

**CITY OF SAUSALITO, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2006**



**Prepared by:**  
**Department of Finance**

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CITY OF SAUSALITO

Comprehensive Annual Financial Report  
For the Year Ended June 30, 2006  
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# CITY OF SAUSALITO

420 Litho Street • Sausalito, CA 94965

Telephone: (415) 289-4100

www.ci.sausalito.ca.us

Date: October 27, 2006

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Sausalito:

State law requires that every general-purpose government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2006.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Maze & Associates, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Sausalito's financial statements for the year ended June 30, 2006. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

## *Profile of the Government*

The City of Sausalito, incorporated in 1893, is located in the northern part of the state. Sausalito is widely recognized as a unique waterfront community with world-renowned natural beauty. It currently occupies 1.9 square miles and serves a population of 7,394. The City of Sausalito is empowered to levy a property tax on both real and personal property located within its boundaries.

The City of Sausalito has operated under the council-manager form of government since 1955. Policy-making and legislative authority are vested in a City Council (Council) consisting of mayor and four other members, all elected on a non-partisan, at large basis. The Council appoints the government's manager, who in turn appoints the heads of the various departments. Council members serve overlapping four-year terms. The mayor is appointed by the Council on rotating one-year terms.

## FAX NUMBERS:

Administration: (415) 289-4167

Recreation: (415) 289-4189

Community Development: (415) 339-2256

Library: (415) 331-7943

Public Works: (415) 289-4138

The City of Sausalito provides a full range of services, including police and fire protection, the construction and maintenance of streets and other infrastructure, community development, recreation, and library services.

The Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Sausalito financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the Council.

### *Local Economy*

The City of Sausalito has a well-established visitor industry and is also home to a growing number of creative businesses, including architects, marketing companies, designers, high tech firms, and artists. In addition, the City of Sausalito has several recreational marinas, along with a number of related maritime businesses.

Property tax remains the single largest source of municipal revenue, followed by sales tax, municipal parking lot operations, land rentals, and transient occupancy (hotel) tax. Property tax growth in the City of Sausalito has averaged 7.237 percent per year since 1997-98. This growth is largely due to property sales at increasing values and reassessment from construction.

The government's expenses have shown a significant increase for employee retirement expense during the past three to four years.

### *Long-term financial planning*

Unreserved, undesignated fund balance in the general fund remains below the policy guidelines (5 percent of total general fund expenditures) set by the Council for budgetary and planning purposes. A business advisory committee was appointed by the Council for the purpose of evaluating the economy and making recommendations on how to promote the economic health of the business community in the City of Sausalito.

Enhancing city revenues and developing a 10-year capital improvement projects (CIP) program, including the construction of public safety buildings, are part of the goals of the City of Sausalito's strategic plan. The Council will be reviewing various funding mechanism necessary to implement the CIP.

### *Relevant financial policies*

It is the City of Sausalito's policy that "one-time" resource inflows not be used for operating purposes but for CIP.

*Major initiatives*

In August 2006, the citizens of the City of Sausalito approved the issuance of up to \$15.5 million of general obligation bonds to pay for the construction of a police building and a fire station.

*Acknowledgements*

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Sausalito's finances.

Respectfully submitted,

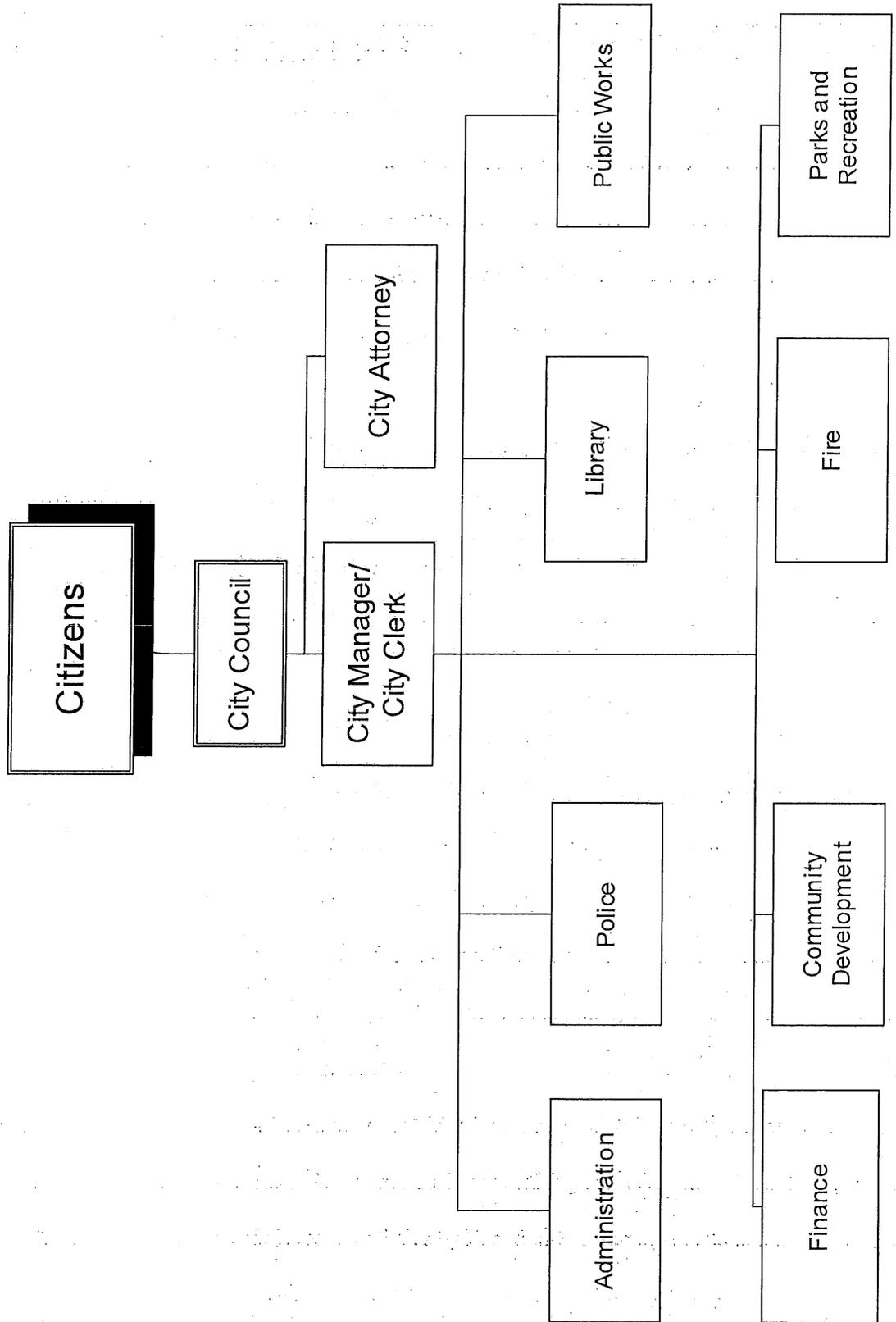


Dana Whitson  
City Manager/City Clerk



Louise Ho  
Finance Director/Treasurer

# City of Sausalito Organization Chart



City of Sausalito  
List of Elected and Appointed Officials  
June 30, 2006

Elected Officials

Mayor	Ronald P. Albert
Vice Mayor	D. Michael Kelly
Council Member	Paul Albritton
Council Member	Amy Belser
Council Member	Dennis Scremin
Council Member (Elect)	Jonathan Leone
Council Member (Elect)	Herb Weiner

Appointed Officials

City Manager/City Clerk	Dana Whitson
City Attorney	Mary Wagner
City Librarian	Mary Richardson
Community Development Director	Paul Kermoyan
Finance Director/Treasurer	Louise Ho
Parks & Recreation Director	[vacant]
Chief of Police	Scott Paulin
Public Work Director	Tom Birse

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## INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

To the Honorable Mayor and City Council  
City of Sausalito, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Sausalito, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of June 30, 2005 were audited by other auditors whose opinion dated November 10, 2005 was unqualified.

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

In our opinion the basic financial statements referred to above present fairly in all material respects the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sausalito at June 30, 2006 and changes in the financial position and cash flows, where applicable thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis; General Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual; and Tidelands Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Sausalito. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Maze & Associates*

October 27, 2006

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As management of the City of Sausalito, we offer readers of the City of Sausalito's financial statements this narrative overview and analysis of the financial activities of the City of Sausalito for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

## FINANCIAL HIGHLIGHTS

- The assets of the City of Sausalito exceeded its liabilities at the close of the most recent fiscal year by \$38,257,905 (*net assets*). Of this amount, \$4,705,255 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,533,023. A significant portion of this increase is a result of increases in operating revenues and City-wide decreases in expenditures.
- As of the close of the current fiscal year, the City of Sausalito's governmental funds reported combined ending fund balances of \$9,714,274, an increase of \$1,566,106 in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$(131,095).
- The City of Sausalito's total debt decreased by \$2,206,889 during the current fiscal year. The decrease was mostly due to the repayment of the 2004 Tax and Revenue Anticipation Notes of \$1,715,000.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Sausalito's basic financial statements. The City of Sausalito's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Sausalito's finances, in a manner similar to private-sector business.

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

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Sausalito that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Sausalito include general government, public safety,

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public works, community development, parks and Recreation, and library. The business-type activities of the City of Sausalito include sewer services, Old City Hall building, Martin Luther King (MLK) property, and parking services.

The government-wide financial statements include not only the City of Sausalito itself (known as the *primary government*), but also incorporated the financial position and activities of one component unit for which the City of Sausalito exercised significance influence.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Sausalito, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Sausalito can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental 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 fund 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 evaluating a government's near-term financing requirements.

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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Sausalito maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, Tidelands fund, and public safety buildings fund, all of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Sausalito adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City of Sausalito maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Sausalito uses enterprise funds to account for its Sewer, Old City Hall, MLK, and Parking operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Sausalito's various functions. The City of Sausalito uses internal service funds to account for its fleet of vehicles and parking equipment. The City uses the workers compensation fund to account for outstanding claim liability. The City uses the employee benefits fund to account for compensated absences and other post-employment benefits other than pension. Because all of these services predominantly benefit governmental rather than business-type

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functions; they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, Old City Hall, MLK, and parking operation, all of which are considered to be major funds of the City of Sausalito. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

**Fiduciary funds.** 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 statement because the resources of those funds are *not* available to support the City of Sausalito's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* providing a budgetary comparison statement for General Fund and Tidelands Special Revenue Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Sausalito, assets exceeded liabilities by \$38,257,905 at the close of the most recent fiscal year.

By far the largest portion of the City of Sausalito's net assets (76 percent) reflects its investment in capital assets (e.g., land, buildings, machine, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Sausalito uses capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Sausalito's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## City of Sausalito's Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 14,315,313	\$ 14,055,185	\$ (1,500,211)	\$ 3,446,019	\$ 12,815,102	\$ 17,501,204
Capital assets	22,352,208	22,404,686	12,433,976	12,239,351	34,786,184	34,644,037
<b>Total assets</b>	<b>36,667,521</b>	<b>36,459,871</b>	<b>10,933,765</b>	<b>15,685,370</b>	<b>47,601,286</b>	<b>52,145,241</b>
Long-term liabilities outstanding	958,492	1,411,858	4,698,178	4,680,153	5,656,670	6,092,011
Other liabilities	3,248,349	4,621,812	438,362	5,706,536	3,686,711	10,328,348
<b>Total liabilities</b>	<b>4,206,841</b>	<b>6,033,670</b>	<b>5,136,540</b>	<b>10,386,689</b>	<b>9,343,381</b>	<b>16,420,359</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	21,354,986	21,390,365	7,841,055	2,037,356	29,196,041	23,427,721
Restricted	4,356,609	4,379,746	-	-	4,356,609	4,379,746
Unrestricted	6,749,085	4,656,090	(2,043,830)	3,261,325	4,705,255	7,917,415
<b>Total net assets</b>	<b>\$ 32,460,680</b>	<b>\$ 30,426,201</b>	<b>\$ 5,797,225</b>	<b>\$ 5,298,681</b>	<b>\$ 38,257,905</b>	<b>\$ 35,724,882</b>

An additional portion of the City of Sausalito's net assets (11 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$4,705,255 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Sausalito is able to report positive balances for all three categories of net assets related to governmental activities, but for business-type activities two of the three categories are positive and unrestricted net assets is negative.

The \$(2,043,830) unrestricted net asset reported in connection with the City of Sausalito's business-type activities resulted from the MLK acquisition and operation funded through long-term borrowings and advances from General Fund.

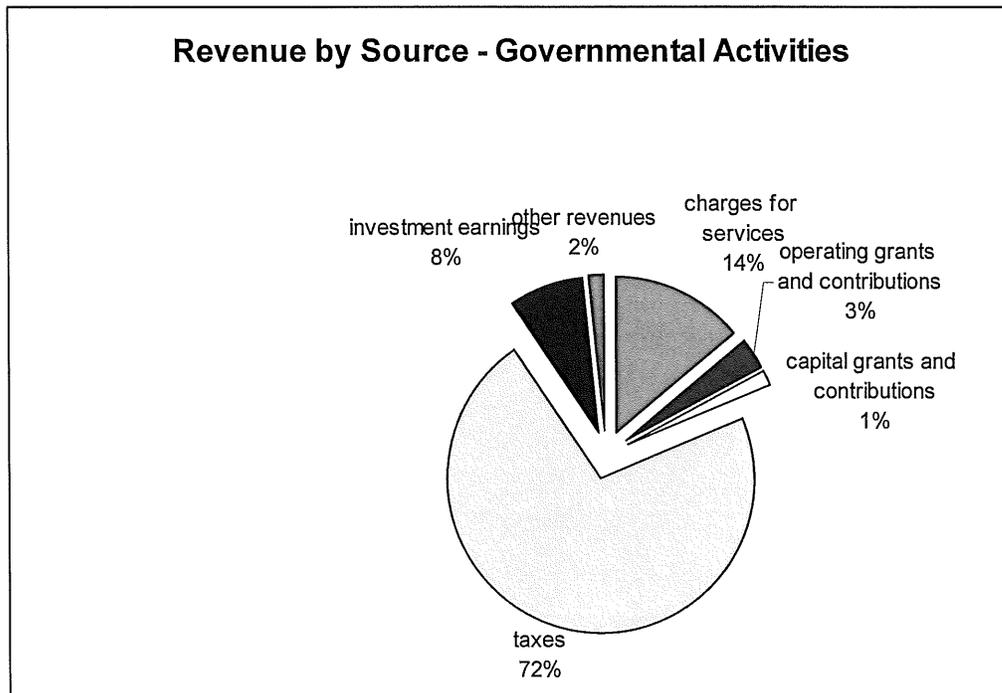
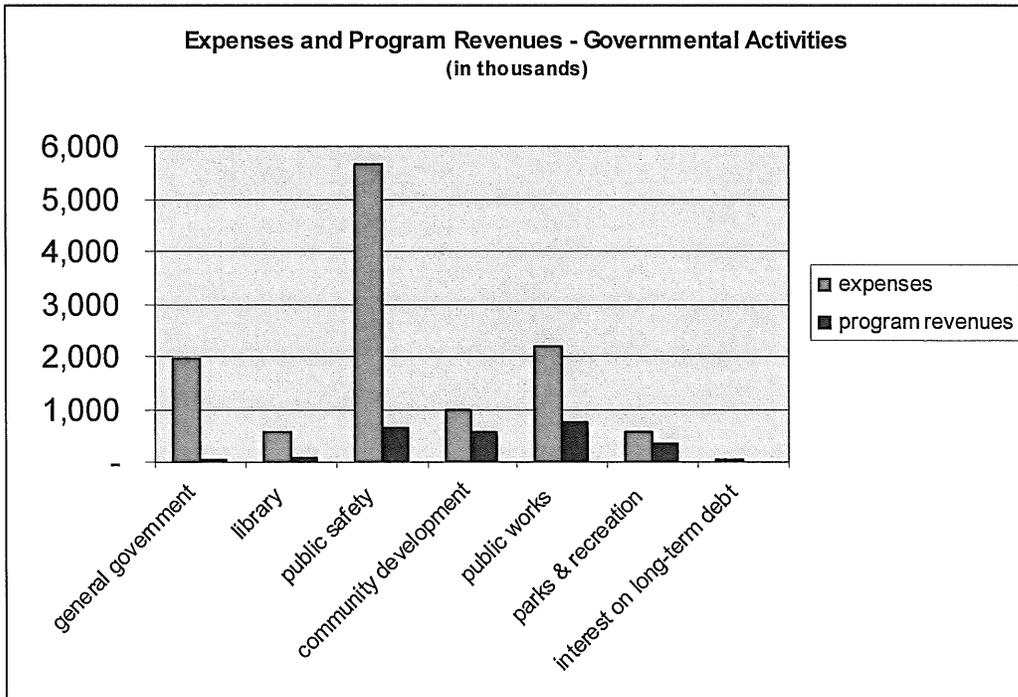
The government's net assets increased by \$2,533,023 during the current fiscal year. Approximately 39 percent of the increase is attributable to increase in General Fund operating revenues and decrease in operating expenses. About 40 percent represents ongoing revenues from parking operation. The remainder of the increase reflects the operating result of other governmental and business-type activities.

**Governmental activities.** Governmental activities increased the City of Sausalito's net assets by \$2,034,479, thereby accounting for 80 percent of the total growth in the net assets of the City of Sausalito. Key elements of this increase are as follows:

## City of Sausalito's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,812,964	\$ 1,519,196	\$ 3,446,081	\$ 3,301,476	\$ 5,259,045	\$ 4,820,672
Operating grants and contributions	432,030	452,832	-	-	432,030	452,832
Capital grants and contributions	175,951	416,309	-	-	175,951	416,309
<b>General revenues:</b>						
Taxes	9,279,774	8,598,378	-	-	9,279,774	8,598,378
Investment earnings	1,005,955	959,988	-	100,191	1,005,955	1,060,179
Other revenues	225,093	70,602	-	56,000	225,093	126,602
<b>Total revenues</b>	<b>12,931,767</b>	<b>12,017,305</b>	<b>3,446,081</b>	<b>3,457,667</b>	<b>16,377,848</b>	<b>15,474,972</b>
<b>Expenses:</b>						
General government	1,975,355	1,858,807	-	-	1,975,355	1,858,807
Library	556,820	563,306	-	-	556,820	563,306
<b>Public safety:</b>						
Police services	3,241,413	3,381,396	-	-	3,241,413	3,381,396
Fire services	2,425,603	2,255,289	-	-	2,425,603	2,255,289
Community development	983,680	853,183	-	-	983,680	853,183
Public works	2,170,131	1,846,822	-	-	2,170,131	1,846,822
Parks & Recreation	580,431	591,248	-	-	580,431	591,248
Interest on long-term debt	38,730	23,391	-	-	38,730	23,391
PERS sidefund expenses	-	391,230	-	-	-	391,230
Sewer	-	-	664,139	650,313	664,139	650,313
Old City Hall	-	-	88,485	95,779	88,485	95,779
MLK	-	-	796,391	768,866	796,391	768,866
Parking	-	-	323,647	335,191	323,647	335,191
<b>Total expenses</b>	<b>11,972,163</b>	<b>11,764,672</b>	<b>1,872,662</b>	<b>1,850,149</b>	<b>13,844,825</b>	<b>13,614,821</b>
Increase in net assets before transfers	959,604	252,633	1,573,419	1,607,518	2,533,023	1,860,151
Transfers	1,074,875	1,108,373	(1,074,875)	(1,235,375)	-	(127,002)
<b>Increase in net assets</b>	<b>2,034,479</b>	<b>1,361,006</b>	<b>498,544</b>	<b>372,143</b>	<b>2,533,023</b>	<b>1,733,149</b>
Net assets - Beginning	30,426,201	29,065,195	5,298,681	4,926,538	35,724,882	33,991,733
<b>Net assets - Ending</b>	<b>32,460,680</b>	<b>30,426,201</b>	<b>5,797,225</b>	<b>5,298,681</b>	<b>38,257,905</b>	<b>35,724,882</b>

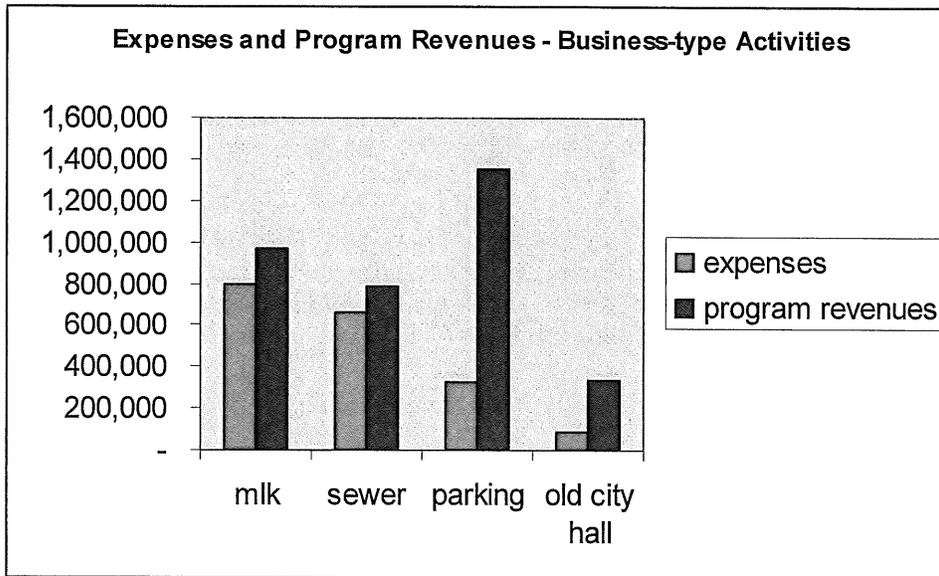
- Taxes increased by \$681,396 (8 percent) during the year. The increase is primarily due to higher property tax, transient occupancy tax collection and business license audit.



For the most part, increase in expenses closely paralleled inflation and growth in the demand for services.

**Business-type activities.** Business-type activities increased the City of Sausalito's net assets by \$498,544, accounting for 20 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Increase in lease income.
- Decrease in parking transfer to general fund by \$163,000.



Charges for services represented 100% of the revenue source of the City of Sausalito's business-type activities.

### Financial Analysis of the Government's Funds

As noted earlier, the City of Sausalito uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Sausalito'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 of Sausalito's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Sausalito's governmental funds reported combined ending fund balances of \$9,714,274, an increase of \$1,566,106 in comparison with the prior year. Approximately 6 percent of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for capital projects and other restricted purposes.

The general fund is the chief operating fund of the City of Sausalito. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$(131,095), while total fund balance reached \$5,357,665. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

The fund balance of the City of Sausalito's general fund increased by \$1,365,738 during the current fiscal year. Key factors in this growth are as follows:

- Excess Educational Revenue Augmentation Fund of \$440,509 from Marin County for property tax not needed to fund K-12 education.
- Prior Years SB90 mandated cost reimbursement of \$85,000 from State of California.
- Better than projected occupancy at local hotels which generated \$946,151 in transient occupancy tax.
- Business license audit which generated \$75,000 additional revenue.
- Reduction in general fund expenditures of \$250,000, net of \$293,850 expenditures deferred to FY 2006-07.

The tideland special revenue fund has a total fund balance of \$1,674,981, all of which is reserved for the construction, maintenance, and operation of the water front parcels granted to the City of Sausalito by the State of California. The increase in fund balance is attributable to additional lease revenue of approximately \$115,000.

The public safety buildings fund has a total fund balance of \$77,819, all of which is reserved for the construction of a police building and a fire station. The pre-construction costs to-date have been paid for through some private donations and a \$977,000 advance from general capital project fund. \$15.5 million general obligation bond sale was approved by the citizens of Sausalito in August of 2006 to pay for the construction.

**Proprietary funds.** The City of Sausalito's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the current fiscal year, the total fund balance for MLK, parking, and old city hall reported an increase which is due to increase in lease revenues.

Unrestricted net assets of the sewer fund amounted to \$2,056,844 which is available for ongoing maintenance and repair projects. The sewer assessment was adjusted to closely follow the rate study. As a result, there was a decrease of \$71,052 in charges for services.

### **General Fund Budgetary Highlights**

During the year there was a \$333,523 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$156,679 supplemental appropriations for salary increase for employees.
- \$50,000 supplemental appropriations for library book.
- \$101,319 supplemental appropriations to fund the San Carlos Underground Assessment District expenses.
- \$50,000 supplemental appropriations for ADA improvements.

The increase was possible because of additional anticipated revenues. Those revenues included an increase in property tax collection (\$258,194), an increase in business license tax through audit (\$56,000), an increase in SB90 mandated costs reimbursement from the State of California (\$31,166), a library book donation (\$50,000), and a growth in transient occupancy tax (\$68,000).

### **Capital Assets and Debt Administration**

**Capital assets.** The City of Sausalito's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$34,786,184 (net of accumulated depreciation). This investment in capital assets includes land and land improvements,

buildings, furniture and fixtures, machinery and equipment, vehicles, streets, drainage systems, and construction in progress. There was no significant increase in the City of Sausalito's investment in capital assets for the current fiscal year.

**City of Sausalito's Capital Assets**  
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land and improvements	15,014,662	15,014,662	3,796,002	3,796,002	18,810,664	18,810,664
Construction in progress	551,989	21,844	306,933	88,649	858,922	110,493
Building and improvements	307,128	236,204	3,921,619	4,021,731	4,228,747	4,257,935
MLK Bus Barn			231,000	236,500	231,000	236,500
Vehicles and equipment	51,541	110,843	104,991	127,800	156,532	238,643
Machinery and equipment	376,416	346,698			376,416	346,698
Infrastructure	6,050,472	6,674,435	4,073,431	3,968,669	10,123,903	10,643,104
Total	22,352,208	22,404,686	12,433,976	12,239,351	34,786,184	34,644,037

**Long-term debt.** At the end of the current fiscal year, the City of Sausalito has total debt outstanding of \$5,656,670.

**City of Sausalito's Outstanding Debt**

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Short-term debt		1,715,000			-	1,715,000
Notes payable	958,492	989,641			958,492	989,641
Capital leases			4,698,178	5,158,918	4,698,178	5,158,918
Total	958,492	2,704,641	4,698,178	5,158,918	5,656,670	7,863,559

In November 2006, the City of Sausalito issued and sold \$15.5 million of general obligation bonds for the construction of a police building and a fire station.

**Economic Factors and Next Year's Budgets**

At the date of publication of this report, there is continuing uncertainty regarding City revenues for the coming fiscal year and beyond. Property taxes comprise 49% of the General Fund revenues and it appears that this will remain a stable source of revenue into the coming year.

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The City expects to be able to maintain its moderate and responsible fiscal policies related to operating expenditures; however, rising costs of workers compensation insurance, rising costs of medical insurance, and rising costs of PERS retirement plan contributions are factors that are largely beyond the City's ability to control, and remain a major impediment to continuing to provide the current level of services and meeting Sausalito's Capital infrastructure needs.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Sausalito's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director/Treasurer, 420 Litho Street, Sausalito, CA 94965 or [www.ci.sausalito.ca.us](http://www.ci.sausalito.ca.us).

**STATEMENT OF NET ASSETS  
AND STATEMENT OF ACTIVITIES**

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents information in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue and Capital Projects Funds.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental program. The City's general revenues are then listed in the Governmental Activities and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

CITY OF SAUSALITO  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments (Note 2)	\$8,387,201	\$3,398,595	\$11,785,796
Restricted cash (Note 2)	9,538		9,538
Receivables:			
Taxes receivables, net	74,940	3,712	78,652
Accounts receivable, net	354,874	25,117	379,991
Loans receivable (Note 4)	7,082	65,526	72,608
Internal balances (Note 3D)	5,036,778	(5,036,778)	
Advances to fiduciary funds (Note 3C)	3,300		3,300
Investment in real property (Note 5)	441,600		441,600
Issuance/ leasing costs, net		43,617	43,617
Capital assets (Note 6):			
Land and construction in progress	15,566,651	4,102,935	19,669,586
Depreciable, net of accumulated depreciation	6,785,557	8,331,041	15,116,598
<b>Total Assets</b>	<b>36,667,521</b>	<b>10,933,765</b>	<b>47,601,286</b>
<b>LIABILITIES</b>			
Accounts payable	645,872	63,572	709,444
Accrued interest payable	38,730	222,883	261,613
Accrued salaries and benefits	226,158		226,158
Compensated absences (Note 1H)			
Due within one year	579,981	20,340	600,321
Due in more than one year	102,349		102,349
Claims payable (Note 11):			
Due within one year	320,354		320,354
Due in more than one year	935,550		935,550
Refundable deposits	253,648	131,567	385,215
Unearned revenue	145,707		145,707
Long-term debt (Note 7):			
Due within one year	32,514	490,643	523,157
Due in more than one year	925,978	4,207,535	5,133,513
<b>Total Liabilities</b>	<b>4,206,841</b>	<b>5,136,540</b>	<b>9,343,381</b>
<b>NET ASSETS (Note 12):</b>			
Invested in capital assets, net of related debt	21,354,986	7,841,055	29,196,041
Restricted for:			
Special revenue	2,953,986		2,953,986
Capital projects	1,402,623		1,402,623
<b>Total Restricted Net Assets</b>	<b>4,356,609</b>		<b>4,356,609</b>
Unrestricted	6,749,085	(2,043,830)	4,705,255
<b>Total Net Assets</b>	<b>\$32,460,680</b>	<b>\$5,797,225</b>	<b>\$38,257,905</b>

See accompanying notes to financial statements

CITY OF SAUSALITO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Business-type Activities
<b>Governmental Activities:</b>							
General government	\$1,975,355	\$30,684			(\$1,944,671)	(\$1,944,671)	
Library	556,820	20,346	\$50,000	\$10,960	(475,514)	(475,514)	
<b>Public safety:</b>							
Police services	3,241,413	366,439	100,000	39,422	(2,735,552)	(2,735,552)	
Fire services	2,425,603	105,208	34,549		(2,285,846)	(2,285,846)	
Community development	983,680	553,550			(430,130)	(430,130)	
Public works	2,170,131	406,325	247,481	104,218	(1,412,107)	(1,412,107)	
Parks & recreation	580,431	330,412		21,351	(228,668)	(228,668)	
Interest on long-term debt	38,730				(38,730)	(38,730)	
<b>Total Governmental Activities</b>	<b>11,972,163</b>	<b>1,812,964</b>	<b>432,030</b>	<b>175,951</b>	<b>(9,551,218)</b>	<b>(9,551,218)</b>	
<b>Business-type Activities:</b>							
MLK	796,391	970,548			\$174,157	174,157	
Sewer	664,139	789,274			125,135	125,135	
Parking	323,647	1,347,932			1,024,285	1,024,285	
Old City Hall	88,485	338,327			249,842	249,842	
<b>Total Business-type Activities</b>	<b>1,872,662</b>	<b>3,446,081</b>			<b>1,573,419</b>	<b>1,573,419</b>	
<b>Total</b>	<b>\$13,844,825</b>	<b>\$5,259,045</b>	<b>\$432,030</b>	<b>\$175,951</b>	<b>(9,551,218)</b>	<b>(7,977,799)</b>	
<b>General revenues:</b>							
Taxes					9,279,774	9,279,774	
Investment earnings					1,005,955	1,005,955	
Other revenues					225,093	225,093	
Transfers (Note 3A)					1,074,875	(1,074,875)	
<b>Total general revenues and transfers</b>					<b>11,585,697</b>	<b>(1,074,875)</b>	<b>10,510,822</b>
<b>Change in Net Assets</b>					<b>2,034,479</b>	<b>498,544</b>	<b>2,533,023</b>
<b>Net Assets-Beginning</b>					<b>30,426,201</b>	<b>5,298,681</b>	<b>35,724,882</b>
<b>Net Assets-Ending</b>					<b>\$32,460,680</b>	<b>\$5,797,225</b>	<b>\$38,257,905</b>

See accompanying notes to financial statements

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**CITY OF SAUSALITO**

**FUND FINANCIAL STATEMENTS**

Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City for fiscal 2006. Individual non-major funds may be found in the Supplemental Section.

**GENERAL FUND**

The General Fund is used for all general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit, which are not 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.

CITY OF SAUSALITO  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006

	General	Tidelands Fund	Public Safety Buildings	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments (Note 2)	\$453,937	\$1,612,360	\$1,114,228	\$1,979,321	\$5,159,846
Restricted cash (Note 2)	9,538				9,538
Receivables:					
Taxes receivables, net	74,577			363	74,940
Accounts receivable, net	234,608	62,646		57,620	354,874
Loans receivable	7,082				7,082
Due from other funds (Note 3B)	19,150				19,150
Advances to other funds (Note 3C)	5,036,778			977,000	6,013,778
Advances to fiduciary funds (Note 3C)	3,300				3,300
Investment in real property (Note 5)	441,600				441,600
<b>Total Assets</b>	<b>\$6,280,570</b>	<b>\$1,675,006</b>	<b>\$1,114,228</b>	<b>\$3,014,304</b>	<b>\$12,084,108</b>
<b>LIABILITIES</b>					
Accounts payable	\$258,269	\$25	\$59,409	\$328,169	\$645,872
Accrued salaries and benefits	226,158				226,158
Refundable deposits	253,648				253,648
Claims payable (Note 11):					
Due in one year	27,753				27,753
Due in more than one year	74,546				74,546
Due to other funds (Note 3B)				19,150	19,150
Advances from other funds (Note 3C)			977,000		977,000
Unearned revenue	82,531			63,176	145,707
<b>Total Liabilities</b>	<b>922,905</b>	<b>25</b>	<b>1,036,409</b>	<b>410,495</b>	<b>2,369,834</b>
<b>FUND BALANCES</b>					
Reserved for:					
Loans receivable	7,082				7,082
Interfund advances	5,040,078				5,040,078
Investment in real property	441,600				441,600
Special revenue funds		1,323,857		1,000,600	2,324,457
Unreserved designated for:					
Special revenue funds				219,960	219,960
Capital projects funds			77,819	987,496	1,065,315
Unreserved, undesignated	(131,095)	351,124		395,753	615,782
<b>Total Fund Balances</b>	<b>5,357,665</b>	<b>1,674,981</b>	<b>77,819</b>	<b>2,603,809</b>	<b>9,714,274</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$6,280,570</b>	<b>\$1,675,006</b>	<b>\$1,114,228</b>	<b>\$3,014,304</b>	<b>\$12,084,108</b>

See accompanying notes to financial statements

CITY OF SAUSALITO  
 Reconciliation of the  
 GOVERNMENTAL FUNDS -- BALANCE SHEET  
 with the  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2006

Total fund balances reported on the governmental funds balance sheet \$9,714,274

Amounts reported for Governmental Activities in the Statement of Net Assets  
 are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and  
 therefore are not reported in the Governmental Funds. 22,096,384

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to  
 charge the costs of certain activities, such as insurance and central services and maintenance  
 to individual governmental funds. The net current assets of the Internal Service Funds are therefore  
 included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	3,227,355
Capital assets	255,824
Claims payable	(1,153,605)

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not  
 reported in the Funds:

Long-term debt	(958,492)
Interest payable	(38,730)
Compensated absences	(682,330)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$32,460,680

See accompanying notes to financial statements

CITY OF SAUSALITO  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2006

	General	Tidelands Fund	Public Safety Buildings	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property tax	\$5,521,412				\$5,521,412
Sales tax	1,515,732				1,515,732
Other tax	1,709,995				1,709,995
Licenses and permits	532,635				532,635
Fines and forfeitures	313,260			\$102,383	415,643
Use of money and property	361,854	\$651,335	\$38,421	77,514	1,129,124
Intergovernmental				354,548	354,548
Charges for services	1,101,583			295,738	1,397,321
Other revenues	216,236		1,000	138,121	355,357
<b>Total Revenues</b>	<b>11,272,707</b>	<b>651,335</b>	<b>39,421</b>	<b>968,304</b>	<b>12,931,767</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,966,077	83,201			2,049,278
Library	556,081				556,081
Public safety:					
Police	3,118,469			100,038	3,218,507
Fire	2,416,825			24,831	2,441,656
Community development	820,015				820,015
Public works	1,215,356			382,714	1,598,070
Parks & recreation	583,719				583,719
Capital outlay			422,873	357,026	779,899
Debt service:					
Principal	2,519	28,630			31,149
Interest and other charges	654	43,525			44,179
<b>Total Expenditures</b>	<b>10,679,715</b>	<b>155,356</b>	<b>422,873</b>	<b>864,609</b>	<b>12,122,553</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>592,992</b>	<b>495,979</b>	<b>(383,452)</b>	<b>103,695</b>	<b>809,214</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (Note 3)	1,169,729			289,998	1,459,727
Transfers (out) (Note 3)	(396,983)	(144,854)		(160,998)	(702,835)
<b>Total Other Financing Sources (Uses)</b>	<b>772,746</b>	<b>(144,854)</b>		<b>129,000</b>	<b>756,892</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,365,738</b>	<b>351,125</b>	<b>(383,452)</b>	<b>232,695</b>	<b>1,566,106</b>
<b>BEGINNING FUND BALANCES</b>	<b>3,991,927</b>	<b>1,323,856</b>	<b>461,271</b>	<b>2,371,114</b>	<b>8,148,168</b>
<b>ENDING FUND BALANCES</b>	<b>\$5,357,665</b>	<b>\$1,674,981</b>	<b>\$77,819</b>	<b>\$2,603,809</b>	<b>\$9,714,274</b>

See accompanying notes to financial statements

CITY OF SAUSALITO  
 Reconciliation of the  
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
 with the  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$1,566,106

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance 630,908

Net adjustments are added back to fund balance 6,385

Depreciation expense is deducted from the fund balance  
 (Depreciation expense is net of internal service fund depreciation  
 of \$46,478 which has already been allocated to serviced funds) (708,071)

LONG TERM DEBT PROCEEDS AND PAYMENTS

Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance 31,149

Change in accrued interest payable 5,449

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Compensated absences (178,589)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds 528,504

RECLASSIFICATIONS

In current year general liability claims payable was recorded in the Governmental Balance Sheet. 152,638

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$2,034,479

See accompanying notes to financial statements

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**CITY OF SAUSALITO**

**MAJOR PROPRIETARY FUNDS**

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2006.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

**MLK FUND**

The City has a lease agreement with the Sausalito School District to finance the acquisition of the Martin Luther King School sit (“MLK”), 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.

**SEWER FUND**

Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, billing, and collections. The City contracts with Sausalito-Marín City Sanitary District.

**PARKING FUND**

Accounts for the provision of parking services to residents and businesses of the City. All activities necessary 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.

CITY OF SAUSALITO  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2006

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	MLK	Sewer	Parking	Old City Hall	Totals	
<b>ASSETS</b>						
Cash and investments (Note 2)	\$717,950	\$2,120,350	\$312,471	\$247,824	\$3,398,595	\$3,227,355
Receivables:						
Taxes receivable, net		3,712			3,712	
Accounts receivable, net	1,735		23,382		25,117	
Loans receivable, net (Note 4)	65,526				65,526	
Issuance/ leasing costs, net	28,689			14,928	43,617	
Capital assets (Note 6):						
Land and construction in progress	3,786,064	302,333	4,600	9,938	4,102,935	255,824
Depreciable, net of accumulated depreciation	3,399,790	4,109,423	76,907	744,921	8,331,041	
<b>Total Assets</b>	<b>7,999,754</b>	<b>6,535,818</b>	<b>417,360</b>	<b>1,017,611</b>	<b>15,970,543</b>	<b>3,483,179</b>
<b>LIABILITIES</b>						
Accounts payable	11,580	46,878	5,114		63,572	
Accrued interest payable	209,444			13,439	222,883	
Compensated absences, due in one year (Note 1H)		20,340			20,340	
Refundable deposits	109,320		22,247		131,567	
Claims payable (Note 11):						
Due within one year						292,601
Due in more than one year						861,004
Advance from other funds (Note 3)	5,036,778				5,036,778	
Long-term debt (Note 7):						
Due within one year	368,410			122,233	490,643	
Due in more than one year	3,469,652			737,883	4,207,535	
<b>Total Liabilities</b>	<b>9,205,184</b>	<b>67,218</b>	<b>27,361</b>	<b>873,555</b>	<b>10,173,318</b>	<b>1,153,605</b>
<b>NET ASSETS (Note 12)</b>						
Invested in capital assets, net of related debt	3,347,792	4,411,756	81,507		7,841,055	255,824
Unrestricted	(4,553,222)	2,056,844	308,492	144,056	(2,043,830)	2,073,750
<b>Total Net Assets</b>	<b>(\$1,205,430)</b>	<b>\$6,468,600</b>	<b>\$389,999</b>	<b>\$144,056</b>	<b>\$5,797,225</b>	<b>\$2,329,574</b>

See accompanying notes to financial statements

CITY OF SAUSALITO  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN FUND NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	MLK	Sewer	Parking	Old City Hall	Totals	
<b>OPERATING REVENUES</b>						
Building rents				\$330,453	\$330,453	
Charges for services	\$897,735	\$706,819	\$1,337,643		2,942,197	
Use of money and property	47,862	82,305	10,289	7,874	148,330	\$114,246
Other revenue	24,951	150			25,101	142,753
<b>Total Operating Revenues</b>	<b>970,548</b>	<b>789,274</b>	<b>1,347,932</b>	<b>338,327</b>	<b>3,446,081</b>	<b>256,999</b>
<b>OPERATING EXPENSES</b>						
Administrative services						
Other expenses, net	19,447	32,213	33,893		85,553	
Professional services	13,495	98,990	7,597	600	120,682	
Repairs and maintenance	66,368	3,008	10,688	322	80,386	
Salaries and benefits	35,375	363,232	223,469		622,076	
Utilities	77,645	32,348	2,415		112,408	
Interest	502,681			57,377	560,058	
Depreciation	77,812	134,348	45,585	27,590	285,335	46,478
Amortization	3,568			2,596	6,164	
<b>Total Operating Expenses</b>	<b>796,391</b>	<b>664,139</b>	<b>323,647</b>	<b>88,485</b>	<b>1,872,662</b>	<b>46,478</b>
<b>Operating Income Before Transfers</b>	<b>174,157</b>	<b>125,135</b>	<b>1,024,285</b>	<b>249,842</b>	<b>1,573,419</b>	<b>210,521</b>
Transfers in (Note 3)						317,983
Transfers (out) (Note 3)	(33,375)	(79,000)	(850,000)	(112,500)	(1,074,875)	
<b>Net transfers</b>	<b>(33,375)</b>	<b>(79,000)</b>	<b>(850,000)</b>	<b>(112,500)</b>	<b>(1,074,875)</b>	<b>317,983</b>
<b>Change in net assets</b>	<b>140,782</b>	<b>46,135</b>	<b>174,285</b>	<b>137,342</b>	<b>498,544</b>	<b>528,504</b>
<b>BEGINNING NET ASSETS (DEFICIT)</b>	<b>(1,346,212)</b>	<b>6,422,465</b>	<b>215,714</b>	<b>6,714</b>	<b>5,298,681</b>	<b>1,801,070</b>
<b>ENDING NET ASSETS (DEFICIT)</b>	<b>(\$1,205,430)</b>	<b>\$6,468,600</b>	<b>\$389,999</b>	<b>\$144,056</b>	<b>\$5,797,225</b>	<b>\$2,329,574</b>

See accompanying notes to financial statements

CITY OF SAUSALITO  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds					Governmental Activities- Internal Service Funds
	MLK	Sewer	Parking	Old City Hall	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$1,433,471	\$704,917	\$1,358,101	\$333,049	\$3,829,538	
Payment to employees	(35,375)	(350,322)	(224,740)		(610,437)	
Payment to suppliers	(196,459)	(133,252)	(83,405)	(922)	(414,038)	(\$295)
Other receipts (payments)	(439,425)	82,455	32,536	(51,299)	(375,733)	139,343
Cash Flows from Operating Activities	<u>762,212</u>	<u>303,798</u>	<u>1,082,492</u>	<u>280,828</u>	<u>2,429,330</u>	<u>139,048</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Intfund receipts	239,847				239,847	
Transfers in (Note 3)						317,983
Transfers (out) (Note 3)	(33,375)	(79,000)	(850,000)	(112,500)	(1,074,875)	
Cash Flows from Noncapital Financing Activities	<u>206,472</u>	<u>(79,000)</u>	<u>(850,000)</u>	<u>(112,500)</u>	<u>(835,028)</u>	<u>317,983</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Capital expenditures	(3,571)	(448,836)	(31,121)	(2,598)	(486,126)	(64,778)
Principal payments on capital debt	(345,802)			(114,938)	(460,740)	
Cash Flows from Capital and Related Financing Activities	<u>(349,373)</u>	<u>(448,836)</u>	<u>(31,121)</u>	<u>(117,536)</u>	<u>(946,866)</u>	<u>(64,778)</u>
Net Cash Flows	619,311	(224,038)	201,371	50,792	647,436	392,253
Cash and investments at beginning of period	98,639	2,344,388	111,100	197,032	2,751,159	2,835,102
Cash and investments at end of period	<u>\$717,950</u>	<u>\$2,120,350</u>	<u>\$312,471</u>	<u>\$247,824</u>	<u>\$3,398,595</u>	<u>\$3,227,355</u>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>						
Operating income	\$174,157	\$125,135	\$1,024,285	\$249,842	\$1,573,419	\$210,521
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation and amortization	81,380	134,348	45,585	30,186	291,499	46,478
Change in assets and liabilities:						
Accounts receivables	99,741	(1,902)	20,458		118,297	
Issuance/leasing costs	3,568			2,596	6,164	
Loans receivable	432,427				432,427	
Accounts payable and accruals	(19,504)	33,307	(28,812)		(15,009)	(295)
Accrued interest payable	(21,465)			(1,796)	(23,261)	(117,656)
Accrued compensated absences		12,910	(1,271)		11,639	
Refundable deposits	11,908		22,247		34,155	
Cash Flows from Operating Activities	<u>\$762,212</u>	<u>\$303,798</u>	<u>\$1,082,492</u>	<u>\$280,828</u>	<u>\$2,429,330</u>	<u>\$139,048</u>

See accompanying notes to financial statements

**CITY OF SAUSALITO**

**FIDUCIARY FUNDS**

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF SAUSALITO  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2006

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$166,303
Assessments receivable	<u>546</u>
Total Assets	<u><u>\$166,849</u></u>
 <b>LIABILITIES</b>	
Payable to City General Fund (Note 3C)	\$3,300
Due to local Improvement Districts	<u>163,549</u>
Total Liabilities	<u><u>\$166,849</u></u>

See accompanying notes to financial statements