

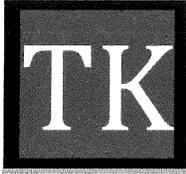
**City of Sebastopol
Basic Financial Statements
June 30, 2014**

CITY OF SEBASTOPOL, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2014
Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Report of Independent Accountants	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	17
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	18
Statement of Net Position- Major Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Position Major Proprietary Funds	20
Statement of Cash Flows- Major Proprietary Funds	21
Statement of Fiduciary Net Position – Private Purpose Trust	23
Statement of Changes in Fiduciary Net Position – Private Purpose Trust	24
Notes to the Basic Financial Statements	25
REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Budgetary Comparison Schedule - General Fund	46
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	47
Budgetary Comparison Schedule – Special Sales tax Special Revenue Fund	48
Schedule of Funding Progress - Other Post- Employment Benefits (OPEB)	49

CITY OF SEBASTOPOL, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2014
Table of Contents

	<u>Page</u>
SUPPLEMENTAL SECTION	
Combining Balance Sheet Nonmajor Governmental Funds	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	53



Terry E. Krieg, CPA

Certified Public Accountant

Independent Auditor's Report

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

Report on the Financial Statements

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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Sebastopol's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with audited 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements,

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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, 2014, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedules and Schedule of Funding Progress on pages 46 through 49 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 an opinion or provide any assurance.

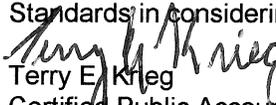
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sebastopol's basic financial statements. The accompanying nonmajor fund combining financial statement are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report, dated September 11, 2014, on my consideration of the City of Sebastopol's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Sebastopol's internal control over financial reporting and compliance.


Terry E. Krieg
Certified Public Accountant
Santa Rosa, California
September 11, 2014



CITY OF SEBASTOPOL 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, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net position increased by about \$1,374,670 over the course of this fiscal year's operations. The net position of our governmental-type activities increased by \$805,083 and there was a \$569,587 increase in the net position of our business-type activities funds. The 2014 fiscal year overall combined increase in total net position was equal to about 74.61% of the combined 2013 change net position balance.
- There was little change to the General Fund year end *committed* fund balance, and the 2014 year ended with the same committed fund balance of \$1,195,000 as the previous fiscal year plus \$10,000. The City has committed those funds for City buildings \$125,000, Parks and Recreation \$90,000, Fire Station 4th Bay \$125,000, the Wayfinding Sign project \$25,000, and \$830,000 for economic uncertainties and special projects as determined by the City Council. In addition to committing general fund resources for the above matters, there is a residual unassigned fund balance of \$1,113,028, which is classified as residual positive net resources of the general fund.
- The Successor Agency for the former Community Development Agency maintains one Debt Service obligation, with annual payments ranging from \$423,000 to \$427,000 continuing to June 1, 2021. In the 2013/14 fiscal year, the Successor Agency's Long Range Property Management Plan was approved by the State of California Department of Finance, and the three parcels consisting of two slivers of land in the Skate Park area, and a downtown Plaza restroom, owned by the Successor Agency were approved to be transferred to the City of Sebastopol for governmental use, by the Successor Agency in June 2014, and by the Oversight Board in July 2014. The Successor Agency and the City will complete the title transfers during the 2014/15 fiscal year. All other assets of the former Community Development Agency were transferred to the County of Sonoma by operation of law on February 1, 2012.
- The BEGIN Reuse fund's activities included \$1,663 in loans that closed escrow during the 2013/2014 fiscal year. In May 2014, the City entered into an agreement with the Sonoma County Community Development Commission to transfer the BEGIN loans from the City to the County, due to the County's expertise in handling reuse loans, and their familiarity with the project. The Assignment of Interest in Deeds of Trust was recorded in July 2014. The BEGIN Reuse fund ended the 2013/14 fiscal year with a \$3,602,937 balance, which is a slight change due to activity, from fiscal 2013. In the 2014/15 fiscal year, the BEGIN Reuse fund will have a zero ending balance.
- In our Business-type activity funds, the Water Enterprise ended fiscal 2014 with \$575,985 in unrestricted cash and investments, which is an increase of 87.57% over the previous fiscal year. The Wastewater Enterprise ended fiscal 2014 with \$1,207,037 in unrestricted cash and investments, which is an increase of 11.15% over the previous fiscal year. The City ended 2014 with \$177,939 restricted for capital improvements in the Water fund; and \$345,844 restricted for capital improvements in the Sewer fund.



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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

Figure A-1

Major Features of City of Sebastopol's Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
<u>Scope</u>	Entire City government	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks.	Activities the City operates similar to private businesses: the water and wastewater systems.
<u>Required financial statements</u>	Statement of net position	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues expenses, and changes in net position • Statement of cash flows
<u>Accounting basis and measurement focus</u>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

<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 position 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 position* and how they have changed. Net position is 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 position are an indicator of whether its financial health is improving or deteriorating, respectively.

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, utility user 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 tax funds. 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.



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

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 City's other major funds include the BEGIN Reuse fund; and the Transaction and Use Tax funds.

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.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's *combined* net position increased about \$1,374,670 between fiscal years 2013 and 2014. (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
	2014	2013	2014	2013	2014	2013	2013/2014
Current and other assets	\$10,562,600	\$9,887,400	\$2,404,000	\$1,727,900	\$12,966,600	\$11,615,300	26.30%
Capital assets	10,636,300	10,687,000	7,104,300	7,297,100	17,740,600	17,984,100	-1.35%
Total assets	\$21,198,900	\$20,574,400	\$9,508,300	\$9,025,000	\$30,707,200	\$29,599,400	3.74%
Long-term debt outstanding	3,206,800	3,462,500	1,130,400	1,252,200	4,337,200	4,714,700	-8.00%
Other liabilities	1,008,700	933,600	207,500	172,100	1,216,200	1,105,700	9.99%
Total liabilities	\$4,215,500	\$4,396,100	\$1,337,900	\$1,424,300	\$5,553,400	\$5,820,400	-4.58%
Net assets							
Invested in capital assets							
net of related debt	7,657,900	7,351,300	5,232,900	5,237,300	12,890,800	12,588,600	2.40%
Restricted	7,398,900	7,314,500	523,800	576,800	7,922,700	7,891,300	.39%
Unrestricted	1,926,600	1,512,500	2,413,600	1,786,600	4,340,200	3,299,100	31.55%
Total net position	\$16,983,400	\$16,178,300	\$8,170,300	\$7,600,700	\$25,153,700	\$23,779,900	5.77%



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

Net position of the City's governmental activities increased about 4.97% percent or about \$805,100. About 49.82% of the net assets relating to governmental activities is represented the City's cash, investments, accounts and notes receivable. The City has about \$3.2 million in long-term debt being used to finance governmental activities.

The net position of the City's business-type activities increased from 7.49% to \$8.17 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.

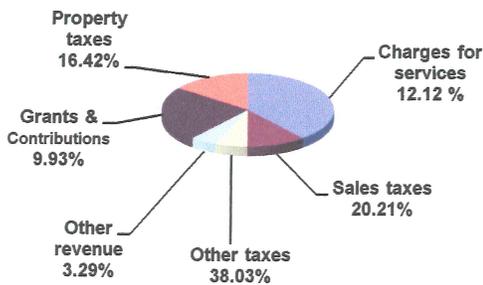
FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Changes in Net Position

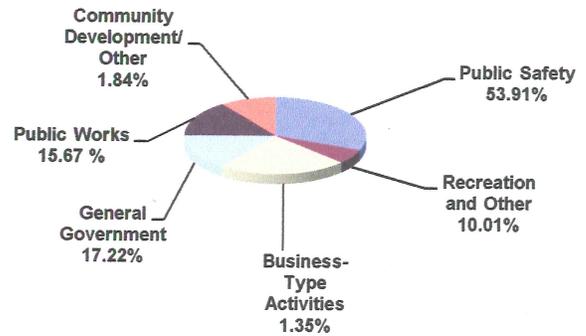
The City's total revenues increased by about \$726,600 to \$12.98 million (See Table A-2.) in 2014 compared to \$12.25 million in 2013. About 78% of the City's revenue comes from property taxes, sales taxes, transient occupancy, utility user taxes, and other taxes. Another 12% is from fees charged for services, and the balance is monies received from State, local aid, or grants. Property taxes decreased by 13% or \$210,100 however there were increases to the Sales tax category of 2% or \$40,000 and other taxes category of 18% or \$349,714.

The total cost of all programs and services increased approximately \$194,500 or about 11.46% to \$11.61 million, compared to \$10.41 million in fiscal 2013. The City's expenses cover a range of services, with about 34 percent related to business type activities, 36 percent for public safety services, and the remaining 30 percent for general government, public works, parks and community programs.

Sources of Revenue for Fiscal Year 2014



Functional Expenses For Fiscal Year 2014



Governmental Activities

Revenues for the City's governmental activities increased by a net \$284,300, and total expenses increased by \$947,000 over fiscal year 2013. The bulk of the revenue increase occurred in the Other Taxes category, and the increase in expenses primarily occurred in the in General Government category and the Public Works department.

In the General government category, several new expenditures were incurred in the 2014 fiscal year, including a Community Outreach Coordinator for City Council, increased Community Support by Council, and increased litigation expense for the CVS proposed project.



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

The Public works department replaced equipment and purchased a dump truck, aerial truck, lawn mower and trailer, installed a hot water heater and pool heater at Ives pool, had the Ives Pool resurfaced, painted the exterior of the pool facility, upgraded the electrical in the pool room, repaved the foot paths at Libby Park, and replenished the playground chips in Ives Park.

After all operations for 2014 were completed, the net position of our governmental activities increased by about a net \$805,100.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table A-2

Changes in City of Sebastopol's Net Position
(in rounded nearest one hundred dollars)

	Governmental Activities		Business Type Activities		Total		Total Percentage Change
	2014	2013	2014	2013	2014	2013	
Revenues							
Program revenues:							
Charges for services	\$1,028,100	\$1,014,600	\$4,397,700	\$3,802,200	\$5,425,800	\$4,816,800	12.64%
Grants and contributions	842,300	821,300	107,300	260,500	949,600	1,081,800	-12.22%
General revenues:							
Property taxes	1,392,400	1,602,500			1,392,400	1,602,500	-13.11%
Other taxes	4,938,900	4,493,700			4,938,900	4,493,700	9.90%
Other	279,200	264,500			279,200	264,500	5.55%
Total revenues	\$8,480,900	\$8,196,600	\$4,505,000	\$4,062,700	\$12,985,900	\$12,259,300	5.92%
Expenses							
General government	1,327,100	907,300			1,327,100	907,300	45.94%
Public safety	4,154,800	4,002,700			4,154,800	4,002,700	3.80%
Community development	141,800	89,900			141,800	89,900	57.73%
Public works	1,207,700	962,600			1,207,700	962,600	25.47%
Parks and recreation	771,700	684,100			771,700	684,100	12.80%
Water			1,298,600	1,321,000	1,298,600	1,321,000	-16.96%
Wastewater			2,605,800	2,335,900	2,605,800	2,335,900	11.55%
Interest	103,700	113,200			103,700	113,200	-8.39%
Total expenses	\$7,706,800	\$6,759,800	\$3,904,400	\$3,656,900	\$11,611,200	\$10,416,700	11.46%
Change in net position	774,100	1,436,800	600,600	405,800	1,374,700	1,842,600	-25.39%
Transfers	31,000	31,000	(31,000)	(31,000)			
Change in net position	805,100	1,467,800	569,600	374,800	1,374,700	1,842,600	-25.39%
Net position, Beginning	16,178,300	14,710,500	7,600,700	7,225,900	23,779,000	21,936,400	8.39%
Net position, Ending	\$16,983,400	\$16,178,300	\$8,170,300	\$7,600,700	\$25,153,700	\$23,779,000	5.78%



CITY OF SEBASTOPOL 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 \$7.7 million, about \$947,000 more than the total cost as reported in fiscal year 2013. Increases occurred in the following categories: General Government in the amount of \$419,800, Public Safety in the amount of \$152,100, Community Development in the amount of \$51,900, Public Works in the amount of \$245,100, Parks and Recreation in the amount of \$87,600. The only category that decreased was Interest in the amount of (\$9,500).

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

- Of the \$7.7 million cost of the City's governmental activities programs, the taxpayers paid \$5.8 million of the program costs. Some of the cost was paid by:
 - ~Those who directly benefited from the programs; \$1,028,078 or;
 - ~Other governments and organizations that subsidized certain programs with grants and contributions; \$842,300.
- The City paid for the \$5.8 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
	2014	2013	2013/2014
General Government	\$1,327,100	\$907,300	46.27%
Public Safety	4,154,800	4,002,700	3.80%
Community Development	141,800	89,900	57.73%
Public Works	1,207,700	962,600	25.46%
Parks and recreation	771,700	684,100	12.80%
Interest on Long term Debt	103,700	113,200	-8.39%
Total	\$7,706,800	\$6,759,800	14.00%

In fiscal 2014, most of the general fund operating departments incurred modest changes to their operating budgets. City Council increased their budget to fund a Community Outreach Coordinator, and for Community Support to the non-profit and other organizations. The City Attorney budget increased due to litigation expense. The Public Works various budgets increased by \$217,371 for various improvements, repairs, or equipment and vehicle replacements. A new Storm Water budget page was created to comply with compliance regulations from the State of California.



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

This is the second year of a four year rate increase that was approved on July 1, 2012 for the City's Enterprise funds. The revenues in the City's business-type activities increased by \$586,100, as a result of water and sewer rate increases, adopted by our voters. As a result of a Proposition 218 vote, the water rates will increase every year for four years, with the first year increasing by 25%, year two will increase by 22%, year three will increase by 18%, and year four increasing by 15%. The voters also approved increases to the sewer rates, and those rates will increase by 12% for four years. The purpose of the rate increases was to cure a long-time deficit balance in the water fund, and begin to build a reserve in the enterprise funds for future capital needs.

The total connection fees collected for Water and Sewer decreased by \$14,822 in fiscal 2014, from the previous year. In fiscal 2014, combined connection fees of \$107,307 were received for several small single family units, with the largest fee of \$61,980 or 58% of total fees, paid for the Gwendolyn Homes project on Litchfield Avenue. The total connection fees paid to the City by Developers in fiscal 2014 was \$31,720 for water, and \$75,587 for sewer. The cost of sewage treatment, by the City of Santa Rosa, increased by \$56,447 from fiscal 2013 to 2014.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of \$5.95 million, about a \$675,900 dollar increase compared to the end of fiscal 2013. The reason for the increase in fiscal 2014 compared to fiscal 2013 was an increase in charges for services \$245,800 and increased property taxes \$210,000.

The City's spending for general fund operations was about \$402,000 less than general fund revenues. During fiscal 2013, the City assigned reserves totaling \$1,195,000 and those reserves remain intact. Those reserves are committed to City buildings \$125,000; Parks and Recreation \$90,000; Fire Station 4th Bay Addition \$125,000; Wayfinding Signs Project \$25,000, and the City also committed \$830,000 for economic uncertainty in the General Fund. In addition to the set-aside commitments, the general fund ended fiscal 2014 with an assigned fund balance of \$1,113,028.

Beginning in fiscal 2014, and culminating in a final transfer in fiscal 2015, the Successor Agency to the former Community Development Agency received approval by the State of California Department of Finance by approving the Agency's Long Range Property Management Plan, to transfer the three non-housing assets (two slivers of land at the Skate Park on Flynn Street, and the downtown Plaza restroom on Weeks Way), to the City of Sebastopol for governmental use. With the dissolution of the California Redevelopment Agencies on February 1, 2012, all other former Community Development Agency assets transferred to the County of Sonoma.

The City's non-major Other Governmental funds had a combined fund balance of \$2,560,853 at the fiscal year end. This is an increase of \$187,900 from fiscal 2013 and results mainly from a general fund transfer for road projects of \$150,000 which the City intends to do annually. The combined fund balance includes a Public Safety grant of \$27,334; and City permit fee funds (consisting of Traffic Impact, Park in Lieu, General Plan housing, Inclusionary Housing funds, and Undergrounding funds aggregating \$1,597,628). The remaining \$963,225 consists of the Street Lighting Assessment and Woodstone Assessment Districts at \$99,846; County Measure M fund for streets at \$205,324; Skate Park at \$38,400; City's Pavement Management program at \$471,226; CREBS Bond at \$88,983; the Art In Lieu fee \$32,615; and other miscellaneous funds totaling \$26,831.



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

In the City permit fee category the combined fund balance of \$1,597,628 is defined as Special Revenue Funds. In that category the Traffic Impact fund balance is \$818,835. The Park in Lieu fund balance ended the year at \$388,546. The General Plan housing funds of \$9,631 is reserved for ongoing general plan update expenditures. The Inclusionary Housing funds of \$200,056 will be used for unidentified low-income housing in the future. The \$190,191 Undergrounding fees will be used for underground utilities in the future. The City has a fund balance of \$471,226 for Street Pavement management and this is an increase of \$106,935 over fiscal 2013, which is a result of a transfer from the Transaction and Use Tax fund. The balance of \$88,983 in the CREBS Bond fund is restricted for debt service payments. The CREBS fund continues to receive the Solar Sequoia homeowner lease payments in the amount of approximately \$8,600 per year, and the current debt service payment is approximately \$20,300 per year from the CREBS fund, however the total debt service annually is \$97,589 through 2023.

The major Special Sales Tax or Transaction and Use Tax fund ended fiscal 2014 at \$1,079,797 which is a slight increase of \$63,972 over the previous fiscal year. In fiscal year 2014/15 the City Council has approved \$1,764,001 in expenditures from this fund. Those expenditures include outlay for capital projects, public safety and street improvements. In 2014 the City spent approximately \$1,431,209 which was an increase of \$679,743 in expenditures over the previous fiscal year, which was primarily for increased staffing in the Police and Public Works departments.

The BEGIN Reuse fund, which includes two low-income housing projects at Hollyhock and Sequoia Village, ended fiscal 2014 with a balance of \$0. The activity during the year included the sale of one home and a repayment to the reuse fund 005 of \$1,663, and that amount was paid to the Sonoma County Development Commission when those loans were transferred to that Agency.

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 and transfers in were \$282,538 more than originally budgeted, primarily due to an increased property tax revenues, sales tax revenues, and license and permit fees.

Total final general fund expenditures budgeted were \$5,498,663 and actual expenditures during fiscal 2014 were \$5,455,968, which is \$42,695 less than the final budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014 the City had invested \$17.11 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 decrease (including additions and deductions) of about \$171,604 or -.98%, over last year. The decrease is due to depreciation charges being greater than capital asset additions in fiscal 2014.



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

**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
	2014	2013	2014	2013	2014	2013	2013/2014
Land and CIP	\$ 1.63	\$ 1.63	\$.27	\$.09	\$ 1.90	1.72	10.46%
Buildings	5.49	5.49	-	-	5.49	5.49	0%
Machinery and equipment	2.11	2.06	.62	.63	2.73	2.69	1.48%
Vehicles	3.28	3.09	-	-	3.28	3.09	6.14%
Infrastructure and systems	7.75	7.40	12.74	12.57	20.49	19.97	2.60%
Accumulated depreciation	(9.63)	(8.99)	(7.15)	(6.69)	(16.78)	(15.68)	7.01%
Total	\$ 10.63	\$ 10.68	\$ 6.48	\$ 6.60	\$ 17.11	17.28	-98%

This year's major capital assets changes included:

- An increase of \$47,559 for Machinery and Equipment.
- An increase of \$188,647 for Vehicles.
- An increase of \$354,343 for Infrastructure – parks and skate parks.
- An increase to business-type assets of \$181,105 for water capital construction in progress.
- An increase to business-type assets of \$156,920 for wastewater pipelines and collection system.

Additional information about capital assets can be found in the "Notes to the Basic Financial Statements" under section E. Capital Assets.

Long-term Debt

No new debt was issued in fiscal 2014. The City's total debt decreased \$59,959 due to debt retirement.

Additional information about the City's long-term obligations can be found in the "Notes to the Basic Financial Statements" under section F. Long Term Debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2015 fiscal year, general fund revenue projections are projected to decrease over the previous fiscal year due to the expiration of the Utility User Tax on January 1, 2015 by \$234, 544. However a ballot measure will be presented to the voters in November 2014, to modernize the Utility User Tax, by decreasing the percent slightly, but adding additional utilities. If that Measure R is approved by the voters, then the increased revenue estimated to be ¼ of the annual \$586,000 revenue estimate, or an additional \$146,500 in fiscal 2015, will be addressed in the mid-year budget adjustments in February 2015.

- The budget projects that there will be a 4.45% decrease in general fund revenues.



CITY OF SEBASTOPOL MANAGEMENT'S DISCUSSION AND ANALYSIS

- The budget is balanced using \$0 of general fund resources available in unallocated reserves.
- Selected general fund user fees remained flat in fiscal 2015.

General fund 2015 budgeted appropriations are set at \$5.34 million. This is about a 5.97 percent decrease over fiscal 2014 actual general fund expenditures.

The 2015 budget has proposed capital project spending of about \$3,478,919 with \$1,235,000 for the Well 7 Arsenic Treatment System, \$173,694 for ADA Transition plan, \$800,179 for Pavement maintenance, \$108,053 for Bicycle and Pedestrian projects, \$107,604 for Parks projects, \$370,000 for Sewer capital projects, and the balance of \$684,389 for Water capital projects.

As to the City's business-type activities, about \$3.59 million is expected to be spent in 2015 to conduct operations, and \$2.28 million for capital improvements. One year ago, the City approved rate increase for the Enterprise funds, for the next four years beginning July 1, 2012. The Water Enterprise fund rates will increase 25% in the first year, and then 22%, 18%, and 15% by 2015/16. The Sewer Enterprise fund rates will increase 12% per year for four years. In this regard the City expects to pay for operating costs from charges for services to system users.

The Well 7 Arsenic Treatment System, expected to cost \$1,235,000 million will be financed through a new installment sale agreement that the City will obtain in fiscal 2015. This will be a 20 year agreement, with annual payments of \$89,082.

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/Finance Director at the City of Sebastopol, 7120 Bodega Avenue, Sebastopol, CA 95472, (707) 823-7863.

CITY OF SEBASTOPOL
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,533,028	\$ 1,783,022	\$ 7,316,050
Net receivables	633,223	620,955	1,254,178
Total current assets	<u>6,166,251</u>	<u>2,403,977</u>	<u>8,570,228</u>
Noncurrent assets:			
Cash and cash equivalents	126,328	523,783	650,111
Long-term notes receivable	4,045,020	96,444	4,141,464
Other long-term receivables	225,000	-	225,000
Net capital assets	10,636,338	6,484,039	17,120,377
Total noncurrent assets	<u>15,032,686</u>	<u>7,104,266</u>	<u>22,136,952</u>
Total assets	<u>\$ 21,198,937</u>	<u>\$ 9,508,243</u>	<u>\$ 30,707,180</u>
LIABILITIES			
Current liabilities:			
Accounts payable	200,615	42,959	243,574
Compensated absences	300,000	30,837	330,837
Deposits	133,288	7,509	140,797
Accrued interest payable	9,846	5,444	15,290
Bonds, leases, and agreements due within one year	364,996	120,704	485,700
Total current liabilities	<u>1,008,745</u>	<u>207,453</u>	<u>1,216,198</u>
Long-term liabilities due in more than one year:			
Special assessment bonds	205,000	-	205,000
Capital lease obligations	2,408,467	1,130,458	3,538,925
Net other post employment benefit obligation	304,997	-	304,997
Compensated absences	288,357	-	288,357
Total long-term liabilities	<u>3,206,821</u>	<u>1,130,458</u>	<u>4,337,279</u>
Total liabilities	<u>4,215,566</u>	<u>1,337,911</u>	<u>5,553,477</u>
NET POSITION			
Net investment in capital assets	7,657,875	5,232,877	12,890,752
Restricted for:			
Capital projects		523,783	523,783
Equipment and infrastructure	1,469,622	-	1,469,622
Housing	3,812,624	-	3,812,624
Debt service	614,943	-	614,943
Streets	1,278,039	-	1,278,039
Other purposes	223,670	-	223,670
Unrestricted	1,926,598	2,413,672	4,340,270
Total net position	<u>16,983,371</u>	<u>8,170,332</u>	<u>25,153,703</u>
Total liabilities and net position	<u>\$ 21,198,937</u>	<u>\$ 9,508,243</u>	<u>\$ 30,707,180</u>
See accompanying notes to the basic financial statements			

CITY OF SEBASTOPOL
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Program Revenues				City Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
City government							
Governmental activities:							
General government	\$ 1,327,123	\$ 435,632	\$ -	\$ -	\$ (891,491)	\$ -	\$ (891,491)
Public safety	4,154,787	248,479	288,560	-	(3,617,748)	-	(3,617,748)
Community development	141,771	19,942	2,930	-	(118,899)	-	(118,899)
Public works	1,207,688	193,334	261,632	167,217	(585,505)	-	(585,505)
Parks and recreation	771,708	130,691	629	121,358	(519,030)	-	(519,030)
Interest on long-term debt	103,767	-	-	-	(103,767)	-	(103,767)
Total governmental activities	7,706,844	1,028,078	553,751	288,575	(5,836,440)	-	(5,836,440)
Business-type activities:							
Water	1,298,601	1,709,463	-	31,720	-	442,582	442,582
Wastewater	2,605,752	2,688,194	-	75,587	-	158,029	158,029
Total business-type activities	3,904,353	4,397,657	-	107,307	-	600,611	600,611
Total City government	\$ 11,611,197	\$ 5,425,735	\$ 553,751	\$ 395,882	(5,836,440)	600,611	(5,235,829)

General revenues and transfers

Taxes:

Property taxes	\$ 1,392,443	\$ -	\$ 1,392,443
Sales taxes	1,713,697	-	1,713,697
Motor vehicle in lieu taxes	591,353	-	591,353
Transient occupancy taxes	359,892	-	359,892
Other taxes	2,273,971	-	2,273,971
Unrestricted interest and rents	22,017	-	22,017
Other general revenues	257,126	-	257,126
Transfers	31,024	(31,024)	-
Total general revenues and transfers	6,641,523	(31,024)	6,610,499

Change in net position

Net position, June 30, 2013	16,178,288	7,600,745	23,779,033
Net position, June 30, 2014	\$ 16,983,371	\$ 8,170,332	\$ 25,153,703

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>BEGIN Reuse</u>	<u>Special Sales Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Cash and investments	\$ 2,274,017	\$ -	\$ 859,006	\$ 2,526,333	\$ 5,659,356
Accounts receivable	36,339	-	-	1,560	37,899
Taxes receivable	250,423	-	239,100	12,178	501,701
Due from other governments	2,820	-	-	82,463	85,283
Assessments receivable	-	-	-	233,340	233,340
Notes receivable	40,546	3,602,937	-	401,537	4,045,020
Due from other funds	-	-	-	87,652	87,652
Total assets	<u>\$ 2,604,145</u>	<u>\$ 3,602,937</u>	<u>\$ 1,098,106</u>	<u>\$ 3,345,063</u>	<u>\$ 10,650,251</u>
Liabilities:					
Accounts payable	\$ 107,096	\$ -	\$ 18,309	\$ 75,210	\$ 200,615
Due to other funds	5,189	-	-	82,463	87,652
Deposits	133,286	-	-	-	133,286
Total liabilities	<u>245,571</u>	<u>-</u>	<u>18,309</u>	<u>157,673</u>	<u>421,553</u>
Deferred inflows of resources:					
Long-term notes receivable	40,546	3,602,937	-	626,537	4,270,020
Total deferred inflows of resources	<u>40,546</u>	<u>3,602,937</u>	<u>-</u>	<u>626,537</u>	<u>4,270,020</u>
Fund balances:					
Restricted for:					
Equipment and infrastructure	-	-	1,079,797	389,825	1,469,622
Highways and streets	-	-	-	1,278,039	1,278,039
Public safety	-	-	-	(1,106)	(1,106)
Community promotion	-	-	-	14,478	14,478
Debt service	-	-	-	126,328	126,328
Affordable housing	-	-	-	209,687	209,687
Parks and recreation	-	-	-	72,376	72,376
Committed for:					
City buildings	125,000	-	-	-	125,000
Parks and recreation	90,000	-	-	-	90,000
Street projects	-	-	-	471,226	471,226
Fire station bay	125,000	-	-	-	125,000
Wayfinding signs	25,000	-	-	-	25,000
Economic uncertainties	830,000	-	-	-	830,000
Community center	10,000	-	-	-	10,000
Unassigned	1,113,028	-	-	-	1,113,028
Total fund balances	<u>2,318,028</u>	<u>-</u>	<u>1,079,797</u>	<u>2,560,853</u>	<u>5,958,678</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,604,145</u>	<u>\$ 3,602,937</u>	<u>\$ 1,098,106</u>	<u>\$ 3,345,063</u>	<u>\$ 10,650,251</u>

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position:

Total Governmental Fund Balances	\$ 5,958,678
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities and debt issue costs are not financial resources and therefore are not reported in the funds	10,636,338
Other long-term notes receivable are not available to fund current period expenditures and are deferred in the funds	4,270,020
Interest payable is accrued as a liability in the statement of net position, but is reported in the funds only when due	(9,846)
Long term liabilities such as 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	(3,871,819)
Net Position of Governmental Activities	<u>\$ 16,983,371</u>

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, 2014

	<u>General Fund</u>	<u>BEGIN Reuse</u>	<u>Special Sales Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property taxes	\$ 1,392,443	\$ -	\$ -	\$ -	\$ 1,392,443
Sales taxes	1,713,697	-	1,441,145	59,638	3,214,480
Other taxes	1,070,444	-	-	-	1,070,444
Licenses and permits	290,026	-	-	-	290,026
Fines and forfeits	117,358	-	-	-	117,358
Intergovernmental	616,696	-	-	796,109	1,412,805
Interest and rents	44,674	-	7,768	24,228	76,670
Charges for services	590,125	-	-	332,053	922,178
Miscellaneous	19,585	515	-	34,089	54,189
	<u>5,855,048</u>	<u>515</u>	<u>1,448,913</u>	<u>1,246,117</u>	<u>8,550,593</u>
Total revenues					
EXPENDITURES					
Current:					
General government	1,261,862	-	46,234	-	1,308,096
Public safety	3,405,233	-	227,633	317,874	3,950,740
Community development	-	1,663	-	138,595	140,258
Parks and recreation	399,748	-	272,581	7,159	679,488
Public works	386,177	-	343,682	394,367	1,124,226
Capital outlay	-	-	-	240,332	240,332
Debt service:					
Principal	-	-	227,575	129,675	357,250
Interest	-	-	70,969	34,309	105,278
	<u>5,453,020</u>	<u>1,663</u>	<u>1,188,674</u>	<u>1,262,311</u>	<u>7,905,668</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>402,028</u>	<u>(1,148)</u>	<u>260,239</u>	<u>(16,194)</u>	<u>644,925</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	26,186	-	-	230,343	256,529
Transfers out	<u>(2,948)</u>	<u>-</u>	<u>(196,267)</u>	<u>(26,290)</u>	<u>(225,505)</u>
Total other financing sources (use):	<u>23,238</u>	<u>-</u>	<u>(196,267)</u>	<u>204,053</u>	<u>31,024</u>
Net change in fund balances	425,266	(1,148)	63,972	187,859	675,949
Fund balances, July 1	<u>1,892,762</u>	<u>1,148</u>	<u>1,015,825</u>	<u>2,372,994</u>	<u>5,282,729</u>
Fund balances, June 30	<u>\$ 2,318,028</u>	<u>\$ -</u>	<u>\$ 1,079,797</u>	<u>\$ 2,560,853</u>	<u>\$ 5,958,678</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, 2014

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 675,949</u>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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 \$590,549 exceeded depreciation \$641,194 in the current period.</p>	(50,645)
<p>Governmental funds report long-term receivables but defer revenue from them until collections are actually received. In the statement of activities, principal collections are not reported as revenues</p>	(69,692)
<p>Governmental funds report interest payable when it is due for payment, but interest expense is accrued as incurred in the statement of activities</p>	1,513
<p>Governmental funds report payments on long-term debt as expenditures, but such payments reduce liabilities in the statement of net position and therefore are not recorded as expenses in the statement of activities</p>	357,249
<p>Increases in compensated absences do not use current financial resources and are not reported in the funds</p>	(48,907)
<p>Governmental funds report the costs of other post employment benefits (OPEB) generally when premiums are paid, but the actuarially determined OPEB expense is accrued as payable in the statement of net position</p>	<u>(60,384)</u>
Net adjustment to reconcile to changes in net position	<u>129,134</u>
Change in Net Position of Governmental Activities	<u>\$ 805,083</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Net Position
Proprietary Funds
June 30, 2014

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 575,985	\$ 1,207,037	\$ 1,783,022
Accounts receivable	248,455	372,500	620,955
Total current assets	<u>824,440</u>	<u>1,579,537</u>	<u>2,403,977</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	177,939	345,844	523,783
Notes receivable	51,701	44,743	96,444
Net other assets	<u>229,640</u>	<u>390,587</u>	<u>620,227</u>
Capital assets not being depreciated:			
Land	86,440	-	86,440
Construction in progress	181,105	-	181,105
Total	<u>267,545</u>	<u>-</u>	<u>267,545</u>
Capital assets being depreciated:			
Pipelines and distribution system	4,499,525	-	4,499,525
Collection system	-	6,837,214	6,837,214
Reservoir	1,400,613	-	1,400,613
Equipment	144,687	484,568	629,255
Less accumulated depreciation	<u>(3,649,453)</u>	<u>(3,500,660)</u>	<u>(7,150,113)</u>
Total	<u>2,395,372</u>	<u>3,821,122</u>	<u>6,216,494</u>
Net capital assets	<u>2,662,917</u>	<u>3,821,122</u>	<u>6,484,039</u>
Total noncurrent assets	<u>2,892,557</u>	<u>4,211,709</u>	<u>7,104,266</u>
Total assets	<u>\$ 3,716,997</u>	<u>\$ 5,791,246</u>	<u>\$ 9,508,243</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 41,016	\$ 1,943	\$ 42,959
Compensated absences	12,335	18,502	30,837
Accrued interest payable	2,879	2,565	5,444
Deposits	7,509	-	7,509
Long-term debt due in one year	60,342	60,362	120,704
Total current liabilities	<u>124,081</u>	<u>83,372</u>	<u>207,453</u>
Long-term debt due in more than one year:			
Capital lease obligations	597,672	532,786	1,130,458
Loans	-	-	-
Total long-term debt due in more than one year	<u>597,672</u>	<u>532,786</u>	<u>1,130,458</u>
Total liabilities	<u>721,753</u>	<u>616,158</u>	<u>1,337,911</u>
NET POSITION			
Net investment in capital assets	2,004,903	3,227,974	5,232,877
Restricted for capital improvements	177,939	345,844	523,783
Unrestricted	812,402	1,601,270	2,413,672
Total net position	<u>\$ 2,995,244</u>	<u>\$ 5,175,088</u>	<u>\$ 8,170,332</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 1,700,853	\$ 2,614,862	\$ 4,315,715
Other operating revenues	9,227	50,422	59,649
Total operating revenues	<u>1,710,080</u>	<u>2,665,284</u>	<u>4,375,364</u>
OPERATING EXPENSES			
Personnel services	243,499	177,456	420,955
Interfund charges for services	541,041	436,365	977,406
Contractual and other services	69,014	86,849	155,863
Intergovernmental treatment costs	-	1,536,269	1,536,269
Utilities	115,712	28,423	144,135
Supplies	85,979	36,274	122,253
Insurance, claims, and expenses	14,837	8,146	22,983
Depreciation	194,074	264,910	458,984
Total operating expenses	<u>1,264,156</u>	<u>2,574,692</u>	<u>3,838,848</u>
Operating income (loss)	<u>445,924</u>	<u>90,592</u>	<u>536,516</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	6,287	16,006	22,293
Interest expense	(34,445)	(31,060)	(65,505)
Net non-operating revenues (expenses)	<u>(28,158)</u>	<u>(15,054)</u>	<u>(43,212)</u>
Income before contributions and transfers	<u>417,766</u>	<u>75,538</u>	<u>493,304</u>
Contributions and transfers			
Transfers out	(31,024)	-	(31,024)
Capital contributions	31,720	75,587	107,307
Total contributions and transfers	<u>696</u>	<u>75,587</u>	<u>76,283</u>
Change in net position	418,462	151,125	569,587
Total net position, July 1	<u>2,576,782</u>	<u>5,023,963</u>	<u>7,600,745</u>
Total net position, June 30	<u>\$ 2,995,244</u>	<u>\$ 5,175,088</u>	<u>\$ 8,170,332</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, 2014

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,546,406	\$ 2,590,170	\$ 4,136,576
Payments to suppliers	(258,938)	(1,694,932)	(1,953,870)
Payments to employees	(242,520)	(175,989)	(418,509)
Payments to other funds for services	(541,041)	(436,365)	(977,406)
Other operating receipts	9,227	50,422	59,649
	<u>513,134</u>	<u>333,306</u>	<u>846,440</u>
Net cash provided by (used for) operating activities			
	<u>513,134</u>	<u>333,306</u>	<u>846,440</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	31,720	75,587	107,307
Purchases of capital assets	(181,105)	(156,920)	(338,025)
Collections on notes receivable	13,256	11,473	24,729
Principal payments on long-term debt	(63,358)	(53,133)	(116,491)
Interest paid on long-term debt	(34,445)	(31,060)	(65,505)
	<u>(233,932)</u>	<u>(154,053)</u>	<u>(387,985)</u>
Net cash provided by (used for) capital and related financing activities			
	<u>(233,932)</u>	<u>(154,053)</u>	<u>(387,985)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(31,024)	-	(31,024)
	<u>(31,024)</u>	<u>-</u>	<u>(31,024)</u>
Net cash provided by (used for) capital and related financing activities			
	<u>(31,024)</u>	<u>-</u>	<u>(31,024)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	6,287	16,006	22,293
	<u>6,287</u>	<u>16,006</u>	<u>22,293</u>
Net cash provided by investing activities			
	<u>6,287</u>	<u>16,006</u>	<u>22,293</u>
Net increase (decrease) in cash and cash equivalents	254,465	195,259	449,724
Cash and cash equivalents beginning of the year	499,459	1,357,622	1,857,081
Cash and cash equivalents-end of the year	<u>\$ 753,924</u>	<u>\$ 1,552,881</u>	<u>\$ 2,306,805</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 445,924	\$ 90,592	\$ 536,516
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	194,074	264,910	458,984
Change in assets and liabilities:			
Receivables, net	(154,506)	(24,692)	(179,198)
Accounts payable	26,604	1,029	27,633
Other liabilities	1,038	1,467	2,505
Net cash provided by (used for) operating activities	<u>\$ 513,134</u>	<u>\$ 333,306</u>	<u>\$ 846,440</u>

Noncash capital financing activities: None

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Fiduciary Net Position
June 30, 2014

	<u>Private Purpose Trust</u>
ASSETS:	
Cash and cash equivalents	\$ 339,040
Land	<u>523,576</u>
Total assets	<u><u>\$ 862,616</u></u>
LIABILITIES:	
Interest payable	8,173
Tax allocation bonds	2,580,000
Discount on sale bonds	<u>(67,370)</u>
Total liabilities	<u>2,520,803</u>
NET POSITION (DEFICIT)	
Held in trust for successor agency	<u>(1,658,187)</u>
Total Net Position (Deficit)	<u><u>(1,658,187)</u></u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust
ADDITIONS:	
Net investment income (loss)	\$ -
Distributions for enforceable obligations	550,920
Total additions	<u>550,920</u>
DEDUCTIONS:	
Bond interest	116,848
Fiscal agent and other costs	2,250
City administrative costs	250,000
Total deductions	<u>369,098</u>
Increase(decrease) in net position	181,822
Net position (deficit), June 30, 2013	<u>(1,840,009)</u>
Net position (deficit), June 30, 2014	<u><u>\$ (1,658,187)</u></u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2014

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 City of Sebastopol has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) 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.

A fiduciary fund is used to account for the non-housing successor agency activities of the former redevelopment agency.

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 and fiduciary 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, 2014

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 *Special Sales Tax Fund* is used to account for additional sales tax revenues from voter approved supplemental sales taxes.

The *BEGIN reuse fund* is used to keep track of notes receivable related to housing purchase assistance programs.

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.

The City applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 in accounting for its proprietary operations, and the provisions of GASB Statement Number 62, Codification of Accounting and Financial reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

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 SEBASTOPOLE

**Notes to the Basic Financial Statements
June 30, 2014**

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."

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, 2014**

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, 2014

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 position. 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 Position

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statements of net position. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$ 10,636,338 difference are as follows:

Capital assets	\$ 20,267,999
Less: Accumulated depreciation	<u>(9,631,661)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 10,636,338</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

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 \$3,871,819 difference are as follows:

Long-Term Debt Obligations:		
Installment agreement	\$	836,258
Special assessment bonds		225,000
CEC Loan		12,974
Net other post employment benefit (OPEB) obligation		304,997
Capital lease obligations –Clean renewable energy bonds		1,073,481
Capital lease obligation – Mobile Home Park		615,437
Capital lease – Vac-Con Truck		12,912
Capital lease fire truck		202,403
Compensated absences		<u>588,357</u>
Net adjustment to decrease fund balance total governmental		
Funds to arrive at net position - governmental activities	\$	<u>(3,871,819)</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 position 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 \$ 129,134 difference and other significant components of the difference are as follows:

Capital outlay	\$	590,549
Depreciation expense		(641,194)
Repayment of long-term debt principal		357,249
Increase in long term loans		(69,692)
Other post employment benefit costs		(60,384)
Other items		<u>(47,394)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$	<u>129,134</u>

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except no budget was adopted for the BEGIN Reuse fund. 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 CREBS Fund \$77,291, General Plan Fund \$12,259; MTC Bike Lanes \$10,345; Police grants \$24,198; and Gas tax \$24,107. The expenditures were funded by available resources.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2014 consisted of the following:

Pooled demand deposits	\$ 722,048
Pooled investments	7,545,678
Investments with trustees	<u>37,475</u>
 Total deposits and investments	 <u>\$ 8,305,201</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, 2014, \$ 586,879 of the City's bank balances of \$ 836,879 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 586,879</u>
--	-------------------

Investments - At June 30, 2014, the City had the following investments.

<i>Investment</i>	<i>Average Maturities</i>	<i>Fair Value</i>
<i>Sonoma County Investment Pool -- City Accounts</i>	<i>791 days</i>	\$ 7,206,638
<i>First American Treasury – Mutual Fund</i>	<i>60 days</i>	<u>37,475</u>
<i>Subtotal City Sebastopol</i>		<u>7,244,113</u>
<i>Private Purpose Trust held by City of Sebastopol:</i>		
<i>Sonoma County Investment Pool – Fiduciary Fund</i>	<i>791 days</i>	<u>339,040</u>
<i>Totals</i>		<u>\$ 7,583,153</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, 2014**

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 \$37,475 investment other than the County Pool, the entire \$37,475 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>BEGIN and Special Tax Funds</u>	<u>Other Funds</u>	<u>Total Governmental</u>	<u>Water</u>	<u>Wastewater</u>
Accounts	\$ 36,339	\$ -	\$ 1,560	\$ 37,899	\$ 248,455	\$ 372,500
Taxes	250,423	239,100	12,178	501,701	-	-
Governments	2,820	-	82,463	85,283	-	-
Notes/loans	40,546	3,602,937	401,537	4,045,020	51,701	44,743
Assessments	-	-	233,340	233,340	-	-
Totals	<u>\$ 330,158</u>	<u>\$ 3,842,037</u>	<u>\$ 731,078</u>	<u>\$ 4,903,243</u>	<u>\$ 300,156</u>	<u>\$ 417,243</u>

C. Interfund Transfers, receivables and payables

- The composition of interfund transfers for the governmental funds as of June 30, 2014, was as follows:

	<u>General Fund</u>	<u>Special Sales Tax</u>	<u>Water and Wastewater</u>	<u>Other Non Major Funds</u>	<u>Total Transfers Out</u>
Transfers In:					
Transfers Out:					
General	\$ -	\$ -	\$ -	\$ 2,948	\$ 2,948
Special sales tax				196,267	196,267
Nonmajor funds	26,186		31,024	104	57,314
Totals	<u>\$ 26,186</u>	<u>\$ -</u>	<u>\$ 31,024</u>	<u>\$ 199,319</u>	<u>\$ 256,529</u>

The primary transfers out of the general fund were \$150,000 to the pavement program fund to cover the cost of projects. There was \$80,094 in transfers out to fund debt service payments.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

4. Detailed Notes on All Funds (Continued)

D. Long-Term Notes and Loans Receivable

<u>Party to Loan</u>	<u>Purpose of Loan</u>	<u>Amount</u>
Governmental Activities:		
Individual homeowners	Hollyhock Subdivision BEGIN home loans	\$ 2,283,000
Individual homeowners	Sequoia Subdivision BEGIN home loans	1,319,937
Sebastopol Industrial Park, LLC	Development agreement	178,468
Individual home buyers	Solar power equipment installation loans	263,615
	Subtotal governmental activities	<u>4,045,020</u>
Business-Type Activities:		
Sebastopol Industrial Park, LLC	Development agreement	<u>96,444</u>
	Totals	<u>\$ 4,141,464</u>

The \$3,602,937 in BEGIN loans is evidenced by first-time homebuyer promissory notes, and they are secured by subordinated deeds of trust. The loans were funded by a State program to assist first time homebuyers. The loans bear interest at 1 percent per annum, no periodic repayments of the loans are required, and the loans and all accrued interest mature 30 years from the date of the original note. The City may amend the note and deed of trust to defer repayment at the maturity date for up to an additional 30 years at zero percent additional interest. The sale, transfer, lease or encumbrance of the property does not necessarily require any repayment of the loan prior to maturity.

The Sebastopol Industrial Park LLC development agreement represents the deferral of \$455,000 in payments for a variety of development and related impact fees. Under the arrangement, the fees are to be paid over a five year period, with zero interest, and monthly repayments of \$7,583. This agreement was subsequently amended in March 2013, monthly payments were revised to \$7,100, and the loan agreement matures in September of 2017.

The \$263,615 solar equipment installation loans are repayable in equal bi-monthly installments over a period of about 33 years by the homeowners, and repayments are made through the City's enterprise utility billing and collection system.

Subsequent event: As a special item, the \$3,602,937 in BEGIN loans and related deeds of trust were conveyed, assigned and transferred by the City of Sebastopol to the Sonoma County Community Development Commission in July 2014.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Mobile Home Park land parcel	<u>1,628,370</u>	<u>-</u>	<u>-</u>	<u>1,628,370</u>
Total capital assets, not being depreciated	<u>1,628,370</u>	<u>-</u>	<u>-</u>	<u>1,628,370</u>
Capital assets, being depreciated:				
Buildings	5,493,175	-	-	5,493,175
Machinery and equipment	2,063,013	47,559	-	2,110,572
Vehicles	3,094,814	188,647	-	3,283,461
Infrastructure – parks and skate parks	1,631,277	354,343	-	1,985,620
Infrastructure – solar power facilities	2,169,966	-	-	2,169,966
Infrastructure-Street system	<u>3,596,835</u>	<u>-</u>	<u>-</u>	<u>3,596,835</u>
Total capital assets being depreciated	<u>18,049,080</u>	<u>590,549</u>	<u>-</u>	<u>18,639,629</u>
Less accumulated depreciation for:				
Buildings	(4,292,356)	(70,084)	-	(4,362,440)
Infrastructure	(1,102,732)	(353,117)	-	(1,455,849)
Machinery and equipment	(1,575,674)	(159,438)	-	(1,735,112)
Vehicles	<u>(2,019,705)</u>	<u>(58,555)</u>	<u>-</u>	<u>(2,078,260)</u>
Total accumulated depreciation	<u>(8,990,467)</u>	<u>(641,194)</u>	<u>-</u>	<u>(9,631,661)</u>
Total capital assets, being depreciated, net	<u>9,058,613</u>	<u>(50,645)</u>	<u>-</u>	<u>9,007,968</u>
Governmental activities capital assets, net	<u>\$10,686,983</u>	<u>\$ (50,645)</u>	<u>\$ -</u>	<u>\$ 10,636,338</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets

Capital asset activity relating to business-type activities for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 86,440	\$ -	\$ -	\$ 86,440
Construction in progress	<u>-</u>	<u>181,105</u>	<u>-</u>	<u>181,105</u>
Total capital assets, not being depreciated	<u>86,440</u>	<u>181,105</u>	<u>-</u>	<u>267,545</u>
Capital assets, being depreciated:				
Reservoirs	1,400,613	-	-	1,400,613
Pipelines and distribution system	4,499,525	-	-	4,499,525
Pipelines and collection system	6,680,294	156,920	-	6,837,214
Equipment	<u>629,255</u>	<u>-</u>	<u>-</u>	<u>629,255</u>
Total capital assets being depreciated	<u>13,209,687</u>	<u>156,920</u>	<u>-</u>	<u>13,366,607</u>
Less accumulated depreciation for:				
Reservoirs	(773,433)	(46,046)	-	(819,479)
Pipelines and distribution system	(2,602,487)	(148,689)	-	(2,751,176)
Pipelines and collection system	(2,781,889)	(248,454)	-	(3,030,343)
Equipment	<u>(533,320)</u>	<u>(15,795)</u>	<u>-</u>	<u>(549,115)</u>
Total accumulated depreciation	<u>(6,691,129)</u>	<u>(458,984)</u>	<u>-</u>	<u>(7,150,113)</u>
Total capital assets, being depreciated, net	<u>6,518,558</u>	<u>(302,064)</u>	<u>-</u>	<u>6,216,494</u>
Business-type activities capital assets, net	<u>\$ 6,604,998</u>	<u>\$ (120,959)</u>	<u>\$ -</u>	<u>\$ 6,484,039</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 17,816
Public safety	181,007
Public works	141,151
Parks and recreation	301,220
Total depreciation expense-governmental activities	\$ 641,194
 Business-type activities:	
Water	\$ 194,074
Wastewater	264,910
Total depreciation expense-business type activities	\$ 458,984

F. Long-Term Debt

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
2015	\$ 20,000	\$ 14,755	\$ 34,755
2016	20,000	13,515	33,515
2017	25,000	12,255	37,255
2018	20,000	10,650	30,650
2019	25,000	8,530	33,530
2020- 2022	115,000	12,730	127,730
Totals	\$ 225,000	\$ 72,435	\$ 297,435

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

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>
2015	\$ 6,917	\$ 20,751
2016	6,917	20,751
Total minimum lease payments	13,854	41,502
Less amount representing interest	(942)	(3,248)
Present value net minimum lease payments	<u>\$ 12,912</u>	<u>\$ 38,254</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>
2015	\$ 19,167	\$ 467	\$ 19,631
Totals	<u>\$ 19,167</u>	<u>\$ 467</u>	<u>\$ 19,631</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, 2014**

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>
2015	\$ 92,825	\$ 133,744	226,569
2016	92,825	133,744	226,569
2017	92,825	133,744	226,569
2018	92,825	133,744	226,569
2019	92,825	133,744	226,569
2020-2024	464,125	668,720	1,132,845
2025-2026	185,650	267,488	453,138
Total minimum lease payments	1,113,900	1,604,928	2,718,828
Less amounts representing interest	(277,643)	(398,213)	(675,856)
Present value of net minimum lease payments	<u>\$ 836,257</u>	<u>\$1,206,715</u>	<u>\$ 2,042,972</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 for 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, 2014**

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>
2015	\$ 97,589	\$ 64,584	\$ 139,092	301,265
2016	97,589	64,584	69,547	231,720
2017	97,589	64,584	-	162,173
2018	97,589	64,584	-	162,173
2019	97,589	64,584	-	-
2020-2024	487,946	322,920	-	810,866
2025-2027	97,589	193,752	-	421,222
Total minimum lease payments	1,073,481	839,592	208,639	2,390,685
Less amounts representing interest	-	(224,155)	(6,236)	(238,685)
Present value of net minimum lease payments	<u>\$ 1,073,481</u>	<u>\$ 615,437</u>	<u>\$ 202,403</u>	<u>\$ 2,152,000</u>

Changes in Long-term liabilities:

Long-term debt activity for the 2014 fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Special assessment bonds	\$ 240,000	\$ -	\$ 15,000	\$ 225,000	\$ 20,000
Capital lease- capital projects	886,647	-	50,390	836,257	52,773
Capital lease obligations-equipment	18,936	-	6,024	12,912	12,912
CEC Loan	38,131	-	25,157	12,974	12,974
Capital lease – renewable energy	1,171,070	-	97,589	1,073,481	97,589
Capital lease – mobile home park	648,633	-	33,196	615,437	34,842
Capital lease – fire truck	332,297	-	129,894	202,403	133,906
Compensated absences	539,450	348,907	300,000	588,357	300,000
Total	<u>\$ 3,875,164</u>	<u>\$ 348,907</u>	<u>\$ 657,250</u>	<u>\$ 3,566,820</u>	<u>\$ 664,996</u>
Business-Type Activities:					
Capital lease Vac-Con	\$ 56,807	\$ -	\$ 18,553	\$ 38,254	\$ 38,254
Capital lease vehicles	13,840	-	13,840	-	-
Capital lease –capital projects	1,279,317	-	72,602	1,206,715	76,257
CEC Loan	17,689	-	11,496	6,193	6,193
Totals	<u>\$ 1,367,653</u>	<u>\$ -</u>	<u>\$ 116,491</u>	<u>\$ 1,251,162</u>	<u>\$ 120,704</u>

CITY OF SEBASTOPOLE

Notes to the Basic Financial Statements June 30, 2014

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 2014. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no significant uninsured claim liabilities at June 30, 2014.

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:

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, 2014**

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 16.762 percent for regular employees, 37.02 percent for fire employees, and 36.33 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>	6/30/12	\$ 281,917	100%	\$ -
	6/30/13	\$ 283,068	100%	\$ -
	6/30/14	\$ 319,474	100%	\$ -
<i>Safety employees</i>	6/30/12	\$ 493,531	100%	\$ -
	6/30/13	\$ 425,444	100%	\$ -
	6/30/14	\$ 475,876	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, 2014 the City contributed \$68,004 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, 2014**

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)	\$	133,529
Interest on net OPEB obligation		11,008
Adjustments to the ARC		(16,149)
		128,388
Annual OPEB expense		128,388
Contributions made		(68,004)
		60,384
Change in net OPEB obligation		60,384
Net OPEB obligation, beginning of year		244,613
Net OPEB obligation, end of year		\$304,997

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

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2011	\$ 115,310	46.7%	\$ 125,448
June 30, 2012	\$ 119,256	51.1%	\$ 183,705
June 30, 2013	\$ 124,447	51.1%	\$ 244,613
June 30, 2014	\$ 128,388	60.0%	\$ 304,997

Funding Status and Funding Progress. As of July 1, 2013, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$1,577,995, and the actuarial value of plan assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,577,995. The covered payroll (annual payroll of active employees covered by the plan) was \$2,982,196 and the ratio of the UAAL to covered payroll was 52.9 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, 2014

5. Other Information (Continued)

E. Other Post-Employment Benefits (Continued)

In the July 1, 2013 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 26 years, the remaining amortization period at June 30, 2013.

F. Restricted Net Assets and Fund Balances

The \$ 7,398,898 restricted amount in the governmental activities statement of net position and the \$3,169,424 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.

G. Successor Agency Trust for Assets of the Former Redevelopment Agency

1. The Dissolution

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the financial reporting entity of the City of Sebastopol that previously reported a redevelopment agency within the financial reporting entity of the City as a blended component unit. The bill provides that upon dissolution of the redevelopment agency, either the City or another unit of government will agree to serve as the successor agency to hold assets until they are distributed to other units of State and Local government. The City Council of the City of Sebastopol elected to have the City become the Successor Agency for the former redevelopment agency non-housing activities and elected to not be the Successor Agency for housing activities of the former agency. Accordingly, all housing related assets and liabilities of the former agency were, effective February 1, 2012, transferred by operation of law to the County of Sonoma.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight Board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future years, successor agencies will only be allocated revenues in the amount that is necessary to pay annual estimated installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the former agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between the redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the encumbrance or expenditure of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2014**

5. Other Information (Continued)

**G. Successor Agency Trust for Assets of the Former Redevelopment Agency
(Continued)**

1. The Dissolution

Management believes, in consultation with legal counsel, that the obligations of the former agency due to the City, if any, and due to others are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on these issues is not a position of settled law and there is considerable legal uncertainty regarding these issues. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority or other authorized body that would resolve any of the dissolution matters unfavorably to the City.

In accordance with the requirements of the Bill, (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity on February 1, 2012.

Prior to that date, the final seven months of the financial activity of the redevelopment agency continued to be reported in the governmental fund types of the City of Sebastopol. After the date of dissolution, the assets and financial activities of the dissolved redevelopment agency (except for those of the former agency's housing activities that were transferred to the County) are reported in a fiduciary fund (the private-purpose trust fund) in the financial statements of the City of Sebastopol. The assets and liabilities of the private purpose trust are excluded from the government wide statement of net position of the City and the Statement of Activities of the City because fiduciary fund assets are not available in any fashion for use by the City of Sebastopol.

2. Long-Term Obligations

Tax Allocation Refunding Bonds 2007 Series

On November 6, 2007 The City's former 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 were secured by a pledge of the former Agency's tax increment revenues. Future debt service requirements are:

Fiscal Year	Principal	Interest	Total
2015	\$ 330,000	\$ 95,151	\$ 425,151
2016	340,000	83,222	423,222
2017	355,000	70,764	425,764
2018	365,000	57,580	422,580
2019	380,000	43,610	423,610
2020-2021	810,000	41,000	851,000
Totals	<u>\$ 2,580,000</u>	<u>\$ 391,327</u>	<u>\$ 2,971,327</u>

CITY OF SEBASTOPOLE

Notes to the Basic Financial Statements
June 30, 2014

5. Other Information (Continued)

G. Successor Agency Trust for Assets of the Former Redevelopment Agency (Continued)

3. Long-Term Obligations (Continued)

Changes in Long-Term Obligations

	Balance Beginning of Year	Retirements	Balance End of Year
Tax allocation refunding bonds	\$ 2,900,000	320,000	2,580,000
Totals	<u>\$ 2,900,000</u>	<u>\$ 320,000</u>	<u>\$ 2,580,000</u>

H. Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement Number 68, Accounting and Financial Reporting for Pensions. GASB 68 addresses accounting and financial reporting for pensions that are provided to employees of state and local governments. Under GASB 68, pension plan cost sharing employers, such as the City, will be required to recognize a liability for their proportionate share of the collective pension liability of all pool members and expands disclosure requirements. GASB 68 is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact that adoption of GASB 68 will have on the City's financial statements.

Required Supplementary Information
CITY OF SEBASTOPOL
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Fund Balance, July 1	\$ 1,892,762	\$ 1,892,762	\$ 1,892,762	\$ -
Resources (inflows):				
Property taxes	1,524,668	1,411,668	1,392,443	(19,225)
Sales taxes	1,593,150	1,743,150	1,713,697	(29,453)
Transient occupancy taxes	300,000	300,000	359,892	59,892
Other taxes	669,700	669,700	710,552	40,852
License permits	238,300	243,800	290,026	46,226
Fines and forfeits	90,500	90,500	117,358	26,858
Interest and rents	40,800	41,800	44,674	2,874
Intergovernmental	580,500	588,870	616,696	27,826
Intergovernmental-successor agency	250,000	250,000	250,000	-
Charges for services	235,483	254,308	340,125	85,817
Miscellaneous	200	1,200	1,625	425
Sale of property	200	3,700	17,960	14,260
Transfers	-	-	26,186	26,186
Amounts available for charges to appropriations	<u>7,416,263</u>	<u>7,491,458</u>	<u>7,773,996</u>	<u>282,538</u>
Charges to appropriations:				
General government:				
Legislative	194,249	195,291	170,094	25,197
Nonprofit organizations	41,750	-	-	-
Manager	95,940	96,297	89,815	6,482
City Clerk	154,599	163,567	159,901	3,666
Finance	113,960	118,015	120,046	(2,031)
Legal	186,701	339,090	370,426	(31,336)
Benefits	-	(46,177)	(47,042)	865
Insurance	-	-	312	(312)
Miscellaneous	59,654	59,654	52,000	7,654
Government buildings	21,542	33,280	37,707	(4,427)
Community support	12,785	12,428	11,828	600
Cittaslow	20,000	20,000	17,837	2,163
Community center	10,000	10,000	10,000	-
Planning	295,082	299,027	268,938	30,089
Public safety:				
Police	2,688,459	2,811,779	2,862,260	(50,481)
Animal control	7,600	7,600	5,709	1,891
Emergency	3,800	3,800	3,832	(32)
Fire	550,846	559,754	533,432	26,322
Public Works:				
Building inspection	147,553	157,811	156,552	1,259
Engineering	96,949	104,125	73,974	30,151
Corporation yard	-	11,168	19,313	(8,145)
Streets	98,238	104,419	104,075	344
Parking	33,854	37,370	32,263	5,107
Parks and recreation				
Parks	206,474	228,227	221,510	6,717
Pool	69,410	76,553	94,810	(18,257)
Recreation	29,485	32,128	35,628	(3,500)
Village park	49,200	60,220	47,800	12,420
Debt servive	3,237	3,237	-	3,237
Transfers	-	-	2,948	(2,948)
Total charges to appropriations	<u>5,191,367</u>	<u>5,498,663</u>	<u>5,455,968</u>	<u>42,695</u>
Fund Balance, June 30	<u>\$ 2,224,896</u>	<u>\$ 1,992,795</u>	<u>\$ 2,318,028</u>	<u>\$ 325,233</u>

**Required Supplementary Information
CITY OF SEBASTOPOL
Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2014**

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:	\$ 7,773,996
Differences - budget to GAAP:	
Transfers in from other funds are a budgetary resource, but are not revenues for financial reporting purposes	(26,186)
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(1,892,762)</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 5,855,048</u></u>

Sources/inflows resources:

Total charges to appropriations from budgetary comparison schedule:	\$ 5,455,968
Differences - budget to GAAP:	
Transfers out to other funds are a budgetary use, but are not expenditures for financial reporting purposes	<u>(2,948)</u>
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 5,453,020</u></u>

Required Supplementary Information
CITY OF SEBASTOPOL
 Budgetary Comparison Schedule - Special Sales Tax Special Revenue Fund
 For The Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Fund Balance, July 1	\$ 1,015,825	\$ 1,015,825	\$ 1,015,825	\$ -
Resources (inflows):				
Local supplemental sales taxes	1,644,900	1,434,900	1,441,145	6,245
Interest	3,500	3,500	7,768	4,268
Amounts available for charges to appropriations	2,664,225	2,454,225	2,464,738	10,513
Charges to appropriations:				
Capital outlay:				
Administration	89,000	51,200	46,234	4,966
General plan	250,000	250,000	-	250,000
Public safety	230,723	237,354	227,633	9,721
Parks and recreation	263,113	275,758	272,581	3,177
Public works	60,224	117,805	116,201	1,604
Streets	122,590	154,317	153,489	828
Community center	181,500	181,500	18,681	162,819
Stormwater management	50,000	60,000	55,311	4,689
Debt service:				
Principal	226,782	226,782	227,575	(793)
Interest	71,762	71,762	70,969	793
Transfers	46,267	46,267	196,267	(150,000)
Total charges to appropriations	1,591,961	1,672,745	1,384,941	287,804
Fund Balance, June 30	\$ 1,072,264	\$ 781,480	\$ 1,079,797	\$ 298,317

Expolantion of Differences between Budgetary Inflows and GAAP revenues:

Sources/Inflows of resources:	
Actual amounts available for appropriation per above schedule	\$ 2,464,738
Differences budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,015,825)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.	\$ 1,448,913

Expolantion of Differences between Budgetary Outflows and GAAP expenditures:

Sources/outflows of resources:	
Actual total charges to appropriation per above schedule	\$ 1,384,941
Differences budget to GAAP:	
Transfers out are a budgetary outflow and use current financial resources, but are not considered to be expendirues for financial reporting purposes	(196,267)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.	\$ 1,188,674

Required Supplementary Information
City of Sebastopol
Other Post Employment Benefits (OPEB)
Schedule of Funding Progress
June 30, 2014

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%
7/1/2013	\$ -	\$ 1,577,995	\$ 1,577,995	0.00%	\$ 2,982,196	52.91%

City of Sebastopol
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2014

Special Revenue Funds										
	Police Grants	Fire Training	Gas Tax	Park in Lieu	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Art in Lieu	Measure M
Assets										
Cash and investments	\$ 661	\$ -	\$ 3,656	\$ 388,546	\$ 731,183	\$ 69,552	\$ 3	\$ 42	\$ 32,615	\$ 193,146
Receivables:										
Receivables from other governments	26,673	-	-	-	-	-	-	-	-	-
Accounts	-	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	87,652	-	-	-	-	12,178
Due from other funds	-	-	-	-	-	-	-	-	-	-
Assessments receivable	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	35,371	-	-	-	60,251	-
Total assets	\$ 27,334	\$ -	\$ 3,656	\$ 388,546	\$ 854,206	\$ 69,552	\$ 3	\$ 42	\$ 92,866	\$ 205,324
Liabilities, deferred inflows of resources, and fund balances										
Liabilities:										
Accounts payable	\$ 588	\$ -	\$ 2,468	\$ -	\$ -	\$ 7,051	\$ -	\$ -	\$ -	\$ -
Due to other funds	26,673	-	-	-	-	-	-	-	-	-
Total liabilities	27,261	-	2,468	-	-	7,051	-	-	-	-
Deferred inflows of resources:										
Deferred inflows from notes receivable	-	-	-	-	35,371	-	-	-	60,251	-
Total deferred inflow of resources	-	-	-	-	35,371	-	-	-	60,251	-
Fund balances:										
Restricted for:										
Equipment and infrastructure	-	-	-	388,546	-	-	-	-	-	-
Highways and streets	-	-	1,188	-	818,835	62,501	-	-	-	205,324
Public safety	73	-	-	-	-	-	3	-	-	-
Community promotion	-	-	-	-	-	-	-	42	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Affordable housing	-	-	-	-	-	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	-	-	32,615	-
Committed for:										
Street projects	-	-	-	-	-	-	-	-	-	-
Total fund balances	73	-	1,188	388,546	818,835	62,501	3	42	32,615	205,324
Total liabilities, deferred inflows of resources and fund balances	\$ 27,334	\$ -	\$ 3,656	\$ 388,546	\$ 854,206	\$ 69,552	\$ 3	\$ 42	\$ 92,866	\$ 205,324

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014**

	Special Revenue Funds								
	Proposition 1B	Housing General Plan	Pavement Program	BIA Tourism	Vehicle Abatement	Village Park	Fire Grants	Inclusionary and Linkage Housing	Skate Park & Garden
Assets									
Cash and investments	\$ -	\$ 43,690	\$ 479,953	\$ 6,163	\$ -	\$ 1,361	\$ 19,156	\$ 200,056	\$ 40,312
Receivables:									
Governments	-	-	-	-	-	-	42,515	-	-
Accounts	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Assessments receivable	-	-	-	8,340	-	-	-	-	-
Notes receivable	-	2,218	-	-	-	-	-	40,082	-
Total assets	\$ -	\$ 45,908	\$ 479,953	\$ 14,503	\$ -	\$ 1,361	\$ 61,671	\$ 240,138	\$ 40,312
Liabilities and Fund Balances									
Liabilities:									
Accounts payable	\$ -	\$ 34,059	\$ 8,727	\$ 67	\$ -	\$ -	\$ 20,338	\$ -	\$ 1,912
Due to other funds	-	-	-	-	-	-	42,515	-	-
Total liabilities	-	34,059	8,727	67	-	-	62,853	-	1,912
Deferred inflows of resources:									
Deferred inflows from notes receivable	-	2,218	-	-	-	-	-	40,082	-
Total deferred inflow of resources	-	2,218	-	-	-	-	-	40,082	-
Fund balances:									
Restricted for:									
Equipment and infrastructure	-	-	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	(1,182)	-	-
Community promotion	-	-	-	14,436	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Affordable housing	-	9,631	-	-	-	-	-	200,056	-
Parks and recreation	-	-	-	-	-	1,361	-	-	38,400
Street projects	-	-	471,226	-	-	-	-	-	-
Total liabilities, deferred inflows of resources and fund balances	-	9,631	471,226	14,436	-	1,361	(1,182)	200,056	38,400
Total liabilities and fund balances	\$ -	\$ 45,908	\$ 479,953	\$ 14,503	\$ -	\$ 1,361	\$ 61,671	\$ 240,138	\$ 40,312

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014**

	Capital Projects			Debt Service		Total Nonmajor Governmental Funds	
	CDBG	Undergrounding	MTC Bike Lanes	Laguna Wetlands	Woodstone Assessment district		CREBS Bond
Assets							
Cash and investments	\$ -	\$ 190,191	\$ -	\$ 1,279	\$ 37,345	\$ 87,423	\$ 2,526,333
Receivables:							
Receivables from other governments	2,930	-	10,345	-	-	-	82,463
Accounts	-	-	-	-	-	1,560	1,560
Taxes	-	-	-	-	-	-	12,178
Due from other funds	-	-	-	-	-	-	87,652
Assessments receivable	-	-	-	-	225,000	-	233,340
Notes receivable	-	-	-	-	-	263,615	401,537
Total assets	\$ 2,930	\$ 190,191	\$ 10,345	\$ 1,279	\$ 262,345	\$ 352,598	\$ 3,345,063
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,210
Due to other funds	2,930	-	10,345	-	-	-	82,463
Total liabilities	2,930	-	10,345	-	-	-	157,673
Deferred inflows of resources:							
Deferred inflows from notes receivable	-	-	-	-	225,000	263,615	626,537
Total deferred inflow of resources	-	-	-	-	225,000	263,615	626,537
Fund balances:							
Restricted for:							
Equipment and infrastructure	-	-	-	1,279	-	-	389,825
Highways and streets	-	190,191	-	-	-	-	1,278,039
Public safety	-	-	-	-	-	-	(1,106)
Community promotion	-	-	-	-	-	-	14,478
Debt service	-	-	-	-	37,345	86,983	126,328
Affordable housing	-	-	-	-	-	-	209,687
Parks and recreation	-	-	-	-	-	-	72,376
Committed for:							
Street projects	-	-	-	-	-	-	471,226
Total fund balances	-	190,191	-	1,279	37,345	88,983	2,560,853
Total liabilities, deferred inflows of resources and fund balances	\$ 2,930	\$ 190,191	\$ 10,345	\$ 1,279	\$ 262,345	\$ 352,598	\$ 3,345,063

CITY OF SEBASTOPOLE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2014

Special Revenue Funds

	Police Grants	Fire Training	Gas Tax	Park in Lieu	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Art in Lieu	Measure M	Proposition 1B	Housing General Plan	Pavement Program
Revenues:													
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,055	\$ -	\$ 51,563	\$ -	\$ -	\$ -
Intergovernmental	175,159	-	229,343	-	156,872	-	-	-	-	-	-	-	-
Charges for services	-	-	-	49,400	51,266	92,008	-	15,449	-	-	-	9,055	-
Interest	14	-	59	4,729	7,638	277	48	113	1,989	109	329	4,032	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	175,173	-	229,402	54,129	215,776	92,285	-	8,103	15,562	53,582	109	9,384	4,032
Expenditures:													
Current:													
Public safety	210,662	3,094	-	-	-	-	-	-	-	-	-	-	-
Public works	-	-	219,169	-	-	77,070	-	-	-	37,756	-	-	47,097
Community development	-	-	-	-	-	-	-	8,226	-	-	-	54,259	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	76,003	9,306	-	-	-	-	-	36,305	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	17,084	-	-	-	-	-	-	-	-	-
Interest	-	-	-	14,367	-	-	-	-	-	-	-	-	-
Total expenditures	210,662	3,094	219,169	107,474	9,306	77,070	-	8,226	-	37,756	36,305	54,259	47,097
Excess (deficiency) of revenues over (under) expenditures	(35,489)	(3,094)	10,233	(53,345)	206,470	15,215	-	(123)	15,562	15,826	(36,196)	(44,875)	(43,065)
Other financing sources (uses):													
Transfers in	-	-	-	-	-	-	-	145	-	-	104	-	150,000
Transfers out	-	-	(26,186)	-	-	-	-	-	-	(104)	-	-	-
Total other financing sources (uses)	-	-	(26,186)	-	-	-	-	145	-	(104)	104	-	150,000
Net change in fund balances	(35,489)	(3,094)	(15,953)	(53,345)	206,470	15,215	-	22	15,562	15,722	(36,092)	(44,875)	106,935
Fund balances, July 1	35,562	3,094	17,141	441,691	612,365	47,286	3	20	17,053	189,602	36,092	54,506	364,291
Fund balances, June 30	\$ 73	\$ -	\$ 1,188	\$ 388,546	\$ 818,835	\$ 62,501	\$ 3	\$ 42	\$ 32,615	\$ 205,324	\$ -	\$ 9,631	\$ 471,226

