

**City of Sebastopol
Basic Financial Statements
June 30, 2016**

CITY OF SEBASTOPOL, CALIFORNIA
Basic Financial Statements
Fiscal Year Ended June 30, 2016
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Terry E. Krieg, CPA

Certified Public Accountant

Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sebastopol, California, as of and for the year ended June 30, 2016, 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, 2016, 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 72, titled, Fair Value Measurement and Application. 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 18 and the Budgetary Comparison Schedules, Schedule of Funding Progress and Schedules of Net Pension Liability and Employer Contributions on pages 53 through 58 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 November 30, 2016, 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
November 30, 2016

**CITY OF SEBASTOPOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(Rounded to the nearest \$1,000)**

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 that began on July 1, 2015 and ended June 30, 2016 (FY 15-16). 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 and deferred outflows of the City exceeded the liabilities and deferred inflows by \$16,702,000 (net position) at June 30, 2016: Governmental activities' net position was \$8,806,000; and business-type activities' net position was \$7,896,000.
 - Total net position of \$16,702,000 is categorized as follows:
 - \$12,816,000 is the net investment in capital assets;
 - \$ 5,719,000 is restricted for specific purposes (restricted net position); and,
 - \$ (1,833,000) 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 the fiscal year, the net position of governmental activities increased by \$1,530,000, while business-type net position increased by \$733,000; accounting for the total increase in net position of \$2,263,000.
 - At June 30, 2016, the city's governmental funds reported a combined ending fund balance of \$8,573,000, an increase of \$1,312,000 from June 30, 2015.
 - The general fund reports fund balance of \$4,281,000 at June 30, 2016; 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) \$3,266,000 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 \$7,895,000 at June 30, 2016; with \$3,056,000 reported as net position of the water fund; and \$4,839,000 reported in the wastewater fund.

CITY OF SEBASTOPOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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, 2016
(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 Statement of activities	· Balance sheet · Statement of revenues, expenditures, and changes in fund balances	· Statement of net position · Statement of revenues expenses, and changes in net position · Statement of cash flows
<u>Accounting basis and measurement focus</u>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<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, 2016
(Rounded to the nearest \$1,000)**

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.

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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.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the government's own programs. The City uses one fiduciary fund to account for activities related to its former Redevelopment Agency.

**CITY OF SEBASTOPOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(Rounded to the nearest \$1,000)**

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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 9,965,000	\$ 8,181,000	\$ 4,767,000	\$ 4,414,000	\$ 14,732,000	\$ 12,595,000
Capital assets	10,420,000	10,705,000	7,181,000	7,060,000	17,601,000	17,765,000
Total assets	20,385,000	18,886,000	11,948,000	11,474,000	32,333,000	30,360,000
Deferred outflows of Resources						
Pension contributions and deferrals	846,000	812,000	175,000	165,000	1,021,000	977,000
Total deferred outflows of resources	846,000	812,000	175,000	165,000	1,021,000	977,000
Current Liabilities	1,442,000	933,000	226,000	357,000	1,668,000	1,290,000
Long-term Liabilities	10,469,000	9,962,000	3,767,000	3,750,000	14,236,000	13,712,000
Total liabilities	11,911,000	10,895,000	3,993,000	4,107,000	15,904,000	15,002,000
Deferred inflows of Resources						
Pension plan timing differences	513,000	1,526,000	235,000	370,000	748,000	1,896,000
Total deferred inflows of resources	513,000	1,526,000	235,000	370,000	748,000	1,896,000
Net Position						
Invested in capital assets	8,017,000	8,085,000	4,800,000	4,566,000	12,817,000	12,651,000
Restricted	4,314,000	4,131,000	1,405,000	1,544,000	5,719,000	5,675,000
Unrestricted	(3,525,000)	(4,939,000)	1,691,000	1,052,000	(1,834,000)	(3,887,000)
Total net position (Restated)	\$ 8,806,000	\$ 7,277,000	\$ 7,896,000	\$ 7,162,000	\$ 16,702,000	\$ 14,439,000

Total net position, (assets and deferred outflows less liabilities and deferred inflows), was \$16,702,000 at June 30, 2016. Governmental activities net position was \$8,806,000; and business-type activities' net position was \$7,896,000.

By far, the largest component of the City's net position, \$12,817,000 and 77% of the total, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less

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

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 \$5,719,000 reported as restricted at June 30, 2016.

At June 30, 2016 the City reported negative unrestricted net position for its governmental activities of \$(3,525,000) and a positive net position for business-type activities of \$1,691,000. Government-wide total unrestricted net position is \$(1,834,000). The negative net position reported for governmental activities is due in large part to pension liabilities.

Pension-related accounts reported at June 30, 2016 reduce the governmental activities net position by \$7,135,000. The city reports a net pension liability of \$7,468,000; and related deferred inflows of \$513,000 and deferred outflows of \$846,000.

The deferred outflows primarily account for employer contributions made during the fiscal year that are not yet included in the actuarial measure of net pension liability due to differences between the date of the actuarial study and the financial reporting date. Deferred inflows represent differences in the actuarial expectations for return on pension investments and actual return on investments and the changes in the city's proportionate share of contributions. Detailed information on the city's pension liabilities is found in the notes to the financial statements.

**CITY OF SEBASTOPOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(Rounded to the nearest \$1,000)**

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, 2015 and 2016.

**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
	2016	2015	2016	2015	2016	2015	2015/2016
Revenues							
Program revenues:							
Charges for services	\$ 1,726,000	\$ 909,000	\$ 5,178,000	\$ 4,893,000	\$ 6,904,000	\$ 5,802,000	18.99%
Grants and contributions	484,000	579,000			484,000	579,000	-16.41%
Capital grants and contributions	446,000	743,000	143,000	30,000	589,000	773,000	-23.80%
General revenues:							
Property taxes	2,459,000	1,393,000			2,459,000	1,393,000	76.53%
Other taxes	4,800,000	5,614,000			4,800,000	5,614,000	-14.50%
Other	74,000	337,000			74,000	337,000	-78.04%
Total revenues	9,989,000	9,575,000	5,321,000	4,923,000	15,310,000	14,498,000	5.60%
Expenses							
General government	1,762,000	1,452,000			1,762,000	1,452,000	21.35%
Public safety	4,193,000	4,398,000			4,193,000	4,398,000	-4.66%
Housing and development	9,000	35,000			9,000	35,000	-74.29%
Parks and recreation	1,066,000	645,000			1,066,000	645,000	65.27%
Public works	1,376,000	1,332,000			1,376,000	1,332,000	3.30%
Interest	84,000	91,000			84,000	91,000	-7.69%
Water			1,669,000	1,368,000	1,669,000	1,368,000	22.00%
Wastewater			2,887,000	2,796,000	2,887,000	2,796,000	3.25%
Total expenses	8,490,000	7,953,000	4,556,000	4,164,000	13,046,000	12,117,000	7.67%
Increase in net position before transfers and special item	1,499,000	1,622,000	765,000	759,000	2,264,000	2,381,000	-4.91%
Transfers	31,000	31,000	(31,000)	(31,000)	-	-	
Special Item:							
Contribution of long-term housing loans to County of Sonoma	-	(3,603,000)			-	(3,603,000)	
Increase (decrease) in net position	1,530,000	(1,950,000)	734,000	728,000	2,264,000	(1,222,000)	-285.27%
Net position beginning	7,276,000	9,226,000	7,162,000	6,434,000	14,438,000	15,660,000	-7.80%
Net position, Ending	\$ 8,806,000	\$ 7,276,000	\$ 7,896,000	\$ 7,162,000	\$ 16,702,000	\$ 14,438,000	15.68%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Rounded to the nearest \$1,000)**

The fiscal year 14-15 activity included a one-time special item for the city's contribution of long-term housing loan to the County of Sonoma. That item is not repeated for FY 15-16.

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)**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>
	<u>2016</u>	<u>2015</u>	<u>2015/2016</u>
General Government	1,762,000	1,451,000	21.43%
Public Safety	4,193,000	4,398,000	-4.66%
Community Development	9,000	35,000	-74.29%
Parks and recreation	1,066,000	645,000	65.27%
Public Works	1,376,000	1,332,000	3.30%
Interest on Long term Debt	84,000	91,000	-7.69%
Total	<u>8,490,000</u>	<u>7,952,000</u>	<u>6.77%</u>

The changes in governmental expenses are displayed in table A-3. The shifts between categories reflect changes in service delivery and budget priorities between departments; as well as an increase in fee-driven activity that is financed by the related growth in charges for services revenue.

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

- Those who directly benefitted from the programs paid charges for service of \$1,726,000;
- Other governments and organizations that subsidized certain programs with grants and contributions of \$930,000; and,
- General revenues, mostly taxpayer support in the form of property, sales and transient occupancy taxes absorbed the remaining costs of governmental activities of \$7,333,000.

The residual amount of governmental activities' revenues less expenses is \$1,499,000 for fiscal year 2015-16; and when combined with a transfer in from business-type activities of \$31,000, the net position attributed to governmental activities increased by \$1,530,000.

Total fiscal year 15-16 governmental activities revenues of \$9,989,000 reflect a \$414,000 or 4% increase over the prior year.

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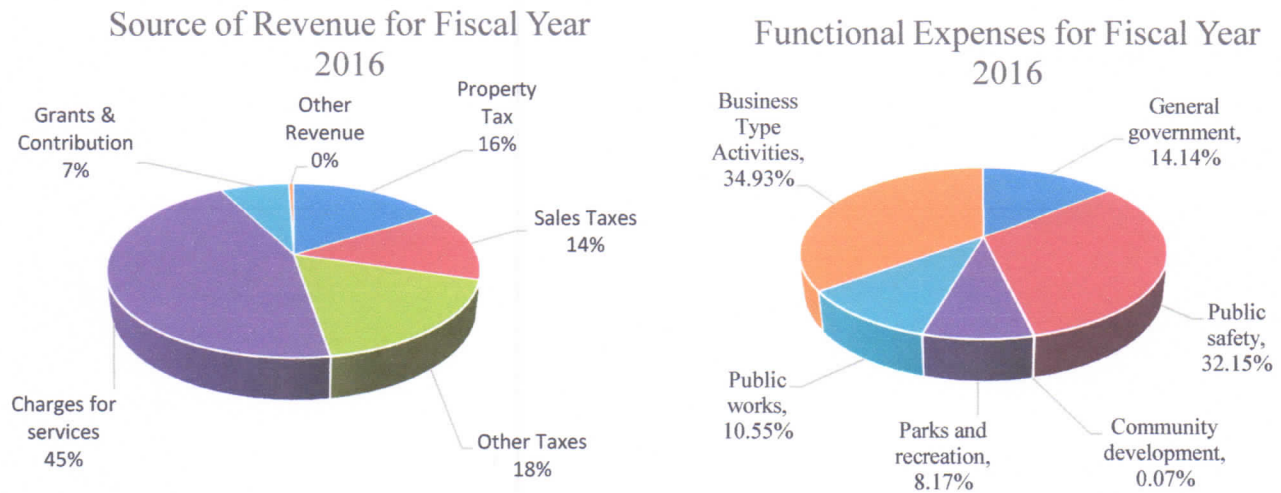
(Rounded to the nearest \$1,000)

Governmental activities' general revenue is \$7,333,000, close to the amount collected in the prior year, reflecting a nominal decrease of \$12,000 (less than 1%). A significant amount of city revenues are subject to changes in the State of California's methods for distributing property taxes and vehicle license fees. The state's recent changes have impacted comparability with prior years, with the city no longer receiving "motor vehicle in lieu revenue.

Charges for services revenue for FY 16 are \$1,726,000, an increase of \$817,000; and a reflective of an increase in fee-driven activity. Operating grants and capital grants of \$930,000 for FY 16 are \$392,000 less than reported for FY 15, and reflect a reduction in state funding for specific city programs that support public works and safety programs.

As noted in our description of the differences between government-wide and fund financial statements, more detail of governmental activities is provided in the fund financial statements that focus on changes in financial resources.

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 16 net position increased by \$734,000; with a \$405,000 increase in the water fund and a \$328,000 increase in the wastewater fund. The change in net position represents 10% of the funds' beginning net position, and is significant.

Net position of the water enterprise fund was \$3,056,000 and the net position of the wastewater fund was \$4,840,000, for a combined net position of \$7,896,000 for all business-type activity at June 30, 2016.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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.

Investment in capital assets is the largest category of fund net position, with \$4,800,000 and 61% of total net position. Restricted for capital projects is the next largest component, with \$1,405,000 and 18% of the total. The unrestricted net position, total net position less the aforementioned categories, is \$1,691,000 and 21% 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, 2016, the City's governmental funds reported combined fund balances of \$8,573,000, an increase of \$1,312,000 in comparison with the prior year. The total fund balance is reported within these categories:

- **\$3,265,000 of the total fund balance is "unassigned,"** and as such is considered available to finance future years' budgetary needs at the discretion of the City Council.
- **\$1,480,000 is "committed fund balance,"** and is considered available only for particular purposes already approved by the City Council. Only the City Council can change the purposes for which fund balance was committed, by taking action similar to what is needed to approve budgets. A significant commitment of \$830,000 represents a council-approved set aside for economic uncertainties, and may be made available by Council's authorization.
- **\$3,828,000 is "restricted fund balance,"** and is only available to spend in accordance with the external restrictions placed by the funding sources themselves.

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 \$3,265,000, while total fund balance increased to \$4,281,000. 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 58% of total general fund expenditures \$5,595,000; while total fund balance represents approximately 77% of general fund expenditures.

The general fund balance increased by \$1,188,000 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 \$56,000. Mid-year budgetary adjustments anticipated an additional surplus of \$167,000; and the final budget results exceeded mid-year expectations by \$965,000.

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

The budgetary surplus and gain in fund balance were primarily caused by favorable revenue results better than budget estimates of \$823,000 and expenditures that were \$142,000 less than budgeted.

Tax revenues of \$5,351,000 reflect a year over year growth of \$453,000, a 9% increase; and beat original budget estimates by \$571,000. This increase in tax collection is attributed in part to a full year of the new Utility User Tax rates, a final distribution from the State of CA as it ended its program known as the "triple flip" and a higher distribution of residual of Redevelopment Property Tax Trust Fund (RPTTF).

The triple flip involved the State taking $\frac{1}{4}$ percent of the 1% Bradley Burns normal sales tax rate in exchange for increased property tax distribution. For FY 15-16 the City received a final distribution, because the State had been reimbursing cities in arrears of collections and had to "catch up" when the program ended. The recent State budget actions have made taxes difficult to compare, year to year. The City now receives its full share of the 1% sales tax rate.

Real property taxes and transient occupancy taxes were relatively flat, as far as a year-over-year comparison is concerned; and this is attributed primarily to stability in assessed values.

Also notable, were building permit revenues of \$346,000, which represent an increase of \$159,000 or 85%. This reflects increased activity in development services, and a one-time issuance of CVS permit.

General fund expenditures of \$5,595,000 are increased by \$453,000 or 4% over the prior fiscal year; and are financed by charges for services revenue. General Government expenditures increased by \$288,000, due to increased fee-driven and the rising costs of post-employment benefits programs, including pensions.

Public Safety expenditures of \$3,633,000 report a growth of \$125,000 over the prior year (3.5%), which was close to the expected final budget result and below the original budget estimates. Public Works expenditures of \$136,000 reflect a decrease of \$158,000, caused by the timing and need for engineering services. More detailed information on budgetary results can be found in the budgetary comparison schedules within the required supplementary information section of this report.

Special Sales Tax Fund:

The other major governmental fund of the City, the Special Sales Tax fund, experienced an increase in fund balance of \$81,000 during FY 15-16; and reports an ending balance of \$1,294,000 at June 30, 2016 which represents approximately 72% of the year's tax revenues collected. All of the fund balance is reported as 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 \$1,808,000 and interest earned on fund balances of \$8,000; less expenditures of \$1,624,000 and transfers to other funds of \$196,000. Capital proceeds of \$85,000 also contributed to fund balance.

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 general government (\$233,000); police and fire

**CITY OF SEBASTOPOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(Rounded to the nearest \$1,000)**

(\$420,000); Parks and Recreation (\$265,000); Public Works (\$400,000); and debt service (\$221,000). Capital outlay of \$85,000 was financed by the aforementioned capital lease proceeds.

Non-major Governmental Funds: Other non-major governmental funds, in the aggregate reported June 30, 2016 fund balance of \$2,999,000; with \$2,534,000 reported as restricted fund balance and \$464,000 reported as committed for street projects. Aggregated information of the funds is displayed in the financial statements that also include the major governmental funds; and the individual fund information for non-major governmental funds is reported in combining statements that are found in the supplemental information section of this report.

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, 2016 is \$7,896,000; with \$4,799,000 representing investment in capital assets net of related debt; \$1,405,000 restricted for capital projects; and \$1,691,000 reported as unrestricted net position.

The Water Fund's net position increased \$405,000 during the fiscal year, reporting a June 30, 2016 net position of \$3,056,000. Operating revenues of \$2,046,000 exceeded operating expenses of \$1,587,000 by \$459,000. Relatively minor amounts of non-operating revenues and expenses (\$67,000); capital contributions of \$44,000 and transfers out of (\$31,000) explain the balance of the change in net position.

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 14-15 to FY 15-16 is \$64,000 or 3%. Prior years' growth was higher due to the staggered method of implementing rate increases. The intended growth in net position provides financing for necessary infrastructure and an appropriate level of operating costs in future years.

The wastewater enterprise experienced an increase in net position of \$327,800; reporting a June 30, 2016 net position of \$4,840,000. Investment in capital assets, net of related debt, is the largest component of net position with a balance of \$2,927,000; restricted for capital projects net position is \$787,000 and unrestricted net position is \$1,126,000. 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 four years ago. That program is now mature, and year over year revenue growth of \$80,000 (2.7%) reflects revenue stability. 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:

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

Changes made at the midyear budget review for unanticipated revenues and costs. Anticipated revenue was increased by \$53,000 and expenditure appropriations were decreased by \$21,000. Transfers to other funds increased by \$50,000. The net result of mid-year budget adjustments was to build in an additional surplus of \$24,000. 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.

Total final general fund expenditures budgeted were \$5,962,000 and actual expenditures during fiscal 2016 were \$5,595,000 which is \$367,000 less than the final budgeted amounts. The Police and Fire departments were the major contributors to the savings, with expenditures less than final appropriations of \$179,000. Please see the budgetary comparison schedules in the required supplementary information section of this report for more detail about budgetary results.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016 the City had invested \$17,601,000 in a broad range of capital assets, including equipment, vehicles, streets, buildings, park facilities, and water and wastewater systems. This amount represents a net decrease of \$164,000 over last year.

The decrease is caused by depreciation in excess of newly acquired or improved capital assets and by retirements of assets reported in the governmental activities. Depreciation expense was \$1,002,000 for governmental activities and \$443,000 for business-type activities. 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
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(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
	2016	2015	2016	2015	2016	2015	2015/2016
Land and CIP	2.15	2.15	1.60	1.23	3.75	3.38	11%
Buildings	6.40	5.57			6.40	5.57	15%
Machinery and equipment	2.50	2.11	0.45	0.68	2.95	2.79	6%
Vehicles	2.30	3.40			2.30	3.40	-32%
Infrastructure and systems	6.80	7.82	13.15	12.74	19.95	20.56	-3%
Accumulated depreciation	(9.70)	(10.34)	(8.03)	(7.59)	(17.73)	(17.93)	-1%
Total	10.45	10.71	7.17	7.06	17.62	17.77	-1%

Changes in Long-term Liabilities – Debt:

New debt issued during the fiscal year includes a capital lease financing of \$92,000 for a 911 system improvement project in the governmental activities; and a State of CA clean drinking water loan of \$28,000 to support 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 2017 fiscal year, (starts July 1, 2016 and ends June 30, 2017) the following budgetary highlights included in the adopted budget follow:

- Projected general fund revenue of \$8,187,000 exceeds appropriations for expenditures of \$8,089,000 creating a general fund budgetary surplus of \$88,000.
- The water and wastewater funds also anticipate revenues over expenditures and over items, and plan to generate positive budgetary results of \$141,000 and \$169,000, respectively.
- Special revenue funds are expected to use fund balances due to capital improvements, as anticipated by the funding sources.

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

See the City of Sebastopol website, Finance Department, for a complete copy of the FY 17 adopted budget:
<http://ci.sebastopol.ca.us/City-Government/Departments-Services/Finance>

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, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,195,757	\$ 2,783,280	\$ 10,979,037
Net receivables	1,151,369	540,819	1,692,188
Total current assets	9,347,126	3,324,099	12,671,225
Noncurrent assets:			
Cash and cash equivalents	116,107	1,404,798	1,520,905
Long-term notes receivable	315,869	38,241	354,110
Other long-term receivables	185,000	-	185,000
Net capital assets	10,420,189	7,181,141	17,601,330
Total noncurrent assets	11,037,165	8,624,180	19,661,345
Total assets	20,384,291	11,948,279	32,332,570
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan contributions	846,020	174,769	1,020,789
LIABILITIES			
Current liabilities:			
Accounts payable	496,297	45,452	541,749
Accrued liabilities	24,387	-	24,387
Compensated absences	300,000	40,405	340,405
Deposits	366,470	8,724	375,194
Accrued interest payable	9,145	5,444	14,589
Long-term obligations due within one year	234,908	125,429	360,337
Total current liabilities	1,431,207	225,454	1,656,661
Long-term obligations due in more than one year:			
Special assessment bonds	160,000	-	160,000
Capital lease obligations	2,007,968	967,597	2,975,565
Installment agreement	-	1,118,601	1,118,601
State Revolving Fund loan	-	170,415	170,415
Net other post employment benefit obligation	375,800	-	375,800
Net pension liability	7,467,798	1,510,606	8,978,404
Compensated absences	467,704	-	467,704
Total long-term obligations	10,479,270	3,767,219	14,246,489
Total liabilities	11,910,477	3,992,673	15,903,150
DEFERRED INFLOWS OF RESOURCES			
Pension plan deferrals, net	513,382	235,013	748,395
NET POSITION			
Net investment in capital assets	8,017,313	4,799,099	12,816,412
Restricted for:			
Capital projects		1,404,798	1,404,798
Equipment and infrastructure	1,795,116	-	1,795,116
Housing	404,457	-	404,457
Debt service	116,107	-	116,107
Streets	1,808,382	-	1,808,382
Other purposes	189,946	-	189,946
Unrestricted	(3,524,869)	1,691,465	(1,833,404)
Total net position	\$ 8,806,452	\$ 7,895,362	\$ 16,701,814

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Program Revenues				City Government			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Net (Expenses) Revenue and Changes in Net Position	
City government								
Governmental activities:								
General government	\$ 1,761,437	\$ 915,735	\$ 5,433	\$ -	\$ (840,269)	\$ -	\$ (840,269)	
Public safety	4,193,457	240,886	243,155	-	(3,709,416)	-	(3,709,416)	
Community development	9,155	162,652	-	-	153,497	-	153,497	
Public works	1,376,165	305,614	235,892	166,262	(668,397)	-	(668,397)	
Parks and recreation	1,066,267	100,630	-	279,986	(685,651)	-	(685,651)	
Interest on long-term debt	83,446	-	-	-	(83,446)	-	(83,446)	
Total governmental activities	8,489,927	1,725,517	484,480	446,248	(5,833,682)	-	(5,833,682)	
Business-type activities:								
Water	1,669,223	2,061,253	-	44,350	-	436,380	436,380	
Wastewater	2,887,638	3,116,767	-	98,555	-	327,684	327,684	
Total business-type activities	4,556,861	5,178,020	-	142,905	-	764,064	764,064	
Total City government	\$ 13,046,788	\$ 6,903,537	\$ 484,480	\$ 589,153	(5,833,682)	764,064	(5,069,618)	
General revenues and transfers								
General revenues:								
Taxes:								
Property taxes					2,459,296	-	2,459,296	
Sales and use taxes					2,069,199	-	2,069,199	
Transient occupancy taxes					483,738	-	483,738	
Other taxes					2,246,817	-	2,246,817	
Unrestricted interest and rents					73,826	-	73,826	
Transfers					31,023	(31,023)	-	
Total general revenues and transfers					7,363,899	(31,023)	7,332,876	
Change in net position					1,530,217	733,041	2,263,258	
Net position, June 30, 2015					7,276,235	7,162,321	14,438,556	
Net position, June 30, 2016					\$ 8,806,452	\$ 7,895,362	\$ 16,701,814	

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOLE
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Special Sales Tax	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and investments	\$ 4,347,528	\$ 1,074,391	\$ 2,889,945	\$ 8,311,864
Accounts receivable	98,591	-	-	98,591
Taxes receivable	407,586	280,900	39,706	728,192
Due from other governments	-	-	324,586	324,586
Assessments receivable	-	-	185,000	185,000
Notes receivable	14,638	-	301,231	315,869
Due from other funds	-	-	166,262	166,262
Total assets	\$ 4,868,343	\$ 1,355,291	\$ 3,906,730	\$ 10,130,364
Liabilities:				
Accounts payable	\$ 179,346	\$ 61,701	\$ 255,250	\$ 496,297
Accrued liabilities	24,387	-	-	24,387
Due to other funds	-	-	166,262	166,262
Deposits	366,470	-	-	366,470
Total liabilities	570,203	61,701	421,512	1,053,416
Deferred inflows of resources:				
Long-term notes receivable	17,516	-	486,231	503,747
Total deferred inflows of resources	17,516	-	486,231	503,747
Fund balances:				
Restricted for:				
Equipment and infrastructure	-	1,293,590	254,887	1,548,477
Highways and streets	-	-	1,609,777	1,609,777
Public safety	-	-	16,546	16,546
Community promotion	-	-	6,904	6,904
Debt service	-	-	116,107	116,107
Affordable housing	-	-	404,457	404,457
Parks and recreation	-	-	125,509	125,509
Committed for:				
City buildings	125,000	-	-	125,000
Street projects	-	-	464,800	464,800
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	3,265,624	-	-	3,265,624
Total fund balances	4,280,624	1,293,590	2,998,987	8,573,201
Total liabilities, deferred inflows of resources and fund balances	\$ 4,868,343	\$ 1,355,291	\$ 3,906,730	\$ 10,130,364

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position:	
Total Governmental Fund Balances	\$ 8,573,201
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	10,420,189
Other long-term notes receivable are not available to fund current period expenditures and are deferred in the funds	503,747
Interest payable is accrued as a liability in the statement of net position, but is reported in the funds only when due	(9,145)
The net pension liability does not require the use of current financial resources and is therefore not reported in the funds	(7,467,798)
Pension plan deferred outflows and deferred inflows do not provide or use current financial resources and are therefore not reported in the funds	332,638
The net other post employment benefit obligation for retiree medical benefits is not due and payable in the current period and is therefore not reported in the funds	(375,800)
Long term liabilities such as bonds, leases, claims, compensated absences are not due and payable in the current period and are therefore not reported in the funds	(3,170,580)
Net Position of Governmental Activities	\$ 8,806,452

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, 2016

	<u>General Fund</u>	<u>Special Sales Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 2,459,296	\$ -	\$ -	\$ 2,459,296
Sales and use taxes	2,069,199	1,807,758	63,212	3,940,169
Transient occupancy taxes	483,738	-	-	483,738
Franchise fees	351,568	-	-	351,568
Licenses and permits	488,234	-	-	488,234
Fines and forfeits	122,235	-	-	122,235
Intergovernmental	116,233	-	862,886	979,119
Interest and rents	61,008	8,251	23,726	92,985
Charges for services	209,177	-	508,093	717,270
Miscellaneous	419,536	-	14,970	434,506
	<u>6,780,224</u>	<u>1,816,009</u>	<u>1,472,887</u>	<u>10,069,120</u>
EXPENDITURES				
Current:				
General government	1,395,059	233,303	-	1,628,362
Public safety	3,633,403	420,402	275,459	4,329,264
Community development	-	-	9,600	9,600
Parks and recreation	259,262	264,773	-	524,035
Public works	307,709	399,673	735,949	1,443,331
Capital outlay	-	85,423	468,820	554,243
Debt service:				
Principal	-	165,966	136,391	302,357
Interest	-	54,814	27,982	82,796
	<u>5,595,433</u>	<u>1,624,354</u>	<u>1,654,201</u>	<u>8,873,988</u>
Excess (deficiency) of revenues over expenditures	<u>1,184,791</u>	<u>191,655</u>	<u>(181,314)</u>	<u>1,195,132</u>
OTHER FINANCING SOURCES (USES)				
Capital lease financing	-	85,423	-	85,423
Transfers in	7,515	-	410,130	417,645
Transfers out	(4,205)	(196,267)	(186,150)	(386,622)
Total other financing sources (uses)	<u>3,310</u>	<u>(110,844)</u>	<u>223,980</u>	<u>116,446</u>
Net change in fund balances	1,188,101	80,811	42,666	1,311,578
Fund balances, July 1	<u>3,092,523</u>	<u>1,212,779</u>	<u>2,956,321</u>	<u>7,261,623</u>
Fund balances, June 30	<u>\$ 4,280,624</u>	<u>\$ 1,293,590</u>	<u>\$ 2,998,987</u>	<u>\$ 8,573,201</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, 2016

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 1,311,578</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 \$447,593 exceeded depreciation \$712,635 in the current period.	(265,042)
Losses on disposals of capital assets do not use current financial resources and are not reported in the funds	(20,071)
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	(79,999)
Capital lease financing does provide current financial resources, but is not reported as revenue in the statement of activities	(85,423)
Governmental funds report interest payable when it is due for payment, but interest expense is accrued as incurred in the statement of activities	(947)
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	302,654
Increases in compensated absences do not use current financial resources and are not reported in the funds	(88,668)
Changes in the net pension obligation do not provide current financial resources and are not reported in the funds	466,107
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>(9,972)</u>
Net adjustment to reconcile to changes in net position	<u>218,639</u>
Change in Net Position of Governmental Activities	<u>\$ 1,530,217</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Net Position
Proprietary Funds
June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,227,598	\$ 1,555,682	\$ 2,783,280
Accounts receivable	174,037	366,782	540,819
Total current assets	<u>1,401,635</u>	<u>1,922,464</u>	<u>3,324,099</u>
Noncurrent assets:			
Other assets:			
Cash and cash equivalents	617,630	787,168	1,404,798
Notes receivable	19,885	18,356	38,241
Net other assets	<u>637,515</u>	<u>805,524</u>	<u>1,443,039</u>
Capital assets not being depreciated:			
Land	86,440	-	86,440
Construction in progress	1,518,892	-	1,518,892
Total	<u>1,605,332</u>	<u>-</u>	<u>1,605,332</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	254,453	617,182	871,635
Less accumulated depreciation	<u>(3,999,833)</u>	<u>(4,033,348)</u>	<u>(8,033,181)</u>
Total	<u>2,154,761</u>	<u>3,421,048</u>	<u>5,575,809</u>
Net capital assets	<u>3,760,093</u>	<u>3,421,048</u>	<u>7,181,141</u>
Total noncurrent assets	<u>4,397,608</u>	<u>4,226,572</u>	<u>8,624,180</u>
Total assets	<u>5,799,243</u>	<u>6,149,036</u>	<u>11,948,279</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension plan contributions	<u>89,625</u>	<u>85,144</u>	<u>174,769</u>
LIABILITIES			
Current liabilities:			
Accounts payable	23,217	22,235	45,452
Compensated absences	16,162	24,243	40,405
Accrued interest payable	2,879	2,565	5,444
Deposits	8,724	-	8,724
Long-term obligations due in one year	89,952	39,477	129,429
Total current liabilities	<u>140,934</u>	<u>88,520</u>	<u>229,454</u>
Long-term obligations due in more than one year:			
Capital lease obligations	556,825	494,684	1,051,509
SRF Loan	170,415	-	170,415
Installment agreement	1,160,118	-	1,160,118
Net pension liability	774,670	735,936	1,510,606
Amounts due within one year	<u>(89,952)</u>	<u>(39,477)</u>	<u>(129,429)</u>
Total long-term obligations due in more than one year	<u>2,572,076</u>	<u>1,191,143</u>	<u>3,763,219</u>
Total liabilities	<u>2,713,010</u>	<u>1,279,663</u>	<u>3,992,673</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension plan deferrals	<u>120,119</u>	<u>114,894</u>	<u>235,013</u>
NET POSITION			
Net investment in capital assets	1,872,735	2,926,364	4,799,099
Restricted for capital improvements	617,630	787,168	1,404,798
Unrestricted	<u>565,374</u>	<u>1,126,091</u>	<u>1,691,465</u>
Total net position	<u>\$ 3,055,739</u>	<u>\$ 4,839,623</u>	<u>\$ 7,895,362</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, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services	\$ 1,985,934	\$ 2,977,668	\$ 4,963,602
Other operating revenues	60,358	121,592	181,950
Total operating revenues	<u>2,046,292</u>	<u>3,099,260</u>	<u>5,145,552</u>
OPERATING EXPENSES			
Personnel services	331,088	252,701	583,789
Interfund charges for services	684,023	556,492	1,240,515
Contractual and other services	155,777	193,823	349,600
Intergovernmental treatment costs	-	1,484,022	1,484,022
Utilities	103,224	39,007	142,231
Supplies	118,669	58,364	177,033
Insurance, claims, and expenses	18,723	10,149	28,872
Depreciation	175,956	266,523	442,479
Total operating expenses	<u>1,587,460</u>	<u>2,861,081</u>	<u>4,448,541</u>
Operating income (loss)	<u>458,832</u>	<u>238,179</u>	<u>697,011</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	14,961	17,507	32,468
Interest expense	<u>(81,763)</u>	<u>(26,557)</u>	<u>(108,320)</u>
Net non-operating revenues (expenses)	<u>(66,802)</u>	<u>(9,050)</u>	<u>(75,852)</u>
Income before contributions and transfers	<u>392,030</u>	<u>229,129</u>	<u>621,159</u>
Contributions and transfers			
Transfers out	(31,023)	-	(31,023)
Capital contributions	<u>44,350</u>	<u>98,555</u>	<u>142,905</u>
Total contributions and transfers	<u>13,327</u>	<u>98,555</u>	<u>111,882</u>
Change in net position	405,357	327,684	733,041
Total net position, July 1	<u>2,650,382</u>	<u>4,511,939</u>	<u>7,162,321</u>
Total net position, June 30	<u>\$ 3,055,739</u>	<u>\$ 4,839,623</u>	<u>\$ 7,895,362</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOLE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,079,690	\$ 3,018,669	\$ 5,098,359
Payments to suppliers	(373,176)	(1,849,061)	(2,222,237)
Payments to employees	(387,084)	(304,090)	(691,174)
Payments to other funds for services	(684,023)	(556,492)	(1,240,515)
Other operating receipts	60,358	121,592	181,950
Net cash provided by (used for) operating activities	<u>695,765</u>	<u>430,618</u>	<u>1,126,383</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	44,350	98,555	142,905
Purchases of capital assets	(461,035)	(103,114)	(564,149)
Proceeds from issuance of long-term obligations	27,596	-	27,596
Collections on notes receivable	15,908	12,620	28,528
Principal payments on long-term debt	(88,491)	(50,219)	(138,710)
Interest paid on long-term debt	(81,763)	(26,557)	(108,320)
Net cash provided by (used for) capital and related financing activities	<u>(543,435)</u>	<u>(68,715)</u>	<u>(612,150)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(31,023)	-	(31,023)
Net cash provided by (used for) capital and related financing activities	<u>(31,023)</u>	<u>-</u>	<u>(31,023)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest receipts	14,961	17,507	32,468
Net cash provided by investing activities	<u>14,961</u>	<u>17,507</u>	<u>32,468</u>
Net increase (decrease) in cash and cash equivalents	136,268	379,410	515,678
Cash and cash equivalents-beginning of the year	<u>1,708,960</u>	<u>1,963,440</u>	<u>3,672,400</u>
Cash and cash equivalents-end of the year	<u>\$ 1,845,228</u>	<u>\$ 2,342,850</u>	<u>\$ 4,188,078</u>

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 458,832	\$ 238,179	\$ 697,011
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	175,956	266,523	442,479
Change in assets and liabilities:			
Receivables, net	92,801	41,001	133,802
Accounts payable	23,217	(63,696)	(40,479)
Net pension liability	(57,863)	(54,189)	(112,052)
Other liabilities	2,822	2,800	5,622
Net cash provided by (used for) operating activities	<u>\$ 695,765</u>	<u>\$ 430,618</u>	<u>\$ 1,126,383</u>

Noncash capital financing activities: None

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL
Statement of Fiduciary Net Position
June 30, 2016

	<u>Private Purpose Trust</u>
ASSETS:	
Cash and cash equivalents	\$ 562,528
Total assets	<u>\$ 562,528</u>
LIABILITIES:	
Accounts payable	\$ 150,000
Interest payable	6,823
Tax allocation bonds	1,910,000
Discount on sale bonds	<u>(44,914)</u>
Total liabilities	<u>2,021,909</u>
NET POSITION (DEFICIT)	
Held in trust for successor agency	<u>(1,459,381)</u>
Total Net Position (Deficit)	<u>\$ (1,459,381)</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, 2016

	Private Purpose Trust
ADDITITIONS:	
Net investment income (loss)	\$ -
Distributions for enforceable obligations	824,310
Total additions	824,310
DEDUCTIONS:	
Bond interest	94,083
Fiscal agent and other costs	1,925
County housing expenses	150,000
City administrative costs	250,000
Total deductions	496,008
Increase(decrease) in net position	328,302
Net position (deficit), June 30, 2015	(1,787,683)
Net position (deficit), June 30, 2016	\$ (1,459,381)

See accompanying notes to the basic financial statements

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2016

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, 2016

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, 2016

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.

Fair Value Measurements – The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, and level 3 inputs are significant unobservable inputs. The City has no significant separately held investments and its funds are invested primarily in the Sonoma County Treasurer's Investment Pool which pool is valued using pricing methods viewed as Level 1 inputs.

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, 2016

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 SEBASTOPOLE

Notes to the Basic Financial Statements June 30, 2016

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 \$ 10,420,189 difference are as follows:

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

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	\$	20,088,204
Less: Accumulated depreciation		<u>(9,668,015)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	\$	<u>10,420,189</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 \$3,170,580 difference are as follows:

Long-Term Debt Obligations:		
Installment agreement	\$	728,063
Special assessment bonds		185,000
Capital lease obligations – Clean renewable energy bonds		878,303
Capital lease obligation – Mobile Home Park		544,466
Capital lease – 911 system		67,044
Compensated absences		<u>767,704</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net position - governmental activities	\$	<u>(3,170,580)</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 \$ 218,639 difference and other significant components of the difference are as follows:

Capital outlay	\$	447,593
Depreciation expense		(712,635)
Repayment of long-term debt principal		302,654
Decrease in long term loans		(79,999)
Other post employment benefit costs		(9,972)
Decrease in net pension liability and related items		466,107
Other items		<u>(195,109)</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>218,639</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

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, 2016 consisted of the following:

Pooled demand deposits	\$ 2,841,340
Pooled investments	10,183,785
Investments with trustees	<u>37,345</u>
 Total deposits and investments	 <u>\$ 13,062,470</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, 2016, \$2,579,818 of the City's bank balances of \$ 2,912,033 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 2,579,818</u>
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Investments - At June 30, 2016, the City had the following investments.

<i>Investment</i>	<i>Average Maturities</i>	<i>Fair Value</i>
<i>Sonoma County Investment Pool -- City Accounts</i>	<i>766 days</i>	\$ 9,621,257
<i>First American Treasury – Mutual Fund</i>	<i>60 days</i>	<u>37,345</u>
<i>Subtotal City Sebastopol</i>		<u>9,9658,602</u>
<i>Private Purpose Trust held by City of Sebastopol:</i>		
<i>Sonoma County Investment Pool – Fiduciary Fund</i>	<i>766 days</i>	<u>562,528</u>
<i>Totals</i>		<u>\$ 10,221,130</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.

Fair Value - The Sonoma County Investment Pool is valued using Level 1 inputs.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments(Continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$37,345 investment other than the County Pool, the entire \$37,345 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:

	General Fund	Special Tax Fund	Other Funds	Total Governmental	Water	Wastewater
Accounts	\$ 98,591	\$ -	\$ -	\$ 98,591	\$ 174,037	\$ 366,782
Taxes	407,586	280,900	39,706	728,192	-	-
Governments	-	-	324,586	324,586	-	-
Notes & loans	14,638	-	301,231	315,869	19,885	18,356
Assessments	-	-	185,000	185,000	-	-
Totals	\$ 520,185	\$ 280,900	\$ 850,523	\$ 1,652,238	\$ 193,922	\$ 385,138

C. Interfund Transfers, receivables and payables

1. The composition of inter-fund transfers for the governmental funds as of June 30, 2016, was as follows:

	General Fund	Special Sales Tax	Wastewater & Water	Non- Major	Total Transfers
Transfers in to: Non-major funds	\$ 4,205	\$ 196,267	\$ 31,023	\$ 186,150	\$ 417,645
	<u>\$ 4,205</u>	<u>\$ 196,287</u>	<u>\$ 31,023</u>	<u>\$ 186,150</u>	<u>\$ 417,645</u>

The primary transfers out were \$150,000 to the pavement program fund to cover the cost of projects and \$267,645 in transfers out to other funds which amount included \$80,182 for debt service payments.

D. Long-Term Notes and Loans Receivable

Party to Loan	Purpose of Loan	Amount
Governmental Activities:		
Sebastopol Industrial Park, LLC	Development agreement	\$ 69,230
Individual home buyers	Solar power equipment installation loans	246,639
	Subtotal governmental activities	<u>315,869</u>
Business-Type Activities:		
Sebastopol Industrial Park, LLC	Development agreement	<u>38,241</u>
	Totals	\$ 354,110

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

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 \$246,639 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, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land including mobile home park site	\$2,151,948	\$ -	\$ -	\$2,151,94
Total capital assets, not being depreciated	<u>2,151,948</u>	<u>-</u>	<u>-</u>	<u>2,151,948</u>
Capital assets, being depreciated:				
Buildings	5,567,579	793,291	-	6,360,870
Machinery and equipment	2,110,570	812,570	(402,570)	2,520,570
Vehicles	3,396,899	45,048	(1,177,230)	2,264,717
Infrastructure systems	7,817,421	226,600	(1,253,922)	6,790,099
Total capital assets being depreciated	<u>18,892,469</u>	<u>1,877,509</u>	<u>(2,833,722)</u>	<u>17,936,256</u>
Less accumulated depreciation for:				
Buildings	(4,431,579)	(396,885)	-	(4,828,464)
Infrastructure	(1,787,442)	(314,319)	41,515	(2,060,246)
Machinery and equipment	(1,865,801)	(188,475)	399,498	(1,654,778)
Vehicles	(2,254,293)	(102,384)	1,232,150	(1,124,527)
Total accumulated depreciation	<u>(10,339,115)</u>	<u>(1,002,063)</u>	<u>1,673,163</u>	<u>(9,668,015)</u>
Total capital assets, being depreciated, net	<u>8,553,354</u>	<u>875,446</u>	<u>(1,160,559)</u>	<u>8,268,241</u>
Governmental activities capital assets, net	<u>\$10,705,302</u>	<u>\$ 875,446</u>	<u>\$ (1,160,559)</u>	<u>\$ 10,420,189</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets (Continued)

During fiscal 2016, the City wrote off capital assets that were fully depreciated or no longer being used in governmental activities costing \$1,338,958 and having accumulated depreciation of \$1,335,886 for a net loss of \$3,072 plus another \$16,999 in net costs. In addition, certain costs were reclassified as to buildings and equipment.

Capital asset activity relating to business-type activities for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 86,440	\$ -	\$ -	\$ 86,440
Construction in progress	<u>1,145,624</u>	<u>373,268</u>	<u>-</u>	<u>1,518,892</u>
Total capital assets, not being depreciated	<u>1,232,064</u>	<u>373,268</u>	<u>-</u>	<u>1,605,332</u>
Capital assets, being depreciated:				
Reservoirs	1,400,613	-	-	1,400,613
Pipelines and water distribution system	4,471,577	69,667	-	4,541,244
Pipelines and wastewater collection system	7,131,809	85,014	-	7,216,823
Vehicles	<u>414,110</u>	<u>36,200</u>	<u>-</u>	<u>450,310</u>
Total capital assets being depreciated	<u>13,418,109</u>	<u>190,881</u>	<u>-</u>	<u>13,608,990</u>
Less accumulated depreciation for:				
Reservoirs	(851,858)	(26,135)		(877,993)
Pipelines and water distribution system	(2,862,722)	(139,511)		(3,002,233)
Pipelines and wastewater collection system	(3,619,864)	(254,658)		(3,874,522)
Vehicles	<u>(256,258)</u>	<u>(22,175)</u>		<u>(278,433)</u>
Total accumulated depreciation	<u>(7,590,702)</u>	<u>(442,479)</u>		<u>(8,033,181)</u>
Total capital assets, being depreciated, net	<u>5,827,407</u>	<u>(251,598)</u>	<u>-</u>	<u>5,575,809</u>
Business-type activities capital assets, net	<u>\$ 7,059,471</u>	<u>\$ 121,670</u>	<u>\$ -</u>	<u>\$ 7,181,141</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

4. Detailed Notes on All Funds (Continued)

E. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 225,588
Public safety	169,615
Public works	177,901
Parks and recreation	139,531
Total depreciation expense-governmental activities	\$ 712,635
 Business-type activities:	
Water	\$ 175,956
Wastewater	266,523
Total depreciation expense-business type activities	\$ 442,479

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
2017	\$ 25,000	\$ 10,465	\$ 35,465
2018	20,000	10,005	30,005
2019	25,000	8,530	33,530
2020	25,000	6,868	31,868
2021	25,000	5,193	30,193
2022-2023	65,000	4,543	69,523
Totals	\$ 185,000	\$ 45,604	\$ 230,584

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Capital Lease Obligation – Capital Projects

In the 2006 fiscal year, the city entered into a financing arrangement to obtain \$2,880,000 in funds for future capital projects. The general fund will be responsible for paying debt service on the governmental activities portion of the lease obligation which is about 41 percent of the total obligation. The water and wastewater enterprises are responsible for paying the other 59 percent of the obligation. The obligation is repayable from any source of legally available funds. Future minimum lease payment requirements are:

Fiscal Year	Governmental	Business	Total
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	\$ 783,521	\$1,130,420	\$ 1,913,941

Clean Renewable Energy Bond Lease, Mobile Home Park Capital Lease, and 911 System 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.

911 System – The city entered into a lease purchase arrangement with the Government Capital Corporation for the purpose of financing the acquisition of a public safety radio system. The system was capitalized as a capital asset and the original lease amount was \$91,894. The lease is payable in annual payments of \$18,379 through 2020, bears interest at 3.5 percent and is secured by the system equipment.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Clean Renewable Energy Bond Lease, Mobile Home Park Capital Lease, and 911 System Capital Leases (Continued)

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

<u>Fiscal Year</u>	<u>Renewable Energy Lease</u>	<u>Mobile Home Park Lease</u>	<u>911 System Lease</u>	<u>Totals</u>
2017	\$ 97,589	\$ 64,584	\$ 18,379	\$ 180,552
2018	97,589	64,584	18,379	180,552
2019	97,589	64,584	18,379	180,522
2020	97,589	64,584	18,379	180,522
2021	97,589	64,584	-	162,173
2022-2026	390,358	322,920	-	713,278
2027-2030	-	64,584	-	64,584
Total minimum lease payments	878,303	710,424	73,516	1,662,243
Less amounts representing interest	-	(165,958)	(6,472)	(172,430)
Present value of net minimum lease payments	<u>\$ 878,303</u>	<u>\$ 544,466</u>	<u>\$ 67,044</u>	<u>\$ 1,489,813</u>

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>
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	48,755	40,327	89,082
2022- 2026	275,454	169,956	445,410
2027-2031	336,749	108,661	445,410
2032-2035	322,597	33,731	356,328
Totals	<u>\$ 1,160,118</u>	<u>\$ 532,440</u>	<u>\$ 1,692,558</u>

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

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, 2016, the city had drawn down only \$170,415 of the \$411,000 loan commitment. Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 3,563	\$ 3,563
2018	32,699	3,367	36,066
2019	33,369	2,697	36,066
2020	34,069	1,997	36,066
2021	34,783	1,283	36,066
2022	35,495	555	36,050
Totals	\$ 170,415	\$ 13,462	\$ 183,877

Changes in Long-term liabilities: Long-term debt activity for the 2016 fiscal year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Special assessment bonds	\$ 205,000	\$ -	\$ 20,000	\$ 185,000	\$ 25,000
Capital lease- capital projects	783,521	-	55,458	728,063	58,096
Capital lease equipment	6,603	-	6,603	-	-
Capital lease 911 system	-	91,894	24,850	67,044	15,918
Capital lease – renewable energy	975,892	-	97,589	878,303	97,589
Capital lease – mobile home park	580,594	-	36,128	544,466	38,305
Capital lease – fire truck	68,497	-	68,497	-	-
Compensated absences	679,036	388,668	300,000	767,704	300,000
Total	\$ 3,299,143	\$ 480,562	\$ 609,125	\$ 3,170,580	\$ 534,908
Business-Type Activities:					
Capital lease equipment	\$ 19,916	\$ -	\$ 19,916	\$ -	\$ -
Installment agreement	1,200,000	-	39,882	1,160,118	41,517
Capital lease –capital projects	1,130,420	-	78,911	1,051,509	83,912
State Drinking Water loan	142,819	27,596	-	170,415	-
CEC Loan	-	-	-	-	-
Totals	\$ 2,493,155	\$ 27,596	\$ 138,709	\$ 2,382,042	\$ 125,429

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2016

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, 2016.

B. Contingencies and Commitments

Litigation. The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Grants and allocations. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

C. Jointly Governed Organizations and Operating Agreements

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. The City is a participant in the following organizations other than the insurance authority described in the preceding notes. The City is a party to the following agreement:

Santa Rosa Subregional Wastewater System. The City has an agreement with System for the treatment of wastewater as the City does not own or operate its own wastewater treatment plant. The City's obligations under the agreement are to pay to the System its share of the costs of operating the system and treatment of wastewater. The City records these payments as operating expenses in its wastewater enterprise fund.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements June 30, 2016

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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions - At June 30, 2016 the City reported a liability of \$8,978,404 for its proportionate share of the net pension liability for all plans. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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, 2016, the City's proportion was 0.05643 percent for the miscellaneous plan, 0.06693 percent for its police safety plan and 0.00744 percent for the fire safety plan. For the measurement period ending June 30, 2015, the City recognized pension expense of \$160,811 for the miscellaneous Plan, \$275,415 for the police safety plan, and \$6,403 for the fire safety plan.

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

5. Other Information (Continued)

D. Public Employee Pension Plans (Continued)

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Miscellaneous Plan		
Differences between expected and actual experience:	\$ 24,114	\$ -
Changes in assumptions	-	(228,139)
Net difference between projected and actual earnings on pension plan investments	-	(114,369)
Changes in proportions and differences between City contributions and proportionate share of contributions	30,880	(315,081)
City contributions subsequent to the measurement date	448,126	-
Totals	\$ 503,120	\$ (657,589)

The \$448,126 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, 2017 and the Plan measurement date of June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows (Inflows) of Resources	
Fiscal Year Ended June 30		
2017	\$ (255,092)	
2018	(258,524)	
2019	(235,169)	
2020	146,190	

	Deferred Outflows of Resources	Deferred Inflows of Resources
Safety Plan -Police		
Differences between expected and actual experience	\$ -	\$ (61,606))
Changes in assumptions	-	(283,349)
Net difference between projected and actual earnings on pension plan investments	-	(143,603)
Changes in proportions and differences between City contributions and proportionate share of contributions	318,108	-
City contributions subsequent to the measurement date	513,699	-
Totals	\$ 831,807	\$ (488,558)

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

5. Other Information (Continued)

D. Public Employee Pension Plans (Continued)

The \$513,699 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, 2017 and Plan measurement year of June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows (Inflows) of Resources	
2017	\$	(115,105)
2018		(115,727)
2019		(115,901)
2020		176,283
	Deferred Outflows of Resources	Deferred Inflows of Resources
Safety Plan -Fire		
Differences between expected and actual experience	\$ -	\$ (8,736)
Changes in assumptions	-	(40,182)
Net difference between projected and actual Earnings on pension plan investments	-	(20,364)
Changes in proportions and differences between City contributions and proportionate share of contributions	96,704	(2,773)
City contributions subsequent to the measurement date	58,964	-
Totals	\$ 155,668	\$ (72,055)

The \$55,964 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, 2017 and Plan measurement year of June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows (Inflows) of Resources	
2017	\$	405
2018		714
2019		(1,469)
2020		25,000

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

5. Other Information (Continued)

D. Public Employee Pension Plans (Continued)

Actuarial Assumptions – The total pension liability in the June 30, 2014 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	7.65 percent, net of pension plan investment expense, including inflation

All other actuarial assumptions used in the June 30, 2014 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 7.65 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 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 7.65 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 (6.65 percent) or 1-percentage higher (8.65 percent) than the current rate:

<u>City's proportionate share of the net pension liability</u>	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
Miscellaneous Plan	\$6,369,649	\$3,873,349	\$1,812,363
Safety Plan - Police	\$7,009,331	\$4,594,090	\$2,613,637
Safety Plan - Fire	\$ 716,287	\$ 510,965	\$ 342,604

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

CITY OF SEBASTOPOL

**Notes to the Basic Financial Statements
June 30, 2016**

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, 2016 the City contributed \$70,197 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)	\$	123,942
Interest on net OPEB obligation		14,849
Adjustments to the ARC		<u>(22,764)</u>
Annual OPEB expense		116,027
Adjustment to beginning net OPEB obligation		(35,858)
Contributions made		<u>(70,197)</u>
Change in net OPEB obligation		9,972
Net OPEB obligation, beginning of year		<u>365,828</u>
Net OPEB obligation, end of year		<u>\$375,800</u>

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, 2014	\$ 128,388	60.0%	\$ 304,997
June 30, 2015	\$ 132,369	54.0%	\$ 365,828
June 30, 2016	\$ 116,027	60.5%	\$ 375,800

Funding Status and Funding Progress. As of July 1, 2016, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$1,555,262, and the actuarial value of plan assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,555,262. 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 52.2 percent.

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements

June 30, 2016

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, 2014 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 the closed 30-year period beginning July 1, 2009.

F. Restricted Net Position

The \$ 4,314,008 restricted amount in the governmental activities statement of net position and the \$1,404,798 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, 2016**

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
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>\$ 1,910,000</u>	<u>\$ 212,954</u>	<u>\$ 2,122,954</u>

CITY OF SEBASTOPOL

Notes to the Basic Financial Statements
June 30, 2016

5. Other Information (Continued)

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

3. Long-Term Obligations (Continued)

Changes in Long-Term Obligations

	Balance Beginning of Year	Retirements	Balance End of Year
Tax allocation refunding bonds	\$ 2,250,000	\$ 340,000	\$ 1,910,000
Totals	\$ 2,250,000	\$ 340,000	\$ 1,910,000

H. Change in Accounting Principle

The City in fiscal 2016 implemented Governmental Accounting Standards Board (GASB) Statement Number 72, Fair Value Measurement and Application. The implementation of this accounting standard resulted in no restatement of the beginning of year net position of the City's governmental and business-type activities.

CITY OF SEBASTOPOL

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 2,180,500	\$ 2,174,000	\$ 2,375,638	\$ 201,638
Real property transfer	32,000	32,000	50,657	18,657
Transient occupancy	320,000	450,000	483,738	33,738
Sales and use	1,945,596	1,913,000	2,069,199	156,199
Franchises	301,500	307,500	371,567	64,067
Total taxes	4,779,596	4,876,500	5,350,799	474,299
Licenses, permits and fees:				
Business licenses	110,000	115,000	137,622	22,622
Animal licenses	5,000	5,500	5,409	(91)
Building permits	140,000	140,000	345,918	205,918
Total licenses, permits and fees	255,000	260,500	488,949	228,449
Fines, forfeitures and penalties:				
Vehicle code	73,000	73,000	89,751	16,751
Parking fines	25,000	25,000	32,483	7,483
Other fines	750	-	-	-
Total fines, forfeitures and penalties:	98,750	98,000	122,234	24,234
Interest and rentals:				
Investment earnings	7,000	10,500	23,228	12,728
Rent - Cell Tower	36,465	36,465	33,244	(3,221)
Rent - other	9,750	9,250	8,027	(1,223)
Total interest and rentals	53,215	56,215	64,499	8,284
Intergovernmental:				
State motor vehicle in-lieu tax	-	3,000	3,029	29
Public Safety Augmentation Fund	68,000	70,000	76,685	6,685
Reimbursements	16,000	29,500	29,453	(47)
Other	3,000	1,500	3,687	2,187
Subtotal	87,000	104,000	112,854	8,854
Charges for current services:				
Sales of publications	1,600	1,500	1,173	(327)
Planning Fees	40,220	31,320	50,010	18,690
Building Inspection	-	-	-	-
Encroachment Permits	15,000	19,000	24,190	5,190
Engineering fees	81,250	26,200	27,236	1,036
Public Works Services	20,000	10,000	8,488	(1,512)
Public Safety services	41,000	46,000	49,141	3,141
Fire Inspection Fees	28,000	28,000	53,353	25,353
Other charges	43,500	44,750	44,544	(206)
Subtotal	270,570	206,770	258,135	51,365
Donations and miscellaneous:				
Redevelopment administration	250,000	250,000	250,000	-
Sale of Land/Buildings	10,000	5,000	120,405	115,405
Miscellaneous	1,000	1,500	11,169	9,669
Subtotal	261,000	256,500	381,574	125,074
Total revenues	5,805,131	5,858,485	6,779,044	920,559

CITY OF SEBASTOPOL

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
(Continued)				
EXPENDITURES				
Current:				
General government:				
City Council	198,037	196,868	171,462	25,406
City Manager	111,877	110,802	103,352	7,450
City Attorney	129,168	129,168	124,574	4,594
City Clerk	219,834	218,559	211,166	7,393
Finance and accounting	118,639	123,677	110,018	13,659
Planning	421,890	421,890	380,944	40,946
Building Inspection	165,153	168,113	167,750	363
Government Building	28,658	28,658	47,018	(18,360)
General government-nondepartmental	266,582	266,582	215,225	51,357
Subtotal	<u>1,659,838</u>	<u>1,664,317</u>	<u>1,531,509</u>	<u>132,808</u>
Public safety:				
Police protection	3,036,336	3,036,264	2,957,308	78,956
Animal control	8,100	8,100	8,677	(577)
Fire protection	764,090	764,090	663,590	100,500
Fire emergency preparedness	3,900	3,900	3,828	72
Subtotal	<u>3,812,426</u>	<u>3,812,354</u>	<u>3,633,403</u>	<u>178,951</u>
Public works:				
Parking Lots Maintenance	45,372	45,372	37,853	7,519
Engineering	137,233	118,233	97,889	20,344
Subtotal	<u>182,605</u>	<u>163,605</u>	<u>135,742</u>	<u>27,863</u>
Parks and recreation:				
Parks & Landscaping Maintenance	158,157	155,232	142,507	12,725
Ives Pool	87,230	84,230	76,285	7,945
Recreation administration and programs	82,339	82,339	75,987	6,352
Subtotal	<u>327,726</u>	<u>321,801</u>	<u>294,779</u>	<u>27,022</u>
Subtotal expenditures	<u>5,982,595</u>	<u>5,962,077</u>	<u>5,595,433</u>	<u>366,644</u>
EXCESS/DEFICIENCY OF REVENUES OVER/UNDER EXPENDITURES	<u>(177,464)</u>	<u>(103,592)</u>	<u>1,183,611</u>	<u>1,287,203</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	101,500	101,500	8,695	(92,805)
Transfers out	6,535	56,535	4,205	(52,330)
Total other financing sources (uses)	<u>94,965</u>	<u>44,965</u>	<u>4,490</u>	<u>(145,135)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (82,499)</u>	<u>\$ (58,627)</u>	<u>1,188,101</u>	<u>\$ 1,142,068</u>
FUND BALANCE, BEGINNING OF YEAR:			<u>3,092,523</u>	
FUND BALANCE, END OF YEAR			<u>\$ 4,280,624</u>	

CITY OF SEBASTOPOL

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MEASURE T & Y
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Measure T	\$ 614,000	\$ 609,000	\$ 607,886	\$ (1,114)
Measure Y	1,239,900	1,215,000	1,199,872	(15,128)
Investment Earnings	5,000	5,000	8,251	3,251
Total revenues	<u>1,858,900</u>	<u>1,829,000</u>	<u>1,816,009</u>	<u>(12,991)</u>
EXPENDITURES				
Current:				
General government:				
City Council	5,700	5,700	5,712	(12)
City Manager	43,000	79,000	47,793	31,207
City Clerk	4,000	5,500	4,972	528
Finance and accounting	5,700	5,700	6,039	(339)
Planning	180,700	180,700	157,843	22,857
Building Inspection	3,000	3,000	3,016	(16)
Government Building	6,500	6,500	10,944	(4,444)
Debt Service	250,670	250,670	417,047	(166,377)
Subtotal	<u>499,270</u>	<u>536,770</u>	<u>653,366</u>	<u>(116,596)</u>
Public safety:				
Police protection	490,729	478,221	414,133	64,088
Fire protection	14,750	14,750	6,269	8,481
Subtotal	<u>505,479</u>	<u>492,971</u>	<u>420,402</u>	<u>72,569</u>
Public works:				
Corporation Yard	76,144	76,144	86,522	(10,378)
Streets Maintenance	257,452	277,454	270,640	6,814
Engineering	4,200	4,200	3,894	306
Storm drains and drainage	79,000	79,000	35,601	43,399
Subtotal	<u>416,796</u>	<u>436,798</u>	<u>396,657</u>	<u>40,141</u>
Parks and recreation:				
Parks & Landscaping Maintenance	127,536	125,459	114,584	10,875
Ives Pool	26,100	12,000	11,989	11
Recreation administration and programs	138,200	138,200	138,200	-
Subtotal	<u>291,836</u>	<u>275,659</u>	<u>264,773</u>	<u>10,886</u>
Subtotal expenditures	<u>1,713,381</u>	<u>1,742,198</u>	<u>1,735,198</u>	<u>7,000</u>
EXCESS/DEFICIENCY OF REVENUES OVER/UNDER EXPENDITURES	<u>145,519</u>	<u>86,802</u>	<u>80,811</u>	<u>(5,991)</u>
NET CHANGE IN FUND BALANCE	<u>145,519</u>	<u>86,802</u>	<u>80,811</u>	<u>(5,991)</u>
FUND BALANCE, BEGINNING OF YEAR:			<u>1,212,779</u>	
FUND BALANCE, END OF YEAR			<u>\$ 1,293,590</u>	

**Required Supplementary Information
City of Sebastopol
Other Post Employment Benefits (OPEB)
Schedule of Funding Progress
June 30, 2016**

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%
7/1/2016	\$ -	\$ 1,555,262	\$ 1,555,262	0.00%	\$ 2,982,196	52.15%

CITY OF SEBASTOPOL
Schedule of the City's Proportionate Share of the Net Pension Liability
California Public Employees Retirement System
(Last Ten Fiscal Years)
June 30, 2016

<i>Measurement Date</i>	Fiscal Year End	
	2015	2016
	6/30/2014	6/30/2015
City's proportion of the net pension liability	\$ 8,365,442	\$ 8,978,404
City's proportionate share of the net pension liability	0.134439%	0.130805%
City's covered employee payroll	\$ 3,289,261	\$ 3,636,221
City's proportionate share of the net pension liability as a percentage of its covered employee payroll	254.33%	246.92%
Plan's fiduciary net position as a percentage of the total pension liability (PERF C)	79.82%	78.40%

Notes to Schedule:

Benefit Changes: in 2016, there were no benefit changes

Changes in Assumptions: In fiscal 2016, the plan's discount rate was changed from 7.5 % to 7.65%

Last Ten Years: This schedule is intended to show information for 10 years. Fiscal 2015 was the first year of implementation, and additional years information will be presented as it becomes available.

CITY OF SEBASTOPOL
Schedule of the City'Contributions
California Public Employees Retirement System
(Last Ten FiscalYears)
June 30, 2016

<u>Contributions for the fiscal year ending</u>	<u>June 30</u>	
	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 796,771	\$ 920,324
Contributions in relation to contractually required contribution	\$ (796,771)	\$ (920,324)
Contribution deficiency(excess)	\$ -	\$ -
City's covered employee payroll	\$ 3,636,221	\$ 3,816,628
Contributions as a percentage of covered employee payroll	21.91%	24.11

Notes to Schedule:

Plan's valuation date: June 30, 2014

Last Ten Years: This schedule is intended to show information for 10 years. Fiscal 2015 was the first year of implementation, and additional years information will be presented as it becomes available

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

	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	Street Reserve	Federal Grant
Assets												
Cash and investments	\$ (2,392)	\$ 1,494	\$ 251,815	\$ 1,060,184	\$ 40,739	\$ 801	\$ 6,904	\$ 101,931	\$ 281,258	\$ 41,176	\$ 309,007	\$ -
Receivables from other governments	19,570	-	-	-	-	-	-	-	-	-	-	166,262
Accounts	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	10,317	-	-	-	-	-	-	-	12,917	-	-	-
Assessments receivable	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-	166,262	-
Notes receivable	-	-	-	13,605	-	-	-	24,718	-	853	-	-
Total assets	\$ 27,495	\$ 1,494	\$ 251,815	\$ 1,073,789	\$ 40,739	\$ 801	\$ 6,904	\$ 126,649	\$ 294,175	\$ 42,029	\$ 475,269	\$ 166,262
Liabilities, deferred inflows of resources and fund balances												
Liabilities:												
Accounts payable	\$ 18,335	\$ 319	\$ -	\$ 7,399	\$ 7,926	\$ -	\$ -	\$ -	\$ 238	\$ -	\$ 10,469	\$ -
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	166,262
Total liabilities	18,335	319	-	7,399	7,926	-	-	-	238	-	10,469	166,262
Deferred inflows of resources:												
Deferred inflows from notes receivable	-	-	-	13,605	-	-	-	24,718	-	853	-	-
Total deferred inflow of resources	-	-	-	13,605	-	-	-	24,718	-	853	-	-
Fund balances:												
Restricted for:												
Equipment and infrastructure	-	-	251,815	-	-	-	-	-	-	-	-	-
Highways and streets	-	1,175	-	1,052,785	32,813	-	-	-	293,937	-	-	-
Public safety	9,160	-	-	-	-	801	-	-	-	-	-	-
Community promotion	-	-	-	-	-	-	6,904	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-	-
Affordable housing	-	-	-	-	-	-	-	-	-	41,176	-	-
Parks and recreation	-	-	-	-	-	-	-	101,931	-	-	-	-
Committed for:												
Street projects	-	-	-	-	-	-	-	-	-	-	464,800	-
Total fund balances	9,160	1,175	251,815	1,052,785	32,813	801	6,904	101,931	293,937	41,176	464,800	-
Total liabilities, deferred inflows of resources and fund balances	\$ 27,495	\$ 1,494	\$ 251,815	\$ 1,073,789	\$ 40,739	\$ 801	\$ 6,904	\$ 126,649	\$ 294,175	\$ 42,029	\$ 475,269	\$ 166,262

**City of Sebastopol
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

	Special Revenue Funds				Capital Projects				Debt Service		Total Nonmajor Governmental Funds		
	BIA Tourism	Vehicle Abatement	Village Park	Fire Grants	Inclusionary and Linkage housing	Skate Park & Garden	CDBG	Undergrounding	MTC Bike Lanes	Laguna Wetlands		Woodstone Assessment district	CREBS Bond
Assets													
Cash and investments	\$ 9,543	\$ 6,585	\$ -	\$ -	\$ 363,281	\$ 71,157	\$ -	\$ 229,067	\$ -	\$ 1,288	\$ 37,345	\$ 78,762	\$ 2,889,945
Receivables:													
Receivables from other governments	-	-	-	-	-	136,970	1,784	-	-	-	-	-	324,586
Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	16,472	-	-	-	-	-	-	-	-	-	-	-	39,706
Assessments receivable	-	-	-	-	-	-	-	-	-	-	185,000	-	185,000
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	166,262
Notes receivable	-	-	-	-	15,416	-	-	-	-	-	-	246,639	301,231
Total assets	\$ 26,015	\$ 6,585	\$ -	\$ -	\$ 378,697	\$ 208,127	\$ 1,784	\$ 229,067	\$ -	\$ 1,288	\$ 222,345	\$ 325,401	\$ 3,906,730
Liabilities, deferred inflows of resources and fund balances													
Liabilities:													
Accounts payable	\$ 26,015	\$ -	\$ -	\$ -	\$ -	\$ 184,549	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 255,250
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	166,262
Total liabilities	26,015	-	-	-	-	184,549	-	-	-	-	-	-	421,512
Deferred inflows of resources:													
Deferred inflows from notes receivable	-	-	-	-	15,416	-	-	-	-	-	185,000	246,639	486,231
Total deferred inflow of resources	-	-	-	-	15,416	-	-	-	-	-	185,000	246,639	486,231
Fund balances:													
Restricted for:													
Equipment and infrastructure	-	-	-	-	-	-	1,784	-	-	1,288	-	-	254,887
Highways and streets	-	-	-	-	-	-	-	229,067	-	-	-	-	1,609,777
Public safety	-	6,585	-	-	-	-	-	-	-	-	-	-	16,546
Community promotion	-	-	-	-	-	-	-	-	-	-	-	-	6,904
Debt service	-	-	-	-	-	-	-	-	-	-	37,345	78,762	116,107
Affordable housing	-	-	-	-	363,281	-	-	-	-	-	-	-	404,457
Parks and recreation	-	-	-	-	-	23,578	-	-	-	-	-	-	125,509
Committed for:													
Street projects	-	-	-	-	-	-	-	-	-	-	-	-	464,800
Total fund balances	-	6,585	-	-	363,281	23,578	1,784	229,067	-	1,288	37,345	78,762	2,998,987
Total liabilities, deferred inflows of resources and fund balances	\$ 26,015	\$ 6,585	\$ -	\$ -	\$ 378,697	\$ 208,127	\$ 1,784	\$ 229,067	\$ -	\$ 1,288	\$ 222,345	\$ 325,401	\$ 3,906,730

CITY OF SEBASTOPOOL
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	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	Street Reserve	Federal Grant
Revenues:												
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,714	\$ -	\$ 55,498	\$ -	\$ -	\$ -
Intergovernmental	236,544	169,629	-	-	-	11,108	-	-	-	-	-	166,262
Charges for services	-	-	48,100	108,126	79,725	-	-	50,119	-	38,984	-	-
Interest	-	(6)	3,138	6,278	385	-	63	468	2,124	102	4,567	-
Miscellaneous	100	-	5,800	-	-	14	-	-	-	-	-	-
Total revenues	236,644	169,621	57,038	116,404	80,110	11,122	7,777	50,587	57,622	39,086	4,567	166,262
Expenditures:												
Current:												
Public safety	246,467	-	-	-	-	28,992	-	-	-	-	-	-
Public works	-	172,225	-	-	111,976	-	-	-	-	-	265,072	186,676
Community development	-	-	-	-	-	-	9,600	-	-	-	-	-
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	5,542	27,923	-	-	-	-	12,352	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	18,802	-	-	-	-	-	-	-	-	-
Interest	-	-	12,670	-	-	-	-	-	-	-	-	-
Total expenditures	246,467	172,225	37,014	27,923	111,976	28,992	9,600	-	12,352	-	265,072	186,676
Excess (deficiency) of revenues over (under) expenditures	(9,823)	(2,604)	20,024	88,481	(31,866)	(17,870)	(1,823)	50,587	45,270	39,086	(260,505)	(20,414)
Other financing sources (uses):												
Transfers in	15,516	-	-	-	-	-	-	-	-	-	150,000	20,414
Transfers out	(22,347)	-	(141,800)	(1,575)	-	(3)	-	-	-	-	(20,413)	-
Total other financing sources (uses)	(6,831)	-	(141,800)	(1,575)	-	(3)	-	-	-	-	129,587	20,414
Net change in fund balances	(16,654)	(2,604)	(121,776)	86,906	(31,866)	(17,873)	(1,823)	50,587	45,270	39,086	(130,918)	-
Fund balances, July 1	25,814	3,779	373,591	965,879	64,679	18,674	8,727	51,344	248,667	2,090	595,718	-
Fund balances, June 30	\$ 9,160	\$ 1,175	\$ 251,815	\$ 1,052,785	\$ 32,813	\$ 801	\$ 6,904	\$ 101,931	\$ 293,937	\$ 41,176	\$ 464,800	\$ -

CITY OF SEBASTOPOL
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	Special Revenue Funds					Capital Projects				Debt Service		Total Nonmajor Governmental Funds	
	BIA Tourism	Vehicle Abatement	Village Park	Fire Grants	Inclusionary and Linkage Housing	Skate Park & Garden	CDBG	Undergrounding	MTC Bike Lanes	Laguna Wetlands	Woodstone Assessment District		CREBS Bond
Revenues:													
Sales taxes	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ 63,212
Intergovernmental	-	-	-	-	-	271,520	7,823	-	-	-	-	-	862,886
Charges for services	-	3,811	-	-	148,808	-	-	-	-	32,420	-	-	508,093
Interest	-	9	-	-	2,027	63	1,913	-	-	9	-	588	23,726
Miscellaneous	-	-	-	-	-	600	-	-	-	-	-	8,456	14,970
Total revenues	-	3,820	-	-	148,835	272,183	7,823	1,913	-	9	32,420	9,044	1,472,887
Expenditures:													
Current:													
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	275,459
Public works	-	-	-	-	-	-	-	-	-	-	-	-	735,949
Community development	-	-	-	-	-	-	-	-	-	-	-	-	9,600
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	5,800	-	-	407,520	8,108	-	1,575	-	-	-	468,820
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	136,391
Principal	-	-	-	-	-	-	-	-	-	20,000	-	97,589	27,982
Interest	-	-	-	-	-	-	-	-	-	15,312	-	-	-
Total expenditures	-	-	5,800	-	-	407,520	8,108	-	1,575	-	35,312	97,589	1,654,201
Excess (deficiency) of revenues over (under) expenditures	-	3,820	(5,800)	-	148,835	(135,337)	(285)	1,913	(1,575)	9	(2,892)	(88,545)	(181,314)
Other financing sources (uses):													
Transfers in	-	-	5,800	-	-	136,000	643	-	1,575	-	2,892	77,290	410,130
Transfers out	-	-	-	(12)	-	-	-	-	-	-	-	-	(186,150)
Total other financing sources (uses)	-	-	5,800	(12)	-	136,000	643	-	1,575	-	2,892	77,290	223,980
Net change in fund balances	-	3,820	-	(12)	148,835	663	358	1,913	-	9	-	(11,255)	42,666
Fund balances, July 1	-	2,765	-	12	214,446	22,915	1,426	227,154	-	1,279	37,345	90,017	2,956,321
Fund balances, June 30	-	6,585	-	-	363,281	23,578	1,784	229,067	-	1,288	37,345	78,762	2,998,987