



CITY OF SAUSALITO, CALIFORNIA

ANNUAL FINANCIAL REPORT

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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Prepared by:
Department of Finance

CITY OF SAUSALITO, CALIFORNIA

BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
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November 10, 2005

To the City Council
City of Sausalito, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the government activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sausalito (the "City"), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the accompanying 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Sausalito at June 30, 2005, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America

Management's Discussion and Analysis and the PERS schedule of funding progress 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in relation to the basic financial statements taken as a whole.

Odenberg Ullakko Muranishi & Co LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is management's discussion and analysis of the City of Sausalito's financial activities and performance for the fiscal year ended June 30, 2005. Please read this in conjunction with the City's financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The Government-Wide Statement of Net Assets appearing as the first statement of the Basic Financial Statements, and summarized in this Management Discussion and Analysis show the City's assets to be \$52,145,241, liabilities to be \$16,420,359, and net assets to be \$35,724,882.
- Net assets increased \$1,733,149, principally as a result of increases in operating revenues and City-wide decreases in expenditures.
- As of June 30, 2005, the unreserved fund balance for the General Fund was \$(1,246,604), of which \$9,993 was designated for developer deposits on open projects.
- The General Fund Balance Sheet is the first statement of the Basic Financial Statements and General Fund activity is discussed in the Fund Financial Statements section of this Management Discussion and Analysis. The total fund balance of the General Fund, as of June 30, 2005 was \$3,991,927 a net increase of \$130,721.
- The City's long-term debt is \$6,652,300 (including \$503,741 in compensated absences), \$542,766 of which is due within one year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of 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 (RSI) in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They provide information about the activities of the City as a whole and present a long-term view of the City's finances.

The Statement of Net Assets presents information on all of the City'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 strengthening or weakening.

The Statement of Activities and Changes in Net Assets presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash receipts or disbursements. Thus, revenues and expenses are reported in this statement for some items that will only result in cash receipts or disbursements in future fiscal periods, such as property taxes assessed for the current year but received after June 30, or vacation leave earned in the current year but not utilized until a subsequent year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements of the City are divided as follows:

Governmental activities – These are activities that are principally supported by taxes and intergovernmental revenues. For the City of Sausalito, governmental activities include police services, fire and emergency medical services, community development, recreation, public works, library, and general government administration.

Also reported as governmental activities are several component units. These are organizations whose governing body is the governing body of the primary reporting government or who report to the primary governing body. Also included are organizations for which the nature and significance of their relationship with the primary reporting government is such that exclusion would cause the reporting government's financial statements to be misleading or incomplete. The City of Sausalito is the primary government in this report, and incorporated into these financial statements are the financial position and activities of four component units. *Business-type activities* – These are activities that are primarily funded through user charges. The business-type activities to be reported by the City of Sausalito are the Martin Luther King property, sewer services, parking services and the Old City Hall building.

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. The funds used by the City are 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, which focus on the long-term, governmental funds financial statements focus on short-term inflows and outflows of spendable resources and the balances of spendable resources available for spending. This information is useful in evaluating a government's short-term financing requirements.

To assist the user of these financial statements in understanding the differences and the relationship between the government-wide financial statements and the governmental funds financial statements, reconciliations between the two sets of statements have been included in this report.

The reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets highlights the inclusion of fixed assets and long-term liabilities in the government-wide financial statements.

The reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities and Changes in Net Assets highlights the exclusion of capital expenditures, depreciation and amortization, and cash flows related to long-term debt from the governmental funds statements.

The City of Sausalito maintains numerous individual funds, which for financial reporting purposes are grouped according to type (general fund, special revenue, and capital projects). Funds whose expenditures exceed 10% of the total expenditures for all governmental funds, or meet other specific criteria for determining their importance to the financial statement user, are designated Major Funds,

MANAGEMENT'S DISCUSSION AND ANALYSIS

and are reported separately in the governmental funds statements. All other funds are grouped together for reporting purposes. Major funds for the City of Sausalito are:

Governmental funds:

- General Fund

Proprietary funds:

- MLK (Martin Luther King property)
- Sewer services
- Parking services
- Old City Hall building

Individual fund data for each non-major governmental fund is provided in combining statements included in the Required Supplementary Information section of this report.

Proprietary funds

Proprietary funds have as their focus the determination of operating income or cost recovery. There are two types of proprietary funds: enterprise funds and internal service funds.

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City has four enterprise funds as noted above.
- Internal service funds are used to accumulate and allocate costs internally among the City's various funds and departments. The City uses the vehicle replacement fund as its internal service fund. 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.

Fiduciary funds

Agency funds account for assets held by the City as agent for individuals, government entities, and non-profit organizations. The City's agency funds account for debt service reserves of Local Improvement Districts for which the City acts as administrator and paying agent.

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. The notes to the financial statements follow the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

This report presents supplementary information concerning the City of Sausalito's progress in its obligation to provide pension benefits to its employees, and extensive combining financial statement and budgetary comparison statements for the summary funds reported in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

Net assets of the City are summarized below and an analysis follows:

	Governmental		Business-Type		Total		Total Percent Change
	Activities		Activities		Primary Government		
	2005	2004	2005	2004	2005	2004	
Cash and investments	\$ 8,222,219	\$ 7,061,380	\$ 2,751,159	\$ 2,452,563	\$ 10,973,378	\$ 9,513,943	15%
Capital assets, net	22,404,686	25,214,375	12,239,351	12,408,260	34,644,037	37,622,635	-8%
Other assets	5,832,966	5,416,190	694,860	707,174	6,527,826	6,123,364	7%
Total assets	36,459,871	37,691,945	15,685,370	15,567,997	52,145,241	53,259,942	-2%
Long-term debt, net	1,411,858	1,727,868	4,680,153	5,158,116	6,092,011	6,885,984	-12%
Other liabilities	4,621,812	4,701,183	5,706,536	5,483,343	10,328,348	10,184,526	1%
Total liabilities	6,033,670	6,429,051	10,386,689	10,641,459	16,420,359	17,070,510	-4%
Invested in capital assets, net	21,390,365	23,456,664	2,037,356	2,004,127	23,427,721	25,460,791	-8%
Restricted	4,379,746	4,440,011	-	-	4,379,746	4,440,011	-1%
Unrestricted	4,656,090	3,366,219	3,261,325	2,922,411	7,917,415	6,288,630	26%
Net assets	\$ 30,426,201	\$ 31,262,894	\$ 5,298,681	\$ 4,926,538	\$ 35,724,882	\$ 36,189,432	-1%

Net assets are a measure of a government's financial position and over time a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. City of Sausalito's net assets exceeded liabilities by \$35,724,882 at June 30, 2005.

Net assets invested in capital asset (e.g., land, buildings, equipment and infrastructure) of \$23,427,721 represent the cost of these assets less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from other sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net assets of \$4,379,746 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$7,917,415 may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis of Changes in Net Assets

Changes in net assets of the City are summarized below and an analysis follows:

	Governmental Activities		Business-Type Activities		Total Primary Government		Total Percent Change
	2005	2004	2005	2004	2005	2004	
Revenues:							
Program revenues:							
Charges for services	\$ 1,519,196	\$ 1,713,778	\$ 3,301,476	\$ 3,167,304	\$ 4,820,672	\$ 4,881,082	-1%
Operating grants	452,832	100,000	-	-	452,832	100,000	353%
Capital grants	416,309	1,934,377	-	-	416,309	1,934,377	-78%
General revenues:							
Taxes	8,598,378	7,057,832	-	-	8,598,378	7,057,832	22%
Intergovernmental	-	722,079	-	-	-	722,079	-100%
Investment earnings	959,988	883,506	100,191	49,431	1,060,179	932,937	14%
Other	70,602	198,521	56,000	1,003	126,602	199,524	-37%
Transfers	1,108,373	1,164,400	(1,235,375)	(1,164,400)	(127,002)	-	0%
Total revenues	13,125,678	13,774,493	2,222,292	2,053,338	15,347,970	15,827,831	-3%
Expenses:							
General government	1,858,807	1,672,262	-	-	1,858,807	1,672,262	11%
Public safety:							
Police services	3,381,396	3,227,089	-	-	3,381,396	3,227,089	5%
Fire services	2,255,289	2,318,546	-	-	2,255,289	2,318,546	-3%
Comm. develop.	853,183	1,012,057	-	-	853,183	1,012,057	-16%
Public works	1,846,822	1,901,528	-	-	1,846,822	1,901,528	-3%
Recreation	591,248	597,230	-	-	591,248	597,230	-1%
Library	563,306	514,032	-	-	563,306	514,032	10%
Interest	23,391	22,502	-	-	23,391	22,502	4%
PERS sidefund expenses	391,230	-	-	-	391,230	-	100%
Business-type			1,850,149	1,962,454	1,850,149	1,962,454	-6%
Total expenses	11,764,672	11,265,246	1,850,149	1,962,454	13,614,821	13,227,700	3%
Change	\$ 1,361,006	\$ 2,509,247	\$ 372,143	\$ 90,884	\$ 1,733,149	\$ 2,600,131	-33%

The City's governmental funds' net assets increased by \$1,361,006 during the current fiscal year. This growth in the City's net assets is principally from an increase in operating revenues in general government and decreases in general government and public works expenditures.

The City's proprietary funds' net assets increased by \$372,143 during the current fiscal year. This growth in the City's net assets is principally from an increase in operating revenues.

Analysis of Major Funds

General Fund

The General Fund is the principal operating fund of the City. During the fiscal year ended June 30, 2005, revenues equaled \$10,511,839, expenditures \$10,824,074, and net interfund transfers \$442,956. The end of year fund balance was \$3,991,927, an increase of \$130,721 from the beginning of the year. The greatest share of revenue was derived from taxes in the amount of \$8,598,378. The majority of expenditures were for police services at \$3,278,624 fire services at \$2,317,331, and general government at \$1,759,327. PERS sidefund expense of \$391,230 was offset by the PERS superfund credit recognized as revenue in FY 2004. The City has decided in FY 2005 to use the PERS designated reserve fund to pay down the PERS miscellaneous plan's side fund liability.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MLK (Martin Luther King property) Fund

Revenues in the MLK Fund were \$919,127, an increase of \$71,108 from the previous fiscal year. Expenses were \$768,866, a decrease of \$156,739 from the previous year.

Sewer Fund

Revenues in the Sewer Fund were \$826,221, an increase of \$125,682 from the previous year. Expenses were \$650,313, an increase of \$28,631 from the previous year. Transfers to other funds were \$79,000, a decrease of \$82,400 from the previous year.

Parking Fund

Revenues in the Parking Fund were \$1,408,315, an increase of \$54,418 from the previous year. Expenses were \$335,191, an increase of \$39,498 from the previous year. Transfers to other funds were \$1,013,000, an increase of \$202,000 from the previous year.

Old City Hall Building Fund

Revenues in the Old City Hall Building Fund were \$304,004, a decrease of \$11,279 from the previous year. Expenses were \$95,779, a decrease of \$23,695 from the previous year. Transfers to other funds were \$110,000, a decrease of \$82,000 from the previous year.

Analysis of All Governmental Funds

The following schedule presents a summary of general, special revenue, and capital projects fund revenues and expenditures for the fiscal year ended June 30, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues:

Program revenues:	
Charges for services	\$ 582,329
License and permits	737,914
Fines and forfeitures	502,540
General revenues:	
Taxes	8,598,378
Intergovernmental	298,057
Investment earnings	933,447
Other	240,422
Total revenues	<u>11,893,087</u>

Expenses:

General government	1,804,390
Public safety:	
Police services	3,461,904
Fire services	2,317,331
Community development	845,722
Public works	1,229,704
Recreation	553,372
Library	538,141
Debt service	72,156
PERS sidefund expense	391,230
Capital outlay	234,772
Total expenses	<u>11,448,722</u>
Revenues over (under) expenditures	<u>\$ 444,365</u>

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances 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's governmental funds reported combined ending fund balances of \$8,148,168, a decrease of \$1,105,109 from the prior year. The decrease was the result of prior period adjustments to beginning fund balance (see Note 15).

Reserved fund balance totaled \$7,873,690, which indicates that it is not available for new spending because it has already been committed as reservations against various receivables due to the City and for legally stipulated uses of grants from various federal and state agencies.

The best measure of the effectiveness of financial management of governmental funds is the increase or decrease of the fund balance from operations. For this fiscal year, revenues were \$11,893,087, and current expenditures and debt service was \$11,448,722, yielding a net increase in fund balance from operations of \$444,365.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was \$3,991,927 of which \$(1,246,604) was unreserved, leaving \$5,238,531 reserved and undesignated. The fund balance in the City's General Fund increased by \$130,721 during the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

The original Fiscal Year 2004-05 budget was modified mid and year-end as follows:

	<u>Budgeted Amounts</u>	
	<u>Original</u>	<u>Final</u>
<u>Revenues:</u>		
Property taxes	\$ 7,483,278	\$ 8,606,839
Licenses and permits	464,983	464,983
Fines and forfeitures	295,000	394,891
Unrestricted investment earnings	118,500	131,600
Charges for services	462,253	561,799
Other revenues	12,005	57,005
Total Revenues	<u>8,836,019</u>	<u>10,217,117</u>
<u>Expenditures</u>		
Current:		
General government	1,761,985	1,851,520
Library	508,593	561,069
Public safety:		
Police	3,190,167	3,331,127
Fire	2,250,280	2,250,280
Community development	887,188	884,817
Public works	1,043,604	1,058,182
Recreation	614,245	649,902
Total Expenditures	<u>10,256,062</u>	<u>10,586,897</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,420,043)</u>	<u>(369,780)</u>
<u>Other financing sources (uses):</u>		
Transfers from other funds	1,555,750	1,487,521
Transfers to other funds	<u>(135,700)</u>	<u>(1,044,565)</u>
Total Other Financing Sources (Uses)	<u>1,420,050</u>	<u>442,956</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 7</u>	<u>\$ 73,176</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

Detailed information regarding composition and activity in capital assets is provided in Note 6 to the financial statements. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounted to \$34,644,037 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, highways, drainage systems, and construction in progress.

Long-term Debt

At June 30, 2005, the City had total long-term debt as scheduled below.

<u>Governmental Activities</u>	Balance, June 30, 2004	Additions	Retirements	Balance, June 30, 2005	Due in One year
<u>Notes payable:</u>					
Department of Boating & Waterways	\$ 994,622	\$ -	\$ (27,398)	\$ 967,224	\$ 28,630
Total notes payable	<u>994,622</u>	<u>-</u>	<u>(27,398)</u>	<u>967,224</u>	<u>28,630</u>
<u>Other liabilities:</u>					
Compensated absences	738,228	355,326	(589,813)	503,741	50,374
Calif. Energy Commission	24,861	-	(2,445)	22,416	2,519
Total other liabilities	<u>763,089</u>	<u>355,326</u>	<u>(592,258)</u>	<u>526,157</u>	<u>52,893</u>
Total Governmental LTD	<u>\$ 1,757,711</u>	<u>\$ 355,326</u>	<u>\$ (619,656)</u>	<u>\$ 1,493,381</u>	<u>\$ 81,523</u>
<u>Business-Type Activities</u>					
<u>Capital leases:</u>					
MLK capital lease	\$ 3,174,731	\$ -	\$ (243,165)	\$ 2,931,566	\$ 296,305
MLK capital improvement lease	1,345,000	-	(80,000)	1,265,000	50,000
MLK discount	(13,504)	-	803	(12,701)	
Total MLK	<u>4,506,227</u>	<u>-</u>	<u>(322,362)</u>	<u>4,183,865</u>	<u>346,305</u>
Old City Hall MPA lease	1,083,131	-	(108,077)	975,054	114,938
Total Old City Hall	<u>1,083,131</u>	<u>-</u>	<u>(108,077)</u>	<u>975,054</u>	<u>114,938</u>
Total Business-type LTD	<u>\$ 5,589,358</u>	<u>\$ -</u>	<u>\$ (430,439)</u>	<u>\$ 5,158,919</u>	<u>\$ 461,243</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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 44% of the General Fund revenues and it appears that this will remain a stable source of revenue into the coming year.

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 comprehensive and understandable portrayal of the City's finances, and to fulfill the City's financial accountability to Sausalito Citizens, governmental entities, and other interested parties. Questions about this report or requests for additional financial information may be directed to:

Finance Department
City of Sausalito
420 Litho Street
Sausalito, CA 94965
www.ci.sausalito.ca.us

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

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 similar information to the old balance sheet format, but presents it 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 the City's Governmental Activities in a single column, and the financial position of all the City's Business-type Activities in a single column; these columns are followed by a total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with its Special Revenue, and Capital Projects Funds. Since the City's Internal Service Funds service these funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is prepared on the full accrual basis, which means it includes all the City's revenues and expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Funds 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, and follows these with the expenses of its Business-type Activities. Program revenues - that is, revenues which are generally directed by these programs - are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These Statements include only the financial activities of the City, because the City does not have any component unit that it is financially accountable for its activities.

These financial statements along with the fund financial statements and footnotes are called the *Basic Financial Statements*.

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CITY OF SAUSALITO
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 6,477,632	\$ 2,751,159	\$ 9,228,791
Restricted cash and investments	1,744,587	-	1,744,587
Receivables:			
Taxes receivables, net	120,075	-	120,075
Accounts receivable, net	260,055	147,126	407,181
Due from fiduciary funds	142,150	-	142,150
Due from other funds	4,796,931	-	4,796,931
Prepaid items	72,155	-	72,155
Total current assets	<u>13,613,585</u>	<u>2,898,285</u>	<u>16,511,870</u>
Investment in real property	441,600		441,600
Loans receivable, net		497,953	497,953
Issuance/leasing costs, net	-	49,781	49,781
Total other assets	<u>441,600</u>	<u>547,734</u>	<u>989,334</u>
Capital assets:			
Nondepreciable	15,014,662	3,796,002	18,810,664
Depreciable, net	7,390,024	8,354,700	15,744,724
Construction in progress	-	88,649	88,649
Total capital assets	<u>22,404,686</u>	<u>12,239,351</u>	<u>34,644,037</u>
Total assets	<u>36,459,871</u>	<u>15,685,370</u>	<u>52,145,241</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	540,816	63,754	604,570
Accrued interest payable	44,179	246,144	290,323
Accrued liabilities	457,221	14,827	472,048
Current portion of long-term debt	31,149	461,243	492,392
Compensated absences	50,374	-	50,374
Refundable deposits	90,898	97,412	188,310
Claims payable	1,271,261	8,701	1,279,962
Short-term debt, net	1,715,000		1,715,000
Due to other funds	-	4,796,931	4,796,931
Unearned revenues	268,275	-	268,275
Total current liabilities	<u>4,469,173</u>	<u>5,689,012</u>	<u>10,158,185</u>
Long-term liabilities:			
Claims payable	152,639	-	152,639
Long-term debt, net	1,411,858	4,697,677	6,109,535
Total liabilities	<u>6,033,670</u>	<u>10,386,689</u>	<u>16,420,359</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	21,390,365	2,037,356	23,427,721
Restricted for:			
Debt service	1,744,587	-	1,744,587
Special revenue	2,361,382	-	2,361,382
Capital projects	273,777		273,777
Unrestricted	<u>4,656,090</u>	<u>3,261,325</u>	<u>7,917,415</u>
Total net assets	<u>\$ 30,426,201</u>	<u>\$ 5,298,681</u>	<u>\$ 35,724,882</u>

See accompanying notes to basic financial statements.

CITY OF SAUSALITO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue
					Governmental Activities
Primary government:					
Governmental Activities:					
General government	\$ 1,858,807	\$ 35,591	\$ -	\$ -	\$ (1,823,216)
Library	563,306	17,438	50,000	9,929	(485,939)
Public safety:					
Police services	3,381,396	469,648	107,144	-	(2,804,604)
Fire services	2,255,289	110,888	30,654	-	(2,113,747)
Community development	853,183	488,616	-	-	(364,567)
Public works	1,846,822	1,120	265,034	406,380	(1,174,288)
Recreation	591,248	395,895	-	-	(195,353)
PERS sidfund expense	391,230	-	-	-	(391,230)
Interest on long-term debt	23,391	-	-	-	(23,391)
Total governmental activities	<u>11,764,672</u>	<u>1,519,196</u>	<u>452,832</u>	<u>416,309</u>	<u>(9,376,335)</u>
Business-type activities:					
MLK	768,866	817,599	-	-	48,733
Sewer	650,313	777,871	-	-	127,558
Parking	335,191	1,406,066	-	-	1,070,875
Old City Hall	95,779	299,940	-	-	204,161
Total business-type activities	<u>1,850,149</u>	<u>3,301,476</u>	<u>-</u>	<u>-</u>	<u>1,451,327</u>
Change in net assets:					
Net (expense) revenue	<u>\$ 13,614,821</u>	<u>\$ 4,820,672</u>	<u>\$ 452,832</u>	<u>\$ 416,309</u>	<u>\$ (7,925,008)</u>

continued
next page

See accompanying notes to basic financial statements.

CITY OF SAUSALITO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<u>Functions/Programs</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Change in net assets:			
Net (expense) revenue	<u>\$ (9,376,335)</u>	<u>\$ 1,451,327</u>	<u>\$ (7,925,008)</u>
General revenues:			
Taxes	8,598,378	-	8,598,378
Use of money/property	959,988	100,191	1,060,179
Other revenues	70,602	56,000	126,602
Total general revenues	<u>9,628,968</u>	<u>156,191</u>	<u>9,785,159</u>
Transfers	<u>1,108,373</u>	<u>(1,235,375)</u>	<u>(127,002)</u>
Change in net assets	<u>1,361,006</u>	<u>372,143</u>	<u>1,733,149</u>
Net assets, beginning of year, as previously reported	31,262,894	4,926,538	36,189,432
Prior period adjustment (Note 15)	(2,197,699)	-	(2,197,699)
Net assets - beginning of year,	<u>29,065,195</u>	<u>4,926,538</u>	<u>33,991,733</u>
Net assets - end of year	<u>\$ 30,426,201</u>	<u>\$ 5,298,681</u>	<u>\$ 35,724,882</u>

See accompanying notes to basic financial statements.

FUNDS FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented while non-major funds are combined in a single column. Major funds are defined as having significant activities or balances in the current year. No distinction is made between fund types. The practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the General Fixed Assets and General Long-term Debt Account Groups.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2005. 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.

* * * * *

CITY OF SAUSALITO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>Major Funds</u>		<u>Non-Major Funds</u>	Total Governmental Funds
	<u>General</u>	<u>Other Funds</u>		
ASSETS				
Cash and investments	\$ (537,566)	\$ 4,180,096	\$	3,642,530
Restricted cash and investments	1,744,587	-	-	1,744,587
Taxes receivables, net	119,740	335	-	120,075
Accounts receivable, net	188,225	71,830	-	260,055
Due from fiduciary Funds	142,150	-	-	142,150
Investment in real property	441,600	-	-	441,600
Due from other Funds	4,796,931	-	-	4,796,931
Prepaid items	-	72,155	-	72,155
Deposit - workers' compensation	-	-	-	-
Total assets	<u>\$ 6,895,667</u>	<u>\$ 4,324,416</u>	<u>\$</u>	<u>11,220,083</u>
LIABILITIES				
Accounts payable	\$ 428,183	\$ 112,338	\$	540,521
Accrued liabilities	457,221	-	-	457,221
Refundable deposits	90,898	-	-	90,898
Due to other Funds	-	-	-	-
Deferred revenues	-	55,837	-	55,837
Unearned revenues	212,438	-	-	212,438
Short term debt	1,715,000	-	-	1,715,000
Total liabilities	<u>\$ 2,903,740</u>	<u>\$ 168,175</u>	<u>\$</u>	<u>3,071,915</u>
FUND BALANCES				
Reserved, reported in:				
General fund				
Reserved for MLK	4,796,931	-	-	4,796,931
Reserved for debt service	-	-	-	-
Reserved for investment in real property	441,600	-	-	441,600
Special revenue funds	-	2,361,382	-	2,361,382
Capital projects funds	-	273,777	-	273,777
Debt service funds	-	-	-	-
	<u>5,238,531</u>	<u>2,635,159</u>	<u>-</u>	<u>7,873,690</u>
Unreserved, reported in:				
General fund:				
Designated	9,993	-	-	9,993
Undesignated	(1,256,597)	-	-	(1,256,597)
Special Revenue funds:				
Designated	-	-	-	-
Undesignated	-	72,315	-	72,315
Debt Revenue funds:				
Designated	-	-	-	-
Undesignated	-	-	-	-
Capital Projects fund				
Designated	-	461,271	-	461,271
Undesignated	-	987,496	-	987,496
Total fund balances	<u>3,991,927</u>	<u>4,156,241</u>	<u>-</u>	<u>8,148,168</u>
Total liabilities and fund balances	<u>\$ 6,895,667</u>	<u>\$ 4,324,416</u>	<u>\$</u>	<u>11,220,083</u>

See accompanying notes to basic financial statements.

CITY OF SAUSALITO

**Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets**

June 30, 2005

Total Fund Balances - Total Governmental Funds **\$ 8,148,168**

Amounts reported for governmental activities in the statement of net assets are different because:

Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period which the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds.

- -

Capital assets used in governmental activities are not current financial resources. Therefore they are not reported in the Governmental Funds Balance Sheet.

Nondepreciable Land	15,014,662	
Depreciable	26,906,210	
Less accumulated depreciation	(19,753,710)	
Construction in progress	-	22,167,162

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.

(44,179)

Long-term liabilities are not due and payable in the current period and, therefore, were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Department of Boating & Waterways	(967,224)	
California Energy Commission	(22,416)	
General liability claims	(152,639)	
Compensated absences payable	(503,741)	(1,646,020)

Internal service funds are used by management to charge costs of certain activities, such as equipment replacement, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

1,801,070

Net Assets of Governmental Activities

\$ 30,426,201

CITY OF SAUSALITO
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	<u>Major Funds</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Other Funds</u>	
Revenues:			
Taxes	\$ 8,598,378	\$ -	\$ 8,598,378
Licenses and permits	506,242	231,672	737,914
Fines and forfeitures	398,696	103,844	502,540
Use of money/property	348,186	585,261	933,447
Intergovernmental revenues	-	298,057	298,057
Charges for services	582,329	-	582,329
Other revenues	78,008	162,414	240,422
Total revenues	<u>10,511,839</u>	<u>1,381,248</u>	<u>11,893,087</u>
Expenditures:			
Current:			
General government	1,759,327	45,063	1,804,390
Library	538,141	-	538,141
Public safety:			
Police	3,278,624	183,280	3,461,904
Fire	2,317,331	-	2,317,331
Community development	845,722	-	845,722
Public works	1,034,695	195,009	1,229,704
Recreation	553,372	-	553,372
Debt service:			
Principal	-	27,398	27,398
Interest and other charges	-	44,758	44,758
PERS sidefund expense	391,230	-	391,230
Capital outlay	105,632	129,140	234,772
Total expenditures	<u>10,824,074</u>	<u>624,648</u>	<u>11,448,722</u>
Revenues over (under) expenditures	<u>(312,235)</u>	<u>756,600</u>	<u>444,365</u>
Other financing sources (uses):			
	-	-	-
Transfers from other funds	1,487,521	1,095,010	2,582,531
Transfers to other funds	(1,044,565)	(737,292)	(1,781,857)
Total other financing sources (uses)	<u>442,956</u>	<u>357,718</u>	<u>800,674</u>
Net change in fund balances	130,721	1,114,318	1,245,039
Fund balances-beginning	6,211,354	3,041,923	9,253,277
Prior period adjustment	(2,350,148)	-	(2,350,148)
Fund balances-ending	<u>\$ 3,991,927</u>	<u>\$ 4,156,241</u>	<u>\$ 8,148,168</u>

See accompanying notes to basic financial statements.

CITY OF SAUSALITO

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Government-Wide Statement of
Activities and Changes in Net Assets**

For the Year Ended June 30, 2005

Net changes in fund balances - total governmental funds **\$ 1,245,039**

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay	129,765	
Depreciation expense	<u>(793,395)</u>	(663,630)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.

Issuance on long-term debt		
Principal repayments on long-term debt	<u>29,843</u>	29,843

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences	234,487	
Change general liability claims	(152,639)	
Other changes	(2,445)	
Change in accrued interest payable	<u>21,367</u>	100,770

Internal service funds are used by management to charge the costs of certain activities, such as equipment replacement, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental funds.

648,984

Total changes in net assets of governmental activities **\$ 1,361,006**

See accompanying notes to basic financial statements.

CITY OF SAUSALITO

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For Fiscal Year Ended June 30, 2005**

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final- Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 7,483,278	\$ 8,606,839	\$ 8,598,378	\$ (8,461)
Licenses and permits	464,983	464,983	506,242	41,259
Fines and forfeitures	295,000	394,891	398,696	3,805
Unrestricted investment earnings	118,500	131,600	348,186	216,586
Charges for services	462,253	561,799	582,329	20,530
Other revenues	12,005	57,005	78,008	21,003
Total Revenues	8,836,019	10,217,117	10,511,839	294,722
Expenditures				
Current:				
General government	1,761,985	1,851,520	1,828,168	23,352
Library	508,593	561,069	538,141	22,928
Public safety:				
Police	3,190,167	3,331,127	3,278,624	52,503
Fire	2,250,280	2,250,280	2,317,331	(67,051)
Community development	887,188	884,817	852,513	32,304
Public works	1,043,604	1,058,182	1,034,695	23,487
Recreation	614,245	649,902	583,372	66,530
PERS Sidefund Expense	-	-	391,230	(391,230)
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total Expenditures	10,256,062	10,586,897	10,824,074	(237,177)
Excess of Revenues Over (Under) Expenditures	<u>(1,420,043)</u>	<u>(369,780)</u>	<u>(312,235)</u>	<u>57,545</u>
Other financing sources (uses):				
Proceeds of TRAN	-	-	-	-
Transfers from other funds	1,555,750	1,487,521	1,487,521	-
Transfers to other funds	(135,700)	(1,044,565)	(1,044,565)	-
Total Other Financing Sources (Uses)	1,420,050	442,956	442,956	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 7</u>	<u>\$ 73,176</u>	<u>130,721</u>	<u>\$ 57,545</u>
Fund balances-beginning			6,211,354	
Prior period adjustments			(2,350,148)	
Fund balances-ending			<u>\$ 3,991,927</u>	

See accompanying notes to basic financial statements.

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 2005.

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

MLK

The City has a lease agreement with the Sausalito School District to finance the acquisition of the Martin Luther King School site ("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 two years.

SEWER FUND

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

PARKING FUND

Accounts for the provision of parking services to residents and business of the City. All activities necessary to provide such services are accounted of 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

INTERNAL SERVICE FUNDS

The City's Internal Service Funds service the Governmental Funds so their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances.

VEHICLE REPLACEMENT FUND

The City established the vehicle replacement fund to finance the replacement of equipment used by City General Fund departments.

WORKERS COMPENSATION FUND

The City established the Workers Compensation Fund to account for outstanding claim liabilities.

EMPLOYEE BENEFITS FUND

The City established the Employee Benefits Fund to help finance the liability for compensated absences and other post employment benefits for City General Fund departments.

* * * * *

CITY OF SAUSALITO
STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-Type Activities				Total Business-Type Activities
	MLK	Sewer	Parking	Old City Hall	
ASSETS					
Current assets:					
Cash and investments	\$ 98,639	\$ 2,344,388	\$ 111,100	\$ 197,032	\$ 2,751,159
Cash with Fiscal Agent	-	-	-	-	-
Accounts receivable, net	101,476	1,810	43,840	-	147,126
Prepaid items	-	-	-	-	-
Deposit workers' comp.	-	-	-	-	-
Other assets	-	-	-	-	-
Total current assets	200,115	2,346,198	154,940	197,032	2,898,285
Issuance costs, net	32,257	-	-	17,524	49,781
Loans receivable, net	497,953	-	-	-	497,953
	530,210	-	-	17,524	547,734
Capital assets:					
Nondepreciable	3,786,064	-	-	9,938	3,796,002
Depreciable, net	3,477,600	4,008,619	95,971	772,510	8,354,700
Construction in progress	-	88,649	-	-	88,649
Capital assets (net)	7,263,664	4,097,268	95,971	782,448	12,239,351
Total assets	7,993,989	6,443,466	250,911	997,004	15,685,370
LIABILITIES					
Current liabilities:					
Accounts payable	31,084	13,571	19,099	-	63,754
Accrued interest payable	230,909	-	-	15,235	246,144
Accrued liabilities	-	-	14,827	-	14,827
Refundable deposits	97,412	-	-	-	97,412
Claims payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Compensated absences	-	7,430	1,271	-	8,701
Current portion of debt	346,305	-	-	114,938	461,243
Total current liabilities	705,710	21,001	35,197	130,173	892,081
Compensated absences					
Claims payable	-	-	-	-	-
Long-term debt, net	3,837,560	-	-	860,117	4,697,677
Due to City's general fund	4,796,931	-	-	-	4,796,931
Total noncurrent liabilities	8,634,491	-	-	860,117	9,494,608
Total liabilities	9,340,201	21,001	35,197	990,290	10,386,689
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt	(1,948,041)	4,097,268	95,971	(207,842)	2,037,356
Restricted-debt service	-	-	-	-	-
Unrestricted	601,829	2,325,197	119,743	214,556	3,261,325
Total net assets	\$ (1,346,212)	\$ 6,422,465	\$ 215,714	\$ 6,714	\$ 5,298,681

See accompanying notes to basic financial statements.

CITY OF SAUSALITO
STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
JUNE 30, 2005

	Governmental Activities - Internal Service Funds			
	Vehicle Replacement	Workers* Compensation	Employee Benefits	Total Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 1,765,098	\$ 849,551	\$ 220,453	\$ 2,835,102
Cash with Fiscal Agent	-	-	-	-
Accounts receivable, net	-	-	-	-
Prepaid items	-	-	-	-
Deposit workers' comp.	-	-	-	-
Other assets	-	-	-	-
Total current assets	<u>1,765,098</u>	<u>849,551</u>	<u>220,453</u>	<u>2,835,102</u>
Issuance costs, net	-	-	-	-
Loans receivable, net	-	-	-	-
Capital assets:				
Nondepreciable	-	-	-	-
Depreciable, net	237,524	-	-	237,524
Construction in progress	-	-	-	-
Capital assets (net)	<u>237,524</u>	<u>-</u>	<u>-</u>	<u>237,524</u>
Total assets	<u>2,002,622</u>	<u>849,551</u>	<u>220,453</u>	<u>3,072,626</u>
LIABILITIES				
Current liabilities:				
Accounts payable	295	-	-	295
Accrued interest payable	-	-	-	-
Accrued liabilities	-	-	-	-
Refundable deposits	-	-	-	-
Claims payable	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences	-	-	-	-
Current portion of debt	-	-	-	-
Total current liabilities	<u>295</u>	<u>-</u>	<u>-</u>	<u>295</u>
Compensated absences	-	-	-	-
Claims payable	-	1,271,261	-	1,271,261
Long-term debt, net	-	-	-	-
Due to City's general fund	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>1,271,261</u>	<u>-</u>	<u>1,271,261</u>
Total liabilities	<u>295</u>	<u>1,271,261</u>	<u>-</u>	<u>1,271,556</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	237,524	-	-	237,524
Restricted-debt service	-	-	-	-
Unrestricted	1,764,803	(421,710)	220,453	1,563,546
Total net assets	<u>\$ 2,002,327</u>	<u>\$ (421,710)</u>	<u>\$ 220,453</u>	<u>\$ 1,801,070</u>

See accompanying notes to basic financial statements.

CITY OF SAUSALITO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Business-Type Activities

	MLK	Sewer	Parking	Old City Hall	Total Business-Type Activities
Operating revenues					
Building rentals	\$ 817,599	\$ -	\$ -	\$ 299,940	\$ 1,117,539
Charges for services	-	777,871	1,406,066	-	2,183,937
Charges to departments	-	-	-	-	-
Use of money and property	45,528	48,350	2,249	4,064	100,191
Other revenue	56,000	-	-	-	56,000
	<u>919,127</u>	<u>826,221</u>	<u>1,408,315</u>	<u>304,004</u>	<u>3,457,667</u>
Operating expenses					
Administrative services	34,989	-	67,668	-	102,657
Other expenses, net	-	16,686	-	-	16,686
Professional services	31,311	75,898	5,715	-	112,924
Repairs & maintenance	41,561	122,164	20,204	1,250	185,179
Salaries and benefits	-	300,498	195,565	-	496,063
Utilities	63,603	5,363	1,906	-	70,872
Interest	516,022	-	-	64,344	580,366
Depreciation	77,812	129,704	44,133	27,590	279,239
Amortization	3,568	-	-	2,595	6,163
	<u>768,866</u>	<u>650,313</u>	<u>335,191</u>	<u>95,779</u>	<u>1,850,149</u>
Income (loss) before transfers	<u>150,261</u>	<u>175,908</u>	<u>1,073,124</u>	<u>208,225</u>	<u>1,607,518</u>
Interfund transfers in	-	-	-	-	-
Interfund transfers (out)	<u>(33,375)</u>	<u>(79,000)</u>	<u>(1,013,000)</u>	<u>(110,000)</u>	<u>(1,235,375)</u>
	<u>(33,375)</u>	<u>(79,000)</u>	<u>(1,013,000)</u>	<u>(110,000)</u>	<u>(1,235,375)</u>
Net income (loss)	116,886	96,908	60,124	98,225	372,143
Net assets (deficit), beginning of year	(1,463,098)	6,325,557	155,590	(91,511)	4,926,538
	-	-	-	-	-
Net assets (deficit), end of year	<u>\$ (1,346,212)</u>	<u>\$ 6,422,465</u>	<u>\$ 215,714</u>	<u>\$ 6,714</u>	<u>\$ 5,298,681</u>

See accompanying notes to basic financial statements.

CITY OF SAUSALITO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Governmental Activities -		Internal Service Funds	
	Vehicle Replacement	Workers' Compensation	Employee Benefits	Total Internal Service Funds
<u>Operating revenues</u>				
Building rentals	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Charges to departments	-	-	-	-
Use of money and property	36,403	17,521	1,453	55,377
Other revenue	68,841	-	-	68,841
	<u>105,244</u>	<u>17,521</u>	<u>1,453</u>	<u>124,218</u>
<u>Operating expenses</u>				
Administrative services	-	-	-	-
Other expenses, net	-	(240,716)	-	(240,716)
Professional services	-	-	-	-
Repairs & maintenance	-	-	-	-
Salaries and benefits	-	-	-	-
Utilities	-	-	-	-
Interest	-	-	-	-
Depreciation	23,649	-	-	23,649
Amortization	-	-	-	-
	<u>23,649</u>	<u>(240,716)</u>	<u>-</u>	<u>(217,067)</u>
Income (loss) before transfers	<u>81,595</u>	<u>258,237</u>	<u>1,453</u>	<u>341,285</u>
Interfund transfers in	185,699	-	219,000	404,699
Interfund transfers (out)	(97,000)	-	-	(97,000)
	<u>88,699</u>	<u>-</u>	<u>219,000</u>	<u>307,699</u>
Net income (loss)	170,294	258,237	220,453	648,984
Net assets (deficit), beginning of year	1,832,033	(679,947)	-	1,152,086
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets (deficit), end of year	<u>\$ 2,002,327</u>	<u>\$ (421,710)</u>	<u>\$ 220,453</u>	<u>\$ 1,801,070</u>

See accompanying notes to basic financial statements.

CITY OF SAUSALITO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities				Total Business-Type Activities
	MLK	Sewer	Parking	Old City Hall	
<u>OPERATING ACTIVITIES</u>					
Cash received from customers	\$ 812,905	\$ 771,315	\$ 1,392,768	\$ 301,342	\$ 3,278,330
Cash received other	128,896	-	-	-	128,896
Cash paid for claims					-
Cash paid to suppliers	(171,464)	(210,929)	(73,958)	(2,941)	(459,292)
Cash paid to employees	-	(300,498)	(195,565)	-	(496,063)
	<u>770,337</u>	<u>259,888</u>	<u>1,123,245</u>	<u>298,401</u>	<u>2,451,871</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers to other funds	(33,375)	(79,000)	(1,013,000)	(110,000)	(1,235,375)
Transfers from other funds					-
Other	68,044	-	-	-	68,044
	<u>34,669</u>	<u>(79,000)</u>	<u>(1,013,000)</u>	<u>(110,000)</u>	<u>(1,167,331)</u>
<u>CAPITAL & RELATED FINANCING ACTIVITIES</u>					
Capital expenditures	-	(149,082)	-	-	(149,082)
Interest paid	(497,468)			(64,344)	(561,812)
Borrowings	-			-	-
Principal payments	(323,165)	-	-	(108,076)	(431,241)
	<u>(820,633)</u>	<u>(149,082)</u>	<u>-</u>	<u>(172,420)</u>	<u>(1,142,135)</u>
<u>INVESTING ACTIVITIES</u>					
Interest received	45,528	48,350	2,249	4,064	100,191
Other	56,000	-	-	-	56,000
	<u>101,528</u>	<u>48,350</u>	<u>2,249</u>	<u>4,064</u>	<u>156,191</u>
Change in cash & equivalents	85,901	80,156	112,494	20,045	298,596
Balance-beginning of year	12,738	2,264,232	(1,394)	176,987	2,452,563
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance-end of year	<u>\$ 98,639</u>	<u>\$ 2,344,388</u>	<u>\$ 111,100</u>	<u>\$ 197,032</u>	<u>\$ 2,751,159</u>

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income (loss)	\$ 620,755	\$ 127,558	\$ 1,070,875	\$ 268,505	\$ 2,087,693
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation/amortization	81,380	129,704	44,133	30,185	285,402
Changes in assets and liabilities:					
Accounts receivable	4,694	(6,556)	(13,298)	1,402	(13,758)
Loans receivable	17,992				17,992
Accounts payable	(7,614)	40,541	7,675	(1,691)	38,911
Accrued liabilities	53,130	(31,359)	13,860		35,631
Net cash provided by (used) for operating activities	<u>\$ 770,337</u>	<u>\$ 259,888</u>	<u>\$ 1,123,245</u>	<u>\$ 298,401</u>	<u>\$ 2,451,871</u>

See accompanying notes to basic financial statements.

CITY OF SAUSALITO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2005

	Governmental Activities- Internal Service Funds			
	Vehicle Replacement	Workers' Compensation	Employee Benefits	Total Internal Service Funds
<u>OPERATING ACTIVITIES</u>				
Cash received from customers	\$ -	\$ -	\$ -	\$ -
Cash received other	68,841	-	-	68,841
Cash paid for claims	-	-	-	-
Cash paid to suppliers	(39,988)	-	-	(39,988)
Cash paid to employees	-	-	-	-
	<u>28,853</u>	<u>-</u>	<u>-</u>	<u>28,853</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>				
Transfers to other funds	(97,000)	-	-	(97,000)
Transfers from other funds	185,699	-	219,000	404,699
Other	-	-	-	-
	<u>88,699</u>	<u>-</u>	<u>219,000</u>	<u>307,699</u>
<u>CAPITAL & RELATED FINANCING ACTIVITIES</u>				
Capital expenditures	(62,586)	-	-	(62,586)
Interest paid	-	-	-	-
Borrowings	-	-	-	-
Principal payments	-	-	-	-
	<u>(62,586)</u>	<u>-</u>	<u>-</u>	<u>(62,586)</u>
<u>INVESTING ACTIVITIES</u>				
Interest received	36,403	17,521	1,453	55,377
Other	-	-	-	-
	<u>36,403</u>	<u>17,521</u>	<u>1,453</u>	<u>55,377</u>
Change in cash & equivalents	91,369	17,521	220,453	329,343
Balance-beginning of year	1,673,729	832,030	-	2,505,759
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance-end of year	<u>\$ 1,765,098</u>	<u>\$ 849,551</u>	<u>\$ 220,453</u>	<u>\$ 2,835,102</u>
 Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 45,192	\$ 240,716	\$ -	\$ 285,908
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation/amortization	23,649	(240,716)	-	(217,067)
Changes in assets and liabilities:				
Accounts receivable	-	-	-	-
Loans receivable	-	-	-	-
Accounts payable	(39,988)	-	-	(39,988)
Accrued liabilities	-	-	-	-
Net cash provided by (used) for) operating activities	<u>\$ 28,853</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,853</u>

See accompanying notes to basic financial statements.

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 statement, but are presented in separate Fiduciary Fund financial statements.

Additional information related to the City's Agency funds are presented as supplementary information.

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CITY OF SAUSALITO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency Funds</u>
<u>ASSETS:</u>	
Cash and investments	\$ 226,182
Assessments receivable	543
Interest receivable	<u>-</u>
Total assets	<u>\$ 226,725</u>
<u>LIABILITIES:</u>	
Accounts payable	\$ 9,296
Payable to general fund	142,150
Refundable deposits	-
Due to local Improvement Districts	<u>75,279</u>
Total liabilities	<u>\$ 226,725</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - Summary of significant accounting policies:

The basic financial statements of the City of Sausalito ("the City"), have been prepared in conformity with generally accepted principles ("GAAP") as applied to governmental agencies. The Governmental Accounting Standards Boards ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles are described 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.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included in the reporting entity is the Sausalito Recreation Foundation as the City exercises oversight responsibility. Excluded from the reporting entity are Sausalito School District and Sausalito-Marin City Sanitary District. These potential component units have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the City. These entities are excluded from the reporting entity because they have independently elected governing boards and the City is not financially accountable to them.

The City participates in the Bay Cities JPIA, a public entity risk pool, whose financial activities are not included in the basic financial statements as they are administered by a board, separate from and independent, of the City (See Note 9).

B. Description of Funds

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The minimum number of funds is maintained consistent with legal and managerial expectations.

C. Government-Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets, and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities and Business-type activities for the City, accompanied by a total column. These financial statements

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL 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. Governmental activities are financed generally through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities (MLK, Sewer, Parking and Old City Hall funds) are financed generally through user fees.

The Statement of Activities presents a comparison between direct expenses and program revenues 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 three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* ("GASB No. 34") in regards to interfund activities, payables and receivables.

D. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

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 governmental 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 governmental funds it believes should be presented as major funds, although no such funds were selected in fiscal 2005.

The major governmental funds of the City are:

- **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.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

The major proprietary funds of the City are:

- **MLK** – 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 two years. This fund is used to account for these activities.
- **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.

E. Basis of Accounting

The Government-Wide, Proprietary and Fiduciary Funds financial statements required by GASB 34 are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

The Governmental Fund financial statements are accounted for on a spending or “*current financial resources*” measurement focus, and the modified accrual basis of accounting. Accordingly, only current assets and liabilities (except for long-term advances from the City) are included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property taxes, sales taxes, intergovernmental revenues, other taxes and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain 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.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving 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.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

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.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB No. 34.

F. 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.

G. 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, Capital Projects, 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 Projects are budgeted for on a project basis rather than an annual basis; unexpended project authority is carried forward until the project is completed.

H. 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.

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.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

I. Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting infrastructure capital assets at \$100,000 and all other capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value on the date donated. Depreciation of capital assets is charged as an expense each year, and the total amount of accumulated depreciation taken over the years, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

J. 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. SEIU and police department employees are permitted to accumulate the unused portion, provided that on June 30th of any year they do not have more than 30 working days of vacation time accrued. Management and confidential employees are permitted to accumulate the unused portion, provided that on December 31, of any 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").

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured (such as vacation time, estimated to be paid upon retirement in the next fiscal year with expendable available financial resources).

K. Property Tax Revenues

State statutes provide that the property tax rate be limited generally to one percent of market value, be levied only by the County, and be shared with applicable jurisdictions. The County of Marin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to adjustments for voter-approved debt. 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. The City recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year. The County of Marin assesses properties and bills for and collects property taxes according to the schedules that follow:

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

	Secured	Unsecured
Valuation dates	January 1	January 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 April 10	August 31

The term "Unsecured" refers to taxes on personal property other than real estate, land, and buildings.

L. Net Assets

Government-Wide Net Assets consist of the following:

Invested in capital assets, net of related debt – This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that was attributed to the acquisition, construction or improvement of the assets.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Governmental Fund Balance consist of the following: Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund balance to be segregated or identify the portion of the fund not available for future expenditures.

M. 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).

N. 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.

O. 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.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2 - Stewardship, compliance, and accountability:

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general fund, special revenue, and capital projects governmental funds. All annual appropriations lapse at fiscal year end. Each department submits requests for appropriations to the City Manager so that a budget may be prepared. The proposed budget is presented to the City Council for review. The Council holds public hearings and adopts a final budget.

The appropriated budget is prepared by fund, function, and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments and other changes require the approval of the City Council. The legal level of budgetary control is the department and fund level.

Excess of expenditures over appropriations

For the fiscal year ended June 30, 2005, expenditures exceeded the budgeted expenditures in the following funds:

Fund	Expenditures exceeded budget
General fund	
Fire	\$ 67,051
PERS Sidefund expense	391,230

The excess expenditures were funded by available financial resources.

NOTE 3 - Cash and investments:

Cash and investments at June 30, 2005 consisted of the following:

	Book Value	Fair Value
Cash:		
Demand accounts	\$ (23,815)	\$ (23,815)
Cash with fiscal agent:		
U.S. government backed securities	8,708	1,897
Money market	31,454	30,310
Petty cash	4,092	4,092
	20,439	12,484
Investments:		
Pooled investments with State Local Agency Investment Fund	11,179,122	11,153,942
	11,179,122	11,153,942
Total cash and investments	\$ 11,199,561	\$ 11,166,426

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

The disposition of cash and investments by funds was as follows:

General fund	\$ 1,827,153
Other non-major funds	3,709,965
Proprietary funds	2,751,159
Internal service funds	<u>2,685,102</u>
	10,973,379
Fiduciary fund	<u>226,182</u>
Total cash and investments	<u><u>\$11,199,561</u></u>

The City maintains a cash and investments pool that is available for use by all funds. Earnings from these investments are allocated annually to each fund based on annual balances of cash and investments.

Investments are stated at the current market value. The market value information is provided as quoted on June 30, 2005. Current Market Value assesses the actual value if the City were to liquidate the investments before maturity. The City has no such intentions and plans to hold the investments to maturity.

Under provisions of the City's Investment Policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

Certificates of Deposit, Bankers Acceptances, U.S. Treasury Bills and Notes,
Government Agency Securities, Mutual Funds, Repurchase Agreements,

Commercial Paper, State of California Local Agency Investment Fund (LAIF),
San Mateo County Treasurer's Pool, Passbook Savings Accounts and
Interest Bearing Checking Accounts

At fiscal year end, the carrying amount of the City's bank deposits was an overdraft of \$(23,815) and the bank balance was \$202,068. The difference between the carrying amount and the bank balance was due to outstanding checks and deposits-in-transit. Of the bank balance, \$100,000 was insured by Federal depository insurance and \$102,068 was collateralized 110% with Securities held by the pledging financial institution in the City's name.

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 investments in the 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 the LAIF's investment portfolio are collateralized mortgage obligations, mortgage backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government sponsored enterprises, and corporations.

The City's investments are categorized below to give an indication of the level of risk assumed by the City at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the City's name.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

	Category 1	Category 2	Category 3	Uncategor- ized	Carrying amount
<u>Investments held by trustees</u>					
U.S. Gov't backed	\$ 8,708	\$ -	\$ -	\$ -	\$ 8,708
Money Market/other	31,454				31,454
Subtotal	<u>40,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,162</u>
<u>Pooled investments</u>					
State of California Local Agency Investment Fund					
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,179,122</u>	<u>11,179,122</u>
 Total	 <u>\$ 40,162</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 11,179,122</u>	 <u>\$ 11,219,284</u>

NOTE 4 – Accounts/loans receivable, net:

Accounts receivable in the MLK fund consist of the following at June 30, 2005:

The Marin School receivable, current	\$ 17,820
Other tenant receivables	15,946
Less allowance for doubtful accounts	-
Current portion of loans receivables	<u>67,710</u>
	<u>\$ 101,476</u>

Loans receivable in the MLK fund consist of the following at June 30, 2005:

Tenant improvement loans:	
The Marin School	\$ 448,676
Context Marketing	78,364
	<u>527,040</u>
Less current portion	(67,710)
The Marin School, long-term rent	38,623
	<u>\$ 497,953</u>

The Marin School

At June 30, 2005, the City has \$448,676 in notes receivable due 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, the City issued a promissory note to the School 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 \$240,000. The loan bears annual interest at the prime rate set by Bank of America plus 4-3/4% per annum, adjusted semi-annually and is payable in monthly installments, including principal and interest. The final balloon payment is due August 31, 2008 (also the date the lease expires).

At June 30, 2005, anticipated loan payments in the fiscal year ended June 30, 2006 were principal of \$16,253.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2009 at zero interest. The balance outstanding at June 30, 2005 is \$56,443.

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, 2005 is \$78,364.

Future loan payments are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 51,457	\$ 3,302	\$ 54,759
2007	26,907	473	27,380
	<u>\$ 78,364</u>	<u>\$ 3,775</u>	<u>\$ 82,139</u>

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.

NOTE 6 - Capital assets:

All capital assets, including infrastructure assets, are valued at historical cost or estimated cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

GASB 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of the depreciation is to spread the cost of the 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 the capital assets. Depreciation is provided using the straight-line method over its expected useful life. 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 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); and Infrastructure (10-65 years).

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

The following is a summary of capital assets for governmental activities as of June 30, 2005:

	Governmental Activities	Internal Service	Total
Capital assets not being depreciated:			
Land and improvements	\$ 15,014,662	\$ -	\$ 15,014,662
Construction in progress	21,844	-	21,844
	<u>15,036,506</u>	<u>-</u>	<u>15,036,506</u>
Depreciable capital assets:			
Building and improvements	875,981	-	875,981
Vehicles and equipment	1,699,602	24,680	1,724,282
Machinery and equipment	607,687	236,493	844,180
Infrastructure	23,701,096	-	23,701,096
Total	26,884,366	261,173	27,145,539
Less: accumulated depreciation	19,753,710	23,649	19,777,359
Depreciable capital assets, net	<u>7,130,656</u>	<u>237,524</u>	<u>7,368,180</u>
Total capital assets, net	<u>\$ 22,167,162</u>	<u>\$ 237,524</u>	<u>\$ 22,404,686</u>

Combined Governmental capital asset activity for the fiscal year was as follows:

	June 30, 2004	Increases	Decreases	June 30, 2005
Capital assets not being depreciated:				
Land and improvements	\$ 15,014,662	\$ -	\$ -	\$ 15,014,662
Construction in progress	198,587	65,178	(241,921)	21,844
	<u>15,213,249</u>	<u>65,178</u>	<u>(241,921)</u>	<u>15,036,506</u>
Depreciable capital assets:				
Building and improvements	875,981	-	-	875,981
Vehicles and equipment	1,810,094	49,075	(134,887)	1,724,282
Machinery and equipment	562,067	282,113	-	844,180
Infrastructure-	23,701,096	-	-	23,701,096
Total	26,949,238	331,188	(134,887)	27,145,539
Less: accumulated depreciation for				
Building and improvements	(623,771)	(16,006)	-	(639,777)
Vehicles and equipment	(1,681,112)	(67,214)	134,887	(1,613,439)
Machinery and equipment	(402,670)	(94,812)	-	(497,482)
Infrastructure	(16,387,649)	(639,012)	-	(17,026,661)
	<u>(19,095,202)</u>	<u>(817,044)</u>	<u>134,887</u>	<u>(19,777,359)</u>
Depreciable capital assets, net	<u>7,854,036</u>	<u>(485,856)</u>	<u>-</u>	<u>7,368,180</u>
Total capital assets, net	<u>\$ 23,067,285</u>	<u>\$ (420,678)</u>	<u>\$ (241,921)</u>	<u>\$ 22,404,686</u>

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

Depreciation expense for governmental activities was charged to functions as follows:

Governmental activities:	
General government	\$ 78,964
Police services	50,797
Fire services	42,080
Community development	670
Library	900
Public works	611,523
Recreation	8,461
Vehicle replacement fund	23,649
	<u>\$ 817,044</u>

Capital assets as of June 30, 2004 include a restatement adjustment to correct net capital assets as of June 30, 2004 for assets and depreciation expense that was not properly recorded. The result was to decrease land by \$2,301,687 and decrease accumulated depreciation for vehicles and equipment by \$154,597, resulting in a net decrease of \$2,147,090 (see Note 15).

The following is a summary of capital assets for business-type activities as of June 30, 2005:

	June 30, 2004	Increases	Decreases	June 30, 2005
Capital assets not being depreciated:				
Land and improvements	\$ 3,796,002	\$ -	\$ -	\$ 3,796,002
Construction in progress	-	88,649	-	88,649
	<u>3,796,002</u>	<u>88,649</u>	<u>-</u>	<u>3,884,651</u>
Depreciable capital assets:				
Building and improvements	5,926,900	-	(219,615)	5,707,285
MLK Bus Barn	275,000			275,000
Vehicles and equipment	710,024	241,296		951,320
Infrastructure-	7,960,441	-		7,960,441
Total	<u>14,872,365</u>	<u>241,296</u>	<u>(219,615)</u>	<u>14,894,046</u>
Less: accumulated depreciation for				
Building and improvements	(1,585,442)	(100,112)		(1,685,554)
MLK Bus Barn	(33,000)	(5,500)	-	(38,500)
Vehicles and equipment	(772,361)	(51,159)		(823,520)
Infrastructure	<u>(3,869,304)</u>	<u>(122,468)</u>		<u>(3,991,772)</u>
	<u>(6,260,107)</u>	<u>(279,239)</u>	<u>-</u>	<u>(6,539,346)</u>
Depreciable capital assets, net	<u>8,612,258</u>	<u>(37,943)</u>	<u>(219,615)</u>	<u>8,354,700</u>
Total capital assets, net	<u>\$ 12,408,260</u>	<u>\$ 50,706</u>	<u>\$ (219,615)</u>	<u>\$ 12,239,351</u>

NOTE 7 - Long-term debt:

The City generally incurs 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.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

<u>Governmental Activities</u>	<u>Balance,</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance,</u> <u>June 30, 2005</u>	<u>Due in</u> <u>One year</u>
<u>Construction loan:</u>					
Department of Boating & Waterways	\$ 994,623	\$ -	\$ (27,398)	\$ 967,225	\$ 28,630
Total notes payable	<u>994,623</u>	<u>-</u>	<u>(27,398)</u>	<u>967,225</u>	<u>28,630</u>
<u>Other liabilities:</u>					
Compensated absences	738,228	355,326	(589,813)	503,741	50,374
Calif. Energy Commission	24,861	-	(2,445)	22,416	2,519
Total other liabilities	<u>763,089</u>	<u>355,326</u>	<u>(592,258)</u>	<u>526,157</u>	<u>52,893</u>
	<u>\$ 1,757,712</u>	<u>\$ 355,326</u>	<u>\$ (619,656)</u>	<u>\$ 1,493,382</u>	<u>\$ 81,523</u>

Department of Boating and Waterways. The construction loan of \$967,225 is a loan borrowed 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 annual installments of \$72,156, including interest until maturity, August 1, 2025. Future debt service on the construction loan is:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 28,630	\$ 43,525	\$ 72,155
2007	29,919	42,237	72,156
2008	31,265	40,890	72,155
2009	32,672	39,483	72,155
2010	34,142	38,013	72,155
2011 to 2015	195,187	165,590	360,777
2016 to 2020	243,240	117,539	360,779
2021 to 2025	303,121	57,658	360,779
2026	69,049	3,107	72,156
	<u>\$ 967,225</u>	<u>\$ 548,042</u>	<u>\$ 1,515,267</u>

California Energy Commission. The City has a loan payable in the amount of \$22,416, bearing 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. Future debt service on the construction loan is:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,519	\$ 654	\$ 3,173
2007	2,595	578	3,173
2008	2,672	500	3,172
2009	2,754	418	3,172
2010	2,838	335	3,173
2011 to 2013	9,038	482	9,520
	<u>\$ 22,416</u>	<u>\$ 2,967</u>	<u>\$ 25,383</u>

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

<u>Business-Type Activities</u>	Balance, June 30, 2004	Additions	Retirements	Balance, June 30, 2005	Due in One year
<u>Capital leases:</u>					
MLK capital lease	\$ 3,174,730	\$ -	\$ (243,165)	\$ 2,931,565	\$ 296,305
MLK capital improvement lease	1,345,000		(80,000)	1,265,000	50,000
MLK discount	(13,504)		803	(12,701)	
Old City Hall capital improvement lease (MPA)	1,083,131		(108,077)	975,054	114,938
Total capital leases	<u>\$ 5,589,357</u>	<u>\$ -</u>	<u>\$ (430,439)</u>	<u>\$ 5,158,918</u>	<u>\$ 461,243</u>

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%. Scheduled annual future minimum lease payments are as follows:

<u>Fiscal year</u>	
2006	\$ 515,000
2007	515,000
2008	500,000
2009	495,000
2010	475,000
2011 to 2013	1,497,735
	<u>3,997,735</u>
Less - portion representing interest	1,066,170
	<u>\$2,931,565</u>

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, 2005 is comprised of the following:

Operating leases	\$ 778,639
Utility pass through	38,960
	<u>\$ 817,599</u>

Future minimum rents on noncancellable tenant operating leases for fiscal years ending after June 30, 2005 are as follows: \$696,504 - 2006 - \$600,302; 2007 - \$567,600; 2008; and \$136,319; 2009. The future minimum rents do not include amounts that may be received from tenants for reimbursement of certain building operating costs.

MLK Capital Improvement Lease:

On September 29, 1999, the City entered into a lease agreement with the Sausalito Capital Improvement Authority, a California joint powers authority, to finance capital improvements on the MLK site. This transaction is treated as a capital lease and is accounted for within an Enterprise Fund.

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,

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

commencing January 15, 2000. Principal is payable annually on July 15 until July 15, 2014, when the loan matures. Scheduled annual future minimum lease payments are as follows:

<u>Fiscal year</u>	
2006	\$ 115,100
2007	112,475
2008	134,194
2009	139,994
2010	159,875
2011-2015	1,036,620
	<hr/> 1,698,258
Less - portion representing interest	433,258
	<hr/> <u>\$ 1,265,000</u>

Old City Hall Capital Improvement Lease:

On July 30, 2003 the City entered into a lease agreement with MPA Leasing Corporation, 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 as of June 30, 2005. Interest and principal on the refinanced lease is payable semiannually on each October 1st and April 1st, commencing October 1, 2003 until April 1, 2012.

The new lease provides for the following minimum lease payments:

<u>Fiscal year</u>	
2006	\$ 174,110
2007	174,110
2008	174,110
2009	174,110
2010	174,111
2011-2013	348,220
	<hr/> 1,218,771
Less - portion representing interest (6.25%)	243,717
	<hr/> <u>\$ 975,054</u>

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.

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.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

Minimum monthly rent under the amended lease is as follows:

<u>Fiscal year</u>	
2006	\$ 285,000
2007	285,000
2008	285,000
2009	293,750
2010	300,000
2011-2014	1,100,000
	<u>\$ 2,548,750</u>

Tax Revenue Anticipation Notes (TRAN)

In October 2003, the City issued \$2.3 million in 1.4% 2003 Tax and Revenue Anticipation Notes for the general fund for cash flow purposes, these notes were paid in full on July 30, 2004. In August 2004, the City issued \$1.7 million in 1.73% 2004 Tax and Revenue Anticipation Notes for the general fund for cash flow purposes and is due August 16, 2005.

NOTE 8 - Employee Retirement Plans:

Plan Description:

The City of Sausalito has three defined benefit pension plans (Miscellaneous Plan, Safety Fire Plan and the Safety Police Plan, (the "Plans"). The Plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policies:

Active plan members in the Miscellaneous Plan, the Safety Fire Plan and the Safety Police Plan are required to contribute 8%, 9% and 9%, respectively, of their annual covered salary. The City is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal 2004-05 are as follows: 9.478% for miscellaneous employees; 23.488% for fire personnel and 24.417% for police personnel. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

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.

CITY OF SAUSALITO, CALIFORNIA
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Annual Pension Cost:

For fiscal year 2004-05, the City's combined annual pension cost was \$1,235,452; the City actually contributed \$809,247 and members contributed \$426,205. The required contribution for fiscal year 2004-05 was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.2% for miscellaneous members and 4.27% to 11.59% for safety members; and (c) 3.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of the Plan's assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gains and/or losses. The Plan's unfunded actuarial excess assets are being amortized as a level percentage of projected payrolls on a closed basis.

Miscellaneous Plan:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$ 203,121	100%	\$ -
6/30/2004	\$ 224,683	100%	\$ -
6/30/2005	\$ 198,374	100%	\$ -

Fire Safety Plan:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$ 124,940	100%	\$ -
6/30/2004	\$ 227,951	100%	\$ -
6/30/2005	\$ 101,129	100%	\$ -

Police Safety Plan:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	\$ 135,589	100%	\$ -
6/30/2004	\$ 285,575	100%	\$ -
6/30/2005	\$ 126,702	100%	\$ -

NOTE 9 - 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").

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

During fiscal 2004, 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. The change in the discounted claim liability and the claim 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.

Workers' compensation coverage

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.

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, 2005, the City's estimated liability for unpaid losses was as follows:

Projected case reserves	\$ 756,518
Projected IBNR	857,494
Total undiscounted liability	<u>\$ 1,614,012</u>
Total discounted liability	<u>\$ 1,271,261</u>

The projections are based on loss experience, exposure data and other general and specific information provided by the City such as claim history and annual payrolls. The Authority adjusts estimated loss costs to reflect anticipated investment income from assets held prior to actual claim payout. At June 30, 2005, a 4% return on investments per year was assumed.

Audited condensed financial information for the Bay Cities Joint Powers Authority for the fiscal year ended June 30, 2005 is as follows:

Total assets	\$ 13,090,975
Total liabilities	<u>9,815,445</u>
Retained earnings	<u>\$ 3,275,530</u>
Revenues	\$ 9,006,507
Expenses	<u>10,481,934</u>
Net loss	<u>\$ (1,475,427)</u>

General liability coverage

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

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

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.

At June 30, 2005, the City's estimated discount liability for unpaid losses was \$152,639. This is included as claims payable in the accompanying statement of net assets.

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 \$1 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 \$15 million. ERMA arranges for pooled risk sharing related to employment practices liability. Coverage is provided up to \$10 million.

NOTE 10 - Interfund transactions:

Transfers report the nonreciprocal contribution of resources of one fund to another. The following is a summary of transfers for the fiscal year ended June 30, 2005:

<u>Fund</u>	<u>Transfer in</u>	<u>Transfer out</u>
General fund	\$ 1,487,521	\$ 1,044,565
Special revenue funds:		
Tidelands	-	260,292
Storm Drainage	15,265	-
Capital projects funds:		
Public safety buildings		477,000
General Capital Improvements	1,079,746	-
	<u>2,582,532</u>	<u>1,781,857</u>
Agency funds:		
San Carlos	127,000	-
	<u>127,000</u>	<u>-</u>
Proprietary funds:		
MLK	-	33,375
Parking fund	-	1,013,000
Sewer fund	-	79,000
Old City Hall fund	-	110,000
Vehicle replacement fund	185,700	97,000
Employee Benefits Fund	219,000	-
	<u>404,700</u>	<u>1,332,375</u>
	<u>\$ 3,114,232</u>	<u>\$ 3,114,232</u>

Inter-fund balances report lending transactions between the City's funds and fiduciary funds. The following is a summary of Interfund balances as of June 30, 2005:

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

Fund	Due from other funds	Due from fiduciary funds	Due to other funds
General fund	\$ 4,796,931	\$ 142,150	\$ -
Business Enterprise fund:			
MLK	-	-	4,796,931
	<u>4,796,931</u>	<u>142,150</u>	<u>4,796,931</u>
Fiduciary funds:			
San Carlos	-	-	138,850
Buckley	-	-	900
Third Street	-	-	2,400
	<u>-</u>	<u>-</u>	<u>142,150</u>
Total	<u>\$ 4,796,931</u>	<u>\$ 142,150</u>	<u>\$ 4,939,081</u>

City's General Fund and MLK Fund: The City has loaned monies to the MLK Fund to be used for any expenses necessary or incidental to carrying out the administration and maintenance of the property. At June 30, 2005, outstanding loans totaling \$4,796,931 (\$3,398,889 in advances and \$1,398,042 of accrued interest) have been made from the General Fund and are to be repaid as practical to the City. Interest accrues at 5% APR.

NOTE 11 - Fund equity:

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 remaining portion is unreserved. Portions of the unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

Fund balances and retained earnings reserved and unreserved/designated at June 30, 2005 are as follows:

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

	Governmental Fund Types			Proprietary	Total
	General	Special Revenue	Capital Projects	Internal Service	
<u>Fund balances - Retained earnings</u>					
Reserved:					
MLK receivable	\$ 4,796,931	\$ -	\$ -	\$ -	\$ 4,796,931
Equipment replacement				2,002,327	2,002,327
Workers compensation				(421,710)	(421,710)
Employee benefits				220,453	220,453
Tidelands		1,323,856			1,323,856
Traffic safety		361,518			361,518
Gas tax		237,055			237,055
Library building			273,777		273,777
Construction traffic road fees		311,321			311,321
Stairs		127,632			127,632
Investment in real property	441,600	-	-	-	441,600
Total reserved	<u>5,238,531</u>	<u>2,361,382</u>	<u>273,777</u>	<u>1,801,070</u>	<u>9,674,760</u>
Unreserved and designated for:					
Police/fire safety buildings			461,271		461,271
Developer deposits	9,993	-	-	-	9,993
Total unreserved and designated	<u>9,993</u>	<u>-</u>	<u>461,271</u>	<u>-</u>	<u>471,264</u>
Unreserved and undesignated	<u>(1,256,597)</u>	<u>72,315</u>	<u>987,496</u>	<u>-</u>	<u>(196,786)</u>
Total fund equity	<u>\$ 3,991,927</u>	<u>\$ 2,433,697</u>	<u>\$ 1,722,544</u>	<u>\$ 1,801,070</u>	<u>\$ 9,949,238</u>

Funds with deficit balances:

Proprietary Fund:	
MLK	<u>\$ (1,346,212)</u>
Internal Service Fund:	
Workers compensation	<u>\$ (421,710)</u>

The Martin Luther King ("MLK") Enterprise fund has a deficit balance of \$(1,346,212) at June 30, 2005. 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, 2005 has a receivable of approximately \$4.8million (advances - \$3.4 million and interest - \$1.4 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.

NOTE 12 - Contingencies:

The City is a defendant in a number of lawsuits and claims pending at June 30, 2005. Based on correspondence with the City's legal counsel, it is the opinion of City management that unfavorable outcomes are unlikely and that the settlement of such pending cases would not materially affect the City's financial position. Accordingly, no provision for any liability that may result from adjudication has been made in the accompanying financial statements.

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.

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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

NOTE 13 - 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 outstanding balance of each of these issues as of June 30, 2005 is as follows:

	<u>Balance,</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance,</u> <u>June 30, 2005</u>
<u>LID Debt:</u>				
Downtown Assessment District 1989-1	\$ 365,000	\$ -	\$ (40,000)	\$ 325,000
Sunshine Central Assessment District	155,000		(15,000)	140,000
Total notes payable	<u>\$ 520,000</u>	<u>\$ -</u>	<u>\$ (55,000)</u>	<u>\$ 465,000</u>

Downtown Assessment District 1989-1: These bonds were issued February 20, 1990 pursuant to the Municipal Improvement Act of 1913 for the purpose of making improvements to the downtown area. Total assessments were \$850,000, of which \$56,864 was prepaid. Proceeds from total bonds issued (face value of \$786,465) were \$771,522. The bond covenant requires a reserve and redemption fund, as defined. Future debt service on the debt is:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 50,000	\$ 26,165	\$ 76,165
2007	55,000	22,515	77,515
2008	55,000	18,473	73,473
2009	60,000	14,430	74,430
2010	65,000	9,990	74,990
2011	70,000	5,180	75,180
	<u>\$ 355,000</u>	<u>\$ 96,753</u>	<u>\$ 451,753</u>

Sunshine Central Assessment District: On September 1, 1992, bonds were issued in the amount of \$289,020, representing the unpaid assessments pursuant to the provisions of the Improvement Bond Act of 1915. The bonds were issued in denominations of \$5,000 or any integral multiple thereof, except for one bond in an odd amount due in 1993. Interest on the bonds became payable commencing March 2, 1993, and semi-annually thereafter on each March 2 and September 2 until maturity. Future debt service on the debt is:

CITY OF SAUSALITO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 15,000	\$ 8,935	\$ 23,935
2007	20,000	8,005	28,005
2008	20,000	6,745	26,745
2009	20,000	5,485	25,485
2010	20,000	4,205	24,205
2011 to 2013	45,000	4,550	49,550
	<u>\$ 140,000</u>	<u>\$ 37,925</u>	<u>\$ 177,925</u>

NOTE 14 - Rotary Village Senior Housing Project:

On March 1, 2004, the City issued obligations in the amount of \$2,500,000 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 a special limited obligation of the City, payable solely out of the amounts pledged by the Corporation and is not included in the long-term debt of the City. The balance at June 30, 2005 is \$2,410,000.

NOTE 15 - Prior period adjustment:

Beginning fund balances of the City's governmental funds have been decreased by a net \$2,350,148 to correct for various errors in accounting, including incorrectly recording its Tax Revenue Anticipation Notes totaling \$2,335,000 as revenues in the general fund. Beginning net assets of the City's governmental funds have been decreased by a net \$2,197,699 to correct for various errors in accounting, including the recording of its capital assets as \$2,147,090.

REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information includes the City's PERS Schedule of Funding Progress.

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CITY OF SAUSALITO

**Required Supplementary Information - PERS
Schedule of Funding Progress - Unaudited**

Miscellaneous Plan

Actuarial Valuation Date	Entry Age	Actuarial Value of Assets (b)	Overfunded (Unfunded) Liability (b - a)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL As a % of Covered Payroll ((a - b)/c)
	Normal Accrual Liability (a)					
6/30/01	\$ 11,366,431	\$ 15,275,094	\$ 3,908,663	134.4%	\$ 2,576,340	151.7%
6/30/02	13,126,521	14,291,629	1,165,108	108.9%	2,909,829	40.0%
6/30/03	14,417,405	14,294,349	(123,056)	99.1%	3,070,057	-4.0%

** No detailed information available for Fiscal 2004 and 2005 **

Police Safety Plan

Actuarial Valuation Date	Entry Age	Actuarial Value of Assets (b)	Overfunded (Unfunded) Liability (b - a)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL As a % of Covered Payroll ((a - b)/c)
	Normal Accrual Liability (a)					
6/30/01	\$ 14,201,434	\$ 14,748,431	\$ 546,997	103.9%	\$ 1,472,871	37.1%
6/30/02	15,084,582	13,661,155	(1,423,427)	90.6%	1,491,876	-95.4%
6/30/03	16,488,950	13,710,397	(2,778,553)	83.1%	1,436,622	-193.4%

** No detailed information available for Fiscal 2004 and 2005 **

Fire Safety Plan

Actuarial Valuation Date	Entry Age	Actuarial Value of Assets (b)	Overfunded (Unfunded) Liability (b - a)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL As a % of Covered Payroll ((a - b)/c)
	Normal Accrual Liability (a)					
6/30/01	\$ 13,446,647	\$ 14,019,577	\$ 572,930	104.3%	\$ 1,392,530	41.1%
6/30/02	13,843,565	12,905,123	(938,442)	93.2%	1,273,750	-73.7%
6/30/03	13,895,554	12,694,375	(1,201,179)	91.4%	1,328,153	-90.4%

** No detailed information available for Fiscal 2004 and 2005 **

**SUPPLEMENTAL INFORMATION -
NON-MAJOR GOVERNMENTAL FUNDS**

SPECIAL REVENUE FUNDS:

TRAFFIC SAFETY

Established to account for projects related to traffic safety. Financing is provided primarily by vehicle code fines and state traffic congestion grants.

GAS TAX FUND

Established to account for the construction and maintenance of the street system in Sausalito. Financing is provided by the City's share of state gasoline taxes.

POLICE GRANTS

Established to account for costs related to the police department. Financing is provided primarily by state grants.

DISASTER ASSISTANCE

Established to account for costs related to disasters. Financing is provided primarily by federal and state grants.

STORM DRAIN

Established to account for the maintenance of the City's storm drains. Financing is provided primarily by property drainage tax and subsidies from the general fund.

STAIRS FUND

Established to account for the 167 Cazneau legal settlement received. Monies are to be used for improvements to Stairs as defined in the legal settlement.

FIRE GRANT

Established to account for costs related to the fire department. Financing is provided primarily by state grants.

CAPITAL PROJECTS FUNDS:

LIBRARY BUILDING

Established to account for capital projects related to the library. Financing is provided primarily by the general fund and state grants.

PUBLIC SAFETY BUILDINGS

Established to account for contributions and expenditures related to the design and construction of new public safety buildings.

GENERAL CAPITAL IMPROVEMENTS

Established to account for City-wide construction and improvements not otherwise paid for through the proprietary funds.

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CITY OF SAUSALITO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 2,379,120	\$ 1,800,976	\$ -	\$ 4,180,096
Cash with fiscal agent	-	-	-	-
Taxes receivables, net	335	-	-	335
Interest receivable	-	-	-	-
Accounts receivable, net	71,830	-	-	71,830
Grants receivable, net	-	-	-	-
Investment in real property	-	-	-	-
Due from other funds	-	-	-	-
Prepaid items	72,155	-	-	72,155
Inventories	-	-	-	-
Total assets	<u>\$ 2,523,440</u>	<u>\$ 1,800,976</u>	<u>\$ -</u>	<u>\$ 4,324,416</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 33,906	\$ 78,432	\$ -	\$ 112,338
Accrued liabilities	-	-	-	-
Refundable deposits	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenues	55,837	-	-	55,837
Total liabilities	<u>89,743</u>	<u>78,432</u>	<u>-</u>	<u>168,175</u>
Fund balances:				
Reserved	2,361,382	273,777	-	2,635,159
Designated	-	461,271	-	461,271
Undesignated	72,315	987,496	-	1,059,811
Total fund equity	<u>2,433,697</u>	<u>1,722,544</u>	<u>-</u>	<u>4,156,241</u>
Total liabilities and fund equity	<u>\$ 2,523,440</u>	<u>\$ 1,800,976</u>	<u>\$ -</u>	<u>\$ 4,324,416</u>

CITY OF SAUSALITO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

NONMAJOR GOVERNMENTAL FUNDS

For the fiscal year ended June 30, 2005

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Revenues;				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Licenses and permits	231,672	-	-	231,672
Fines and forfeitures	103,844	-	-	103,844
Unrestricted investment earnings	559,814	25,447	-	585,261
Intergovernmental revenues	253,630	44,427	-	298,057
Charges for services	-	-	-	-
Other revenues	152,255	10,159	-	162,414
Total revenues	<u>1,301,215</u>	<u>80,033</u>	<u>-</u>	<u>1,381,248</u>
Expenditures:				
Current:				
General government	45,063	-	-	45,063
Library	-	-	-	-
Public safety:				
Police	106,991	76,289	-	183,280
Fire	-	-	-	-
Community development	-	-	-	-
Public works	195,009	-	-	195,009
Recreation	-	-	-	-
Debt service:				
Principal	27,398	-	-	27,398
Interest and other charges	44,758	-	-	44,758
Capital outlay	33,811	95,329	-	129,140
Total expenditures	<u>453,030</u>	<u>171,618</u>	<u>-</u>	<u>624,648</u>
Revenues over (under) expenditures	<u>848,185</u>	<u>(91,585)</u>	<u>-</u>	<u>756,600</u>
Other financing sources (uses):				
Transfers from other funds	15,265	1,079,745	-	1,095,010
Transfers to other funds	(260,292)	(477,000)	-	(737,292)
Proceeds of long-term debt	-	-	-	-
Total other financing sources (uses)	<u>(245,027)</u>	<u>602,745</u>	<u>-</u>	<u>357,718</u>
Net change in fund balance	603,158	511,160	-	1,114,318
Fund balances, beginning of year	1,830,539	1,211,384	-	3,041,923
Prior period adjustment	-	-	-	-
Fund balances, end of year	<u>\$ 2,433,697</u>	<u>\$ 1,722,544</u>	<u>\$ -</u>	<u>\$ 4,156,241</u>

CITY OF SAUSALITO
COMBINING BALANCE SHEETS
OTHER SPECIAL REVENUE FUNDS
JUNE 30, 2005

	TIDELANDS FUND	SEIZED MONEY	TRAFFIC SAFETY	GAS TAX	CONSTRUCT				STAIRS FUND	DISASTER ASSISTANCE	FIRE GRANT	TOTAL OTHER SPECIAL REVENUE FUNDS
					TRAFFIC ROAD FEES	POLICE GRANTS	STORM DRAIN					
ASSETS:												
Cash and Investments	\$ 1,206,005	\$ 27,120	\$ 340,189	\$ 243,570	\$ 311,321	\$ 58,841	\$ 21,165	\$ 127,632	\$ 18,000	\$ 25,277	\$ 2,379,120	
Taxes/User Fees Receivable							335				335	
Accounts Receivable	45,696		26,134								71,830	
Grants Receivable												
Investment in real property												
Prepaid Items	72,155										72,155	
Total Assets	\$ 1,323,856	\$ 27,120	\$ 366,323	\$ 243,570	\$ 311,321	\$ 58,841	\$ 21,500	\$ 127,632	\$ 18,000	\$ 25,277	\$ 2,523,440	
LIABILITIES:												
Accounts payable		\$ 263	\$ 4,805	\$ 6,515	\$ 1,790				\$	\$ 20,533	\$ 33,906	
Accrued Liabilities												
Refundable Deposits												
Due to other funds												
Unearned revenues					55,837						55,837	
Total Liabilities	-	263	4,805	6,515	57,627	-	-	-	-	20,533	89,743	
FUND BALANCES:												
Reserved for Capital Projects			361,518	237,055	311,321			127,632			1,037,526	
Reserved for Tidelands	1,323,856										1,323,856	
Unreserved:												
Designated for Specific Purposes						1,214	21,500		18,000	4,744	72,315	
Undesignated		26,857				1,214	21,500		18,000	4,744	72,315	
Total Fund Balances	1,323,856	26,857	361,518	237,055	311,321	1,214	21,500	127,632	18,000	4,744	2,433,697	
Total liabilities and fund balances	\$ 1,323,856	\$ 27,120	\$ 366,323	\$ 243,570	\$ 311,321	\$ 58,841	\$ 21,500	\$ 127,632	\$ 18,000	\$ 25,277	\$ 2,523,440	

CITY OF SAUSALITO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

OTHER SPECIAL REVENUE FUNDS

For the fiscal year ended June 30, 2005.

	TIDELANDS FUND	SEIZED ASSETS	TRAFFIC SAFETY	GAS TAX	CONSTRUCT TRAFFIC ROAD FEES	POLICE GRANTS	STORM DRAIN	STAIRS FUND	DISASTER ASSISTANCE	FIRE GRANT	TOTAL OTHER SPECIAL REVENUE FUNDS
Revenues:											
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
License and Permits					161,604		70,088				231,672
Fines and Forfeitures			103,844								103,844
Unrestricted investment earnings	536,142	559	7,016	5,023	6,421	1,214	436	2,632	371		559,814
Intergovernmental Revenues				148,780		104,850					253,630
Other Revenues					1,080			125,000		26,175	152,255
Total Revenues	536,142	559	110,860	153,803	169,105	106,064	70,504	127,632	371	26,175	1,301,215
Expenditures:											
Current:											
General Government	45,063										45,063
Public Safety/Police Services		2,141				104,850					106,991
Community Development											
Public Works			42,060	78,089	1,850		73,218			(208)	195,009
Debt Service:											
Principal Retirement	27,398										27,398
Interest and Fiscal Charges	44,758										44,758
Capital Outlay	12,380									21,431	33,811
Total expenditures	129,599	2,141	42,060	78,089	1,850	104,850	73,218	-	-	21,223	453,030
Revenues over (under) expenditures	406,543	(1,582)	68,800	75,714	167,255	1,214	(2,714)	127,632	371	4,952	848,185
Other financing sources (uses):											
Transfers from other funds							15,265				15,265
Transfers to other funds	(260,292)										(260,292)
Proceeds of long-term debt											
Total Other Financing Sources (Uses)	(260,292)	-	-	-	-	-	15,265	-	-	-	(245,027)
Net change in fund balance	146,251	(1,582)	68,800	75,714	167,255	1,214	12,551	127,632	371	4,952	603,158
Fund balances, beginning of year	1,177,605	28,439	292,718	161,341	144,066		8,949		17,629	(208)	1,830,539
Prior period adjustments											
Fund balances, end of year	\$ 1,323,856	\$ 26,857	\$ 361,518	\$ 237,055	\$ 311,321	\$ 1,214	\$ 21,500	\$ 127,632	\$ 18,000	\$ 4,744	\$ 2,433,697

CITY OF SAUSALITO
COMBINING BALANCE SHEETS
OTHER CAPITAL PROJECTS FUNDS
JUNE 30, 2005

	<u>LIBRARY BUILDING</u>	<u>POLICE/ FIRE BUILDINGS</u>	<u>GENERAL CAPITAL IMPROV- MENTS</u>	<u>TOTAL OTHER CAPITAL PROJECTS FUNDS</u>
ASSETS:				
Cash and Investments	\$ 274,272	\$ 956,472	\$ 570,232	\$ 1,800,976
Taxes/User Fees Receivable	-	-	-	-
Accounts Receivable	-	-	-	-
Grants Receivable	-	-	-	-
Investment in real property	-	-	-	-
Prepaid Items	-	-	-	-
Total Assets	<u>\$ 274,272</u>	<u>\$ 956,472</u>	<u>\$ 570,232</u>	<u>\$ 1,800,976</u>
LIABILITIES:				
Accounts payable	\$ 495	\$ 18,201	\$ 59,736	\$ 78,432
Accrued Liabilities	-	-	-	-
Refundable Deposits	-	-	-	-
Due to other funds	-	477,000	(477,000)	-
Total Liabilities	<u>495</u>	<u>495,201</u>	<u>(417,264)</u>	<u>78,432</u>
FUND BALANCES:				
Reserved for Projects	273,777	-	-	273,777
Reserved for Notes Receivable	-	-	-	-
Unreserved:				
Designated for Specific Purposes		461,271		461,271
Undesignated			987,496	987,496
Total Fund Balances	<u>273,777</u>	<u>461,271</u>	<u>987,496</u>	<u>1,722,544</u>
Total liabilities and fund balances	<u>\$ 274,272</u>	<u>\$ 956,472</u>	<u>\$ 570,232</u>	<u>\$ 1,800,976</u>

CITY OF SAUSALITO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

OTHER CAPITAL PROJECTS FUNDS

For the fiscal year ended June 30, 2005

	<u>LIBRARY BUILDING</u>	<u>POLICE/ FIRE BUILDINGS</u>	<u>GENERAL CAPITAL IMPROV- MENTS</u>	<u>TOTAL OTHER CAPITAL PROJECTS FUNDS</u>
Revenues:				
License and Permits				
Park dedication fees	\$ -	\$ -	\$ -	\$ -
Capital improvement fees	-	-	-	-
Fines and Forfeitures	-	-	-	-
Unrestricted investment earnings	4,272	19,726	1,449	25,447
Intergovernmental Revenues	5,657	-	38,770	44,427
Other Revenues	-	5,000	5,159	10,159
Total Revenues	<u>9,929</u>	<u>24,726</u>	<u>45,378</u>	<u>80,033</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety/Police Services	-	76,289	-	76,289
Community Development	-	-	-	-
Public Works	-	-	-	-
Debt Service:				
Principal Retirement	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Capital Outlay	23,286	-	72,043	95,329
Total Expenditures	<u>23,286</u>	<u>76,289</u>	<u>72,043</u>	<u>171,618</u>
Revenues over (under) expenditures	<u>(13,357)</u>	<u>(51,563)</u>	<u>(26,665)</u>	<u>(91,585)</u>
Other financing sources (uses):				
Transfers from other funds	-	-	1,079,745	1,079,745
Transfers to other funds	-	(477,000)	-	(477,000)
Proceeds of long-term debt	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(477,000)</u>	<u>1,079,745</u>	<u>602,745</u>
Net change in fund balance	(13,357)	(528,563)	1,053,080	511,160
Fund balances, beginning of year	287,134	989,834	(65,584)	1,211,384
Prior period adjustment	-	-	-	-
Fund balances, end of year	<u>\$ 273,777</u>	<u>\$ 461,271</u>	<u>\$ 987,496</u>	<u>\$ 1,722,544</u>

AGENCY FUNDS

GASB Statement 34 requires that Agency Funds, the only Fiduciary funds the City has, be presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as agent for individuals, government entities, and non-public organizations. These funds include the following:

These funds were established to account for debt service reserves of Local Improvement Districts ("LID'S") for which the City acts as administrator and paying agent. The City is not obligated for the debt issued by the LID's. A summary of debt for these funds can be found in Footnote 13 to the Basic Financial Statements. These funds include the following:

WOODWARD AVENUE ASSESSMENT DISTRICT

GATE 5 ASSESSMENT DISTRICT

DOWNTOWN 1989-1 ASSESSMENT DISTRICT

SUNSHINE CENTRAL ASSESSMENT DISTRICT

SAN CARLOS UNDERGROUND ASSESSMENT DISTRICT

BULKLEY UNDERGROUND ASSESSMENT DISTRICT

THIRD STREET UNDERGROUND ASSESSMENT DISTRICT

CYPRESS RIDGE ASSESSMENT DISTRICT

DOWNTOWN ASSESSMENT DISTRICT-RESERVE FUND

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CITY OF SAUSALITO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
<u>Woodward Avenue Assessment District</u>				
ASSETS:				
Cash and investments	\$ 52,770	\$ 1,111	\$ -	\$ 53,881
Assessments receivable	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ 52,770</u>	<u>\$ 1,111</u>	<u>\$ -</u>	<u>\$ 53,881</u>
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Payable to general fund	-	-	-	-
Refundable deposits	-	-	-	-
Due to local Improvement Districts	52,770	-	1,111	53,881
Total liabilities	<u>\$ 52,770</u>	<u>\$ -</u>	<u>\$ 1,111</u>	<u>\$ 53,881</u>
<u>Gate 5 Assessment District</u>				
ASSETS:				
Cash and investments	\$ 1,080	\$ -	\$ (1,080)	\$ -
Assessments receivable	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ 1,080</u>	<u>\$ -</u>	<u>\$ (1,080)</u>	<u>\$ -</u>
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Payable to general fund	-	-	-	-
Refundable deposits	-	-	-	-
Due to local Improvement Districts	1,080	(1,080)	-	-
Total liabilities	<u>\$ 1,080</u>	<u>\$ (1,080)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Downtown 1989-1 Assessment District</u>				
ASSETS:				
Cash and investments	\$ 127,219	\$ 83,502	\$ (100,731)	\$ 109,990
Assessments receivable	391	798	(783)	406
Interest receivable	-	-	-	-
Total assets	<u>\$ 127,610</u>	<u>\$ 84,300</u>	<u>\$ (101,514)</u>	<u>\$ 110,396</u>
LIABILITIES:				
Accounts payable	\$ -	\$ (70,134)	\$ 70,165	\$ 31
Payable to general fund	-	-	-	-
Refundable deposits	-	-	-	-
Due to local Improvement Districts	127,610	(101,626)	84,381	110,365
Total liabilities	<u>\$ 127,610</u>	<u>\$ (171,760)</u>	<u>\$ 154,546</u>	<u>\$ 110,396</u>

CITY OF SAUSALITO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
<u>Sunshine Central Assessment District</u>				
ASSETS:				
Cash and investments	\$ 54,989	\$ 28,373	\$ (26,665)	\$ 56,697
Assessments receivable	141	277	(281)	137
Interest receivable	-	-	-	-
Total assets	<u>\$ 55,130</u>	<u>\$ 28,650</u>	<u>\$ (26,946)</u>	<u>\$ 56,834</u>
LIABILITIES:				
Accounts payable	\$ -	\$ 26,178	\$ (26,168)	\$ 10
Payable to general fund	-	-	-	-
Refundable deposits	-	-	-	-
Due to local Improvement Districts	55,130	58,967	(57,273)	56,824
Total liabilities	<u>\$ 55,130</u>	<u>\$ 85,145</u>	<u>\$ (83,441)</u>	<u>\$ 56,834</u>
<u>San Carlos Underground Assessment District</u>				
ASSETS:				
Cash and investments	\$ (43,224)	\$ 127,000	\$ (119,874)	\$ (36,098)
Assessments receivable	27,634	-	(27,634)	-
Interest receivable	-	-	-	-
Total assets	<u>\$ (15,590)</u>	<u>\$ 127,000</u>	<u>\$ (147,508)</u>	<u>\$ (36,098)</u>
LIABILITIES:				
Accounts payable	\$ 63,515	\$ 118,377	\$ (172,637)	\$ 9,255
Payable to general fund	11,850	127,000	-	138,850
Refundable deposits	-	-	-	-
Due to local Improvement Districts	(90,955)	35,881	(129,129)	(184,203)
Total liabilities	<u>\$ (15,590)</u>	<u>\$ 281,258</u>	<u>\$ (301,766)</u>	<u>\$ (36,098)</u>
<u>Bulkley Underground Assessment District</u>				
ASSETS:				
Cash and investments	\$ 8,010	\$ 169	\$ -	\$ 8,179
Assessments receivable	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ 8,010</u>	<u>\$ 169</u>	<u>\$ -</u>	<u>\$ 8,179</u>
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Payable to general fund	900	-	-	900
Refundable deposits	-	-	-	-
Due to local Improvement Districts	7,110	-	169	7,279
Total liabilities	<u>\$ 8,010</u>	<u>\$ -</u>	<u>\$ 169</u>	<u>\$ 8,179</u>

CITY OF SAUSALITO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
<u>Third Street Underground Assessment District</u>				
<u>ASSETS:</u>				
Cash and investments	\$ 3,742	\$ 79	\$ -	\$ 3,821
Assessments receivable	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ 3,742</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 3,821</u>
<u>LIABILITIES:</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Payable to general fund	2,400	-	-	2,400
Refundable deposits	-	-	-	-
Due to local Improvement Districts	1,342	-	79	1,421
Total liabilities	<u>\$ 3,742</u>	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ 3,821</u>
<u>Cypress Ridge Assessment District</u>				
<u>ASSETS:</u>				
Cash and investments	\$ 5,159	\$ -	\$ (5,159)	\$ -
Assessments receivable	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ 5,159</u>	<u>\$ -</u>	<u>\$ (5,159)</u>	<u>\$ -</u>
<u>LIABILITIES:</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Payable to general fund	-	-	-	-
Refundable deposits	-	-	-	-
Due to local Improvement Districts	5,159	-	(5,159)	-
Total liabilities	<u>\$ 5,159</u>	<u>\$ -</u>	<u>\$ (5,159)</u>	<u>\$ -</u>
<u>Downtown Assessment District-Reserve Fund</u>				
<u>ASSETS:</u>				
Cash and investments	\$ -	\$ 29,712	\$ -	\$ 29,712
Assessments receivable	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 29,712</u>	<u>\$ -</u>	<u>\$ 29,712</u>
<u>LIABILITIES:</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Payable to general fund	-	-	-	-
Refundable deposits	-	-	-	-
Due to local Improvement Districts	-	-	29,712	29,712
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,712</u>	<u>\$ 29,712</u>

CITY OF SAUSALITO
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

TOTAL AGENCY FUNDS

ASSETS:

Cash and investments	\$ 209,745	\$ 269,946	\$ (253,509)	\$ 226,182
Assessments receivable	28,166	1,075	(28,698)	543
Interest receivable	-	-	-	-
Total assets	<u>\$ 237,911</u>	<u>\$ 271,021</u>	<u>\$ (282,207)</u>	<u>\$ 226,725</u>

LIABILITIES:

Accounts payable	\$ 63,515	74,421	(128,640)	\$ 9,296
Payable to general fund	15,150	127,000	-	142,150
Refundable deposits	-	-	-	-
Due to local Improvement Districts	159,246	(7,858)	(76,109)	75,279
Total liabilities	<u>\$ 237,911</u>	<u>\$ 193,563</u>	<u>\$ (204,749)</u>	<u>\$ 226,725</u>