of \$27,668, bears interest at 4.72 percent. 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>
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	34,585	148,117
Less amount representing interest	(4,405)	(18,843)
Present value net minimum lease payments	<u>\$ 30,180</u>	<u>\$ 129,334</u>

**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>
2012	\$ 33,963	\$ 5,298	\$ 39,261
2013	35,521	3,740	39,261
2014	37,138	2,123	39,261
2015	19,306	325	19,631
Totals	<u>\$ 125,928</u>	<u>\$ 11,486</u>	<u>\$ 137,414</u>

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, 2011**

**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>
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	92,825	133,744	226,569
2017-2021	464,125	668,720	1,132,845
2022-2026	464,125	668,720	1,132,845
Total minimum lease payments	1,392,375	2,006,160	3,398,535
Less amounts representing interest	<u>(410,708)</u>	<u>(592,823)</u>	<u>(1,003,531)</u>
Present value of net minimum lease payments	<u>\$ 981,667</u>	<u>\$1,413,337</u>	<u>\$ 2,395,004</u>

*Clean Renewable Energy Bond Lease, Mobile Home Park Capital Lease, and Fire Truck Capital Leases*

*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 from any source of legally available funds.

*Fire Pumper Truck* – The city entered into a lease purchase arrangement with Wells Fargo Equipment Finance Inc. for the purpose of financing the acquisition of a fire apparatus pumper truck. The truck was capitalized as a capital asset and the original lease amount was \$695,467. The lease is payable in semiannual payments of \$69,547 through 2015, bears interest at 3.0658 percent and is secured by the fire truck.

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

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

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

*Clean Renewable Energy Bond Lease, Mobile Home Park Capital Lease and Fire Truck Capital Lease (Continued)*

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

<u>Fiscal Year</u>	<u>Renewable Energy Lease</u>	<u>Mobile Home Park Lease</u>	<u>Fire Truck Lease</u>	<u>Totals</u>
2012	\$ 97,589	\$ 64,584	\$ 139,092	\$301,265
2013	97,589	64,584	139,092	301,265
2014	97,589	64,584	139,092	301,265
2015	97,589	64,584	139,092	301,265
2016	97,589	64,584	69,547	231,720
2017-2021	487,945	322,920	-	810,865
2022-2024	390,358	322,920	-	713,278
2027	-	64,584	-	64,584
Total minimum lease payments	1,366,248	1,033,344	625,915	3,025,507
Less amounts representing interest	-	(322,822)	(45,391)	(368,213)
Present value of net minimum lease payments	<u>\$ 1,366,248</u>	<u>\$ 710,522</u>	<u>\$580,524</u>	<u>\$2,657,294</u>

*Residential Development Loan Program*

The City entered into a Residential Development Loan Program (RDLP) Agreement with the California Housing Finance Agency (CHFA) for the purpose of obtaining funding for the predevelopment and construction costs of a 34 unit home mutual self-help program. The original loan amount was \$4,000,000, bearing interest at 3 percent, with payment deferred during the loan term or until October 26, 2012 at which time the entire principal and interest shall be due. If the project or portions thereof are sold or transferred, then repayment is required to the extent of such transfers or sales. The City also entered into a long-term loan agreement with Burbank Housing Development Corporation in the amount of \$4,000,000. The loan proceeds drawn down by the City from its loan with the California Housing Financing Agency were then disbursed to the Burbank Housing Development Corporation for use in development and construction of the Project, Burbank Housing has repaid \$2,252,931 plus interest to the City and the City has repaid \$2,252,931 plus interest to the California Housing Finance Agency leaving an unpaid principal balance of \$1,747,069 as of June 30, 2011. Subsequent to June 30, 2011, Burbank repaid another \$620,000 to the City and the City in turn repaid \$620,000 of its loan payable to the CHFA.

Future debt service on the loan is estimated to be:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 620,000	\$ 28,176	\$ 648,176
2013	1,127,069	33,812	1,160,881
Total	<u>\$ 1,747,069</u>	<u>\$ 61,988</u>	<u>\$ 1,809,057</u>

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements  
June 30, 2011

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

*Changes in Long-term liabilities:*

Long-term debt activity for the 2011 fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental</b>					
<b>Activities:</b>					
2007 tax allocation refunding bonds	\$ 3,795,000	\$ -	\$ 290,000	\$ 3,505,000	\$ 300,000
Special assessment bonds	285,000	-	10,000	275,000	20,000
Capital lease- capital projects	1,025,309	-	43,642	981,667	45,785
Capital lease-advance refunding	1,139,238	-	364,820	774,418	379,600
Capital lease obligations- equipment	35,426	-	5,246	30,180	5,493
CEC Loan	107,243	-	22,013	85,230	14,882
Capital lease – renewable energy	1,830,000	-	463,752	1,366,248	97,589
Capital lease – mobile home park	739,915	-	29,393	710,522	30,134
Capital lease – fire truck	-	640,256	59,732	580,524	122,225
Residential development loan	3,156,066	843,934	2,252,931	1,747,069	620,000
Compensated absences	681,673	173,265	300,000	554,938	300,000
<b>Total</b>	<u>\$12,794,870</u>	<u>\$1,657,455</u>	<u>\$ 3,841,529</u>	<u>\$10,610,796</u>	<u>\$ 1,935,708</u>
<b>Business-Type Activities:</b>					
Installment agreement	\$ 81,173	\$ -	\$ 53,292	\$ 27,881	\$ 27,881
Capital lease Vac-Con	106,275	-	15,735	90,540	16,477
Capital lease vehicles	50,030	-	11,236	38,794	12,044
Capital lease –capital projects	1,476,124	-	62,787	1,413,337	58,592
CEC Loan	51,182	-	10,484	40,698	19,081
<b>Totals</b>	<u>\$ 1,764,784</u>	<u>\$ -</u>	<u>\$ 153,534</u>	<u>\$ 1,611,250</u>	<u>\$ 134,075</u>

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements  
June 30, 2011

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 2011. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no significant uninsured claim liabilities at June 30, 2011.

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, 2011**

**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 14.131 percent for regular employees, 36.119 percent for fire employees, and 27.472 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>	6/30/09	\$ 282,091	100%	\$ -
	6/30/10	\$ 273,114	100%	\$ -
	6/30/11	\$ 256,582	100%	\$ -
<i>Safety employees</i>	6/30/09	\$ 372,163	100%	\$ -
	6/30/10	\$ 358,982	100%	\$ -
	6/30/11	\$ 357,132	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 30,2011, the City contributed \$53,816 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, 2011**

**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)	\$	116,424
Interest on net OPEB obligation		2,878
Adjustments to the ARC		(3,992)
Annual OPEB expense		115,310
Contributions made		(53,816)
Change in net OPEB obligation		61,494
Net OPEB obligation, beginning of year		63,954
Net OPEB obligation, end of year		\$125,448

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2011	\$ 115,310	46.7%	\$ 125,448

*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, 2011**

**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 54, titled, Fund Balance Reporting and Governmental Type Definitions, implemented in fiscal 2011 the provisions of the standard that requires financial reporting of fund balances into various categories as defined in the standard. The implementation of the standard had no effect on the beginning net assets or aggregated fund balances of the City's governmental funds.

**G. Deficit Fund Balances**

The City's low and moderate income housing fund has a \$547,826 fund deficit. The deficit is to be funded from future incremental property tax revenues.

**H Restricted Net Assets and Fund Balances**

The \$ 10,715,129 restricted amount in the governmental activities statement net assets and the \$6,309,239 restricted amounts in the balance sheet for the governmental funds represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments.

**I. Supplemental Education Revenue Augmentation Funds (SERAF)**

Chapter 21, Statutes of 2009, requires redevelopment agencies to collectively shift property tax revenues to K-12 schools during the 2010-2011 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 2011 was \$164,289 reported as an education expense in the statement of activities.

**J. Dissolution of the City's Community Redevelopment Agency as a Financial Reporting Entity and Assembly Bills AB 1X 26 and AB 1X 27**

AB 1X 26 terminates redevelopment agencies effective October 1, 2011 and replaces them with successor agencies that are to be tasked with retiring existing redevelopment agencies debt and winding down existing redevelopment projects. AB 1X 27 provided that redevelopment agencies shall be exempt from the termination provisions of Assembly Bill 26 provided they choose to participate in the Voluntary Alternative Redevelopment Program that Assembly Bill 27 creates. In order to participate in the Voluntary Program, and continue to exist as redevelopment agency and blended component unit of the City of Sebastopol, the City's Community Development Agency was to enter into an agreement whereby the Agency would agree to transfer a portion of its tax increment revenues to the County starting in the 2012 fiscal year. In order for the City's Redevelopment Agency to continue to participate in the program in future fiscal years, it would be required to submit additional remittances to the County for deposit into the ERAF in future years.

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2011**

**5 Other Information (Continued)**

**J. Dissolution of the City's Community Redevelopment Agency as a Financial Reporting Entity and Assembly Bills AB 1X 26 and AB 1X 27 (Continued)**

In connection with this legislation, the California Supreme Court issued an order directing that certain parties show cause why the relief sought in the petition for a writ of mandate should not be granted. This case involves the validity of recent legislation; Assembly Bills 1X 26 and 1X27 pertaining to the dissolving and reenacting with changes the statutory framework of redevelopment agencies throughout the State of California. The court allowed the first statute to remain in effect insofar as it precludes existing redevelopment agencies from incurring new indebtedness, transferring assets, acquiring real property, entering into new contracts and other matters, but it stayed enforcement of both statutes in all other respects. The court established an expedited briefing schedule designed to facilitate a decision before January 15, 2012, and in late December 2011, the Court issued its ruling.

The Court's ruling upheld AB 1X 26 (dissolution of redevelopment agencies), but overturned and invalidated AB 1X 27 (allowing redevelopment agencies to continue with voluntary payments to regulatory agencies). As a result, redevelopment/community development agencies are dissolved effective February 1, 2012.

The Agency's assets are to be transferred to a Successor Agency. The Successor Agency is to be the City or County that originally created the former agency unless an election is made to not be the Successor Agency, The Successor Agency is to take control of all redevelopment/community development assets, properties, contracts, leases, records, buildings, and equipment and dispose of all assets and properties of the former agency.

The Successor Agency is to establish a Redevelopment Obligation retirement Fund, review the Agency's Enforceable Obligation payment Schedule (which schedule includes agency obligations and for that matter excludes certain defined obligations), modify and readopt it if necessary. The Successor Agency may only make payments for those obligations identified in the Enforceable Obligation Payment Schedule (EOPS) until a Recognized Payment Schedule (ROPS) is approved by regulatory bodies.

The respective County Auditor/Controller, is required, among other matters, to (1) establish a redevelopment obligation retirement fund, (2) establish a property tax trust fund, (3) and periodically distribute property taxes to the Successor Agency in an amount equal to the cost of obligations specified in the Recognized Obligation payment Schedule (ROPS), and (4) perform other functions.

These financial statements do not contain any adjustments that will ultimately be required to be made to the City's blended component unit community development agency as part of the redevelopment dissolution process.

**REQUIRED SUPPLEMENTAL INFORMATION**

**Required Supplementary Information**  
**CITY OF SEBASTOPOL**  
**Budgetary Comparison Schedule - General Fund**  
**For the Fiscal Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
<b>Fund Balance, July 1</b>	\$ 140,335	\$ 140,335	\$ 140,335	\$ -
Resources (inflows):				
Property taxes	1,050,000	1,050,000	1,001,252	(48,748)
Sales taxes	1,390,835	1,390,835	1,379,949	(10,886)
Transient occupancy taxes	320,000	320,000	269,984	(50,016)
Other taxes	769,500	769,500	768,835	(665)
License permits	246,000	246,000	370,070	124,070
Fines and forfeits	89,000	89,000	94,597	5,597
Interest and rents	117,000	117,000	31,877	(85,123)
Intergovernmental	629,270	629,270	610,226	(19,044)
Charges for services	319,467	319,467	415,233	95,766
Miscellaneous	55,800	55,800	6,059	(49,741)
Transfers	-	-	244,658	244,658
Amounts available for charges to appropriations	<u>5,127,207</u>	<u>5,127,207</u>	<u>5,333,075</u>	<u>205,868</u>
<b>Charges to appropriations:</b>				
<b>General government:</b>				
Legislative	48,673	48,673	56,304	(7,631)
Manager	177,649	177,649	173,813	3,836
Finance	66,661	66,661	61,222	5,439
Legal	179,191	179,191	158,862	20,329
Insurance	-	-	12,620	(12,620)
Miscellaneous	72,661	72,661	66,758	5,903
Employee benefits	(2,880)	(2,880)	31,565	(34,445)
Government buildings	43,106	43,106	43,282	(176)
Community support	47,255	47,255	45,534	1,721
Planning	133,866	133,866	113,291	20,575
<b>Public safety:</b>				
Police	2,826,742	2,826,742	2,917,669	(90,927)
Animal control	9,300	9,300	8,868	432
Emergency	3,200	3,200	2,972	228
Fire	542,461	542,461	554,131	(11,670)
<b>Public Works:</b>				
Building inspection	149,886	149,886	155,121	(5,235)
Engineering	78,503	78,503	86,628	(8,125)
Corporation yard	40,975	40,975	52,836	(11,861)
Streets	249,292	249,292	141,265	108,027
Parking	22,871	22,871	22,994	(123)
<b>Parks and recreation</b>				
Parks	153,872	153,872	155,999	(2,127)
Pool	81,025	81,025	97,730	(16,705)
Recreation	36,552	36,552	34,143	2,409
Village park	43,786	43,786	44,852	(1,066)
Debt Service:				
Principal	5,245	5,245	5,245	-
Interest	1,672	1,672	1,672	-
Trustee fees	-	-	1,001	(1,001)
Total charges to appropriations	<u>5,011,564</u>	<u>5,011,564</u>	<u>5,046,377</u>	<u>(34,813)</u>
Fund Balance, June 30	<u>\$ 115,643</u>	<u>\$ 115,643</u>	<u>\$ 286,698</u>	<u>\$ 171,055</u>

**Required Supplementary Information**  
**CITY OF SEBASTOPOL**  
**Budgetary Comparison Schedule - General Fund**  
**Note to RSI**  
**For the Fiscal Year Ended June 30, 2011**

**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:	\$ 5,333,075
Differences - budget to GAAP:	
Transfers in from other funds are a budgetary resource, but are not revenues for financial reporting purposes	(244,658)
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>(140,335)</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 4,948,082</u></u>

Required Supplementary Information  
**CITY OF SEBASTOPOL**  
 Budgetary Comparison Schedule - Low and Moderate Income Housing Special Revenue Fund  
 For The Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Fund Balance, July 1</b>	\$ (810,186)	\$ (810,186)	\$ (810,186)	\$ -
Resources (inflows):				
Incremental property taxes	499,800	521,000	518,303	(2,697)
Interest and rents	-	-	252,706	252,706
Miscellaneous	25,000	25,000	2,253,749	2,228,749
Proceeds of state loans	-	-	843,934	843,934
Transfers in	-	-	193,755	193,755
	<u>(285,386)</u>	<u>(264,186)</u>	<u>3,252,261</u>	<u>3,516,447</u>
Amounts available for charges to appropriations				
Charges to appropriations:				
Community development:				
Housing projects	73,900	404,288	912,290	(508,002)
Debt Service	85,477	86,839	2,557,909	(2,471,070)
Transfers out	-	-	329,888	(329,888)
Total charges to appropriations	<u>159,377</u>	<u>491,127</u>	<u>3,800,087</u>	<u>(3,308,960)</u>
Fund Balance, June 30	<u>\$ (444,763)</u>	<u>\$ (755,313)</u>	<u>\$ (547,826)</u>	<u>\$ 207,487</u>

Expolantion of Differences between Budgetary Inflows and GAAP revenues:

Sources/Inflows of resources:	
Actual amounts available for appropriation per above schedule	\$ 3,252,261
Differences budget to GAAP:	
Proceeds of state loans provide current financial resources, but are not reported as revenues in the funds	\$ (843,934)
Transfers in provide current financial resources, but are not reported as revenues in the funds	\$ (193,755)
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>810,186</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 3,024,758</u>
Uses/Outflows of resources:	
Total charges to appropriations in the above schedule	\$ 3,800,087
Differences budget to GAAP:	
Transfers out are a budgetary use but are reported as an other financing use for financial reporting purposes	<u>(329,888)</u>
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 3,470,199</u>

**Required Supplementary Information  
City of Sebastopol  
Other Post Employment Benefits (OPEB)  
Schedule of Funding Progress  
June 30, 2011**

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, 2011

Special Revenue Funds

	Police Grants	Fire Training	Gas Tax	Park in Lieu	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special Sales Tax
<b>Assets</b>											
Cash and investments	\$ 5,258	\$ -	\$ -	\$ 456,663	\$ 715,024	\$ 32,866	\$ 3	\$ 10,669	\$ -	\$ 81,689	\$ 488,471
Receivables:											
Receivables from other governments	33,228	25,161	-	7,800	5,202	-	-	-	-	-	33,900
Accounts	-	-	-	-	76,676	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-	-
Assessments receivable	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 38,486</b>	<b>\$ 25,161</b>	<b>\$ 464,463</b>	<b>\$ 796,902</b>	<b>\$ 32,866</b>	<b>\$ 3</b>	<b>\$ 10,669</b>	<b>\$ -</b>	<b>\$ 81,689</b>	<b>\$ 522,371</b>	
<b>Liabilities and Fund Balances</b>											
Liabilities:											
Accounts payable	\$ 481	\$ 284	\$ 3,334	\$ 5,790	\$ 1,748	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,112
Due to other funds	18,869	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>19,380</b>	<b>284</b>	<b>3,334</b>	<b>5,790</b>	<b>1,748</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,112</b>
Fund balances:											
Restricted for:											
Equipment and infrastructure	-	-	461,149	-	-	-	-	-	-	-	514,259
Highways and streets	-	24,877	-	791,112	31,138	3	-	-	-	81,689	-
Public safety	19,106	-	-	-	-	-	10,669	-	-	-	-
Community promotion	-	-	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-
Affordable housing	-	-	-	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-
Committed for:											
Street projects	-	-	-	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>19,106</b>	<b>24,877</b>	<b>461,149</b>	<b>791,112</b>	<b>31,138</b>	<b>3</b>	<b>10,669</b>	<b>-</b>	<b>-</b>	<b>81,689</b>	<b>514,259</b>
<b>Total liabilities and fund balances</b>	<b>\$ 38,486</b>	<b>\$ 25,161</b>	<b>\$ 464,463</b>	<b>\$ 796,902</b>	<b>\$ 32,866</b>	<b>\$ 3</b>	<b>\$ 10,669</b>	<b>\$ -</b>	<b>\$ 81,689</b>	<b>\$ 522,371</b>	

City of Sebastopol  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2011

		Special Revenue Funds									
	Proposition 1B	Housing General Plan	Pavement Program	BIA Tourism	Vehicle Abatement	Solar Sequoia	REDCOM	FEIMA Fire	Federal ARRA Street	Inclusionary housing	Skate Park
<b>Assets</b>											
Cash and investments	\$ 37,975	\$ 53,341	\$ 215,339	\$ 3,653	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,270	\$ 44,286
Receivables:											
Receivables from other governments	-	-	-	-	-	-	20,563	14,850	2,479	-	-
Accounts	-	1,390	-	-	-	-	-	-	-	-	0-
Due from other funds	-	-	-	-	-	-	-	-	-	-	-
Assessments receivable	-	-	-	11,385	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 37,975</b>	<b>\$ 54,731</b>	<b>\$ 215,339</b>	<b>\$ 15,038</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,563</b>	<b>\$ 14,850</b>	<b>\$ 2,479</b>	<b>\$ 128,270</b>	<b>\$ 44,286</b>
<b>Liabilities and Fund Balances</b>											
Liabilities:											
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	20,563	14,850	2,479	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,563</b>	<b>14,850</b>	<b>2,479</b>	<b>-</b>	<b>-</b>
Fund balances:											
Restricted for:											
Equipment and infrastructure	-	-	-	-	-	-	-	-	-	-	-
Highways and streets	37,975	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-	-
Community promotion	-	-	-	15,038	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-
Affordable housing	-	54,731	-	-	-	-	-	-	-	128,270	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	44,286
Committed for:											
Street projects	-	-	215,339	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>37,975</b>	<b>54,731</b>	<b>215,339</b>	<b>15,038</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,270</b>	<b>44,286</b>
<b>Total liabilities and fund balances</b>	<b>\$ 37,975</b>	<b>\$ 54,731</b>	<b>\$ 215,339</b>	<b>\$ 15,038</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,563</b>	<b>\$ 14,850</b>	<b>\$ 2,479</b>	<b>\$ 128,270</b>	<b>\$ 44,286</b>

City of Sebastopol  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2011

	Capital Projects							Debt Service		Total Nonmajor Governmental Funds		
	City Capital Projects	CDBG	Undergrounding	FEMA	TFCA	Safe Route To School	County/Street Smart	Street Smart 2	Laguna Wetlands		Woodstone Assessment district	CREBS Bond
<b>Assets</b>												
Cash and investments	\$ 314,344	\$ -	\$ 185,586	\$ 58	\$ -	\$ 4,488	\$ 68,622	\$ -	\$ 44	\$ 37,785	\$ 372,747	\$ 3,257,441
Receivables:												
Receivables from other governments	-	2,039	-	-	-	17,856	-	21,567	8,843	-	-	180,486
Accounts	-	-	-	-	-	-	-	-	0-	-	-	14,392
Due from other funds	-	-	-	-	-	-	21,567	-	-	-	-	98,243
Assessments receivable	-	-	-	-	-	-	-	-	-	275,000	-	286,385
Notes receivable	-	-	-	-	-	-	-	-	-	-	289,461	289,461
<b>Total assets</b>	<b>\$ 314,344</b>	<b>\$ 2,039</b>	<b>\$ 185,586</b>	<b>\$ 58</b>	<b>\$ -</b>	<b>\$ 22,344</b>	<b>\$ 90,389</b>	<b>\$ 21,567</b>	<b>\$ 8,887</b>	<b>\$ 312,785</b>	<b>\$ 662,208</b>	<b>\$ 4,126,408</b>
<b>Liabilities and Fund Balances</b>												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,488	\$ 88,280	\$ -	\$ 8,887	\$ -	\$ -	\$ 121,414
Due to other funds	-	2,039	-	-	-	17,856	-	21,567	-	-	-	98,243
Deferred revenue	-	-	-	-	-	-	-	-	-	275,000	289,461	564,461
<b>Total liabilities</b>	<b>-</b>	<b>2,039</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,344</b>	<b>88,280</b>	<b>21,567</b>	<b>8,887</b>	<b>275,000</b>	<b>289,461</b>	<b>784,118</b>
Fund balances:												
Restricted for:												
Equipment and infrastructure	314,344	-	-	-	-	-	-	-	-	-	-	1,289,752
Highways and streets	-	-	185,586	58	-	-	2,109	-	-	-	-	1,154,544
Public safety	-	-	-	-	-	-	-	-	-	-	-	19,109
Community promotion	-	-	-	-	-	-	-	-	-	-	-	25,727
Debt service	-	-	-	-	-	-	-	-	-	37,785	372,747	410,532
Affordable housing	-	-	-	-	-	-	-	-	-	-	-	183,001
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	44,286
Committed for:												
Street projects	-	-	-	-	-	-	-	-	-	-	-	215,339
<b>Total fund balances</b>	<b>314,344</b>	<b>-</b>	<b>185,586</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>2,109</b>	<b>-</b>	<b>-</b>	<b>37,785</b>	<b>372,747</b>	<b>3,342,290</b>
<b>Total liabilities and fund balances</b>	<b>\$ 314,344</b>	<b>\$ 2,039</b>	<b>\$ 185,586</b>	<b>\$ 58</b>	<b>\$ -</b>	<b>\$ 22,344</b>	<b>\$ 90,389</b>	<b>\$ 21,567</b>	<b>\$ 8,887</b>	<b>\$ 312,785</b>	<b>\$ 662,208</b>	<b>\$ 4,126,408</b>

**CITY OF SEBASTOPOL**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2011**

	Special Revenue Funds													
	Police Grants	Fire Training	Gas Tax	Park in Lieu	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Traffic Congestion	Measure M	Special sales Tax	Proposition 1B	Housing General Plan	Pavement Program
<b>Revenues:</b>														
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,701	\$ -	\$ 41,468	\$ 466,684	\$ -	\$ -	\$ -
Intergovernmental	179,384	5,550	218,499	-	-	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	220,415	137,647	89,431	-	-	-	-	-	-	25,867	-
Interest	103	-	-	1,744	2,294	154	-	38	46	281	2,774	961	197	1,122
Miscellaneous	-	-	-	-	300	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>179,487</b>	<b>5,550</b>	<b>218,499</b>	<b>222,159</b>	<b>140,241</b>	<b>89,585</b>	<b>-</b>	<b>8,739</b>	<b>46</b>	<b>41,749</b>	<b>469,458</b>	<b>961</b>	<b>26,064</b>	<b>1,122</b>
<b>Expenditures:</b>														
Current:														
Public safety	212,289	6,198	-	-	-	-	-	-	-	-	-	-	-	-
Public works	-	-	214,624	-	-	85,403	-	-	-	-	-	-	-	1,402
Community development	-	-	-	-	-	-	3,893	-	-	-	-	-	2,730	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	28,631	394,064	-	-	-	-	-	788,621	339,820	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	14,796	-	-	-	-	-	-	110,592	-	-	-
Interest	-	-	-	16,674	-	-	-	-	-	-	46,905	-	-	-
<b>Total expenditures</b>	<b>212,289</b>	<b>6,198</b>	<b>214,624</b>	<b>60,101</b>	<b>394,064</b>	<b>85,403</b>	<b>-</b>	<b>3,893</b>	<b>-</b>	<b>-</b>	<b>916,118</b>	<b>339,820</b>	<b>2,730</b>	<b>1,402</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(32,802)</b>	<b>(648)</b>	<b>3,875</b>	<b>162,058</b>	<b>(253,823)</b>	<b>4,182</b>	<b>-</b>	<b>4,846</b>	<b>46</b>	<b>41,749</b>	<b>(446,660)</b>	<b>(338,859)</b>	<b>23,334</b>	<b>(280)</b>
<b>Other financing sources (uses):</b>														
Capital lease issued	-	-	-	-	-	-	-	-	-	-	640,256	-	-	-
Transfers in	-	-	7,239	-	-	-	-	-	-	-	-	-	-	100,000
Transfers out	-	-	-	-	-	-	-	-	(19,938)	-	(283,755)	-	-	(155,391)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>7,239</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19,938)</b>	<b>-</b>	<b>346,501</b>	<b>-</b>	<b>-</b>	<b>(55,391)</b>
<b>Net change in fund balances</b>	<b>(32,802)</b>	<b>(648)</b>	<b>11,114</b>	<b>162,058</b>	<b>(253,823)</b>	<b>4,182</b>	<b>-</b>	<b>4,846</b>	<b>(19,892)</b>	<b>41,749</b>	<b>(100,159)</b>	<b>(338,859)</b>	<b>23,334</b>	<b>(55,671)</b>
<b>Fund balances, July 1</b>	<b>51,908</b>	<b>648</b>	<b>13,763</b>	<b>299,091</b>	<b>1,044,935</b>	<b>26,956</b>	<b>3</b>	<b>5,843</b>	<b>19,892</b>	<b>39,940</b>	<b>614,418</b>	<b>376,834</b>	<b>31,397</b>	<b>271,010</b>
<b>Fund balances, June 30</b>	<b>\$ 19,106</b>	<b>\$ -</b>	<b>\$ 24,877</b>	<b>\$ 461,149</b>	<b>\$ 791,112</b>	<b>\$ 31,138</b>	<b>\$ 3</b>	<b>\$ 10,689</b>	<b>\$ -</b>	<b>\$ 81,689</b>	<b>\$ 514,259</b>	<b>\$ 37,975</b>	<b>\$ 54,731</b>	<b>\$ 215,339</b>

**CITY OF SEBASTOPOOL**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2011**

	Special Revenue Funds							Capital Projects	
	BIA Tourism	Vehicle Abatement	Solar Sequoia	REDCOM	FEIMA Fire	Federal ARRA Street	Inclusionary Housing		Skate Park
<b>Revenues:</b>									
Sales taxes	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-
Intergovernmental	-	-	-	72,990	29,450	38,427	-	-	-
Charges for services	-	3,636	-	-	-	-	127,974	-	-
Interest	51	-	-	-	-	-	296	205	68
Miscellaneous	-	-	-	-	-	-	-	50	-
<b>Total revenues</b>	<b>51</b>	<b>3,636</b>	<b>-</b>	<b>72,990</b>	<b>29,450</b>	<b>38,427</b>	<b>128,270</b>	<b>255</b>	<b>68</b>
<b>Expenditures:</b>									
<b>Current:</b>									
Public safety	-	3,725	-	72,990	29,450	-	-	-	-
Public works	-	-	24,079	-	-	-	-	-	99
Community development	128	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	-	551	-
Capital outlay	-	-	-	-	-	38,427	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>128</b>	<b>3,725</b>	<b>24,079</b>	<b>72,990</b>	<b>29,450</b>	<b>38,427</b>	<b>-</b>	<b>551</b>	<b>99</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(77)</b>	<b>(89)</b>	<b>(24,079)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,270</b>	<b>(296)</b>	<b>(31)</b>
<b>Other financing sources (uses):</b>									
Capital lease issued	-	-	-	-	-	-	-	-	-
Transfers in	-	-	24,079	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>24,079</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(77)</b>	<b>(89)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,270</b>	<b>(296)</b>	<b>(31)</b>
<b>Fund balances, July 1</b>	<b>15,115</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,562</b>	<b>314,375</b>
<b>Fund balances, June 30</b>	<b>\$ 15,038</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 128,270</b>	<b>\$ 44,266</b>	<b>\$ 314,344</b>

**CITY OF SEBASTOPOLE**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2011**

	Capital Projects						Debt Service			Total Nonmajor Governmental Funds		
	CDBG	Undergrounding	FEMA	TFCA	Safe Routes To School	County Street Smart	Street Smart 2	Laguna Wetlands	Woodstone Assessment District		CREBS Bond	
<b>Revenues:</b>												
Sales taxes	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$
Intergovernmental	32,389	-	23,473	17,952	59,856	245,937	51,907	23,993	-	-	-	516,853
Charges for services	-	-	-	-	-	-	-	-	32,351	-	-	999,807
Interest	-	855	-	-	-	631	-	-	-	884	-	12,704
Miscellaneous	-	-	-	-	-	-	-	-	-	163,973	-	164,323
<b>Total revenues</b>	<b>32,389</b>	<b>855</b>	<b>23,473</b>	<b>17,952</b>	<b>59,856</b>	<b>246,568</b>	<b>51,907</b>	<b>23,993</b>	<b>32,351</b>	<b>164,857</b>	<b>-</b>	<b>2,331,008</b>
<b>Expenditures:</b>												
<b>Current:</b>												
Public safety	-	-	23,415	-	-	-	-	-	-	-	-	348,067
Public Works	32,389	-	-	17,952	59,856	-	-	-	-	-	-	435,804
Community development	-	-	-	-	-	-	-	-	-	-	-	6,751
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	551
Capital outlay	-	-	-	-	-	470,715	-	23,993	-	-	-	2,054,271
Debt service	-	-	-	-	-	-	-	-	10,000	463,752	-	599,140
Principal	-	-	-	-	-	-	-	-	22,276	-	-	85,855
Interest	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>32,389</b>	<b>-</b>	<b>23,415</b>	<b>17,952</b>	<b>59,856</b>	<b>470,715</b>	<b>-</b>	<b>23,993</b>	<b>32,276</b>	<b>463,752</b>	<b>-</b>	<b>3,530,439</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>-</b>	<b>855</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>(224,147)</b>	<b>51,907</b>	<b>-</b>	<b>75</b>	<b>(298,895)</b>	<b>-</b>	<b>(1,199,431)</b>
<b>Other financing sources (uses):</b>												
Capital lease issued	-	-	-	-	-	-	-	-	-	-	-	640,256
Transfers in	-	-	-	-	-	64,606	-	-	-	329,888	-	525,612
Transfers out	-	-	-	-	-	-	(51,907)	-	-	(24,079)	-	(545,070)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,606</b>	<b>(51,907)</b>	<b>-</b>	<b>-</b>	<b>305,809</b>	<b>-</b>	<b>620,988</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>855</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>(159,541)</b>	<b>-</b>	<b>-</b>	<b>75</b>	<b>6,914</b>	<b>-</b>	<b>(578,433)</b>
<b>Fund balances, July 1</b>	<b>-</b>	<b>184,731</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161,650</b>	<b>-</b>	<b>-</b>	<b>37,710</b>	<b>365,633</b>	<b>-</b>	<b>3,920,723</b>
<b>Fund balances, June 30</b>	<b>\$ -</b>	<b>\$ 185,586</b>	<b>\$ 58</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,109</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 37,785</b>	<b>\$ 372,747</b>	<b>\$ -</b>	<b>\$ 3,542,290</b>