

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

**A. *Reporting Entity***

The City of Sausalito was incorporated in 1893 under the general laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City operates under a Council-Manager form of government. There are five Council Members who serve overlapping terms of four years, and the Council, in turn, elects one of the Council Members to serve as Mayor for one year. This legislative body selects a City Manager to administer the affairs of the City. The City provides the following services: public safety (police, fire, and civil defense), highways and streets, sanitation, culture-recreation, library, public improvements, planning and zoning, and general administrative services.

The accompanying basic financial statements include all funds and boards and commissions that are controlled by the City Council. The basic financial statements include the City's blended component unit, although a legally separate entity, is in substance, part of the City's operations and so data from this unit is combined with the City.

**B. *Basis of Presentation***

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Statements require that the financial statements described below be presented.

**Government-wide Financial Statements:** The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, including blended component units. Separate statements for each fund category — governmental and proprietary — are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**C. Major Funds**

GASB 34 defines major funds and requires that the City's major governmental funds be identified and presented separately in the Fund financial statements. All other governmental funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds which have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total or five percent of the grand total. The General Fund is always a major fund. The City may select other funds it believes should be presented as major funds, although no such funds were selected in fiscal 2006.

The major governmental fund of the City is:

**GENERAL FUND** – The General Fund is used to account for the resources to carry out basic governmental activities of the City such as general government, public safety, public works, community development, library, and recreation, which are not required to be accounted for in another fund.

**TIDELANDS SPECIAL REVENUE FUND** - To account for lease income and construction, maintenance, and operation of tideland properties granted in trust to the City from the State of California.

**PUBLIC SAFETY BUILDINGS CAPITAL PROJECTS FUND** - To account for contributions and expenditures related to the design and construction of new public safety buildings.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

**MLK FUND** – The City has a lease agreement with the Sausalito School District used to finance the acquisition of the Martin Luther King School site (the “MLK site”), containing approximately 17 acres of land, with improvements. The City leases units in the building to various tenants under operating leases with terms ranging from one to five years. This fund is used to account for these activities.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**SEWER FUND** – Accounts for the provision of sewer services to residences and businesses of the City. All activities to provide such services are accounted for in this fund, including but not limited to, administration, operations, capital improvements, maintenance, financing, billing and collections.

**PARKING FUND** – Accounts for the provision of parking services to residences and businesses of the City. All activities to provide such services are accounted for in this fund, including but not limited to, administration, operations, capital improvements, maintenance, financing, billing and collections.

**OLD CITY HALL FUND** – The City leases the Old City Hall to a tenant and uses this fund to account for the rent collections and related costs to administer and maintain the property. This fund is used to account for these activities.

**D. Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds.

Those revenues susceptible to accrual are property, sales, transient occupancy and franchise taxes, licenses for services and interest revenue. Fines, permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

**E. *Use of Restricted/Unrestricted Net Assets***

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

**F. *Budgets and Budgetary Accounting***

The City operates under the general law of the State of California, and annually adopts a budget to be effective July 1 for the ensuing fiscal year.

The City Manager submits a Preliminary Budget to the City Council on or about June 1 each year. This Preliminary Budget is the fiscal plan for the ensuing twelve months starting July 1, and includes proposals for expenditures for operations and capital improvement, and the resources to meet them. City Council conducts public hearings at Council Chambers before adopting the budget. The Council approves total appropriations at the department level in the General Fund, and at the fund level in other funds. The Budget is adopted by City resolution prior to June 30.

The City Manager is authorized to transfer budget appropriations within departments in conformance with the adopted policies set by the City Council. All other transfers must be approved by the City Council. Any revisions that alter the total expenditures of any department must be approved by the City Council. Expenditures are budgeted at, and may not legally exceed, the department level for the General Fund and the fund level for Special Revenue, Capital Projects and Internal Service Funds. Budgeted amounts shown are as originally adopted, or as amended by the City Council during the year. During the year, several supplementary appropriations were necessary.

Budgets for General, Special Revenue, and Internal Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Except for Capital Project Funds, appropriations lapse at fiscal year end and are rebudgeted for the coming year. Capital Project Funds are budgeted on a project length basis.

**G. *Inventories and prepaid items***

General fund inventories are recorded as expenditures when consumed, rather than when purchased. These inventories are stated at cost, using the first-in, first-out (FIFO) method. Inventories in the proprietary funds are stated at the lower of cost or market, and consist of expendable materials and supplies.

Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items in both the government-wide and fund financial statements.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Inventories and prepaid items, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds, to indicate that they do not constitute resources available for appropriation.

**H. *Compensated absences***

The City's policy with regard to earned vacation and sick leave is dependent upon years of service and hours of work week per employee.

***Accrued vacation*** – The hours earned each month for accrued vacation range from 9.375 hours up to 24 hours. Non-fire department employees are permitted to accumulate the unused portion, provided that on June 30th of any fiscal year, they do not have more than 30 working days of vacation time accrued. Fire department personnel may accumulate the unused portion up to 336 hours, consisting of 14 24-hour shifts. Any vacation time in excess of the maximum is paid to the employee on the June 30th payroll, unless he or she is a management or confidential employee, in which case there is no payout. Upon termination of an employee's service with the City, the employee is paid a lump sum for all accrued vacation that has been earned at that time.

***Sick leave*** – Under the City's policy for sick leave, an employee does not receive any amount for accumulated sick leave unless he or she retires. Upon retirement the employee is entitled to be paid up to a maximum of 75 days of sick leave for management, 60 days for firefighters, police, and SEIU and confidential employees, and to convert the remaining unused balance to additional service credit under the California Public Employees' Retirement System (PERS).

Compensated absences comprise of unpaid vacation, compensated time-off, and the vested portion of sick leave which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be permanently liquidated are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

The changes of the compensated absences were as follows:

	Governmental Activities	Business-Type Activities
Beginning balance	\$503,741	\$8,701
Additions	549,255	23,411
Payments	(370,666)	(11,772)
Ending Balance	\$682,330	\$20,340
Current Portion	\$579,981	\$20,340

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Property Tax Revenues**

State Constitution Article 13 provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. At the time of transfer of ownership, assessed value is calculated at 100% of market value as defined by the above-referenced Article 13; otherwise assessed value is calculated as the lesser of 100% of market value or 2% over the prior year assessed value. The State Legislature has determined the method of distribution of receipts from a \$1.00 tax levy among the counties, cities, school districts and other districts. Counties, cities and school districts may levy additional tax rate as is necessary to provide for voter-approved debt.

The County of Marin assesses properties and bills for and collects property taxes on behalf of the City on the schedule as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	July 1
Due Dates	50% on November 1 50% on February 1	July 31
Delinquent as of	December 10 April 10	August 31

The term “unsecured” refers to taxes on personal property and possessory interest not secured by liens on real property.

Property tax revenues are recognized in the fiscal year, for which the taxes have been levied, provided they become available. Available means due, or past-due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, usually within 60-days of year end. The City receives property taxes pursuant to an arrangement with the County known as the “Teeter Plan,” whereby the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City

**J. Unearned revenues**

Unearned revenues in governmental funds arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenue also arises when resources are received by the City before it has a legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

**K. Statement of cash flows**

For purposes of the statement of cash flows, all highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. The City considers all pooled cash and investments as cash and cash equivalents because the pools are used essentially as a demand deposit account from the standpoint of the funds.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*L. Use of estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

*M. Excess of expenditures over appropriations*

For the fiscal year ended June 30, 2006, expenditures exceeded the budgeted expenditures in the following funds:

Fund	Expenditures exceeded budget
General fund:	
Fire	\$95,323
Traffic Safety Special Revenue Fund	223,181
Library Capital Improvement Capital Project Fund	5,754

The excess expenditures were funded by available financial resources.

**NOTE 2 - CASH AND INVESTMENTS**

*A. Policies*

The City invests all funds, except cash with fiscal agents, in investment pools. The goal is to invest at the maximum yield, consistent with safety and liquidity, while individual funds can process payments for expenditures at any time. The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

*B. Classifications*

The City's total cash and investments, at fair value, are presented on the accompanying statement of net assets in the following allocation:

<i>Statement of Net Assets</i>	
Cash and investments	\$11,785,796
Restricted cash	9,538
Subtotal	11,795,334
<i>Fiduciary Funds</i>	
Cash and investments	166,303
Total Cash and investments	\$11,961,637

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**C. Authorized Investments by the City**

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City. The following also identifies certain provisions of the City and California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Allowed in Portfolio	Maximum Investment in One Issuer
California Local Agency Investment Fund	N/A	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	N/A	50%	None
U.S. Government Agency Obligations	5 years	N/A	50%	None
Bankers Acceptances	180 days	N/A	30%	30%
Commercial Paper	180 days	A1/P1	15%	10%
Certificate of Time Deposits	360 days	N/A	25% (*)	None
Negotiable Certificates of Deposit	360 days	N/A	30%	None
Repurchase Agreements	360 days	N/A	20%	None
Reverse Repurchase Agreement	90 days	N/A	15%	None
Medium Term Notes	5 years	A	30%	None

\* On uncollateralized deposits, City's portfolio limited to \$99,000

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the City's investments by maturity:

Investments	12 Months or less	25 to 60 Months	Total
U.S. Government Agency Securities		\$1,001	\$1,001
Local Agency Investment Fund	\$11,793,004		11,793,004
<b>Total Investments</b>	<b>\$11,793,004</b>	<b>\$1,001</b>	<b>11,794,005</b>
Cash in banks			162,952
Petty Cash			4,680
<b>Total Cash and Investments</b>			<b>\$11,961,637</b>

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**E. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2006 for each investment type:

Investment Type	AAA	Total
U.S. Government Agency Securities	\$1,001	\$1,001
Not Rated:		
Local Agency Investment Fund		11,793,004
Cash in banks		162,952
Petty cash		4,680
Total Cash and Investments		\$11,961,637

**F. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

**G. Local Agency Investment Fund**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2006, these investments matured in an average of 152 days.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 3 - INTERFUND TRANSACTIONS**

**A. Transfers**

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
<b>General Fund</b>	Tideland Special Revenue Fund	\$144,854 A
	MLK Enterprise Fund	33,375 A
	Sewer Enterprise Fund	79,000 A
	Parking Enterprise Fund	800,000 C
	Old City Hall Enterprise Fund	112,500 C
<b>Non-Major Governmental Funds</b>	General Fund	129,000 D
	Non Major Governmental Funds	160,998 B
<b>Internal Service Funds</b>	General Fund	267,983 E, F
	Parking Enterprise Fund	<u>50,000 E</u>
Total Interfund Transfers		<u><u>\$1,777,710</u></u>

The reasons for these transfers are set forth below:

- A To reimburse the General Fund for costs incurred for the benefit of funds making the transfer.
- B To reimburse the fund receiving the transfer for costs incurred for the benefit of funds making the transfers.
- C To fund the General Fund operation.
- D To fund capital improvement projects
- E To set aside funds for furniture equipment replacement.
- F To set aside funds for compensated absences and post employment benefits other than pension.

**B. Current Interfund Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2006, the Recreation Grant Special Revenue Fund owed the General Fund \$19,150.

**C. Long-term Interfund Advances**

The City had the following interfund advances at June 30:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Public Safety Buildings Capital Projects Fund	General Capital Project Fund	\$977,000
MLK Enterprise Fund	General Fund	5,036,778
Bulkley Underground		
Assessment District Agency Fund	General Fund	900
Third Street Underground		
Assessment District Agency Fund	General Fund	<u>2,400</u>
		<u><u>\$6,017,078</u></u>

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 3 - INTERFUND TRANSACTIONS (Continued)**

The City General Fund has loaned monies to the MLK Enterprise Fund to be used for any expenses necessary or incidental to carrying out the administration and maintenance of the property. At June 30, 2006, outstanding loans totaling \$5,036,778 (\$3,482,140 in advances and \$1,554,638 of accrued interest) have been made from the General Fund and are to be repaid as practical to the City. Simple interest accrues at a rate of 5% per annum on the principal amount of the advance. Unpaid interest becomes part of the principal balance.

**D. Internal Balances**

Internal balances are presented in the Entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**NOTE 4 - LOANS RECEIVABLE**

**A. The Marin School**

The City has a loan receivable from The Marin School, a California not-for-profit corporation ("the School"), a tenant leasing premises at the Martin Luther King property. On October 1, 2003, Marin School, a tenant, issued a promissory note to the City for a sum not to exceed \$500,000 to finance the School's tenant improvements approved by the City. The note is partially secured by a Letter of Credit in the amount of \$200,000. The loan bears annual interest at the prime rate set by Bank of America plus 4.75% per annum, adjusted semi-annually and is payable in monthly installments, including principal and interest. The final balloon payment is due August 31, 2008 when the lease expires. As of April 2006 the loan was fully repaid.

In December 2003, the School entered into an installment payment agreement with the City to pay off its delinquent rent of \$83,180. The monthly installment payments are \$1,485 and are scheduled to run until August 1, 2008 at zero interest. The balance outstanding at June 30, 2006 is \$38,619.

**B. Context Marketing**

On December 12, 2003 the City entered into a loan agreement with Context Marketing, a California corporation, and Bob Kenney, an individual (collectively the "Tenant") to repay the City for costs associated with improvements installed at Tenant's premises at the Martin Luther King site. The loan in the original amount of \$150,000 is secured by a promissory note and bears interest at the rate of 6% per annum compounded annually. The balance outstanding at June 30, 2006 is \$26,907.

**NOTE 5 - INVESTMENT IN REAL PROPERTY**

During fiscal 2002, the City entered into a Tenancy in Common agreement with its City Manager to purchase certain real property as set forth under the agreement. As a result, the City invested \$441,600 for a 50% interest in the real property. The agreement provides for among other things that upon sale of the property, the City will receive 50% of the sales proceeds, as defined in the agreement.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 6 - CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Infrastructure capital assets with a value of \$100,000 or more, and non-infrastructure capital assets with a value of \$5,000 or more are capitalized.

The City implemented GASB Statement 34 in fiscal year 2003 and has recorded all its infrastructure assets.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Buildings and Improvements	50 years
Light Duty Vehicles	5 years
Other Vehicles	10 years
Machinery and Equipment	5-10 years
Infrastructure	10-65 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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**Notes to Financial Statements**

**NOTE 6 - CAPITAL ASSETS (Continued)**

Changes in fixed assets during the year ended June 30, 2006 comprise:

	June 30, 2005	Additions	Retirements & Adjustments	Transfers	June 30, 2006
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land and improvements	\$15,014,662				\$15,014,662
Construction in progress	21,844	\$622,189		(\$92,044)	551,989
	<u>15,036,506</u>	<u>622,189</u>		<u>(92,044)</u>	<u>15,566,651</u>
Depreciable capital assets:					
Building and improvements	875,981			92,044	968,025
Vehicles and equipment	1,699,602		(\$44,520)		1,655,082
Machinery and equipment	607,687	8,719	49,815		666,221
Infrastructure-	23,701,096				23,701,096
Total	<u>26,884,366</u>	<u>8,719</u>	<u>5,295</u>	<u>92,044</u>	<u>26,990,424</u>
Less: accumulated depreciation for					
Building and improvements	(639,777)	(21,120)			(660,897)
Vehicles and equipment	(1,589,790)	(24,128)	(8,954)		(1,622,872)
Machinery and equipment	(497,482)	(38,860)	10,044		(526,298)
Infrastructure	(17,026,661)	(623,963)			(17,650,624)
Total accumulated depreciation	<u>(19,753,710)</u>	<u>(708,071)</u>	<u>1,090</u>		<u>(20,460,691)</u>
Depreciable capital assets, net	<u>7,130,656</u>	<u>(699,352)</u>	<u>6,385</u>	<u>92,044</u>	<u>6,529,733</u>
<b>Internal Service Funds</b>					
Depreciable capital assets:					
Vehicles and equipment	24,680	64,778			89,458
Machinery and equipment	236,493				236,493
	<u>261,173</u>	<u>64,778</u>			<u>325,951</u>
Less: accumulated depreciation for					
Vehicles and equipment		(17,892)	(4,937)		(22,829)
Machinery and equipment	(23,649)	(23,649)			(47,298)
Total accumulated depreciation	<u>(23,649)</u>	<u>(41,541)</u>	<u>(4,937)</u>		<u>(70,127)</u>
Depreciable capital assets, net	<u>237,524</u>	<u>23,237</u>	<u>(4,937)</u>		<u>255,824</u>
Governmental capital assets, net	<u>\$22,404,686</u>	<u>(\$53,926)</u>	<u>\$1,448</u>		<u>\$22,352,208</u>

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 6 - CAPITAL ASSETS (Continued)**

	June 30, 2005	Additions	Retirements & Adjustments	June 30, 2006
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land and improvements	\$3,796,002			\$3,796,002
Construction in progress	88,649	\$449,065	(\$230,781)	306,933
	<u>3,884,651</u>	<u>449,065</u>	<u>(230,781)</u>	<u>4,102,935</u>
Depreciable capital assets:				
Building and improvements	5,707,285			5,707,285
MLK Bus Barn	275,000			275,000
Vehicles and equipment	951,320	26,523	17,065	994,908
Infrastructure	7,960,441	230,781		8,191,222
Total	<u>14,894,046</u>	<u>257,304</u>	<u>17,065</u>	<u>15,168,415</u>
Less: accumulated depreciation for				
Building and improvements	(1,685,554)	(100,112)		(1,785,666)
MLK Bus Barn	(38,500)	(5,500)		(44,000)
Vehicles and equipment	(823,520)	(53,704)	(12,693)	(889,917)
Infrastructure	(3,991,772)	(126,019)		(4,117,791)
	<u>(6,539,346)</u>	<u>(285,335)</u>	<u>(12,693)</u>	<u>(6,837,374)</u>
Depreciable capital assets, net	<u>8,354,700</u>	<u>(28,031)</u>	<u>4,372</u>	<u>8,331,041</u>
Total capital assets, net	<u>\$12,239,351</u>	<u>\$421,034</u>	<u>(\$226,409)</u>	<u>\$12,433,976</u>

**A. Capital Asset Contributions**

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

**B. Depreciation Allocation**

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

<b>Governmental Activities:</b>	
General government	\$58,020
Library	900
Police services	55,633
Fire services	1,397
Community development	1,937
Public works	587,723
Recreation	2,461
Internal Service Funds	<u>41,541</u>
Total Governmental Activities	<u>\$749,612</u>
<b>Business-type Activities:</b>	
MLK	\$77,812
Sewer	134,348
Parking	45,585
Old City Hall	<u>27,590</u>
Total Business-type Activities	<u>\$285,335</u>

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 7 - LONG-TERM DEBT**

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions related to both governmental and business-type activities are summarized below and discussed in detail subsequently.

**A. Current Year Transactions and Balances**

	Original Issue Amount	Balance June 30, 2005	Retirements	Balance June 30, 2006	Current Portion
<b>Governmental Activities</b>					
Department of Boating & Waterways	\$1,200,000	\$967,225	(\$28,630)	\$938,595	\$29,919
California Energy Commission	31,000	22,416	(2,519)	19,897	2,595
Total Government Activities		<u>\$989,641</u>	<u>(\$31,149)</u>	<u>\$958,492</u>	<u>\$32,514</u>
<b>Business-type Activities</b>					
Capital Leases					
MLK capital lease	\$3,840,494	\$2,931,565	(\$296,304)	\$2,635,261	\$318,409
MLK capital improvement lease	1,770,000	1,265,000	(50,000)	1,215,000	50,000
MLK discount		(12,701)	502	(12,199)	
Old City Hall capital improvement lease (MPA)	1,156,500	975,054	(114,938)	860,116	122,234
Total Business-type Activities		<u>\$5,158,918</u>	<u>(\$460,740)</u>	<u>\$4,698,178</u>	<u>\$490,643</u>

**B. Department of Boating and Waterways**

Between April 1995 and March 1996, the City borrowed \$1.2 million from the California Department of Boating and Waterways to finance certain improvements. The loan bears interest at 4.5% per annum on the unpaid balance, commencing with the date of each transfer of loan funds to the City. Repayment of the loan commenced August 1995, and is payable in annual installments of \$72,156, including interest until maturity, August 1, 2025.

**C. California Energy Commission**

The loan payable bears interest at 3% per annum on the unpaid balance and is payable in semi-annual installments of \$1,586, including interest until maturity, June 22, 2013.

**D. MLK Capital Lease (Martin Luther King School Site)**

On August 1, 1987, the City entered into a lease agreement with the Sausalito School District to finance the acquisition of the Martin Luther King School site (the "MLK site"), containing approximately 17 acres of land, with improvements. Effective March 26, 1997, the City and the Sausalito School District (the "District") amended the lease agreement. Under the first amendment, the lease schedule was extended from the year 2007 to the year 2013 and restructured at an interest rate of 7.46%.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 7 - LONG-TERM DEBT (Continued)**

The City leases units at the site to tenants. The leases are operating leases with varying terms. Rental income included in the financial statements for the fiscal year ended June 30, 2006 is comprised of the following:

Operating Leases	\$858,082
Utility pass through	<u>39,650</u>
	<u><u>\$897,732</u></u>

Future minimum rents on noncancellable tenant operating leases for fiscal years ending after June 30, 2006 are as follows:

<u>Fiscal Year ended</u>	<u>Future Minimum Rent</u>
2007	\$852,197
2008	745,108
2009	256,429
2010	<u>37,229</u>
	<u><u>\$1,890,963</u></u>

The future minimum rents do not include amounts that may be received from tenants for reimbursement of certain building operating costs or option to renew.

**E. *MLK Capital Improvement Lease***

On September 29, 1999, the City entered into a capital lease agreement with the Sausalito Capital Improvement Authority, a California joint powers authority, to finance capital improvements on the MLK site.

The Sausalito Capital Improvement Authority assigned the lease to WestAmerica Bank, acting as trustee, which provided a bank-qualified loan. Interest is payable semiannually on each January 15 and July 15, commencing January 15, 2000. Principal is payable annually on July 15 until July 15, 2014, when the loan matures.

**F. *Old City Hall Capital Improvement Lease***

On July 30, 2003 the City entered into a lease agreement with a nonprofit public benefit corporation, to refinance the \$1,600,000 Certificates of Participation issued in April 1992. The refunding took advantage of lower interest rates which were available and resulted in reductions in debt service requirements over the life of the new debt. Proceeds of \$1,134,239 from the MPA lease were transferred to a trustee and placed in an irrevocable trust to redeem the 1992 COPs. These funds were invested in U.S. government securities to provide for the redemption price and interest through the call date. Accordingly, the 1992 COPs were removed from the balance sheet. Interest and principal payments on the refinanced lease are payable semiannually on each October 1<sup>st</sup> and April 1<sup>st</sup> until April 1, 2012.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 7 - LONG-TERM DEBT (Continued)**

The Old City Hall is in downtown Sausalito and is a designated historic landmark. This 80-year old un-reinforced masonry building was upgraded for seismic safety purposes and renovated to function as retail commercial space. The City entered into an agreement with a tenant in April 1993 to lease the retail space. The agreement was for ten years and provided for a minimum monthly rent of \$16,667 and a percentage of the tenant's revenue as defined in the agreement.

On December 1, 2004, the City executed an amended lease extending the term of the lease for one additional period of 10 years and 3 months with no option to extend. Minimum monthly rent was established at \$23,750 per month from December 1, 2004 through November 30, 2008, and at \$25,000 per month from December 1, 2008 through February 28, 2014.

**G. General Obligation Bonds**

On October 30, 2006 the City authorized the issuance of \$15,500,000 general obligation bonds (General Obligation Bonds, 2006A and 2006B) to fund the construction of a new fire station and a new police building.

**H. Debt Service Requirements**

Annual debt service requirements are shown below for all long-term debt with specified repayment terms:

For the Year Ending June 30	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2007	\$32,514	\$42,814	\$490,643	\$310,942
2008	33,937	41,390	532,155	276,149
2009	35,426	39,901	569,813	239,291
2010	36,980	38,349	609,443	199,543
2011	38,602	36,727	650,065	158,014
2012-2016	210,086	157,037	1,858,258	216,239
2017-2021	254,186	106,594		
2022-2026	316,761	44,018		
Total	<u>\$958,492</u>	<u>\$506,830</u>	4,710,377	<u>\$1,400,178</u>
Reconciliation of long-term debt MLK Discount			<u>(12,199)</u>	
Net long-term debt			<u>\$4,698,178</u>	

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 8 – DEBT WITH NO CITY COMMITMENT**

**A. *Local Improvement District Debt with No City Commitment***

Local Improvement Districts (LID's) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt which is not included in the general debt of the City. The City has no legal or moral liability with respect to the payment of these debts. The outstanding balance of each of these issues as of June 30, 2006 is as follows:

	<u>Balance, June 30, 2006</u>
Downtown Assessment District 1989-1	\$240,000
Sunshine Central Assessment District	110,000

**B. *Rotary Village Senior Housing Project***

On March 1, 2004, the City sponsored the issuance of a \$2,500,000 bond on behalf of the Rotary Housing Corporation, a 501(c)(3) corporation and a California Nonprofit Public Benefit Corporation (the "Corporation"). These bonds were issued to raise loan proceeds to finance the construction of the Rotary Village Senior Housing Project. The bonds are payable solely out of the amounts pledged by the Corporation and is not included in the long-term debt of the City. The City has no legal or moral liability with respect to the payment of this debt. The balance at June 30, 2006 is \$2,410,000.

**NOTE 9 – TAX REVENUE ANTICIPATION NOTES AND BONDS**

In September 2005, the City issued \$1.2 million in 3.5% 2004 Tax and Revenue Anticipation Notes for the general fund cash flow purposes. The notes were fully repaid on June 30, 2006.

In July 2006, the California Statewide Communities Development Authority issued the 2006-07 Tax and Revenue Anticipation Bonds. The City participated in the pooled bond sale and the City's portion of the debt is \$505,000. The bonds mature on June 29, 2007 and bear interest at 4.5% per annum.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 10 - EMPLOYEE RETIREMENT PLANS**

**A. CALPERS Safety and Miscellaneous Employees Plans**

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (Police and Fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2006, are summarized as follows:

	<u>Police</u>	<u>Fire</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	55
Monthly benefits, as a % of annual salary	2.4% to 3%	2.4% to 3%	2.0% to 2.5%
Required employee contribution rates	9%	9%	8%
Required employer contribution rates	31.485%	22.506%	12.867%

Effective July 1, 2003, the City adopted the provisions of Internal Revenue Code Section 414(h)(2) on behalf of its miscellaneous and police safety personnel. Base salaries for these employees are grossed up 8%-9% so that employees may pay their own PERS contribution out of pre-tax compensation. The City continues to pick up the tax deferred contributions on behalf of and for the accounts of fire safety personnel.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the years ended June 30, 2006, 2005 and 2004 amounted to \$1,489,668, \$1,235,452 and \$514,678 respectively.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation rate at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 10 - RETIREMENT BENEFITS (Continued)**

As required by new State law, effective July 1, 2005, the City's Miscellaneous and Safety Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The City satisfied its Miscellaneous Plan's unfunded liability of \$739,769 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 17 years. It satisfied its Safety Police Plan's liability of \$3,116,992 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 18 years. It satisfied its Safety Fire Plan's liability of \$1,407,294 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 21 years.

CALPERS' latest available actuarial value (which differs from market value) and funding progress are set forth below at their actuarial valuation date of June 30, 2003. Actuarial values for 2002 are not available as the State-wide pool is based on a fresh-start valuation as of June 30, 2003:

*Safety Police and Fire Plan:*

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2003	\$1,248,172,736	\$1,045,895,860	\$202,276,876	83.8%	\$154,384,703	131.0%
2004	1,252,474,736	1,026,500,742	225,973,994	82.0%	154,903,754	145.9%

*Miscellaneous Plan:*

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2003	\$317,520,943	\$289,439,549	\$28,081,394	91.2%	\$74,981,463	37.5%
2004	434,267,445	379,807,592	54,459,853	87.5%	97,227,479	56.0%

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**B. *Postemployment Health Care Benefits***

The City pays a portion of insurance premiums to provide health care benefits for retired employees as required by bargaining unit agreements. Non-sworn City employees who retire after reaching age 55 with 20 years or more of service and sworn City employees who retire after reaching age 50 with 20 year or more of service are eligible for benefits. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. During the year ended June 30, 2006 the City paid \$99,890 on behalf of 27 retirees who were participating in the plan.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 10 - RETIREMENT BENEFITS (Continued)**

*C. Deferred Compensation Plan*

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

**NOTE 11 - PUBLIC ENTITY RISK POOL**

The City is exposed to various risks of loss related to workers' compensation and general liability. The City participates in joint powers agreements. On July 1, 1977, a Joint Powers Agreement (the "Agreement") was entered into between member cities and the Marin County Risk Management Authority for workers' compensation coverage (City of Sausalito joined on October 1, 1982). In July 1978, the Agreement was extended to include coverage for both auto and general liability exposures. On July 1, 1978, a new Joint Powers Agreement was established for the liability coverage, known as the Marin Cities Liability Management Authority (City of Sausalito joined on October 1, 1986). Effective July 1, 1996, the City transferred its excess liability coverage to Bay Cities Joint Powers Insurance Authority (the "Authority"). Effective July 1, 2003, the Marin County Risk Management Authority was dissolved and the City transferred its workers compensation coverage to the Bay Cities Joint Powers Insurance Authority.

During fiscal 2005, the City was refunded its cash on deposit for workers' compensation and set up a new internal service fund to account for workers' compensation benefits and claims. Claims expenditures and liabilities are reported in the internal service fund when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The City currently reports all of its general liability risk management activities in its General Fund.

*A. Workers' Compensation Coverage Statistics*

The Workers' Compensation Fund is self-insured for the first \$150,000 of loss per occurrence. Excess coverage is provided by an outside insurance carrier up to statutory limits.

As defined by Government Accounting Standards Board Statement No. 10 ("GASB -10"), the Bay Cities Joint Powers Insurance Authority is "a claims servicing or account pool." The Authority manages separate accounts for each pool member from which losses and expenses of that member are paid, up to the self-insured retention limit. The Authority purchases commercial excess insurance. The annual assessment of each member includes allocations for loss payments, expenses, and excess insurance premiums.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 11 - PUBLIC ENTITY RISK POOL (Continued)**

The Authority has a policy under which there is an annual evaluation of the assets of each pool member in comparison to future liabilities. The “financial risk position” of each member is determined by subtracting case reserves, incurred but not reported (IBNR) amounts and claim development from the members’ cash balances. If a negative risk position is found, a supplemental element is added to its annual assessment.

At June 30, 2006, the City’s estimated workers’ compensation liability for unpaid losses was as follows:

	2006	2005
Beginning balance	\$1,271,261	\$1,511,977
Incurred claims	83,120	210,298
Claims paid	(200,776)	(451,014)
Ending balance	\$1,153,605	\$1,271,261
Current portion	\$292,601	

Financial statements for the Bay Cities Joint Powers Authority may be obtained from Bickmore & Associates, 6371, Auburn Blvd., Citrus Heights, CA 95621.

**B. General Liability Coverage**

The City participates with other public entities for the purpose of obtaining general liability coverage in the in the Bay Cities Joint Powers Insurance Authority (BCJPIA) for claims incurred on or after July 1, 1996.

As defined by GASB 10, the BCJPIA is an “account pool.” The BCJPIA manages separate accounts for each pool member from which losses and expenses are paid, up to the City’s self-insured retention of \$50,000 per occurrence. The BCJPIA has a policy of annual evaluations to determine the “financial risk position” (cash less claim reserves, IBNR and claim development) of each member. If a member has a negative risk position, a supplement element is added to its annual assessment.

As defined by GASB 10, the BCJPIA is a “risk sharing pool.” The BCJPIA provides liability and errors & omissions coverage in excess of the City’s \$50,000 self-insured retention, up to one million through a risk shared self insurance pool. BCJPIA obtains excess coverage through California Affiliated Risk Management Authorities (CARMA) and Employment Risk Management Authority (ERMA), risk sharing joint powers authorities. CARMA provides excess insurance coverage to \$19 million. ERMA arranges for pooled risk sharing related to employment practices liability. Coverage is provided up to one million.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 11 - PUBLIC ENTITY RISK POOL (Continued)**

At June 30, 2006, the City's estimated general liability for unpaid losses was as follows:

	2006	2005
Beginning balance	\$152,639	\$111,964
Incurred claims	18,579	138,121
Claims paid	(68,919)	(97,446)
Ending balance	\$102,299	\$152,639
Current portion	\$27,753	\$52,168

**NOTE 12 - NET ASSETS AND FUND BALANCES**

**A. Net Assets**

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and debt service requirements.

*Unrestricted* describes the portion of Net Assets which is not restricted to use.

**B. Fund Balance**

Fund balances and retained earnings consist of reserved and unreserved amounts. Reserved fund balances and retained earnings represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remainder is unreserved.

Portions of unreserved fund balance may be designated by the City Council or management for tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned. Such plans or intent are subject to change, have not been legally authorized, and may not result in expenditures.

Grants and transfers restricted for use as proprietary fund type capital expenditures are reflected as contributed capital upon expenditure of funds for capital assets.

**C. Reservations**

Reserve for **loans receivable** are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 12 – NET ASSETS AND FUND BALANCES (Continued)**

Reserve for **interfund advances** represents the portion of fund balance set aside for the advance made from General Fund to the MLK Fund.

Reserve for **investment in real property** is the portion of fund balance set aside to indicate that this item does not represent available, spendable resource even though it is a component of assets.

Reserve for **special revenue funds** is the portion of fund balance legally restricted for capital improvements and maintenance.

**D. *Fund Balance/Net Asset Deficits***

The Martin Luther King (“MLK”) Enterprise Fund had a net deficit in the amount of \$1,205,430 at June 30, 2006. This is mainly a result of MLK generating insufficient revenues to cover its operating expenditures and lease payments since inception. The City’s general fund has provided loans to fund these deficits and as of June 30, 2006 the General Fund has a loan receivable of approximately \$5 million (principal - \$3.5 million and interest - \$1.5 million) from the MLK fund. Management expects that the MLK fund will become self-sufficient with the full occupancy of the building and will eventually begin to pay back the loans from the general fund when the debt service to the School District is paid off in 2014.

The Workers Compensation Internal Service Fund had net deficit in the amount of \$249,140 at June 30, 2006. Future revenues are expected to eliminate the deficit.

The Recreation Grant Special Revenue fund had fund deficit in the amount of \$19,150 at June 30, 2006. Future revenues are expected to eliminate the deficit.

**NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS**

The City participates in the joint ventures discussed below through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City’s responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

**A. *Marin Emergency Radio Authority***

The City participates in a joint powers agreement through the Marin Emergency Radio Authority (“MERA”) under an operating agreement dated February 1, 1999. MERA was created July 1, 1997 by an agreement between certain public agencies in Marin County to provide a public safety radio system to its members. The members have agreed to assign a portion of their property tax revenues and make annual payments, on a pro rata basis to cover the costs of debt financing and operating the system.

**CITY OF SAUSALITO**  
**Notes to Financial Statements**

**NOTE 14 – CONTINGENT LIABILITIES AND COMMITMENTS**

*A. Contingent Liabilities*

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

The City participates in Federal and State grant programs. These programs have been audited by the City's independent auditors in accordance with the provisions of the Federal Single Audit Act of 1984 including 1996 amendments and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**GENERAL FUND AND MAJOR SPECIAL REVENUE FUND  
BUDGET-TO-ACTUAL STATEMENTS**

GASB Statement 34 dictates that budget-to-actual information in the basic financial statements should be limited to the General Fund and major Special Revenue Funds. This section is provided for the presentation of Budget-to-Actual Statements for the General Fund and the Tidelands Special Revenue Fund.

CITY OF SAUSALITO  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Property tax	\$4,882,070	\$5,415,210	\$5,521,412	\$106,202
Sales tax	1,430,000	1,430,000	1,515,732	85,732
Other tax	1,553,500	1,631,500	1,709,995	78,495
Licenses and permits	401,000	457,000	532,635	75,635
Fines and forfeitures	380,000	360,000	313,260	(46,740)
Use of money and property	137,300	125,050	361,854	236,804
Charges for services	969,050	945,977	1,101,583	155,606
Other revenues	20,500	99,100	216,236	117,136
<b>Total Revenues</b>	<b>9,773,420</b>	<b>10,463,837</b>	<b>11,272,707</b>	<b>808,870</b>
<b>EXPENDITURES:</b>				
Current:				
General government	1,908,735	1,977,867	1,966,077	11,790
Library	512,342	570,007	556,081	13,926
Public safety:				
Police	3,249,884	3,326,139	3,118,469	207,670
Fire	2,288,326	2,321,502	2,416,825	(95,323)
Community development	915,947	869,085	820,015	49,070
Public works	1,095,753	1,232,135	1,215,356	16,779
Parks & recreation	641,363	649,138	583,719	65,419
Debt service:				
Principal	2,519	2,519	2,519	
Interest and other charges	654	654	654	
<b>Total Expenditures</b>	<b>10,615,523</b>	<b>10,949,046</b>	<b>10,679,715</b>	<b>269,331</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(842,103)</b>	<b>(485,209)</b>	<b>592,992</b>	<b>1,078,201</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,224,875	1,224,875	1,169,729	(55,146)
Transfers (out)	(346,983)	(396,983)	(396,983)	
<b>Total Other Financing Sources (Uses)</b>	<b>877,892</b>	<b>827,892</b>	<b>772,746</b>	<b>(55,146)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$35,789</b>	<b>\$342,683</b>	<b>1,365,738</b>	<b>\$1,023,055</b>
<b>BEGINNING FUND BALANCE</b>			<b>3,991,927</b>	
<b>ENDING FUND BALANCE</b>			<b>\$5,357,665</b>	

CITY OF SAUSALITO  
TIDELANDS SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Use of money and property	\$520,757	\$651,335	\$130,578
<b>Total Revenues</b>	<b>520,757</b>	<b>651,335</b>	<b>130,578</b>
<b>EXPENDITURES:</b>			
Current:			
General government	60,603	83,201	(22,598)
Principal	28,630	28,630	
Interest and other charges	43,525	43,525	
<b>Total Expenditures</b>	<b>132,758</b>	<b>155,356</b>	<b>(22,598)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>387,999</b>	<b>495,979</b>	<b>107,980</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers (out)	(200,000)	(144,854)	55,146
<b>Total Other Financing Sources (Uses)</b>	<b>(200,000)</b>	<b>(144,854)</b>	<b>55,146</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$187,999</b>	<b>351,125</b>	<b>\$163,126</b>
<b>BEGINNING FUND BALANCE</b>		<b>1,323,856</b>	
<b>ENDING FUND BALANCE</b>		<b>\$1,674,981</b>	

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## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The City operates under the general law of the State of California, and annually adopts a budget to be effective July 1 for the ensuing fiscal year.

The City Manager submits a Preliminary Budget to the City Council on or about June 1 each year. This Preliminary Budget is the fiscal plan for the ensuing twelve months starting July 1, and includes proposals for expenditures for operations and capital improvement, and the resources to meet them. City Council conducts public hearings at Council Chambers before adopting the budget. The Council approves total appropriations at the department level in the General Fund, and at the fund level in other funds. The Budget is adopted by City resolution prior to June 30.

The City Manager is authorized to transfer budget appropriations within departments in conformance with the adopted policies set by the City Council. All other transfers must be approved by the City Council. Any revisions that alter the total expenditures of any department must be approved by the City Council. Expenditures are budgeted at, and may not legally exceed, the department level for the General Fund and the fund level for Special Revenue, Capital Projects and Internal Service Funds. Budgeted amounts shown are as originally adopted, or as amended by the City Council during the year. During the year, several supplementary appropriations were necessary.

Budgets for General, Special Revenue, and Internal Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Except for Capital Project Funds, appropriations lapse at fiscal year end and are rebudgeted for the coming year. Capital Project Funds are budgeted on a project length basis.

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