

**City of Sebastopol  
Basic Financial Statements  
June 30, 2015**

**CITY OF SEBASTOPOL, CALIFORNIA**  
**Basic Financial Statements**  
**Fiscal Year Ended June 30, 2015**  
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**FINANCIAL SECTION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS,**  
**BASIC FINANCIAL STATEMENTS**  
**AND**  
**NOTES TO THE FINANCIAL STATEMENTS**



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

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### **Independent Auditor's Report**

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

#### **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, 2015, 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, 2015, 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.

## **Emphasis of Matter**

As discussed in note 5H to these financial statements, the City made a change in accounting principles to implement Governmental Accounting Standards Board Statement Number 68, titled, Accounting and Financial Reporting for Pensions. My opinions are not modified with respect to this matter.

## **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 16 and the Budgetary Comparison Schedules, Schedule of Funding Progress and Schedules of Net Pension Liability and Employer Contributions on pages 51 through 56 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.

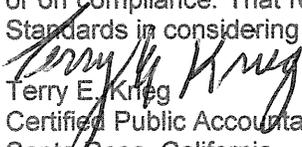
### *Other Information*

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 December 10, 2015, 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  
December 10, 2015

**CITY OF SEBASTOPOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**  
**(Rounded to the nearest \$1,000)**

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As management of the City of Sebastopol, California (City) we offer readers of the City's financial statements this overview and analysis of the City's financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the City's basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded liabilities by \$14,439,000 (net position) at June 30, 2015: Governmental activities' net position was \$7,277,000; and business-type activities' net position was \$7,162,000.
- The total net position of \$14,439,000 is comprised of the following categories:
  - \$12,651,000 is invested in capital assets, net of related debt;
  - \$ 5,675,000 is restricted for specific purposes (restricted net position); and,
  - \$ (3,887,000) is the unrestricted net position, the residual of total net position less the other categories of net position. Unrestricted net position, when positive, is used by the city to meet its ongoing obligations to citizens and creditors.
- For fiscal year 14-15 (FY 14-15) the net position of governmental activities decreased by \$(1,949,000), while business-type net position increased by \$728,000; accounting for the total decrease in net position of \$(1,221,000).
- The total net position previously reported at June 30, 2014 is restated to \$15,660,000 a decrease of \$(9,494,000); with \$(7,758,000) of the restatement in governmental activities' net position and \$(1,736,000) of the restatement in business-type activities. The restatement was caused by a change in accounting principle, as explained in note 5-H.
- At June 30, 2015, the city's governmental funds reported a combined ending fund balance of \$7,262,000, an increase of \$1,303,000 from June 30, 2014.
- The general fund reports fund balance of \$3,093,000 at June 30, 2015; and it is distributed in these categories:
  - 1) \$1,015,000 is committed fund balance, and represents the amounts that can only be used for specific purposes as determined by the city's highest decision-making authority, the City Council. Individual commitments are displayed in the fund balance section of the governmental funds' balance sheet.
  - 2) \$2,078,000 is unassigned fund balance, which represents the residual of total fund balance less other categories. It is available for consideration in the budget process.
- Proprietary funds, in which the city reports two enterprise funds, water and wastewater, reported a combined net position of \$7,162,000 at June 30, 2015; with \$2,650,000 reported as net position of the water fund; and \$4,512,000 reported in the wastewater fund.

**CITY OF SEBASTOPOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**  
**(Rounded to the nearest \$1,000)**

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## **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.

**CITY OF SEBASTOPOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015  
(Rounded to the nearest \$1,000)**

**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	· Balance sheet	· Statement of net position
	Statement of activities	· Statement of revenues, expenditures, and changes in fund balances	· 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
<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 Financial Statements*** are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business. These financial statements provide both long-term and short-term information about the City's overall financial status.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF SEBASTOPOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015  
(Rounded to the nearest \$1,000)**

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The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (*business-type activities*). A description of the functions follows:

- ***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** financial information for funds, which are groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into two categories: *governmental funds and proprietary funds*.

***Governmental funds*** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains individual governmental funds organized according to their type (the general fund and special revenue, capital projects and debt service funds). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Special Sales Tax fund, both of which are considered to be major funds.

**CITY OF SEBASTOPOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**  
**(Rounded to the nearest \$1,000)**

Data for the remaining governmental funds are combined into a single, aggregated presentation entitled "other governmental funds". The individual and combining fund data for each of these non-major governmental funds is provided as supplementary information in this report.

*Proprietary funds* are 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.

The City reports two proprietary funds: water and wastewater enterprise funds. Both funds are considered to be major funds, and as such are reported in separate columns within the proprietary funds' financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position:** The City's combined net position, including both governmental activities and business-type activities is reflected in Table A-1:

**Table A-1**  
**City of Sebastopol's Net Position**  
*(rounded , nearest thousand dollars)*

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 8,181,000	\$ 10,563,000	\$ 4,414,000	\$ 3,024,000	\$ 12,595,000	\$ 13,587,000
Capital assets	10,705,000	10,636,000	7,060,000	6,484,000	17,765,000	17,120,000
<b>Total assets</b>	<b>18,886,000</b>	<b>21,199,000</b>	<b>11,474,000</b>	<b>9,508,000</b>	<b>30,360,000</b>	<b>30,707,000</b>
<b>Deferred outflows of Resources</b>						
Pension contributions and deferrals	812,000	672,000	165,000	125,000	977,000	797,000
<b>Total deferred outflows of resources</b>	<b>812,000</b>	<b>672,000</b>	<b>165,000</b>	<b>125,000</b>	<b>977,000</b>	<b>797,000</b>
Current Liabilities	926,000	1,009,000	357,000	207,000	1,283,000	1,216,000
Long-term Liabilities	9,969,000	11,637,000	3,750,000	2,991,000	13,719,000	14,628,000
<b>Total liabilities</b>	<b>10,895,000</b>	<b>12,646,000</b>	<b>4,107,000</b>	<b>3,198,000</b>	<b>15,002,000</b>	<b>15,844,000</b>
<b>Deferred inflows of Resources</b>						
Pension plan timing differences	1,526,000	-	370,000	-	1,896,000	-
<b>Total deferred inflows of resources</b>	<b>1,526,000</b>	<b>-</b>	<b>370,000</b>	<b>-</b>	<b>1,896,000</b>	<b>-</b>
<b>Net Position</b>						
Invested in capital assets	8,085,000	7,658,000	4,566,000	5,233,000	12,651,000	12,891,000
Restricted	4,131,000	7,399,000	1,544,000	524,000	5,675,000	7,923,000
Unrestricted	(4,939,000)	(5,832,000)	1,052,000	678,000	(3,887,000)	(5,154,000)
<b>Total net position (Restated)</b>	<b>\$ 7,277,000</b>	<b>\$ 9,225,000</b>	<b>\$ 7,162,000</b>	<b>\$ 6,435,000</b>	<b>\$ 14,439,000</b>	<b>\$ 15,660,000</b>

**CITY OF SEBASTOPOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**  
**(Rounded to the nearest \$1,000)**

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Net position, (total assets and deferred outflows less total liabilities and deferred inflows), was \$14,439,000 at June 30, 2015. Governmental activities net position was \$7,277,000; and business-type activities' net position was \$7,162,000 at June 30, 2015.

By far, the largest component of the City's net position, \$12,651,000 and 88% of the total, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used, with \$5,675,000 reported as restricted at June 30, 2015.

At the end of the current fiscal year, the City reported negative unrestricted net position for its governmental activities and a positive net position for business-type activities. The negative net position reported for governmental activities is due in large part to a net pension liability of \$6,887,000. The measurement and reporting of pension liabilities is changed for this report by the implementation of Governmental Accounting Standards Board's (GASB) statements Nos. 68 and 71.

**Changes in Net Position:** Table A-2 reflects comparative changes in net position, for both government and business-type activities for fiscal years ended June 30, 2014 and 2015.

**CITY OF SEBASTOPOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015  
(Rounded to the nearest \$1,000)**

**Table A-2  
Changes in City of Sebastopol's Net Position  
(rounded to nearest thousand dollars)**

	Governmental Activities		Business Type Activities		Total		Total Percentage Change
	2015	2014	2015	2014	2015	2014	2014/2015
<b>Revenues</b>							
<b>Program revenues:</b>							
Charges for services	\$ 909,000	\$ 1,028,000	\$ 4,893,000	\$ 4,397,000	\$ 5,802,000	\$ 5,425,000	6.95%
Grants and contributions	579,000	554,000			579,000	554,000	4.51%
Capital grants and contributions	743,000	288,000	30,000	108,000	773,000	396,000	95.20%
<b>General revenues:</b>							
Property taxes	1,393,000	1,392,000			1,393,000	1,392,000	0.07%
Other taxes	5,614,000	4,939,000			5,614,000	4,939,000	13.67%
Other	337,000	279,000			337,000	279,000	20.79%
<b>Total revenues</b>	<b>9,575,000</b>	<b>8,480,000</b>	<b>4,923,000</b>	<b>4,505,000</b>	<b>14,498,000</b>	<b>12,985,000</b>	<b>11.65%</b>
<b>Expenses</b>							
General government	1,451,000	1,327,000			1,451,000	1,327,000	9.34%
Public safety	4,398,000	4,154,000			4,398,000	4,154,000	5.87%
Housing and development	35,000	142,000			35,000	142,000	-75.35%
Parks and recreation	645,000	772,000			645,000	772,000	-16.45%
Public works	1,332,000	1,208,000			1,332,000	1,208,000	10.26%
Interest	91,000	104,000			91,000	104,000	-12.50%
Water			1,368,000	1,298,000	1,368,000	1,298,000	5.39%
Wastewater			2,796,000	2,606,000	2,796,000	2,606,000	7.29%
<b>Total expenses</b>	<b>7,952,000</b>	<b>7,707,000</b>	<b>4,164,000</b>	<b>3,904,000</b>	<b>12,116,000</b>	<b>11,611,000</b>	<b>4.35%</b>
<b>Increase in net position before transfers and special item</b>	<b>1,623,000</b>	<b>773,000</b>	<b>759,000</b>	<b>601,000</b>	<b>2,382,000</b>	<b>1,374,000</b>	<b>73.36%</b>
<b>Transfers</b>	<b>31,000</b>	<b>31,000</b>	<b>(31,000)</b>	<b>(31,000)</b>	<b>-</b>	<b>-</b>	
<b>Special Item:</b>							
Contribution of long-term housing loans to County of Sonoma	(3,603,000)				(3,603,000)		
<b>Increase (decrease) in net position</b>	<b>(1,949,000)</b>	<b>804,000</b>	<b>728,000</b>	<b>570,000</b>	<b>(1,221,000)</b>	<b>1,374,000</b>	<b>-188.86%</b>
<b>Net position beginning (Restated)</b>	<b>9,226,000</b>	<b>16,178,000</b>	<b>6,434,000</b>	<b>7,601,000</b>	<b>15,660,000</b>	<b>23,779,000</b>	<b>-34.14%</b>
<b>Change in accounting principle (Note 5H)</b>	<b>-</b>	<b>(7,757,000)</b>	<b>-</b>	<b>(1,736,000)</b>	<b>-</b>	<b>(9,493,000)</b>	<b>-100.00%</b>
<b>Net position, Ending (Restated)</b>	<b>\$ 7,277,000</b>	<b>\$ 9,225,000</b>	<b>\$ 7,162,000</b>	<b>\$ 6,435,000</b>	<b>\$ 14,439,000</b>	<b>\$ 15,660,000</b>	<b>-7.80%</b>

The net position previously reported at June 30, 2014 was restated due to a change in accounting principle related to pension accounting, as further explained in note 5. The restatement decreased the net position previously reported by \$9,493,000, with a \$7,757,000 reduction in the net position of governmental activities and a \$1,736,000 reduction in business-type activities.

**CITY OF SEBASTOPOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015  
(Rounded to the nearest \$1,000)**

**Governmental Activities:**

Table A-3 presents the cost of each of the City's largest governmental programs as well as the increase or decrease from the prior year:

**Table A-3  
Cost of City Sebastopol's Governmental Activities  
(in rounded nearest one hundred dollars)**

	Total Cost of Services		Percentage Change
	2015	2014	2014/2015
General Government	1,451,000	1,327,000	9.34%
Public Safety	4,398,000	4,154,000	5.87%
Community Development	35,000	142,000	-75.35%
Parks and recreation	645,000	772,000	-16.45%
Public Works	1,332,000	1,208,000	10.26%
Interest on Long term Debt	91,000	104,000	-12.50%
<b>Total</b>	<b><u>7,952,000</u></b>	<b><u>7,707,000</u></b>	<b><u>3.18%</u></b>

The changes in governmental expenses displayed in table A-3, show an overall modest 3% growth. The shifts between categories reflect changes in service delivery and budget priorities between departments.

The costs of governmental activities' services were financed as follows:

- Those who directly benefitted from the programs were charged user fees of \$909,000;
- Other governments and organizations that subsidized certain programs with grants and contributions of \$1,322,000; and,
- General revenues, mostly taxpayer support in the form of property, sales and transient occupancy taxes absorbed the remaining costs of governmental activities of \$5,721,000.

The residual amount of total governmental activities' revenues less expenses is \$1,623,000 for fiscal year 2014-15, the increase in net position before transfers in of \$31,000 and a special item involving a contribution of loans receivable to the County of Sonoma \$(3,603,000).

After the transfers and the special item, the change in net position of governmental activities was a decrease of \$1,949,000.

Governmental activities' revenue is increased \$1,095,000 or 13% over the prior year, led by tax revenue increases of 675,446 (11% over the prior year). Property taxes were flat, with a less than 1% increase due to a stable assessed value. Transient Occupancy Taxes (TOT) showed considerable strength, with an increase of \$122,000 or 34%. The TOT increase is attributed to strong occupancy in the City's lodging establishments.

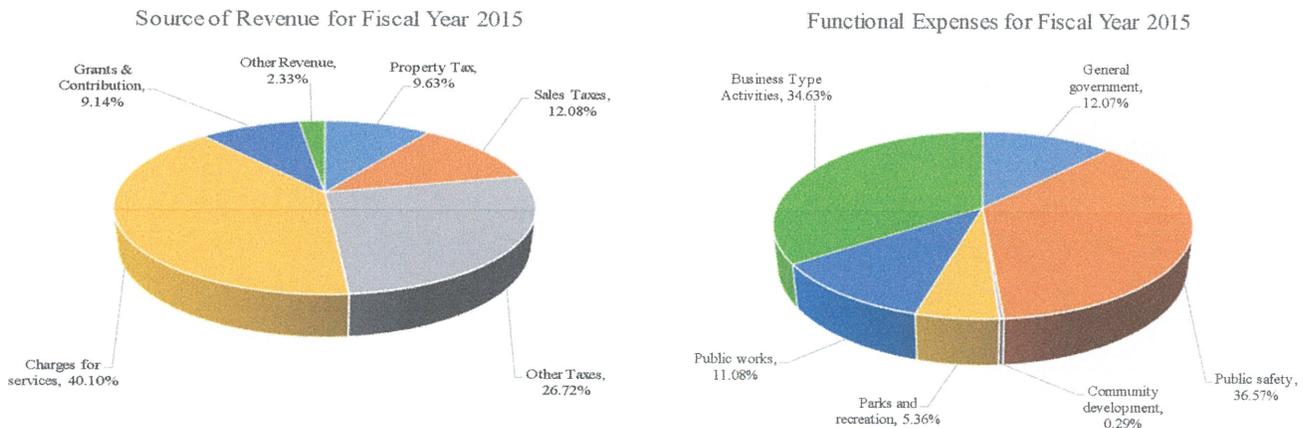
**CITY OF SEBASTOPOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015  
(Rounded to the nearest \$1,000)**

The “other taxes” category increased substantially, with \$400,000 in year over year growth, due to voter approval of “Measure R,” explained further in the governmental funds’ analysis section of this discussion, and increased taxable sales activity in FY 2014-15. The balance of governmental activities’ revenue changes are attributed to a relatively modest economic recovery throughout the region and its impact on the City.

Service charges to customers, while still a significant source of financing, dropped \$119,000 over the preceding year (12%) due to decreased service activity in fee-driven departments, most notably Community Development.

Capital grants and contributions increased \$454,000, led by the City’s receipt of \$524,000 in contributions of non-housing assets from the Redevelopment Successor Agency.

The relative weights of government-wide revenues and functional expenses by categories are displayed in the charts below:



**Business-Type Activities**

The business-type activity is comprised of the water and wastewater enterprise funds.

For FY 2014-15 net position increased by \$728,000; with a \$545,000 increase in the water fund and a \$183,000 increase in the wastewater fund. The change in net position represents 11% of the funds’ beginning net position, and is significant.

Net position of the water enterprise fund was \$2,650,000 and the net position of the wastewater fund was \$4,512,000, for a combined net position of \$7,162,000 for all business-type activity at June 30, 2015.

Voter-approved incremental rate increases in water and wastewater rates, intended to finance future capital needs, is the cause of the increased net position, as more fully explained in the proprietary funds’ analysis presented below.

**CITY OF SEBASTOPOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**  
**(Rounded to the nearest \$1,000)**

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Investment in capital assets is the largest category of fund net position, with \$4,566,000 and 64% of total net position. Restricted for capital projects is the next largest component, with \$1,544,000 and 22% of the total. The residual, total net position less the aforementioned categories is \$1,052,000 and 12% of the total.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

**Governmental Funds:** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At June 30, 2015, the City's governmental funds reported combined fund balances of \$7,262,000, an increase of \$1,303,000 in comparison with the prior year. Approximately 29% of this amount (\$2,078,000) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either restricted for particular purposes by parties external to the City (\$3,573,000) or committed for particular purposes by the City Council (\$1,611,000). Only action by the City Council can change the purpose for which fund balances were committed. A significant commitment of \$830,000 represents a council-approved set aside for economic uncertainties, and may be made available by Council's authorization.

### **General Fund:**

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,078,000, while total fund balance increased to \$3,093,000. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 39% of total general fund expenditures, while total fund balance represents approximately 57% of that same amount.

The general fund balance increased by \$773,000 during the fiscal year, caused primarily by general revenues in excess of ongoing expenditures in operating departments, as contemplated in the City's operating budget. The original general fund budget was conservative, with a built-in increase in balance of \$332,000. Tax revenues in excess of original expectations of \$524,000, were driven primarily by favorable transient occupancy (TOT) collections and voter approval for an extended and expanded utility users tax. TOT increases reflect increased occupancy as Sebastopol is an attractive destination city. Utility tax increases are related to a ballot measure approved by voters.

Sebastopol voters approved Measure R In November of 2014, with 62.3% of the vote. The general tax measure extended an existing utility user tax on gas and electricity for ten additional years, and it is now set to expire January 1, 2025. The tax rate was reduced from 4% to 3.75%; and is now applied to additional items of telecommunications, video and garbage services.

**CITY OF SEBASTOPOL**  
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Lower than expected expenditures in administrative departments; and relatively minor increases in fee-driven departments' expenditures, offset by increased fee revenue, also added to fund balance. Overall, year over year general fund expenditures were reduced \$67,000.

**Special Sales Tax Fund:**

The other major governmental fund of the City, the Special Sales Tax fund, experienced an increase in fund balance of \$133,000 during FY 14-15; and reports an ending balance of \$1,213,000 at June 30, 2015. All of the fund balance is restricted, as it must be applied to the purposes authorized by the special tax measures approved by voters.

The increase in fund balance is attributed to sales tax revenues of \$1,841,000 and other revenue of \$7,000; less expenditures of \$1,514,000 and transfers to other funds of \$201,000. Tax revenues increased from \$1,441,000 in FY 13-14 to \$1,841,000 for FY 14-15, with the increase attributed to a continued growth in taxable sales.

The transfers out were used primarily to support activity in the pavement program fund, with other support provided for principal and interest payments in debt service funds. Expenditures from the fund supported a variety of City programs and financing needs, including administration (\$258,000); police and fire (\$405,000); Parks and Recreation (\$204,000); Public Works (\$361,000); and debt service (\$285,000).

**Non-major Governmental Funds:** Other non-major governmental funds, in the aggregate reported June 30, 2015 fund balance of \$2,956,000; with \$2,360,000 in restricted fund balance and \$596,000 in committed fund balance. Aggregated information of the funds is displayed in the financial statements, and individual fund information is provided by

**Proprietary Funds – Water and Sewer Enterprise Funds:**

Proprietary fund-type activity is comprised of the sewer and water enterprise funds. The combined net position at June 30, 2015 is \$7,162,000; with \$4,566,000 representing investment in capital assets net of related debt; \$1,544,000 restricted for capital projects; and \$1,052,000 reported as unrestricted net position.

The Water Fund's net position increased \$545,000 during fiscal year 2014-15, reporting a June 30, 2015 net position of \$2,650,000. Operating revenues of \$1,923,000 exceeded operating expenses of \$1,336,000 by \$587,000. After relatively minor amounts of interest, transfers and other items, the increase in net position for the year was \$545,000.

Increases in the water fund's revenues and net position are attributed to a voter-approved four-year incremental water-rate increase that began in July, 2012. The year over year increase from FY 13-14 to FY 14-15 is \$222,000. The intended growth in net position provides financing for necessary infrastructure and appropriate operating costs in future years.

**CITY OF SEBASTOPOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**  
**(Rounded to the nearest \$1,000)**

The wastewater enterprise experienced an increase in net position of \$182,000; reporting a June 30, 2015 net position of \$4,512,000. Investment in capital assets, net of related debt, is the largest component of net position with a balance of \$3,039,000; restricted net position is \$930,000 and unrestricted net position is \$543,000. It is important to note that unrestricted net position in enterprise funds may represent resources intended to finance future capital asset requirements. The lack of “restriction” only signifies that there is not a formal, outside restriction placed on those monies.

Like the water fund, increases in net position of the wastewater fund reflect a four-year incremental rate increase that went into effect three years ago. The voters approved increases to the sewer rates of 12% per year, for four years. The purpose of the rate increases was to cure a previous deficit balance in the water fund and build sufficient balances to finance future capital needs.

### **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. Anticipated revenue was increased by \$75,000 while expenditure appropriations were increased by \$115,000 for a net change in budget costs of \$40,000. It is notable that the Council does not adjust its budget at mid-year for some significant, known revenue increases, as it is the current practice to provide adequate reserves for future years’ budget needs. The revenue budgeted in the other tax category was increased \$118,000 mid-year, reflecting the newly-approved utility users tax.

Total final general fund expenditures budgeted were \$5,464,000 and actual expenditures during fiscal 2015 were \$5,402,000 which is \$62,000 less than the final budgeted amounts.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2015 the City had invested \$17,765,000 in a broad range of capital assets, including equipment, vehicles, streets, buildings, park facilities, and water and wastewater systems. This amount represents a net increase of \$645,000 over last year.

The increase is driven primarily by a contribution of land from the successor agency to the City (\$523,000) within governmental activities; construction activity within business-type activities (\$965,000); and normal depreciation charges. Table A-4 provides a recap of capital asset activity, and detail is provided in the notes to the financial statements (Note 4 – E).

**CITY OF SEBASTOPOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015  
(Rounded to the nearest \$1,000)**

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
	2015	2014	2015	2014	2015	2014	2014/2015
Land and CIP	2.15	1.63	1.23	0.27	3.38	1.90	78%
Buildings	5.57	5.49			5.57	5.49	1%
Machinery and equipment	2.11	2.11	0.68	0.62	2.79	2.73	2%
Vehicles	3.40	3.28			3.40	3.28	4%
Infrastructure and systems	7.82	7.75	12.74	12.74	20.56	20.49	0%
Accumulated depreciation	(10.34)	(9.63)	(7.59)	(7.15)	(17.93)	(16.78)	7%
<b>Total</b>	<b>10.71</b>	<b>10.63</b>	<b>7.06</b>	<b>6.48</b>	<b>17.77</b>	<b>17.11</b>	<b>4%</b>

**Changes in Long-term Liabilities – Debt:**

New debt issued during the fiscal year includes an installment sales agreement (\$1,200,000) within the water enterprise fund to remove arsenic from water well number 7 and its treatment system; and a State Revolving Fund (Water Enterprise) draw down of \$143,000 to make further improvements in the water system.

Additional information about the City's long-term obligations can be found in the “Notes to the Basic Financial Statements” under section 4 - F. Long Term Debt.

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

For the 2016 fiscal year, the City's general fund budget includes utility user tax revenues of \$530,000. The user tax revenue is slated to continue until January 2025. At this time last year, the revenue stream was set to expire, and the City is grateful for the voters' approval to continue this tax with a “yes” vote on “Measure R,” explained earlier in this discussion and analysis.

- The budget projects that there will be a \$384,000 (5.2%) increase in general fund revenues.
- The budget is balanced, and projects to add \$63,000 to general fund balance.
- Selected general fund user fees are expected to be flat in fiscal 2016.

General fund 2016 budgeted appropriations are set at \$7,696,000. This is a \$224,000 (3%) increase over fiscal 2015 amended budget expenditures.

**CITY OF SEBASTOPOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015  
(Rounded to the nearest \$1,000)**

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**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, 2015**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,749,884	\$ 2,128,362	\$ 8,878,246
Net receivables	720,941	674,621	1,395,562
Total current assets	<u>7,470,825</u>	<u>2,802,983</u>	<u>10,273,808</u>
Noncurrent assets:			
Cash and cash equivalents	126,012	1,544,038	1,670,050
Long-term notes receivable	378,746	66,769	445,515
Other long-term receivables	205,000	-	205,000
Net capital assets	<u>10,705,302</u>	<u>7,059,470</u>	<u>17,764,772</u>
Total noncurrent assets	<u>11,415,060</u>	<u>8,670,277</u>	<u>20,085,337</u>
Total assets	<u>18,885,885</u>	<u>11,473,260</u>	<u>30,359,145</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension plan contributions and deferred items	<u>811,741</u>	<u>165,339</u>	<u>977,080</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	104,237	85,931	190,168
Accrued liabilities	69,586	-	69,586
Compensated absences	300,000	35,738	335,738
Deposits	161,391	7,769	169,160
Accrued interest payable	8,197	5,444	13,641
Long-term obligations due within one year	<u>289,718</u>	<u>221,842</u>	<u>511,560</u>
Total current liabilities	<u>933,129</u>	<u>356,724</u>	<u>1,289,853</u>
Long-term obligations due in more than one year:			
Special assessment bonds	180,000	-	180,000
Capital lease obligations	2,150,390	1,050,576	3,200,966
Installment agreement	-	1,160,118	1,160,118
State Revolving Fund loan	-	60,619	60,619
Net other post employment benefit obligation	365,828	-	365,828
Net pension liability	6,887,028	1,478,414	8,365,442
Compensated absences	<u>379,036</u>	<u>-</u>	<u>379,036</u>
Total long-term obligations	<u>9,962,282</u>	<u>3,749,727</u>	<u>13,712,009</u>
Total liabilities	<u>10,895,411</u>	<u>4,106,451</u>	<u>15,001,862</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Differences between pension plan expected and actual earnings	<u>1,525,980</u>	<u>369,827</u>	<u>1,895,807</u>
<b>NET POSITION</b>			
Net investment in capital assets	8,085,194	4,566,315	12,651,509
Restricted for:			
Capital projects		1,544,038	1,544,038
Equipment and infrastructure	1,682,131	-	1,682,131
Housing	245,821	-	245,821
Debt service	587,457	-	587,457
Streets	1,534,646	-	1,534,646
Other purposes	78,907	-	78,907
Unrestricted	<u>(4,937,921)</u>	<u>1,051,968</u>	<u>(3,885,953)</u>
Total net position	<u>\$ 7,276,235</u>	<u>\$ 7,162,321</u>	<u>\$ 14,438,556</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2015**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	City Government			
					Governmental Activities	Business-type Activities	Total	
<b>Functions/Programs</b>								
City government								
Governmental activities:								
General government	\$ 1,451,524	\$ 342,911	\$ -	\$ 523,576	\$ (585,037)	\$ -	\$ -	\$ (585,037)
Public safety	4,397,921	278,638	311,396	-	(3,807,887)	-	-	(3,807,887)
Community development	34,936	14,390	4,493	-	(16,053)	-	-	(16,053)
Public works	1,331,944	182,878	263,014	219,094	(666,958)	-	-	(666,958)
Parks and recreation	644,813	89,971	285	-	(554,557)	-	-	(554,557)
Interest on long-term debt	91,304	-	-	-	(91,304)	-	-	(91,304)
Total governmental activities	<u>7,952,442</u>	<u>908,788</u>	<u>579,188</u>	<u>742,670</u>	<u>(5,721,796)</u>	<u>-</u>	<u>-</u>	<u>(5,721,796)</u>
Business-type activities:								
Water	1,368,427	1,933,720	-	10,978	-	576,271	-	576,271
Wastewater	2,795,925	2,959,002	-	19,378	-	182,455	-	182,455
Total business-type activities	<u>4,164,352</u>	<u>4,892,722</u>	<u>-</u>	<u>30,356</u>	<u>-</u>	<u>758,726</u>	<u>-</u>	<u>758,726</u>
<b>Total City government</b>	<u>\$ 12,116,794</u>	<u>\$ 5,801,510</u>	<u>\$ 579,188</u>	<u>\$ 773,026</u>	<u>(5,721,796)</u>	<u>758,726</u>	<u>(4,963,070)</u>	

General revenues, transfers, and special item

General revenues:								
Taxes:								
Property taxes		\$ 1,393,021			\$ -		\$ -	\$ 1,393,021
Sales taxes		1,748,368			-		-	1,748,368
Motor vehicle in lieu taxes		621,440			-		-	621,440
Transient occupancy taxes		482,164			-		-	482,164
Other taxes		2,761,809			-		-	2,761,809
Unrestricted interest and rents		10,492			-		-	10,492
Other general revenues		327,178			-		-	327,178
Transfers		31,024			(31,024)		-	-
Special item: Contribution of long-term loans to Sonoma County		(3,602,937)			-		-	(3,602,937)
Total general revenues and transfers		<u>3,772,559</u>			<u>(31,024)</u>		<u>3,741,535</u>	
<b>Change in net position</b>		<u>(1,949,237)</u>			<u>727,702</u>		<u>(1,221,535)</u>	
Net position, June 30, 2014		<u>9,225,472</u>			<u>6,434,619</u>		<u>15,660,091</u>	
Net position, June 30, 2015		<u>\$ 7,276,235</u>			<u>\$ 7,162,321</u>		<u>\$ 14,438,556</u>	

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	General Fund	Special Sales Tax	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and investments	\$ 2,995,091	\$ 956,374	\$ 2,924,431	\$ 6,875,896
Accounts receivable	7,682	-	1,350	9,032
Taxes receivable	335,834	288,200	42,949	666,983
Due from other governments	19,788	-	25,138	44,926
Assessments receivable	-	-	205,000	205,000
Notes receivable	28,166	-	350,580	378,746
Due from other funds	13,356	-	-	13,356
<b>Total assets</b>	<b>\$ 3,399,917</b>	<b>\$ 1,244,574</b>	<b>\$ 3,549,448</b>	<b>\$ 8,193,939</b>
<b>Liabilities:</b>				
Accounts payable	\$ 48,251	\$ 31,795	\$ 24,191	\$ 104,237
Accrued liabilities	69,586	-	-	69,586
Due to other funds	-	-	13,356	13,356
Deposits	161,391	-	-	161,391
<b>Total liabilities</b>	<b>279,228</b>	<b>31,795</b>	<b>37,547</b>	<b>348,570</b>
<b>Deferred inflows of resources:</b>				
Long-term notes receivable	28,166	-	555,580	583,746
<b>Total deferred inflows of resources</b>	<b>28,166</b>	<b>-</b>	<b>555,580</b>	<b>583,746</b>
<b>Fund balances:</b>				
Restricted for:				
Equipment and infrastructure	-	1,212,779	376,296	1,589,075
Highways and streets	-	-	1,510,158	1,510,158
Public safety	-	-	47,265	47,265
Community promotion	-	-	8,727	8,727
Debt service	-	-	127,362	127,362
Affordable housing	-	-	216,536	216,536
Parks and recreation	-	-	74,259	74,259
Committed for:				
City buildings	125,000	-	-	125,000
Street projects	-	-	595,718	595,718
Fire station bay	25,000	-	-	25,000
Wayfinding signs	25,000	-	-	25,000
Economic uncertainties	830,000	-	-	830,000
Community center	10,000	-	-	10,000
Unassigned	2,077,523	-	-	2,077,523
<b>Total fund balances</b>	<b>3,092,523</b>	<b>1,212,779</b>	<b>2,956,321</b>	<b>7,261,623</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 3,399,917</b>	<b>\$ 1,244,574</b>	<b>\$ 3,549,448</b>	<b>\$ 8,193,939</b>

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

Total Governmental Fund Balances	\$ 7,261,623
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	10,705,302
Other long-term notes receivable are not available to fund current period expenditures and are deferred in the funds	583,746
Interest payable is accrued as a liability in the statement of net position, but is reported in the funds only when due	(8,197)
The net pension liability does not require the use of current financial resources and is therefore not reported in the funds	(6,887,028)
Differences between expected earnings and actual earnings on pension plan assets are not reported in the funds and are deferred in the statement of net position	(1,525,980)
Pension plan contributions made subsequent to the plan measurement date are reported as a deferred outflow of resources in the statement of net position	811,741
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	(3,664,972)
<b>Net Position of Governmental Activities</b>	<b>\$ 7,276,235</b>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Statements of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**

	General Fund	Special Sales Tax	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 1,393,024	\$ -	\$ -	\$ 1,393,024
Sales taxes	1,748,368	1,841,484	62,286	3,652,138
Other taxes	1,218,306	-	-	1,218,306
Licenses and permits	314,693	-	-	314,693
Fines and forfeits	158,380	-	-	158,380
Intergovernmental	690,922	-	752,271	1,443,193
Interest and rents	14,711	6,865	21,857	43,433
Charges for services	591,674	-	252,090	843,764
Miscellaneous	46,390	-	21,558	67,948
	<u>6,176,468</u>	<u>1,848,349</u>	<u>1,110,062</u>	<u>9,134,879</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,243,792	258,207	-	1,501,999
Public safety	3,507,899	405,443	261,948	4,175,290
Community development	-	-	35,436	35,436
Parks and recreation	340,723	203,873	-	544,596
Public works	293,432	361,330	419,093	1,073,855
Capital outlay	-	-	80,472	80,472
Debt service:				
Principal	-	222,771	135,404	358,175
Interest	-	62,476	30,659	93,135
	<u>5,385,846</u>	<u>1,514,100</u>	<u>963,012</u>	<u>7,862,958</u>
Excess (deficiency) of revenues over expenditures	<u>790,622</u>	<u>334,249</u>	<u>147,050</u>	<u>1,271,921</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	256,301	256,301
Transfers out	(16,127)	(201,267)	(7,883)	(225,277)
	<u>(16,127)</u>	<u>(201,267)</u>	<u>248,418</u>	<u>31,024</u>
Net change in fund balances	774,495	132,982	395,468	1,302,945
Fund balances, July 1	2,318,028	1,079,797	2,560,853	5,958,678
Fund balances, June 30	<u>\$ 3,092,523</u>	<u>\$ 1,212,779</u>	<u>\$ 2,956,321</u>	<u>\$ 7,261,623</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, 2015**

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 1,302,945</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$252,841 exceeded depreciation \$707,454 in the current period.	(454,613)
Contributions of land from the successor agency do not provide current financial resources and are not reported in the funds	523,576
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	(83,337)
Contributions of deferred long-term notes receivable to another governmental entity do not use current financial resources and are not reported in the funds	(3,602,937)
Governmental funds report interest payable when it is due for payment, but interest expense is accrued as incurred in the statement of activities	1,832
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	358,175
Increases in compensated absences do not use current financial resources and are not reported in the funds	(90,679)
Changes in the net pension obligation do not provide current financial resources and are not reported in the funds	156,632
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	<u>(60,831)</u>
Net adjustment to reconcile to changes in net position	<u>(3,252,182)</u>
Change in Net Position of Governmental Activities	<u>\$ (1,949,237)</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2015**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,094,573	\$ 1,033,789	\$ 2,128,362
Accounts receivable	266,838	407,783	674,621
Total current assets	<u>1,361,411</u>	<u>1,441,572</u>	<u>2,802,983</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	614,387	929,651	1,544,038
Notes receivable	35,793	30,976	66,769
Net other assets	<u>650,180</u>	<u>960,627</u>	<u>1,610,807</u>
Capital assets not being depreciated:			
Land	86,440	-	86,440
Construction in progress	1,145,624	-	1,145,624
Total	<u>1,232,064</u>	<u>-</u>	<u>1,232,064</u>
Capital assets being depreciated:			
Pipelines and distribution system	4,499,528	-	4,499,528
Collection system	-	6,837,214	6,837,214
Reservoir	1,400,613	-	1,400,613
Equipment	166,686	514,068	680,754
Less accumulated depreciation	<u>(3,823,878)</u>	<u>(3,766,825)</u>	<u>(7,590,703)</u>
Total	<u>2,242,949</u>	<u>3,584,457</u>	<u>5,827,406</u>
Net capital assets	<u>3,475,013</u>	<u>3,584,457</u>	<u>7,059,470</u>
Total noncurrent assets	<u>4,125,193</u>	<u>4,545,084</u>	<u>8,670,277</u>
Total assets	<u>5,486,604</u>	<u>5,986,656</u>	<u>11,473,260</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension plan contributions and deferrals	<u>84,789</u>	<u>80,550</u>	<u>165,339</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	-	85,931	85,931
Compensated absences	14,295	21,443	35,738
Accrued interest payable	2,879	2,565	5,444
Deposits	7,769	-	7,769
Long-term obligations due in one year	170,578	51,264	221,842
Total current liabilities	<u>195,521</u>	<u>161,203</u>	<u>356,724</u>
Long-term obligations due in more than one year:			
Capital lease obligations	605,433	544,903	1,150,336
SRF Loan	142,819	-	142,819
Installment agreement	1,200,000	-	1,200,000
Net pension liability	758,161	720,253	1,478,414
Amounts due within one year	<u>(170,578)</u>	<u>(51,264)</u>	<u>(221,842)</u>
Total long-term obligations due in more than one year	<u>2,535,835</u>	<u>1,213,892</u>	<u>3,749,727</u>
Total liabilities	<u>2,731,356</u>	<u>1,375,095</u>	<u>4,106,451</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension plan deferrals	<u>189,655</u>	<u>180,172</u>	<u>369,827</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,526,761	3,039,554	4,566,315
Restricted for capital improvements	614,387	929,651	1,544,038
Unrestricted	<u>509,234</u>	<u>542,734</u>	<u>1,051,968</u>
Total net position	<u>\$ 2,650,382</u>	<u>\$ 4,511,939</u>	<u>\$ 7,162,321</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, 2015**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,922,498	\$ 2,897,608	\$ 4,820,106
Other operating revenues	422	51,458	51,880
<b>Total operating revenues</b>	<u>1,922,920</u>	<u>2,949,066</u>	<u>4,871,986</u>
<b>OPERATING EXPENSES</b>			
Personnel services	246,028	172,831	418,859
Interfund charges for services	627,431	488,977	1,116,408
Contractual and other services	80,074	266,776	346,850
Intergovernmental treatment costs	-	1,491,849	1,491,849
Utilities	91,468	33,003	124,471
Supplies	101,160	39,265	140,425
Insurance, claims, and expenses	15,732	8,529	24,261
Depreciation	174,424	266,165	440,589
<b>Total operating expenses</b>	<u>1,336,317</u>	<u>2,767,395</u>	<u>4,103,712</u>
<b>Operating income (loss)</b>	<u>586,603</u>	<u>181,671</u>	<u>768,274</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	10,800	9,936	20,736
Interest expense	(32,110)	(28,530)	(60,640)
<b>Net non-operating revenues (expenses)</b>	<u>(21,310)</u>	<u>(18,594)</u>	<u>(39,904)</u>
<b>Income before contributions and transfers</b>	<u>565,293</u>	<u>163,077</u>	<u>728,370</u>
<b>Contributions and transfers</b>			
Transfers out	(31,024)	-	(31,024)
Capital contributions	10,978	19,378	30,356
<b>Total contributions and transfers</b>	<u>(20,046)</u>	<u>19,378</u>	<u>(668)</u>
<b>Change in net position</b>	545,247	182,455	727,702
<b>Total net position, July 1</b>	<u>2,105,135</u>	<u>4,329,484</u>	<u>6,434,619</u>
<b>Total net position, June 30</b>	<u>\$ 2,650,382</u>	<u>\$ 4,511,939</u>	<u>\$ 7,162,321</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, 2015**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,904,375	\$ 2,862,325	\$ 4,766,700
Payments to suppliers	(329,450)	(1,755,434)	(2,084,884)
Payments to employees	(271,149)	(195,619)	(466,768)
Payments to other funds for services	(627,431)	(488,977)	(1,116,408)
Other operating receipts	422	51,458	51,880
	<u>676,767</u>	<u>473,753</u>	<u>1,150,520</u>
Net cash provided by (used for) operating activities			
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	10,978	19,378	30,356
Purchases of capital assets	(986,521)	(29,500)	(1,016,021)
Proceeds from issuance of long-term obligations	1,342,819	-	1,342,819
Collections on notes receivable	15,908	13,767	29,675
Principal payments on long-term debt	(52,581)	(48,245)	(100,826)
Interest paid on long-term debt	(32,110)	(28,530)	(60,640)
	<u>298,493</u>	<u>(73,130)</u>	<u>225,363</u>
Net cash provided by (used for) capital and related financing activities			
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
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			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest receipts	10,800	9,936	20,736
	<u>10,800</u>	<u>9,936</u>	<u>20,736</u>
Net cash provided by investing activities			
Net increase (decrease) in cash and cash equivalents	955,036	410,559	1,365,595
Cash and cash equivalents-beginning of the year	753,924	1,552,881	2,306,805
Cash and cash equivalents-end of the year	<u>\$ 1,708,960</u>	<u>\$ 1,963,440</u>	<u>\$ 3,672,400</u>

See accompanying notes to the basic financial statements

**CITY OF SEBASTOPOL**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2015**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 586,603	\$ 181,671	\$ 768,274
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	174,424	266,165	440,589
Change in assets and liabilities:			
Receivables, net	(18,383)	(35,283)	(53,666)
Accounts payable	(41,016)	83,988	42,972
Net pension liability	(27,082)	(25,729)	(52,811)
Other liabilities	2,221	2,941	5,162
Net cash provided by (used for) operating activities	<u>\$ 676,767</u>	<u>\$ 473,753</u>	<u>\$ 1,150,520</u>

**Noncash capital financing activities: None**

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL  
Statement of Fiduciary Net Position  
June 30, 2015

	<u>Private Purpose Trust</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 413,365
Total assets	<u>\$ 413,365</u>
<b>LIABILITIES:</b>	
Interest payable	7,190
Tax allocation bonds	2,250,000
Discount on sale bonds	<u>(56,142)</u>
Total liabilities	<u>2,201,048</u>
<b>NET POSITION (DEFICIT)</b>	
Held in trust for successor agency	<u>(1,787,683)</u>
Total Net Position (Deficit)	<u><u>(1,787,683)</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, 2015

	Private Purpose Trust
ADDITIONS:	
Net investment income (loss)	\$ -
Distributions for enforceable obligations	901,502
	901,502
Total additions	901,502
DEDUCTIONS:	
Bond interest	105,397
Fiscal agent and other costs	2,025
Contribution of capital assets to City of Sebastopol	523,576
County housing expenses	150,000
City administrative costs	250,000
	1,030,998
Total deductions	1,030,998
Increase(decrease) in net position	(129,496)
Net position (deficit), June 30, 2014	(1,658,187)
Net position (deficit), June 30, 2015	\$ (1,787,683)

See accompanying notes to the basic financial statements

## CITY OF SEBASTOPOL

### Notes to the Basic Financial Statements June 30, 2015

#### 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, 2015

#### 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 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 SEBASTOPOL

### Notes to the Basic Financial Statements June 30, 2015

#### **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 uncollectable.

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, 2015

**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, 2015

#### 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.

##### 9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of California Public Employees Retirement System (PERS) and additions to or deductions from the PERS fiduciary net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Employer contributions made subsequent to the measurement date, but before the end of the current fiscal year, are reported as deferred outflows of resources in the statement of net position.

##### 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 \$ 10,705,302 difference are as follows:

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements  
June 30, 2015

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

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position (continued)

Capital assets	\$ 21,044,417
Less: Accumulated depreciation	<u>(10,339,115)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 10,705,302</u>

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 \$3,664,972 difference are as follows:

Long-Term Debt Obligations:	
Installment agreement	\$ 783,521
Special assessment bonds	205,000
Net other post employment benefit (OPEB) obligation	365,828
Capital lease obligations –Clean renewable energy bonds	975,892
Capital lease obligation – Mobile Home Park	580,594
Capital lease – Vac-Con Truck	6,604
Capital lease fire truck	68,497
Compensated absences	<u>679,036</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net position - governmental activities	<u>\$ (3,664,972)</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 \$ (3,252,182) difference and other significant components of the difference are as follows:

Capital outlay	\$ 252,841
Depreciation expense	(707,454)
Repayment of long-term debt principal	358,357
Decrease in long term loans	(83,337)
Other post employment benefit costs	(60,384)
Contribution of loans to Sonoma County	(3,602,937)
Contribution of capital assets from Successor Agency	523,576
Other items	<u>67,156</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>\$ (3,252,182)</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**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. 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.

**4. Detailed Notes on All Funds**

**A. Deposits and Investments**

Deposits and investments at June 30, 2015 consisted of the following:

Pooled demand deposits	\$ 1,195,283
Pooled investments	9,646,733
Investments with trustees	<u>119,645</u>
 Total deposits and investments	 <u>\$ 10,961,661</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, 2015, \$1,231,336 of the City's bank balances of \$ 1,481,336 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 1,231,336</u>
--	---------------------

Investments - At June 30, 2015, the City had the following investments.

<u>Investment</u>	<u>Average Maturities</u>	<u>Fair Value</u>
Sonoma County Investment Pool -- City Accounts	600 days	\$9,233,368
First American Treasury – Mutual Fund	60 days	119,645
Subtotal City Sebastopol		<u>9,353,013</u>
Private Purpose Trust held by City of Sebastopol:		
Sonoma County Investment Pool – Fiduciary Fund	600 days	<u>413,365</u>
 Totals		 <u>\$ 9,766,378</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, 2015**

**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 \$119,645 investment other than the County Pool, the entire \$119,645 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 non-major funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Special Tax Fund</u>	<u>Other Funds</u>	<u>Total Governmental</u>	<u>Water</u>	<u>Wastewater</u>
Accounts	\$ 7,682	\$ -	\$ 1,350	\$ 9,032	\$ 266,838	\$ 407,783
Taxes	335,834	288,200	42,949	666,983	-	-
Governments	33,144	-	25,138	58,282	-	-
Notes & loans	28,166	-	350,580	378,746	35,793	30,976
Assessments	-	-	205,000	205,000	-	-
<b>Totals</b>	<u>\$ 404,826</u>	<u>\$ 288,200</u>	<u>\$ 625,017</u>	<u>\$ 1,318,043</u>	<u>\$ 302,631</u>	<u>\$ 438,759</u>

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

1. The composition of inter-fund transfers for the governmental funds as of June 30, 2015, was as follows:

	<u>General Fund</u>	<u>Special Sales Tax</u>	<u>Wastewater &amp; Water</u>	<u>Non-Major</u>	<u>Total Transfers</u>
Transfers in to: Non-major funds	<u>\$ 16,127</u>	<u>\$ 201,267</u>	<u>\$ 31,024</u>	<u>\$ 7,883</u>	<u>\$ 256,301</u>
	<u>\$ 16,127</u>	<u>\$ 201,267</u>	<u>\$ 31,024</u>	<u>\$ 7,883</u>	<u>\$ 256,301</u>

The primary transfers out were \$150,000 to the pavement program fund to cover the cost of projects and \$106,529 in transfers out to other funds which amount included \$83,213 for debt service payments.

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

<u>Party to Loan</u>	<u>Purpose of Loan</u>	<u>Amount</u>
Governmental Activities:		
Sebastopol Industrial Park, LLC	Development agreement	\$ 123,651
Individual home buyers	Solar power equipment installation loans	255,095
	Subtotal governmental activities	<u>378,746</u>
Business-Type Activities:		
Sebastopol Industrial Park, LLC	Development agreement	<u>66,769</u>
	<b>Totals</b>	<u>\$ 445,515</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

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

**D. Long-Term Notes and Loans Receivable (continued)**

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 \$55,095 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.

**E. Capital Assets**

Capital asset activity relating to governmental activities for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land including mobile home park site	\$ 1,628,370	\$ 523,576	\$ -	\$ 2,151,946
Total capital assets, not being depreciated	<u>1,628,370</u>	<u>523,576</u>	<u>-</u>	<u>2,151,946</u>
Capital assets, being depreciated:				
Buildings	5,493,175	74,404	-	5,567,579
Machinery and equipment	2,110,572	-	-	2,110,572
Vehicles	3,283,462	113,437	-	3,396,899
Infrastructure systems	<u>7,752,421</u>	<u>65,000</u>	<u>-</u>	<u>7,817,421</u>
Total capital assets being depreciated	<u>18,639,630</u>	<u>252,841</u>	<u>-</u>	<u>18,892,471</u>
Less accumulated depreciation for:				
Buildings	(4,362,440)	(69,139)	-	(4,431,579)
Infrastructure	(1,455,849)	(331,593)	-	(1,787,442)
Machinery and equipment	(1,735,112)	(130,689)	-	(1,865,801)
Vehicles	<u>(2,078,260)</u>	<u>(176,033)</u>	<u>-</u>	<u>(2,254,293)</u>
Total accumulated depreciation	<u>(9,631,661)</u>	<u>(707,454)</u>	<u>-</u>	<u>(10,339,115)</u>
Total capital assets, being depreciated, net	<u>9,007,969</u>	<u>(454,613)</u>	<u>-</u>	<u>8,553,356</u>
Governmental activities capital assets, net	<u>\$ 10,636,339</u>	<u>\$ 68,963</u>	<u>\$ -</u>	<u>\$ 10,705,302</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

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

**E. Capital Assets (Continued)**

Capital asset activity relating to business-type activities for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 86,440	\$ -	\$ -	\$ 86,440
Construction in progress	<u>181,105</u>	<u>964,519</u>	<u>-</u>	<u>1,145,624</u>
Total capital assets, not being depreciated	<u>267,545</u>	<u>964,519</u>	<u>-</u>	<u>1,232,064</u>
Capital assets, being depreciated:				
Reservoirs	1,400,613	-	-	1,400,613
Pipelines and distribution system	4,499,528	-	-	4,499,528
Pipelines and collection system	6,837,214	-	-	6,837,214
Equipment	<u>629,254</u>	<u>51,500</u>	<u>-</u>	<u>680,754</u>
Total capital assets being depreciated	<u>13,366,609</u>	<u>51,500</u>	<u>-</u>	<u>13,418,109</u>
Less accumulated depreciation for:				
Reservoirs	(819,479)	(32,379)		(851,858)
Pipelines and distribution system	(2,751,176)	(134,918)		(2,885,194)
Pipelines and collection system	(3,030,343)	(251,055)		(3,281,398)
Equipment	<u>(549,116)</u>	<u>(22,237)</u>		<u>(571,353)</u>
Total accumulated depreciation	<u>(7,150,114)</u>	<u>(440,589)</u>		<u>(7,590,703)</u>
Total capital assets, being depreciated, net	<u>6,216,495</u>	<u>(389,089)</u>	<u>-</u>	<u>5,827,406</u>
Business-type activities capital assets, net	<u>\$ 6,484,040</u>	<u>\$ 575,430</u>	<u>\$ -</u>	<u>\$ 7,059,470</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

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

**E. Capital Assets (Continued)**

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

<b>Governmental activities:</b>	
General government	\$ 45,097
Public safety	263,297
Public works	246,125
Parks and recreation	152,935
Total depreciation expense-governmental activities	<u>\$ 707,454</u>
<b>Business-type activities:</b>	
Water	\$ 174,424
Wastewater	266,165
Total depreciation expense-business type activities	<u>\$ 440,589</u>

**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
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	25,000	6,868	31,868
2021- 2022	<u>90,000</u>	<u>8,543</u>	<u>98,543</u>
 Totals	 <u>\$ 205,000</u>	 <u>\$ 60,361</u>	 <u>\$ 265,361</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**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>
2016	\$ 6,925	\$ 20,743
Total minimum lease payments	6,925	20,743
Less amount representing interest	(322)	(827)
Present value net minimum lease payments	<u>\$ 6,603</u>	<u>\$ 19,916</u>

*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>
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	92,825	133,744	226,569
2021-2025	464,125	668,720	1,132,845
2026	92,825	133,744	226,569
Total minimum lease payments	1,021,075	1,471,184	2,492,259
Less amounts representing interest	(237,554)	(340,764)	(578,318)
Present value of net minimum lease payments	<u>\$ 783,521</u>	<u>\$1,130,420</u>	<u>\$ 1,913,941</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**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 Leases*

*Clean Renewable Energy* - The City entered into a capital lease arrangement with Municipal Finance Corporation pursuant to approval from the Internal Revenue Service for the issuance of Clean Renewable Energy Bonds in the principal amount of \$2,074,000 for the purpose of obtaining zero interest financing for renewable energy projects of the City. The arrangement provides for the lease of the projects to the Corporation by the City and the sublease of the projects back to the City by the Corporation in exchange for the rental payments by the City. The City's lease payments to the Corporation are payable from any source of legally available funds.

*Mobile Home Park* – The City also entered into a similar lease financing arrangement with the Municipal Finance Corporation for the purpose of obtaining partial financing for the purchase of an existing mobile home park as part of an open space program of the City. The capital lease was for \$817,500 and it also is payable from any source of legally available funds.

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

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

Fiscal Year	Renewable Energy Lease	Mobile Home Park Lease	Fire Truck Lease	<i>Totals</i>
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	-	162,173
2020	97,589	64,584	-	162,173
2021-2025	487,946	322,920	-	810,866
2026-2027	-	129,168	-	129,168
Total minimum lease payments	975,892	775,008	69,547	1,820,446
Less amounts representing interest	-	(194,414)	(1,050)	(195,464)
Present value of net minimum lease payments	<u>\$ 975,892</u>	<u>\$ 580,594</u>	<u>\$ 68,497</u>	<u>\$ 1,624,983</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

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

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

*Installment Sale Agreement*

The City in fiscal 2015 entered into an installment sale agreement with Municipal Finance Corporation for the purpose of obtaining financing to assist in the removal of arsenic from water well 7 and its treatment system. The agreement was for \$1,200,000, bears interest at 4.10 percent on the basis of a 360 day year, and is repayable in annual installments of \$89,082, and matures in 20 years. The installment agreement is a special obligation of the City repayable solely from the net revenues of its water system; and the City has pledged its water system net revenues for this purpose and for any other parity obligations. Future debt service on the agreement is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 39,881	\$ 49,201	\$ 89,082
2017	41,517	47,565	89,082
2018	43,219	45,863	89,082
2019	44,991	44,091	89,082
2020	46,836	42,246	89,082
2021- 2025	264,607	180,802	445,409
2026-2030	323,487	121,922	445,409
2031-2035	395,462	49,947	445,409
<b>Totals</b>	<b>\$ 1,200,000</b>	<b>\$ 581,637</b>	<b>\$ 1,781,637</b>

*State Revolving Fund Loan*

The City in fiscal 2015 entered into a \$411,000 loan agreement for a Safe Drinking Water State Revolving Fund Loan. The loan bears interest at 2.085 percent and matures in five years. As of June 30, 2015, the city had drawn down only \$142,819 of the \$411,000 loan commitment. Specific repayment terms will be settled upon full funding of the loan.

*Changes in Long-term liabilities:* Long-term debt activity for the 2015 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>
<b>Governmental Activities:</b>					
Special assessment bonds	\$ 225,000	\$ -	\$ 20,000	\$ 205,000	\$ 25,000
Capital lease- capital projects	836,257	-	52,736	783,521	55,458
Capital lease obligations- equipment	12,912	-	6,309	6,603	6,603
CEC Loan	12,974	-	12,974	-	-
Capital lease – renewable energy	1,073,481	-	97,589	975,892	97,589
Capital lease – mobile home park	615,437	-	34,843	580,594	36,571
Capital lease – fire truck	202,403	-	133,906	68,497	68,497
Compensated absences	588,357	390,679	300,000	679,036	300,000
<b>Total</b>	<b>\$ 3,566,820</b>	<b>\$ 390,679</b>	<b>\$ 658,357</b>	<b>\$ 3,299,143</b>	<b>\$ 589,718</b>
<b>Business-Type Activities:</b>					
Capital lease Vac-Con	\$ 38,254	\$ -	\$ 18,338	\$ 19,916	\$ 19,916
Installment agreement	-	1,200,000	-	1,200,000	39,882
Capital lease –capital projects	1,206,715	-	76,295	1,130,420	79,905
State Drinking Water loan	-	142,819	-	142,819	82,139
CEC Loan	6,193	-	6,193	-	-
<b>Totals</b>	<b>\$ 1,251,162</b>	<b>\$ 1,342,819</b>	<b>\$ 100,826</b>	<b>\$ 2,493,155</b>	<b>\$ 221,842</b>

## CITY OF SEBASTOPOL

### Notes to the Basic Financial Statements June 30, 2015

#### 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 position 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 no significant changes in insurance coverages in fiscal 2015. Settlements have not exceeded coverage for each of the past three fiscal years. The City has no significant uninsured claim liabilities at June 30, 2015.

##### C. 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.

##### D. 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, 2015

#### 5. Other Information (Continued)

##### D. Public Employee Pension Plans

Plan Description - The plans are a cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees Retirement System (CalPERS). The CalPERS is governed by a 13 member Board of Administration with six elected members, three appointed members and four ex officio members which include the State Treasurer, the State Controller, the Director of the California Department of Human Services and a designee of the State Personnel Board.

Benefits Provided - The CalPERS provides retirement, disability and death benefits. Retirement benefits are defined as 2.5 percent of the employees final 12 months average compensation times the employee's years of service (2.0 percent for safety employees) Employees with 10 years of continuous service are eligible to retire at age 55 (age 50 for safety employees) Employees are eligible for service-related disability benefits regardless of the length of service. Five years of service is required for non-service-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Pre-retirement death benefits equal an employee's final full-year salary. Both plans provide for a 2 percent Cost of Living Adjustment (COLA).

Contributions - Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employees be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process.

For public agency cost-sharing plans covered by either the miscellaneous or safety risk pools, the plan's actuarially determined rate is based on the estimated amount necessary to pay the plans' allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability.

The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2014 (the measurement date), the average active employee contribution rate is 6.891 percent of annual pay, and the average employer contribution rate is 16.624 percent of annual payroll (8.986 and 36.328 percent for the police safety plan and 8.986 and 37.025 percent for the fire safety plan).

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions - At June 30, 2014 the City reported a liability of \$8,365,442 for its proportionate share of the net pension liability for all plans. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2014, the City's proportion was 0.06092 percent for the miscellaneous plan, 0.06592 percent for its police safety plan and 0.00759 percent for the fire safety plan. For the measurement period ending June 30, 2014, the City recognized pension expense of \$295,258 for the miscellaneous Plan, \$341,833 for the police safety plan and \$38,961 for the fire safety plan. At June 30, 2014, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**5. Other Information (Continued)**

**D. Public Employee Pension Plans (Continued)**

<u>Miscellaneous Plan</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience:	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(948,273)
Changes in proportions and differences between City contributions and proportionate share of contributions	48,035	-
City contributions subsequent to the measurement date	375,910	-
<b>Totals</b>	<b>\$ 423,945</b>	<b>\$ (948,273)</b>

The \$375,910 reported as deferred outflows of resources represents City contributions made subsequent to the measurement date, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016 and the Plan measurement date of June 30, 2015.. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2015	\$ (219,912)
2016	(219,912)
2017	(223,345)
2018	(237,069)
2019	-
Thereafter	-

<u>Safety Plan -Police</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(873,730)
Changes in proportions and differences between City contributions and proportionate share of contributions	8,721	-
City contributions subsequent to the measurement date	478,004	-
<b>Totals</b>	<b>\$ 486,725</b>	<b>\$ (873,730)</b>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**5. Other Information (Continued)**

**D. Public Employee Pension Plans (Continued)**

The \$478,004 reported as deferred outflows of resources represents City contributions made subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016 and Plan measurement year of June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>	
2015	\$	(215,318)
2016		(215,318)
2017		(215,939)
2018		(218,434)
2019		-
Thereafter		-
	<u>Deferred</u>	<u>Deferred Inflows</u>
<u>Safety Plan -Fire</u>	<u>Outflows</u>	<u>of</u>
	<u>of Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual Earnings on pension plan investments	-	(69,491)
Changes in proportions and differences between City contributions and proportionate share of contributions	-	(4,314)
City contributions subsequent to the measurement date	66,410	-
	<u>66,410</u>	<u>-</u>
Totals	<u>\$ 66,410</u>	<u>\$ (73,804)</u>

The \$66,410 reported as deferred outflows of resources represents City contributions made subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016 and Plan measurement year of June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>	
2015	\$	(18,914)
2016		(18,914)
2017		(18,604)
2018		(17,372)
2019		-
Thereafter		-

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**5. Other Information (Continued)**

**D. Public Employee Pension Plans (Continued)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.0 percent
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at the CalPERS website under Forms and Publications. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension cash flows. The expected rate of return was then set equivalent to a single equivalent rate calculated by CalPERS and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Years 11+</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	.99	2.43
Inflation Sensitive	6.0	.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure & Forestland	3.0	4.50	5.09
Liquidity	2.0	(.55)	(1.05)

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent will be applied to all plans in the Public Employee Retirement Fund.

*Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate* – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50 percent) or 1-percentage higher (8.50 percent) than the current rate:

<u>City's proportionate share of the net pension liability</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Miscellaneous Plan	\$6,125,166	\$3,790,805	\$1,853,509
Safety Plan - Police	\$6,350,018	\$4,102,120	\$2,249,949
Safety Plan - Fire	\$ 670,891	\$ 472,517	\$ 309,065

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

*Pension plan fiduciary net position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

**5. Other Information(Continued)**

**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, 2015 the City contributed \$71,538 of current year premiums (100% of total premiums) and zero to prefund benefits. Plan members receiving benefits contributed no amounts to the total premiums.

*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)	\$	139,213
Interest on net OPEB obligation		13,725
Adjustments to the ARC		(20,569)
		132,369
Annual OPEB expense		132,369
Contributions made		(71,538)
		60,831
Change in net OPEB obligation		60,831
Net OPEB obligation, beginning of year		304,997
		\$365,828
Net OPEB obligation, end of year		

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 three fiscal years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2013	\$ 124,447	51.1%	\$ 244,613
June 30, 2014	\$ 128,388	60.0%	\$ 304,997
June 30, 2015	\$ 132,369	54.0%	\$ 365,828

*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.

## CITY OF SEBASTOPOL

### Notes to the Basic Financial Statements June 30, 2015

#### 5. Other Information(Continued)

##### E.Other Post-Employment Benefits (Continued)

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.

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 Position

The \$ 4,128,962 restricted amount in the governmental activities statement of net position and the \$1,544,038 restricted amount for the business-type activities 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).

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**5. Other Information (Continued)**

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

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.

*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
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	395,000	28,500	423,500
2021	415,000	12,500	427,500
Totals	<u>\$ 2,250,000</u>	<u>\$ 296,176</u>	<u>\$ 2,546,176</u>

**CITY OF SEBASTOPOL**

**Notes to the Basic Financial Statements  
June 30, 2015**

**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

	<u>Balance Beginning of Year</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Tax allocation refunding bonds	<u>\$ 2,580,000</u>	<u>\$ 330,000</u>	<u>\$ 2,250,000</u>
Totals	<u>\$ 2,580,000</u>	<u>\$ 330,000</u>	<u>\$ 2,250,000</u>

**H. Change in Accounting Principle**

The City in fiscal 2015 implemented Governmental Accounting Standards Board (GASB) Statement Number 68, Accounting and Financial Reporting for Pensions. The implementation of this accounting standard resulted in the restatement of the beginning of year net position of the City's governmental and business-type activities as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total City</u>
Net position, June 30, 2014 As originally reported	\$16,983,371	\$8,170,332	\$25,153,703
Change in accounting principle: Beginning of year net pension Liability and deferrals	<u>(7,757,899)</u>	<u>(1,735,713)</u>	<u>(9,493,612)</u>
Net position, June 30, 2014 as restated	<u>\$9,225,472</u>	<u>\$6,434,619</u>	<u>\$15,660,091</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**Required Supplementary Information**  
**CITY OF SEBASTOPOL**  
**Budgetary Comparison Schedule - General Fund**  
**For the Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Fund Balance, July 1</b>	\$ 2,318,028	\$ 2,318,028	\$ 2,318,028	\$ -
<b>Resources (inflows):</b>				
Property taxes	1,324,720	1,324,720	1,393,024	68,304
Sales taxes	1,706,714	1,723,714	1,748,368	24,654
Transient occupancy taxes	300,000	300,000	482,164	182,164
Other taxes	504,700	623,200	736,142	112,942
License permits	270,000	244,300	314,693	70,393
Fines and forfeits	82,750	82,750	158,380	75,630
Interest and rents	10,400	10,900	14,711	3,811
Intergovernmental	575,500	643,990	690,922	46,932
Intergovernmental-successor agency	250,000	250,000	250,000	-
Charges for services	338,868	305,832	341,674	35,842
Miscellaneous	500	2,380	42,067	39,687
Sale of property	-	3,600	4,323	723
	<u>7,682,180</u>	<u>7,833,414</u>	<u>8,494,496</u>	<u>661,082</u>
Amounts available for charges to appropriations				
<b>Charges to appropriations:</b>				
<b>General government:</b>				
Legislative	121,751	121,751	94,562	27,189
Manager	102,517	102,517	97,474	5,043
City Clerk	186,502	186,502	175,348	11,154
Finance	97,155	103,749	102,328	1,421
Legal	192,385	192,385	142,328	50,057
Miscellaneous	80,892	149,772	116,750	33,022
Government buildings	25,740	25,740	26,784	(1,044)
Community support	56,300	56,300	56,300	-
Cittaslow	18,000	18,000	17,933	67
Community center	31,300	31,300	31,300	-
Planning	331,321	339,382	382,685	(43,303)
<b>Public safety:</b>				
Police	2,887,906	2,901,077	2,820,099	80,978
Animal control	7,600	7,600	6,496	1,104
Emergency	3,900	3,900	3,754	146
Fire	582,560	587,118	677,550	(90,432)
<b>Public Works:</b>				
Building inspection	163,356	163,356	166,884	(3,528)
Engineering	95,029	106,339	91,483	14,856
Corporation yard	-	2,191	-	2,191
Parking	41,356	41,356	35,065	6,291
<b>Parks and recreation</b>				
Parks	145,551	145,551	145,518	33
Pool	74,760	74,760	84,578	(9,818)
Recreation	45,982	45,982	47,487	(1,505)
Village park	49,200	49,200	63,140	(13,940)
Debt servive	8,335	8,335	-	8,335
Transfers	-	-	16,127	(16,127)
	<u>5,349,398</u>	<u>5,464,163</u>	<u>5,401,973</u>	<u>62,190</u>
Total charges to appropriations				
<b>Fund Balance, June 30</b>	<u>\$ 2,332,782</u>	<u>\$ 2,369,251</u>	<u>\$ 3,092,523</u>	<u>\$ 723,272</u>

**Required Supplementary Information**  
**CITY OF SEBASTOPOL**  
**Budgetary Comparison Schedule - General Fund**  
**Note to RSI**  
**For the Fiscal Year Ended June 30, 2015**

**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:	\$ 8,494,496
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	<u>(2,318,028)</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 6,176,468</u></u>
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**Sources/inflows resources:**

Total charges to appropriations from budgetary comparison schedule:	\$ 5,401,973
Differences - budget to GAAP:	
Transfers out to other funds are a budgetary use, but are not expenditures for financial reporting purposes	<u>(16,127)</u>

Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 5,385,846</u></u>
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Required Supplementary Information  
**CITY OF SEBASTOPOL**  
 Budgetary Comparison Schedule - Special Sales Tax Special Revenue Fund  
 For The Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Fund Balance, July 1</b>	\$ 1,079,797	\$ 1,079,797	\$ 1,079,797	\$ -
Resources (inflows):				
Local supplemental sales taxes	1,762,562	1,762,562	1,841,484	78,922
Interest	4,000	4,000	6,865	2,865
Amounts available for charges to appropriations	2,846,359	2,846,359	2,928,146	81,787
Charges to appropriations:				
Capital outlay:				
Administration	131,700	119,919	105,469	14,450
General plan	169,000	169,000	152,738	16,262
Public safety	429,745	429,745	405,443	24,302
Parks and recreation	190,928	200,928	198,676	2,252
Public works	66,975	68,475	69,159	(684)
Streets	241,302	241,302	229,537	11,765
Community center	132,838	132,838	5,197	127,641
Stormwater management	70,000	70,000	62,634	7,366
Debt service:				
Principal	268,435	268,435	222,771	45,664
Interest	63,078	63,078	62,476	602
Transfers	-	-	201,267	(201,267)
Total charges to appropriations	1,764,001	1,763,720	1,715,367	48,353
Fund Balance, June 30	\$ 1,082,358	\$ 1,082,639	\$ 1,212,779	\$ 130,140
Explication of Differences between Budgetary Inflows and GAAP revenues:				
Sources/Inflows of resources:				
Actual amounts available for appropriation per above schedule				\$ 2,928,146
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				(1,079,797)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.				\$ 1,848,349
Explication of Differences between Budgetary Outflows and GAAP expenditures:				
Sources/outflows of resources:				
Actual total charges to appropriation per above schedule				\$ 1,715,367
Differences budget to GAAP:				
Transfers out are a budgetary outflow and use current financial resources, but are not considered to be expenditures for financial reporting purposes				(201,267)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds.				\$ 1,514,100

**Required Supplementary Information  
City of Sebastopol  
Other Post Employment Benefits (OPEB)  
Schedule of Funding Progress  
June 30, 2015**

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**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**(Last Ten Fiscal Years)**  
**June 30, 2015**

Plan Measurement  
Year  
June 30, 2014

**Miscellaneous Plan:**

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Plan's proportionate percentage share of the net pension liability		0.06092%
Plan's proportionate share of the net pension liability'	\$	3,790,805
Plan's covered employee payroll	\$	1,898,376
Plan's proportionate share of the net pension liability' as a percentage of covered employee payroll		204.18%
Plan's proportionate share of the fiduiary net position as a percentage of the Plan's total pension liability		78.46%
Plan's proportionate share of aggregare employer contributions	\$	373,319

**Safety Plan- Police:**

---

Plan's proportionate percentage share of the net pension liability		0.06592%
Plan's proportionate share of the net pension liability'	\$	4,102,120
Plan's covered employee payroll	\$	1,081,745
Plan's proportionate share of the net pension liability' as a percentage of covered employee payroll		379.21%
Plan's proportionate share of the fiduiary net position as a percentage of the Plan's total pension liability		75.56%
Plan's proportionate share of aggregare employer contributions	\$	358,980

**Safety Plan- Fire:**

---

Plan's proportionate percentage share of the net pension liability		0.00759%
Plan's proportionate share of the net pension liability'	\$	472,517
Plan's covered employee payroll	\$	104,825
Plan's proportionate share of the net pension liability' as a percentage of covered employee payroll		450.77%
Plan's proportionate share of the fiduiary net position as a percentage of the Plan's total pension liability		68.09%
Plan's proportionate share of aggregare employer contributions	\$	28,551

**Notes to Schedule:**

**Benefit Changes:** in 2014, there were no benefit changes

**Changes in Assumptions:** In 2014, there were no changes in assumptiopns

**Last Ten Years:** Fiscal 2015 was the 1st year of implementation, therefore only one year is shown

**CITY OF SEBASTOPOL**  
**Schedule of the City's Employers Contributions**  
**(Last Ten Fiscal Years)**  
**June 30, 2015**

	Plan Measurement Year June 30, 2014
<b>Miscellaneous Plan:</b>	
Contractually required contributions	\$ 319,649
Contributions in relation to contractually required contributions	\$ (319,649)
Contribution deficiency(excess)	\$ -
Plan's covered employee payroll	\$ 1,898,376
Contributions as a percentage of covered employee payroll	16.84%
<b>Safety Plan- Police:</b>	
Contractually required contributions	\$ 435,117
Contributions in relation to contractually required contributions	\$ (435,117)
Contribution deficiency(excess)	\$ -
Plan's covered employee payroll	\$ 1,081,745
Contributions as a percentage of covered employee payroll	40.22%
<b>Safety Plan- Fire:</b>	
Contractually required contributions	\$ 42,005
Contributions in relation to contractually required contributions	\$ (42,005)
Contribution deficiency(excess)	\$ -
Plan's covered employee payroll	\$ 104,825
Contributions as a percentage of covered employee payroll	40.07%

**Notes to Schedule:**

**Plan's valuation date:** June 30, 2013

**Last Ten Years:** Fiscal 2015 was the 1st year of implementation, therefore only one year is shown

**OPTIONAL SUPPLEMENTARY INFORMATION**  
***NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS***

**City of Sebastopol  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2015**

**Special Revenue Funds**

	Police Grants	Gas Tax	Park in Lieu	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Art In Lieu	Measure M	Housing General Plan	Pavement Program
<b>Assets</b>											
Cash and investments	\$ 2,738	\$ 3,779	\$ 373,591	\$ 965,879	\$ 64,679	\$ 18,674	\$ 8,727	\$ 51,344	\$ 236,758	\$ 2,090	\$ 595,718
Receivables:											
Receivables from other governments	23,712	-	-	-	-	-	-	-	-	-	-
Accounts	-	-	-	-	-	-	-	-	-	-	-
Taxes	13,356	-	-	-	-	-	-	-	12,909	-	-
Assessments receivable	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	24,488	-	-	-	41,712	-	1,536	-
<b>Total assets</b>	<b>\$ 39,806</b>	<b>\$ 3,779</b>	<b>\$ 373,591</b>	<b>\$ 990,367</b>	<b>\$ 64,679</b>	<b>\$ 18,674</b>	<b>\$ 8,727</b>	<b>\$ 93,056</b>	<b>\$ 248,667</b>	<b>\$ 3,626</b>	<b>\$ 595,718</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>											
<b>Liabilities:</b>											
Accounts payable	\$ 636	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	13,356	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>13,992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred inflows of resources:</b>											
Deferred inflows from notes receivable	-	-	-	24,488	-	-	-	41,712	-	1,536	-
<b>Total deferred inflow of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,488</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,712</b>	<b>-</b>	<b>1,536</b>	<b>-</b>
<b>Fund balances:</b>											
Restricted for:											
Equipment and infrastructure	-	-	373,591	-	-	-	-	-	-	-	-
Highways and streets	-	3,779	-	965,879	64,679	-	-	-	248,667	-	-
Public safety	25,814	-	-	-	-	18,674	-	-	-	-	-
Community promotion	-	-	-	-	-	-	8,727	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-
Affordable housing	-	-	-	-	-	-	-	-	-	2,090	-
Parks and recreation	-	-	-	-	-	-	-	51,344	-	-	-
Street projects	-	-	-	-	-	-	-	-	-	-	595,718
<b>Total fund balances</b>	<b>25,814</b>	<b>3,779</b>	<b>373,591</b>	<b>965,879</b>	<b>64,679</b>	<b>18,674</b>	<b>8,727</b>	<b>51,344</b>	<b>248,667</b>	<b>2,090</b>	<b>595,718</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 39,806</b>	<b>\$ 3,779</b>	<b>\$ 373,591</b>	<b>\$ 990,367</b>	<b>\$ 64,679</b>	<b>\$ 18,674</b>	<b>\$ 8,727</b>	<b>\$ 93,056</b>	<b>\$ 248,667</b>	<b>\$ 3,626</b>	<b>\$ 595,718</b>

**City of Sebastopol  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2015**

	Special Revenue Funds					Capital Projects				Debt Service		Total Nonmajor Governmental Funds	
	BIA Tourism	Vehicle Abatement	Village Park	Fire Grants	Inclusionary and Linkage housing	State Park & Garden	CDRG	Undergrounding	MTC Bike Lanes	Laguna Wetlands	Woodstone Assessment district		CREBS Bond
<b>Assets</b>													
Cash and investments	\$ 6,871	\$ 2,765	\$ -	\$ 12	\$ 214,446	\$ 22,915	\$ -	\$ 227,154	\$ -	\$ 1,279	\$ 37,345	\$ 88,667	\$ 2,924,431
Receivables:													
Receivables from other governments	-	-	-	-	-	-	1,426	-	-	-	-	-	25,138
Accounts	-	-	-	-	-	-	-	-	-	-	-	1,350	1,350
Taxes	16,684	-	-	-	-	-	-	-	-	-	-	-	42,949
Assessments receivable	-	-	-	-	-	-	-	-	-	205,000	-	-	205,000
Notes receivable	-	-	-	-	27,749	-	-	-	-	-	-	255,095	350,590
<b>Total assets</b>	<b>\$ 23,555</b>	<b>\$ 2,765</b>	<b>\$ -</b>	<b>\$ 12</b>	<b>\$ 242,195</b>	<b>\$ 22,915</b>	<b>\$ 1,426</b>	<b>\$ 227,154</b>	<b>\$ -</b>	<b>\$ 1,279</b>	<b>\$ 242,345</b>	<b>\$ 345,112</b>	<b>\$ 3,549,448</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>													
<b>Liabilities:</b>													
Accounts payable	\$ 23,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,191
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	13,356
<b>Total liabilities</b>	<b>23,555</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,547</b>
<b>Deferred inflows of resources:</b>													
Deferred inflows from notes receivable	-	-	-	-	27,749	-	-	-	-	-	205,000	255,095	555,580
<b>Total deferred inflow of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,749</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>205,000</b>	<b>255,095</b>	<b>555,580</b>
<b>Fund balances:</b>													
Restricted for:													
Equipment and infrastructure	-	-	-	-	-	-	1,426	-	-	1,279	-	-	376,286
Highways and streets	-	-	-	-	-	-	-	227,154	-	-	-	-	1,510,158
Public safety	-	2,765	-	12	-	-	-	-	-	-	-	-	47,265
Community promotion	-	-	-	-	-	-	-	-	-	-	-	-	8,727
Debt service	-	-	-	-	-	-	-	-	-	-	-	90,017	127,362
Affordable housing	-	-	-	-	214,446	-	-	-	-	-	-	-	216,536
Parks and recreation	-	-	-	-	-	22,915	-	-	-	-	-	-	74,259
Committed for:													
Street projects	-	-	-	-	-	-	-	-	-	-	-	-	595,718
<b>Total fund balances</b>	<b>-</b>	<b>2,765</b>	<b>-</b>	<b>12</b>	<b>214,446</b>	<b>22,915</b>	<b>1,426</b>	<b>227,154</b>	<b>-</b>	<b>1,279</b>	<b>37,345</b>	<b>90,017</b>	<b>2,956,321</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 23,555</b>	<b>\$ 2,765</b>	<b>\$ -</b>	<b>\$ 12</b>	<b>\$ 242,195</b>	<b>\$ 22,915</b>	<b>\$ 1,426</b>	<b>\$ 227,154</b>	<b>\$ -</b>	<b>\$ 1,279</b>	<b>\$ 242,345</b>	<b>\$ 345,112</b>	<b>\$ 3,549,448</b>

**CITY OF SEBASTOPOL**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**

	Special Revenue Funds										
	Police Grants	Gas Tax	Park in Lieu	Traffic Impact	Street Lighting Assessment	Asset Forfeiture	Downtown Association	Art in Lieu	Measure M	Housing General Plan	Pavement Program
Revenues:											
Sales taxes	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ 8,627	\$ -	\$ 53,659	\$ -	\$ -
Intergovernmental	235,360	231,840	-	170,000	-	18,671	-	-	-	-	-
Charges for services	-	-	22,100	25,716	91,509	-	18,538	-	-	13,247	-
Interest	7	92	4,889	6,396	297	-	58	191	1,817	155	3,119
Miscellaneous	500	-	-	-	-	-	-	-	-	57	-
<b>Total revenues</b>	<b>235,867</b>	<b>231,932</b>	<b>26,989</b>	<b>202,112</b>	<b>91,806</b>	<b>18,671</b>	<b>8,685</b>	<b>18,729</b>	<b>55,476</b>	<b>13,459</b>	<b>3,119</b>
Expenditures:											
Current:											
Public safety	220,349	-	-	-	-	-	-	-	-	-	-
Public works	-	237,540	-	-	89,628	-	-	-	12,133	-	28,627
Community development	-	-	-	-	-	-	-	-	-	21,000	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	5,850	51,809	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	17,815	-	-	-	-	-	-	-	-
Interest	-	-	13,655	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>220,349</b>	<b>237,540</b>	<b>37,320</b>	<b>51,809</b>	<b>89,628</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,133</b>	<b>21,000</b>	<b>28,627</b>
Excess (deficiency) of revenues over (under) expenditures	15,538	(5,608)	(10,331)	150,303	2,178	18,671	8,685	18,729	43,343	(7,541)	(25,508)
Other financing sources (uses):											
Transfers in	10,203	8,199	-	-	-	-	-	-	-	-	150,000
Transfers out	-	-	(4,624)	(3,259)	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>10,203</b>	<b>8,199</b>	<b>(4,624)</b>	<b>(3,259)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150,000</b>
<b>Net change in fund balances</b>	<b>25,741</b>	<b>2,591</b>	<b>(14,955)</b>	<b>147,044</b>	<b>2,178</b>	<b>18,671</b>	<b>8,685</b>	<b>18,729</b>	<b>43,343</b>	<b>(7,541)</b>	<b>124,482</b>
Fund balances, July 1	73	1,188	368,546	818,635	62,501	3	42	32,615	205,324	9,631	471,226
<b>Fund balances, June 30</b>	<b>\$ 25,814</b>	<b>\$ 3,779</b>	<b>\$ 373,591</b>	<b>\$ 965,879</b>	<b>\$ 64,679</b>	<b>\$ 18,674</b>	<b>\$ 8,727</b>	<b>\$ 51,344</b>	<b>\$ 248,667</b>	<b>\$ 2,090</b>	<b>\$ 595,718</b>

**CITY OF SEBASTOPOL**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended June 30, 2015**

	Special Revenue Funds				Capital Projects				Debt Service			Total Nonmajor Governmental Funds
	Vehicle Abatement	Village Park	Fire Grants	Inclusionary and Linkage Housing	Skate Park & Garden	CDBG	Undergrounding	MTC Bike Lanes	Laguna Wetlands	Woodsstone Assessment District	CREBS Bond	
Revenues:												
Sales taxes	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62,266
Intergovernmental	-	-	42,793	-	-	4,493	-	49,094	-	-	-	752,271
Charges for services	2,765	-	-	12,333	-	-	34,800	-	-	31,082	-	252,090
Interest	-	-	-	2,057	185	-	2,163	-	-	-	431	21,857
Miscellaneous	-	-	-	-	100	-	-	-	-	-	20,901	21,558
<b>Total revenues</b>	<b>2,765</b>	<b>-</b>	<b>42,793</b>	<b>14,390</b>	<b>285</b>	<b>4,493</b>	<b>36,963</b>	<b>49,094</b>	<b>-</b>	<b>31,082</b>	<b>21,332</b>	<b>1,110,062</b>
Expenditures:												
Current:												
Public safety	-	-	41,599	-	-	-	-	-	-	-	-	261,948
Public works	-	-	-	-	-	-	-	51,165	-	-	-	419,093
Community development	14,436	-	-	-	-	-	-	-	-	-	-	35,436
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	2,550	-	15,770	4,493	-	-	-	-	-	80,472
Debt service	-	-	-	-	-	-	-	-	-	20,000	97,589	135,404
Principal	-	-	-	-	-	-	-	-	-	17,004	-	30,659
Interest	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>14,436</b>	<b>-</b>	<b>41,599</b>	<b>-</b>	<b>15,770</b>	<b>4,493</b>	<b>-</b>	<b>51,165</b>	<b>-</b>	<b>37,004</b>	<b>97,589</b>	<b>963,012</b>
Excess (deficiency) of revenues over (under) expenditures	(14,436)	2,765	(2,550)	14,390	(15,485)	-	36,963	(2,071)	-	(5,922)	(76,257)	147,050
Other financing sources (uses):												
Transfers in	-	-	1,189	-	-	1,426	-	2,071	-	5,922	77,291	256,301
Transfers out	-	-	-	-	-	-	-	-	-	-	-	(7,883)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>1,189</b>	<b>-</b>	<b>-</b>	<b>1,426</b>	<b>-</b>	<b>2,071</b>	<b>-</b>	<b>5,922</b>	<b>77,291</b>	<b>248,418</b>
<b>Net change in fund balances</b>	<b>(14,436)</b>	<b>2,765</b>	<b>(1,361)</b>	<b>14,390</b>	<b>(15,485)</b>	<b>1,426</b>	<b>36,963</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,034</b>	<b>395,468</b>
<b>Fund balances, July 1</b>	<b>14,436</b>	<b>-</b>	<b>1,361</b>	<b>200,056</b>	<b>38,400</b>	<b>-</b>	<b>190,191</b>	<b>-</b>	<b>1,279</b>	<b>37,345</b>	<b>88,983</b>	<b>2,560,853</b>
<b>Fund balances, June 30</b>	<b>\$ -</b>	<b>\$ 2,765</b>	<b>\$ -</b>	<b>\$ 214,446</b>	<b>\$ 22,915</b>	<b>\$ 1,426</b>	<b>\$ 227,154</b>	<b>\$ -</b>	<b>\$ 1,279</b>	<b>\$ 37,345</b>	<b>\$ 90,017</b>	<b>\$ 2,956,321</b>