

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

**Basic Financial Statements
for the
Fiscal Year Ended June 30, 2011**

FINANCIAL SECTION

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Basic Financial Statements
for the
Fiscal Year Ended June 30, 2011

Table of Contents

	<u>Page</u>
TABLE OF CONTENTS	
FINANCIAL SECTION	
Report of Independent Accountants	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	12
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	13
Notes to the Basic Financial Statements	14
REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Budgetary Comparison Schedule- Low and Moderate Income Housing Special Revenue Fund	25
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	26
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLINACE	
Compliance With State of California Requirements	27



Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities and each major fund, of the Community Development Agency of the City of Sebastopol, California, (the Agency) as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Community Development Agency of the City of Sebastopol, California, as of June 30, 2011, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 8 and pages 25 through 26 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.

The accompanying financial statements have been prepared assuming the Community Development Agency of the City of Sebastopol will continue as a going concern. As discussed in note 5 E to the financial statements, the California Supreme Court announced its ruling upholding Assembly Bill AB 1X 26 (dissolution of redevelopment agencies), but overturning and invalidating Assembly Bill AB 1X 27 (allowing redevelopment agencies to continue with voluntary payments to regulatory agencies). The ruling provides for the dissolution of all redevelopment agencies effective February 1, 2012. Management's plans in regard to these matters are also discussed in note 5E to the financial statements. The financial statements do not include any adjustments that will result from the outcome of the dissolution provisions of the Court's ruling.

In accordance with Government Auditing Standards, I have also issued my report dated, December 31, 2011, on my consideration of the Community Development Agency of the City of Sebastopol's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The Agency in fiscal 2011 implemented the provisions of Governmental Accounting Standards Board Statement Number 54 titled Fund Balance Reporting and Governmental Fund Type Definitions.


Terry E. Krieg
Certified Public Accountant
December 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Sebastopol Community Development Agency's financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on June 30, 2011.

FINANCIAL HIGHLIGHTS

- The Agency's total net assets increased by about \$330,000 over the course of this year's operations. The Agency's revenues exceeded expenses in fiscal 2011 in part because of a \$193,755 contribution from the City's Special Sales Tax Fund to the Low and Moderate Income Housing Fund for costs relating to the acquisition of Village Mobile Home Park.
- Incremental property tax revenues decreased in fiscal year 2011, by 1.92 percent to a total of about \$1,889,000. This \$37,000 reduction was the result of declining property values
- Program revenues, mostly interest revenues from a residential housing development loan, declined in fiscal 2011 by about 5.17 percent as loan repayments of about \$2.4 million reduced earnings on the outstanding loan balance.
- Operating expenses in fiscal 2011 increased by about \$419,000 or 28 percent more than in fiscal year 2010. This was a net change and consisted of a \$634,000 drop in ERAF payments, a \$364,000 increase in administration and planning costs, a \$653,000 increase in spending on projects (with about 50% being contributed to the City for a debt service fund to pay the CREBS bonds), and a net \$36,000 increase in all other costs.
- The Agency collected over \$2.4 million in principal and interest from Burbank Housing on a residential development loan and immediately repaid the same amount to the California Housing Finance Agency. The City should not incur expenses for this loan. The remaining balance of \$1.7 million is due in full from Burbank Housing by the end of fiscal 2012/13.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Government-Wide Statements

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Fund Financial Statements

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

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

The Agency has only one kind of fund type:

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

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net Assets. The Agency's *combined* net assets increased by about \$330,000 between fiscal years 2011 and 2010. (See Table A-1)

TABLE A-1 Net Assets of the Agency	Governmental Activities (Rounded to Nearest Thousand)		Total Percentage Change
	2011	2010	2010-2011
Current assets	\$3,221,000	\$3,494,000	-7.81%
Other assets	6,123,000	7,692,000	-20.39%
Capital assets	724,000	724,000	0.0%
Total assets	10,068,000	11,910,000	-15.5%
Long-term debt outstanding	5,937,000	7,992,000	-25.85%
Other liabilities	32,000	149,000	-78.5%
Total liabilities	5,969,000	8,141,000	-26.7%
Net assets			
Invested in capital assets, net	(3,280,000)	(3,910,000)	16.11%
Restricted	4,426,000	4,373,000	1.2%
Unrestricted	2,953,000	3,306,000	-10.67%
Total net assets	\$4,099,000	\$3,769,000	8.76%

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

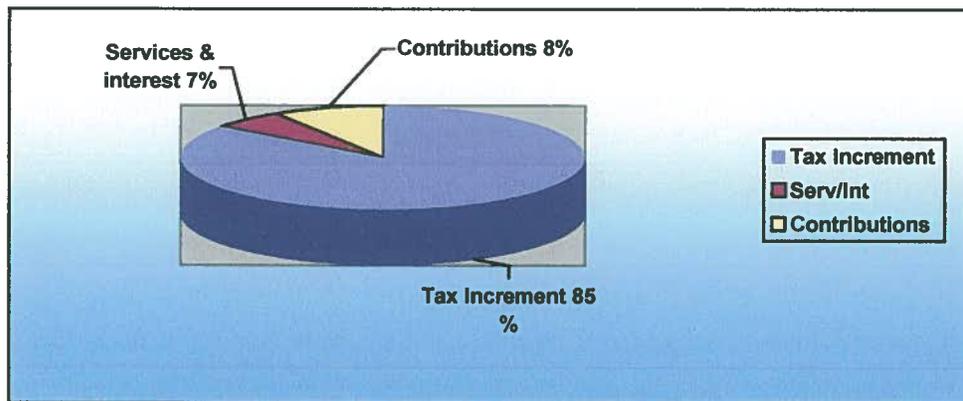
Changes in net assets. The Agency reported about a \$330,000 increase in net assets for 2011 compared to about a \$394,000 decrease in fiscal 2010. The 2010 decrease was caused by a one-time million dollar write down of a developer note receivable to improve the affordability of housing.

Expenses in fiscal 2011 increased overall by about \$419,000 because (1) the Agency charged more personnel costs to administration than in previous years and (2) expensed more costs for development projects including a \$330,000 contribution to the City for debt service on the CREB bonds as a reimbursement for solar facilities within the project area.

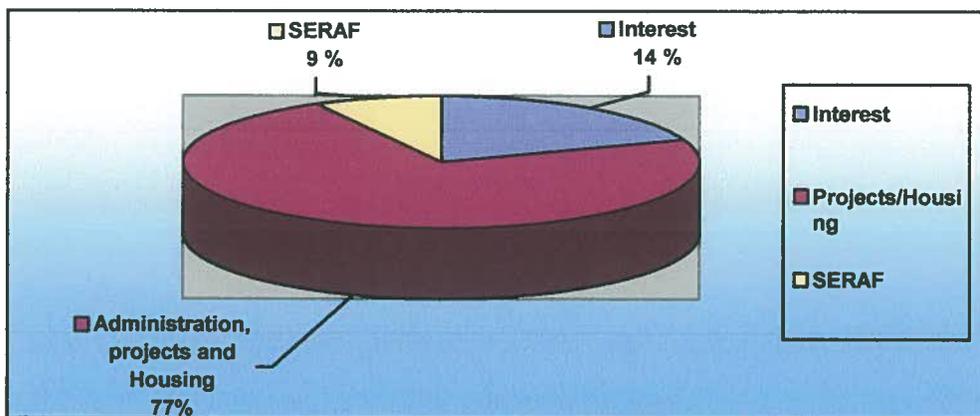
The Agency's total program and general revenues in 2011 increased by \$138,000 to about \$2.25 million. (See Table A-2) About 85 percent of the Agency's revenue comes from incremental property taxes; 8 percent from contributions, and the remaining 7 percent comes from charges for services and investment earnings.

The total cost of all programs and services increased by about \$419,000 or about 27.8 percent compared to fiscal 2010. Most of the program expenses are for administration and improvement projects.

Agency Governmental-Type Activity Revenues Fiscal Year 2011



Agency Governmental-Type Activity Expenses - Fiscal Year 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS

About 14 percent of the Agency's expenses were for interest on debt service including the Burbank Housing Hollyhock loan, 24 percent for administration, 53 percent for projects and other housing related matters, and 9 percent for mandated SERAF payments.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

TABLE A-2
Agency Revenues and
Expenses

	Governmental Activities (rounded to nearest thousand)		Percentage Change 2010-2011
	2011	2010	
Revenues			
Program revenues:			
Charges for services	\$ 165,000	\$174,000	-5.17
Contribution from City Sebastopol	194,000	-	100.0%
General revenues:			
Property taxes	1,889,000	1,926,000	-1.92%
Interest	10,000	20,000	-50.0%
Total revenues	2,258,000	2,120,000	6.5%
Expenses			
Housing	213,000	108,000	97.2%
Administration and planning	469,000	105,000	346.6%
Projects and studies	813,000	160,000	408.2%
SERAF payments	164,000	798,000	-79.4%
Interest	269,000	338,000	-20.4%
Total expenses	1,928,000	1,509,000	27.8%
Excess (deficiency)	330,000	611,000	-54.00%
Special item: Forgiveness of debt	-	(1,005,000)	-100.0%
Increase (decrease) in net assets	\$330,000	\$(394,000)	183.75%
 Net assets, beginning of year	 3,769,000	 4,163,000	
 Net assets, end of year	 \$4,099,000	 \$3,769,000	 8.76%

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As the Agency completed the year, its governmental funds reported a *combined* fund balance of about \$3.20 million, about a \$287,781 decrease from 2010. Of that decrease, almost all was the result of the Agency spending more than its revenues in fiscal 2011.

The combined ending \$ 3.20 million fund balance consisted of:

- About \$3.74 million in the Capital Projects Fund to be used for future projects and activities, Of the \$3.74 million, \$2.944 million is restricted for development; \$22 thousand is committed to the Ceres project; and \$783 thousand is non-spendable and is an internal loan due from Agency's Low and Moderate Income Housing fund.
- The deficit in the Low Income Housing fund has improved from the \$810,186 deficit balance in fiscal 2010 but the fund is still showing a deficit of \$547,826 at the close of fiscal 2011. The low income housing fund paid back about \$250 thousand to the Agency's project fund in the last fiscal year.

The net changes in fund balances for the 2011 fiscal year were:

- A \$550,141 decrease in the Capital Projects Fund as a result of a higher spending on administration and project costs.
- A \$262,360 increase in the Low and Moderate Income Housing Fund as a result of fiscal 2011 spending being less than fund revenues and other sources.

Low and Moderate Income Housing Special Revenue Fund Budgetary Highlights

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

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

During the 2011 fiscal year, the Agency's budget for the low moderate income housing *was not* amended. Actual expenditures in the Low and Moderate Income Housing Fund were \$6,041 less than final budget amounts when expenditures related to the residential development program are excluded from the comparison (because they were all funded from loan proceeds or repayments) This positive spending variance from budget existed primarily because budgeted expenditures for Mobile Home Rent Control \$4,000 and Rehabilitation Program \$2,500 did not occur.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Agency at year end had \$ 724,480 invested in capital assets which consisted principally of small remaining portions of parcels acquired for the future development of affordable housing. More information on capital assets can be found on page 20 of the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Debt

The long-term debt obligations of the Agency were about \$6.02 million at the end of 2011. The increase over fiscal 2010 was due to the Burbank Housing-Hollyhock project loan, which passes through the City to CalHFA. The agencies debt consists of \$3,505,000 for 2007 Tax Allocation bonds; \$1,747,069 California Housing Finance Agency Loan; and \$774,538 for the 2004 Certificates of Participation Capital Lease refunding arrangement.

Additional information about the Agency's long-term obligations can be found in the notes to the basic financial statements on page 21.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Agency's 2011 financial statements have been prepared assuming that the Agency will continue as a going concern.

The California Supreme Court in late December 2011 issued its ruling about the enforceability of Assembly Bills (AB) 26 and 27 dealing with the dissolution of redevelopment agencies throughout the State of California.

The Court's ruling upheld the provisions of AB 26 providing for the dissolutions of redevelopment agencies and overturned and invalidated AB 27. Accordingly, redevelopment agencies in California are to be dissolved effective February 1, 2012. Each Agency is to have a Successor Agency to provide for the dissolution of the agency, wind down operations and provide for the future payment of certain specified and qualifying obligations of the former agency.

More information about the dissolution of the Redevelopment Agency of the City of Sebastopol can be found starting on page 23 of the notes to the financial statements. These 2011 financial statements reflect no adjustments relating to the dissolution of the Agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Treasurer, City of Sebastopol, 7120 Bodega Avenue, Sebastopol, California 95472.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Statement of Net Assets
Governmental Activities
June 30, 2011

ASSETS

Cash and investments	\$ 3,220,545
Taxes receivable	<u>718</u>
Total current assets	<u>3,221,263</u>
Noncurrent assets:	
Loans receivable - long term	5,937,738
Debt issue costs	184,615
Capital assets not being depreciated	<u>724,480</u>
Total noncurrent assets	<u>6,846,833</u>
Total assets	<u><u>\$ 10,068,096</u></u>

LIABILITIES

Current liabilities	
Accounts payable	\$ 19,140
Interest payable	13,436
Tax allocation bonds, capital leases and loans due in one year	<u>1,299,600</u>
Total current liabilities	<u>1,332,176</u>
Noncurrent liabilities due in more than one year	
Tax allocation bonds	3,205,000
Residential development loan	1,127,069
Capital Lease-Refunding	394,819
Loss on refunding	<u>(89,826)</u>
Total noncurrent liabilities	<u>4,637,062</u>
Total liabilities	<u>5,969,238</u>

NET ASSETS

Invested in capital assets, net of related debt	(3,280,497)
Restricted for:	
Housing projects	4,425,843
Unrestricted	<u>2,953,512</u>
Total net assets	<u><u>\$ 4,098,858</u></u>

See accompanying notes to the basic financial statements

**Community Development Agency of The City of Sebastopol
Balance Sheet
Governmental Funds
June 30, 2011**

	Capital Project Fund	Low and Moderate Income Housing Fund	Total Governmental Funds
ASSETS			
Cash and investments	\$ 2,985,371	\$ 235,174	\$ 3,220,545
Receivables:			
Taxes	718	-	718
Notes and loans	-	5,937,738	5,937,738
Advances to other funds	783,000	-	783,000
	<u>3,769,089</u>	<u>6,172,912</u>	<u>9,942,001</u>
Total assets			
	<u>\$ 3,769,089</u>	<u>\$ 6,172,912</u>	<u>\$ 9,942,001</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 19,140	\$ -	\$ 19,140
Advances from other funds	-	783,000	783,000
Deferred revenue	-	5,937,738	5,937,738
	<u>19,140</u>	<u>6,720,738</u>	<u>6,739,878</u>
Total liabilities			
	<u>19,140</u>	<u>6,720,738</u>	<u>6,739,878</u>
Fund balances:			
Nonspendable	783,000	-	783,000
Committed for the Ceres Project	22,552	-	22,552
Restricted for redevelopment	2,944,397	-	2,944,397
Unassigned	-	(547,826)	(547,826)
	<u>3,749,949</u>	<u>(547,826)</u>	<u>3,202,123</u>
Total fund balances			
	<u>3,749,949</u>	<u>(547,826)</u>	<u>3,202,123</u>
Total liabilities and fund balances	<u>\$ 3,769,089</u>	<u>\$ 6,172,912</u>	<u>\$ 9,942,001</u>
Total Governmental Fund Balances			\$ 3,202,123
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets do not provide current financial resources for governmental activities and therefore are not reported in the funds			724,480
Long-term notes are not available to pay obligations of the current period and therefore are deferred in the funds			5,937,738
Interest payable is not due and payable in the current period and is therefore not reported in the funds			(13,436)
Accounting losses on refunding transactions are capitalized in the statement of net assets and are amortized to expense in the statement of activities			89,826
Debt issue costs are capitalized in the statement of net assets, but are reported as an outflow of resources in the funds			184,615
Long-term debt obligations due to third parties are not due and payable in the current period and therefore are not reported in the funds.			(6,026,488)
Net Assets of Governmental Activities			<u>\$ 4,098,858</u>

See accompanying notes to the basic financial statements

**Community Development Agency of The City of Sebastopol
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011**

	Capital Project Fund	Low and Moderate Income Housing Fund	Total Governmental Funds
REVENUES			
Property taxes, incremental	\$ 1,371,015	\$ 518,303	\$ 1,889,318
Interest and rents	9,864	252,706	262,570
Miscellaneous	-	2,447,504	2,447,504
Total revenues	1,380,879	3,218,513	4,599,392
EXPENDITURES			
Current:			
Community development:			
Administration	469,083	-	469,083
Projects and studies	117,165	10,956	128,121
Housing loans	-	843,934	843,934
Educartion SERAF	164,289	-	164,289
Housing	-	64,585	64,585
Capital outlay	366,150	387,288	753,438
Debt service:			
Principal	639,591	2,268,159	2,907,750
Interest	174,742	225,165	399,907
Total expenditures	1,931,020	3,800,087	5,731,107
Excess (deficiency) of revenues over expenditures	(550,141)	(581,574)	(1,131,715)
Other Financing Sources (Uses)			
Loans issued	-	843,934	843,934
	-	843,934	843,934
Net change in fund balances	(550,141)	262,360	(287,781)
Fund balances, July 1	4,300,090	(810,186)	3,489,904
Fund balances, June 30	\$ 3,749,949	\$ (547,826)	\$ 3,202,123

See accompanying notes to the basic financial statements

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

Net Change in Fund Balances - Total Governmental Funds	<u><u>\$ (287,781)</u></u>
Amounts reported for governmental activities in the statement of activities are different because:	
Collections of long-term loans receivable in the funds provide current financial resources but are not reported as revenues in the statement of activities	(2,382,749)
Write downs of long-term uncollectible loans receivable do not use current financial resources and are not reported as expenditures in the funds	(54,715)
Interest on long-term debt is recorded as an expense in the statement of activities but does not require the use of current financial resources and are not recorded as expenditures in the funds until paid	131,040
Losses from refunding transactions are reported as expenditures in the funds but are capitalized and amortized to interest expense in the statement of activities	(8,146)
Debt issue costs are amortized to expense over the life of the debt in the statement of activities, but are reported in the funds as an expenditures when paid	(16,784)
Proceeds of long-term debt provide current financial resources in the funds, but are reported as liabilities in the statement of net assets	(843,934)
Outlays for Long-term loans receivable use current financial resources in the funds but are not reported as expenses in the statement of activities	884,740
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	<u>2,907,750</u>
Net adjustment to reconcile to changes in net assets	<u>617,202</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 329,421</u></u>

See accompanying notes to the basic financial statements

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

Note 1 Summary of Significant Accounting Policies (Continued)

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

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

The Agency reports the following major governmental funds:

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

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

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

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

D. Asset, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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

2. Receivables and Payables (Continued)

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

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

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

3. Inventories and Prepaid Items

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

4. Capital Assets

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

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

5. Compensated Absences

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

6. Long-term Obligations

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

Note 1 Summary of Significant Accounting Policies (Continued)

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

7. Fund Balances – Governmental Funds

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the Agency 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. Nonspendable amounts generally are amounts not expected to be converted into cash such as inventories, prepayments, and certain long-term receivables. 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 Agency's Board of Directors. Such committed amounts may be redeployed for other uses only by direction of the Board of Directors. Assigned amounts are fund balance amounts constrained by the Agency's intent to be used for specific purposes as determined by the Agency's Directors or Executive Director. Unassigned amounts are the residual classification of the Agency's project fund or deficit fund balance amounts.

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

2. Reconciliation of Government-Wide and Fund Financial Statements

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

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statements of net assets. One element of that reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this \$ 6,026,488 difference are as follows:

Long-Term Debt Obligations:	
Refunding capital lease	\$ 774,419
Residential Development Loan	1,747,069
Tax allocation refunding bonds	<u>3,505,000</u>
Net adjustment to decrease fund balance total governmental	
Funds to arrive at net assets - governmental activities	<u>\$ (6,026,488)</u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

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

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that proceeds of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The details of this \$ 617,202 difference are as follows:

Repayments of long-term debt recorded as expenditures in the funds	\$2,907,750
Collections on long-term receivables	(2,382,749)
Other items	<u>92,201</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>\$ 617,202</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. All annual appropriations lapse at fiscal year end. On or before the end of each fiscal year, all agencies of the City submit requests for appropriations to the City Manager so that a budget may be prepared. The proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is approved by the Council. The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. Encumbrance accounting is not employed in governmental funds

4. Detailed Notes on All Funds

A. Deposits and Investments

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

Demand deposits	\$ -
Pooled investments held by the City of Sebastopol	<u>3,220,545</u>
Total cash and investments	<u>\$ 3,220,545</u>

Custodial credit risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency's policy for deposits is that they will be made only in institutions in California and they shall be insured or collateralized with securities. At June 30, 2011, all of the Agency's bank balances of zero were covered by Federal Depository Insurance, and none was exposed to credit risk. Investments at June 30, 2011 consisted of the following:

Investment	Maturity	Fait Value
Pooled investments with the City of Sebastopol-Sonoma County Treasurers Pool	Average 751 days	<u>\$3,220,545</u>
Totals		<u>\$3,220,545</u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds

A. Deposits and Investments (Continued)

Interest rate risk- As a means of limiting its exposure to fair value losses arising from interest rates, the Agency limits its investments to maturities prescribed in the California Government Code which is five years for purchased Securities. *Credit Risk* - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. The County Investment Pool is unrated. *Custodial Credit Risk-* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency would not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The County Pool is not subject to custodial credit risk as it is not evidenced by specific securities.

B. Receivables – Long Term Loans

The Agency's receivables at year end consisted of:

Housing rehabilitation loans	Individual home rehabilitation loans	\$ 397,019
Burbank Housing Corporation	Land acquisition and construction loan	595,335
Burbank Housing Corporation	Property acquisition loan	300,000
Burbank Housing Corporation	Residential development loan	1,747,069
Affordable Housing Associates	Land acquisition and construction loan	<u>2,898,315</u>
	Totals	<u>\$ 5,937,738</u>

The \$397,019 housing rehabilitation loans bears interest at 3 to 6 percent with some loans deferred with no interest. Repayable loans are to be repaid in monthly installments of principal and interest taken together over terms of 15 to 30 years.

The Agency has an agreement with Burbank Housing Corporation for the development and construction of affordable housing units within the City. Among other matters, the agreement provides that the City shall loan Burbank up to \$50,000 for each of the 20 units to be constructed; and the \$1,000,000 may be used for any Agency approved project costs. In addition, the City is to consider additional strategies to provide up to an additional \$600,000 of project financing. The \$1,000,000 initial loan is to be ultimately assumed on a proportionate basis by the homebuyers of the affordable units. In the 2010 fiscal year, the Agency agreed, due in part to the economic condition of the housing market, to forgive \$1,004,665 of the original \$1,600,000 loan which reduced the loan balance to the \$595,335 shown above.

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

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

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

4. Detail Notes on All Funds (Continued)

B. Receivables – Long Term Loans

The \$1,747,069 loan is the balance owed to the Agency 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 Agency which proceeds were then immediately 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 and is secured by the residential units.

C. Interfund Receivables, Payables, and Transfers

Internal balances (receivables and payables) at June 30, 2011 were as follows:

Receivable Fund	Payable Fund	Amounts
Capital project	Low Moderate Income Housing	\$ 783,000
		\$ 783,000

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

D. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

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

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

4. Detail Notes on All Funds (Continued)

E. Long-Term Debt

Changes in Long-term liabilities

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

Governmental Activities:	Beginning	Additions	Reductions	Ending	Due In One Year
Capital lease refunding	\$1,139,238	\$ -	\$ 364,820	\$774,418	\$ 379,600
Residential development loan	3,156,066	843,934	2,252,931	1,747,069	620,000
Tax allocation bonds, 2007	3,795,000	-	290,000	3,505,000	300,000
Totals	\$8,090,304	\$ 843,934	\$ 2,907,751	\$6,026,487	\$ 1,299,600

Capital Lease-Refunding

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

Future minimum lease payments are:

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

Tax Allocation Refunding Bonds 2007 Series

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

Fiscal Year	Principal	Interest	Totals
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
Totals	\$ 3,505,000	\$ 742,532	\$ 4,247,532

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

4. Detail Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Residential Development Loan Program

The City entered into a residential development loan program (RDLP) with the California Housing Financing Agency 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 repayments deferred during the loan term or until October 26, 2012 at which time the entire principal and interest becomes due. If the project or portions of the project are sold or transferred, then repayment is required to the extent of such transfers or sales of property. The City also entered into a long-term loan agreement with Burbank Housing Development Corporation in the same of 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 Burbank for use in its development and construction of the project. Burbank has repaid \$2,252,931 plus interest to the City and the City has repaid \$2,252,931 plus interest to the Agency leaving an unpaid balance at June 30, 2011 of \$1,747,069. Subsequent to June 30, 2011, Burbank repaid another \$620,000 and the City in turn repaid the \$620,000 to the California Housing Finance Agency. 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
Totals	\$ 1,747,069	\$ 61,988	\$ 1,809,057

5. Other Information

A. Risk Management

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

The City is a member of the Redwood Empire Municipal Insurance Fund, a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims. Under the program, the City has a \$ 5,000 general liability retention limit similar to a deductible. The risk of loss is transferred to the Fund. The Fund is responsible for losses above that amount up to \$500,000 for liability losses, \$300,000 for workers compensation claims, and \$25,000 for property claims. The Fund carries purchased excess commercial liability coverage of \$9.5 million in excess of its \$500,000 retention limit, \$5 million in excess of the \$25,000 limit for property with an additional \$200 million in excess coverage. The Agency paid no material uninsured losses during the 2010-2011 fiscal year. There has been no significant changes in insurance coverages in fiscal 2011. Settlements have not exceeded coverage for each of the past three fiscal years.

Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The Agency had no material claim liabilities not covered by insurance at June 30, 2011 or June 30, 2010.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

5. Other Information.

B. Contingencies and Commitments

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

C. Restricted Net Assets

The \$4,425,843 restricted for housing projects represents low and moderate income housing funds which by law can only be used for related housing projects and activities.

D. Supplemental Education Revenue Augmentation Funds

Chapter 21, Statutes of 2009, requires redevelopment agencies to collectively shift \$350 million in 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 Agency in fiscal 2011 was \$164,289 reported as an education expense in the statement of activities.

E. Dissolution of the Agency as a Financial Reporting Entity and Assembly Bills 26 and 27

AB 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. Assembly Bill 27 states that redevelopment agencies may be exempted from the termination provisions of assembly bill 26 provided the agencies choose to participate in the Voluntary Redevelopment Program that Assembly Bill 27 creates. In order to participate in the Voluntary Program and continue to exist as a redevelopment agency and component unit of the City of Sebastopol, the 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 fiscal 2012. In order for the Agency to continue to participate in the program in future fiscal years, the Agency would be required to submit additional remittances to the County for deposit into the ERAF.

In connection with this legislation, the California Supreme Court has issued an order directing that certain parties show cause why the relief sought in the petition of mandate should not be granted. This case involves the validity of recent legislation; Assembly Bills 26 and 27 pertaining to 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 ruling upheld AB 26 (dissolution of redevelopment agencies), but overturned and invalidated AB 27 (allowing redevelopment agencies to continue with voluntary payments to the State of California). As a result, redevelopment 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 of County that originally created the former redevelopment agency unless an election is made to not be the Successor Agency. The Successor Agency is to take control of all redevelopment assets, properties, contracts, leases, records, buildings and equipment and is to dispose of all assets and properties of the former redevelopment agency.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Notes to the Basic Financial Statements
June 30, 2011

5. Other Information (Continued)

F. Dissolution of the Agency as a Financial Reporting Entity and Assembly Bills 26 and 27 (Continued)

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 the schedule 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 Obligation 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 the obligations specified in the Recognized Obligation Payment Schedule, and (4) perform other specified actions.

These financial statements do not contain any adjustments that will ultimately be required to be made to the Agency as part of the redevelopment dissolution process.

REQUIRED SUPPLEMENTAL INFORMATION

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

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Fund Balance, July 1	\$ (810,186)	\$ (810,186)	\$ (810,186)	\$ -
Resources (inflows):				
Incremental property taxes	499,800	521,000	518,303	(2,697)
Interest	-	25,000	252,706	227,706
Miscellaneous				
Loan principal repayments	-	-	2,253,749	2,253,749
Contribution from City Sebastopol	-	-	193,755	193,755
Loans issued	25,000	-	843,934	843,934
	<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:				
Current:				
Housing projects:				
Residential development loans	-	-	843,934	(843,934)
Housing rehabilitation loans	-	57,400	57,400	-
Other housing	-	-	64,585	(64,585)
Projects and studies	-	346,888	10,956	335,932
Capital outlay:				
City of Sebastopol solar facility improvement program	-	-	329,888	(329,888)
Debt service:				
Principal residential development loan	-	-	2,252,931	(2,252,931)
Principal tax allocation bonds	-	43,131	15,228	27,903
Interest residential development loan	-	-	218,136	(218,136)
Interest tax allocation bonds	85,477	43,708	7,029	36,679
	<u>85,477</u>	<u>491,127</u>	<u>3,800,087</u>	<u>(3,308,960)</u>
Total charges to appropriations				
Fund Balance, June 30	<u>\$ (370,863)</u>	<u>\$ (755,313)</u>	<u>\$ (547,826)</u>	<u>\$ 207,487</u>

Required Supplementary Information
COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF SEBASTOPOL
Budgetary Comparison Schedule - Low and Moderate Income Housing Fund Special Revenue Fund
Note to RSI
For the Fiscal Year Ended June 30, 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:	\$ 3,252,261
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	810,186
Loans received provide current financial resources, but are not reported as revenues for financial reporting purposes	<u>(843,934)</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 3,218,513</u></u>
-------------------------------------------------------------------------------------------------------------------------	----------------------------



Terry E. Krieg, CPA

Certified Public Accountant

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

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

I have audited the component unit financial statements of the Community Development Agency of the City of Sebastopol as of and for the year ended June 30, 2011, and have issued my report thereon dated December 31, 2011 which report contains a going concern qualification as a result of the pending dissolution of all redevelopment agencies in the State of California. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Certified Public Accountant
December 31, 2011