

THE TOWN OF SAN ANSELMO

BASIC FINANCIAL STATEMENTS

AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION

WITH INDEPENDENT AUDITOR'S REPORT

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JUNE 30, 2006

TOWN OF SAN ANSELMO
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

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September 29, 2006

To the Honorable Mayor and
Members of the Town Council of
the Town of San Anselmo

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the government activities, each major fund and the aggregate remaining fund information of the Town of San Anselmo (the "Town"), as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the Town'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 Town'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 positions of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the governmental activities, each major fund, and aggregate remaining fund information of the Town of San Anselmo at June 30, 2006, 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, the PERS schedule of funding progress, and budgetary comparison information are not a required part 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 Town'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

Town of San Anselmo
Management's Discussion and Analysis

This discussion and analysis of the Town's financial activities and performance provides an overview for the fiscal year ended June 30, 2006. Please read this in conjunction with the Town's financial statements, which follow this discussion and analysis.

Government-Wide Highlights

- The Government-Wide Statement of Net Assets appearing as the first statement of the Basic Financial Statements and summarized in Management's Discussion and Analysis, show the Town's assets to be \$18,126,950, liabilities of \$13,253,498 and net assets of \$4,873,452. In comparing Net Assets as of June 30, 2005 at \$3,375,692, a net increase of \$1,497,760 was realized, which is primarily attributable to the Town's revenues exceeding expenses by \$1,870,176, offset by a reduction of \$372,417 related to amounts owed to Marin County for fee overpayments.
- Total Town revenues were \$16,023,403 compared with total expenses of \$14,153,227 resulting in an increase in net assets for the fiscal year ended June 30, 2006 of \$1,870,176.
- The Town's net capital assets, net of related debt, totaled \$1,386,211 at June 30, 2006. This amount results from the Town's decision to exercise the GASB 34 "small entity" option of not valuing infrastructure (e.g. streets) acquired prior to June 30, 2003 in accounting for capital assets. Therefore, in comparing assets to debt on those assets, the Town's net capital assets are significantly understated in this report. Beginning in fiscal year 2003-04, the Town began to capitalize the cost of its capital projects on a go-forward basis. As of June 30, 2005 the Town's net capital assets, net of related debt, remained in the negative: (\$315,151). During 2005-06 capitalized projects increased the Town's net capital assets by \$1,701,362 and for the first time achieved a positive net capital assets amount.
- The Town's long-term debt (including current portion) totaled \$11,286,467 as of June 30, 2006, an increase of \$487,986 from the prior year. This amount includes the items reported in earlier years in the General Long Term Debt column: outstanding balance on the Measure G bonds, capital leases, accrued compensated absences, and loans payable. The additional amount results from the Town's advance from its insurance JPIA to repair the Oak Springs slide area. Additionally, the Town has accrued \$456,481 of non-current insurance claims payable, a reduction of \$127,479 from the prior year based on outstanding insurance claims as of June 30, 2006.

Fund Highlights

As of the close of fiscal year 2006, the Town's governmental funds reported a combined ending fund balance of \$3,602,497 as compared to \$4,050,247 as of June 30, 2005. The detailed components of Revenues and Expenditures can be found in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances.

Town's Highlights

Each year the Town's Department Managers commit to three work plan goals and progress toward those goals is reported to the Town Council periodically. In the 2005-06 fiscal year the work plan goals were modest in deference to the Town's difficult financial situation.

When the Town flooded on December 31, 2005, those work plan goals took a back seat to the enormous task of flood recovery that was placed on each of the departments. The flood resulted in extensive damage to several Town owned buildings including the Fire Station, Police Department, Town Council Chambers and the basement of the Library. Both the Fire Station and the Police Department offices sustained damage to such an extent that they have been completely evacuated. Town Council Chambers are currently unusable. Recovery of these facilities is estimated to take at least one year. While the Library was able to reopen for business on January 17th, it was necessary to rent storage units and mobile office

Town of San Anselmo Management's Discussion and Analysis

space in order to reestablish services. In addition to these recovery activities, the Town provided extensive debris removal efforts and other disaster response activities.

Given this far-reaching disaster, the staff's biggest and most important accomplishment this year was coming to work each and every day and getting the job done. They were challenged to continue to provide Town services under the most difficult of circumstances. Staff members maintained their composure, showed grace under pressure and worked as a team to maintain services while recovering from a disaster.

As 2005-06 drew to a close, the Town Council reluctantly endorsed a reorganization of the Town's staffing structure, with the goal of stabilizing the Town's structure and creating a sustainable budget. The reorganization resulted in the following changes:

- The Community Resources Department was eliminated, resulting in the layoff of the Director.
- The Parks Department was combined with the Streets Department, resulting in the layoff of the Parks Director and Groundskeeper Trainee.
- Library hours were reduced from 50 to 28, resulting in the layoff of the Children's Librarian and a part-time Library Assistant.
- The Building Department was combined with the Planning Department, to create a new Planning and Building Department.

The layoff of five dedicated employees was extremely difficult for the Town Council, Manager and staff. The action was taken only when all other avenues of expenditure reduction and revenue enhancement were pursued.

In 2001 the Town had 63 full time employees providing municipal services to the people of San Anselmo. While demand for those services has not diminished, the number of Town employees has now been reduced to 49.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information 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 Town's finances, in a manner similar to a private-sector business. They provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances.

The Statement of Net Assets presents information on all of the Town'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 Town is improving or deteriorating.

The Statement of Activities and Changes in Net Assets presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some of the revenues and expenses reported in this statement may result in cash flows only in future fiscal periods, such as revenues related to uncollected taxes and interest expense incurred but not paid.

Town of San Anselmo
Management's Discussion and Analysis

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 Town, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of governmental entities are divided into two categories: governmental funds, and business-type funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported, as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on (1) short-term inflows and outflows of spendable resources and (2) the remaining year-end balances available for spending. This information may be useful in evaluating a government's near-term financing requirements.

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

The Town maintains 20 individual governmental funds. In the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances, information is presented separately for the following funds considered to be **major funds**:

- General Fund
- Road Maintenance Fund
- Recreation Fund
- Emergency Reserve Fund

Non-major Governmental Funds: Special Revenue. Special revenue funds generally account for revenues derived from specific sources. These funds are required by statute or ordinance to finance particular functions or activities of government. They include the following funds:

- Capital Reconstruction Fund
- Measure G Bond Proceeds Fund
- Traffic Congestion Relief Fund
- Gas Tax Fund
- Supplemental Law Enforcement fund
- Isabel Cook Complex Fund
- Robson House Fund
- Equipment Fund
- Special Events Fund
- P.O.S.T. Fund
- Downtown Revitalization Fund

Town of San Anselmo
Management's Discussion and Analysis

Non-major Governmental Funds: Debt Service. Debt service funds are used to account for financial resources to be used for principal and interest payments on the Town's Measure G bond debt. They include the following funds:

- Debt Service, Bond Series 1995
- Debt Service, Bond Series 1997
- Debt Service, Bond Series 2000
- Debt Service, Bond Series 2003

Non-major Governmental Funds: Internal Service. This fund accounts for the premium payments as well as the self-insured portion of the Town's workers' compensation and liability insurance programs.

Business-type Funds

The Town maintains no business-type funds.

Notes to the Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information other than this discussion and analysis concerning the Town's budgetary comparison schedules and PERS schedule of funding progress.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the third year that the Town has presented its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. Thus, for the second time comparative financial data has been included in this report.

Net Assets

Net assets for the Town are summarized below and an analysis follows:

Town of San Anselmo
Management's Discussion and Analysis

	2006			2005
	Governmental Activities	Business-Type Activities	Total	Governmental Activities
Cash and investments	\$ 4,895,738	\$ -	\$ 4,895,738	\$ 5,224,031
Capital assets, net	11,461,072		11,461,072	10,034,478
Other assets	1,770,140	-	1,770,140	741,707
Total assets	18,126,950	-	18,126,950	16,000,216
Current liabilities	1,753,093		1,753,093	1,516,573
Non-current liabilities	11,500,405		11,500,405	11,107,952
Total liabilities	13,253,498	-	13,253,498	12,624,525
Invested in capital assets, net	1,386,211		1,386,211	(315,151)
Restricted	585,909		585,909	675,907
Unrestricted	2,901,332		2,901,332	3,014,936
Net assets	\$ 4,873,452	\$ -	\$ 4,873,452	\$ 3,375,691

Net assets of \$4,873,452 at June 30, 2006, consist primarily of the following elements.

ASSETS:

- Cash and investments of \$4,895,738, a decrease of \$328,293 from the prior year due primarily to the impact of unreimbursed flood expenditures.
- Accounts receivable of \$1,525,033, an increase of \$1,052,445 over the prior year, due primarily to flood insurance, FEMA and OES claims for reimbursement of flood expenditures. Fourth quarter interest income was also significantly higher due to improved interest rates.
- Prepaid expense and other current assets of \$52,394, a decrease of \$12,250 from the prior year, due to reduced early payments associated with the Recreation Department's summer program.
- Net Deferred charges associated with debt issuance of \$192,713, an \$11,762 reduction from the prior year due to the reduction of outstanding principals on the Town's facility bonds.
- Net capital assets of \$11,461,072, an increase of \$1,426,594 due to the increased value of Oak Springs slide area, post repair, as well as the Safe Routes to School grant for infrastructure improvements, and equipment and improvements to Town buildings associated with flood recovery.

LIABILITIES:

- Accounts payable and accrued liabilities totaling \$728,449, an increase of \$248,750 due primarily to the set aside of \$103,000 as the estimated first year (of five) repayment of Traffic Fines overpayment, necessitated by a Marin County Superior Court calculation error during the period from 1999 to 2006. Additionally, \$135,000 owed to vendors for items associated with flood recovery.
- Insurance Claims payable (current) totaling \$176,724, a decrease of \$16,334 from the prior year resulting from lowered actuarial requirements for current insurance claims, as calculated by the Town's Joint Powers Insurance Authority.

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Management's Discussion and Analysis

Deposits Payable and deferred revenue totaling \$605,377, an increase of \$36,050 due to deferred library fundraising donations designated for fiscal year 2006-07.

Current portion of long-term insurance debt of \$242,543, a decrease of \$31,946 from the previous year resulting from the final payoff in 2005-06 of capital leases for police vehicles.

Long term debt, net of the current portion, totaling \$11,043,924 including outstanding Measure G bonds of \$9,795,000, capital lease liabilities of \$576, a California Energy Commission loan of \$36,742, overpayment of traffic fines of \$372,417, compensated absences liability of \$339,189 and \$500,000 repair costs associated with the Oak Springs slide to be reimbursed to the Town's insurance carrier per the lawsuit settlement.

Non-current insurance claims liability of \$456,481, a decrease of \$127,479 from the previous year resulting from lowered actuarial requirements for the estimated lifetime cost of non-current portion of long-term insurance claims, as calculated by the Town's Joint Powers Insurance Authority.

Changes in Net Assets

Changes in net assets for the Town are summarized below and an analysis follows:

	2006			2005
	Governmental Activities	Business-Type Activities	Total	Governmental Activities
Revenues:				
Program revenues:				
Charges for services	\$ 3,165,795	\$ -	\$ 3,165,795	\$ 3,339,860
Operating grants & contributions	196,871		196,871	231,027
Capital grants & contributions	2,285,724		2,285,724	924,897
General revenues:				
Taxes	7,311,112		7,311,112	6,795,042
Intergovernmental	664,675		664,675	510,437
Investment earnings	359,908		359,908	250,313
Franchise fees	1,916,880		1,916,880	1,663,170
Other	122,438		122,438	63,630
Transfers				
Total revenues	16,023,403	-	16,023,403	13,778,376
Expenses:				
General government	1,312,008		1,312,008	1,300,783
Public safety	7,812,707		7,812,707	7,025,422
Public works	1,623,714		1,623,714	1,576,949
Planning	373,368		373,368	346,385
Library	749,925		749,925	609,872
Parks and Recreation	1,764,313		1,764,313	1,718,687
Interest on long-term debt	517,193		517,193	518,422
Total expenses	14,153,227	-	14,153,227	13,096,520
Change in net assets	\$ 1,870,176	\$ -	\$ 1,870,176	\$ 681,856

Net assets increased \$1,870,176 during fiscal year ended June 30, 2006 as compared to \$681,856 during the fiscal year ended June 30, 2005. Components of the change in net assets include:

Town of San Anselmo
Management's Discussion and Analysis

- Charges for Services revenue of \$3,165,795 a decrease of \$174,065, due primarily to the set aside of \$103,000 of traffic fine revenue as the estimated first year (of five) repayment of Traffic Fines overpayment, necessitated by a Marin County Superior Court calculation error during the period from 1999 to 2006. Additionally, recreation fees collected declined by \$64,560 from the previous year.
- Operating Grants and Contributions revenue of \$196,871, a decrease of \$34,156 from the prior year as a result of the 2004-05 one-time distribution of Library Transfer Book Reimbursement funds.
- Capital grants and contributions revenue of \$2,285,724, an increase of \$1,360,828 due to state and federal grants, including traffic congestion grants of \$391,520; parks' grants of \$85,311; \$1,075,026 in anticipated FEMA, OES and flood insurance reimbursement for flood recovery expenditures; and \$733,867 in local revenue for Measure G debt service payments.
- Increased revenue in the area of property taxes in the amount of \$490,848 due to an 8% increase in property tax collections. Additionally, Marin County distributed the 2001-02 ERAF reserve of \$120,053.
- Increased sales tax revenue of \$25,222 due to a general upswing in the economy.
- Related increased revenue in Franchise and other tax revenue due the State's repayment of the MVLF "gap loan" of \$211,169.
- Increased revenue from use of money and property due to interest rate increase during 2005-06 from 2.85% to 4.53% as well as increased rental income from the Town's assumption of Robson House management in December 2005.
- Elevated expenses in all departments due to 3% COLA for all positions effective January 1, 2006 and rate increases in the area of employee benefits, particularly in the areas of retirement and health coverage. The layoff of five staff members effective June 30, 2006 resulted in one-time severance and leave buyout costs.
- Offsetting decline in the Library department expenses due to the reduction of operating hours.
- Beginning net assets of the have been reduced by an amount of \$372,417. This amount represents a correction of overpayments of traffic school fees and evidence fees paid to the Town by the County of Marin for the periods July 1999 through June 2004. The Town is obligated to repay the funds within 5 years and will be charged an interest rate of 7.75% per annum.

Analysis of Major Governmental Funds

General Fund

General Fund revenue and transfers in received during the 2005-06 year, totaling \$12,282,851, exceeded the revised budget by \$470,343. The largest source of unanticipated revenue was the additional \$120,053 in Education Relief Augmentation Fund (ERAF) tax revenue received in June 2006. Secured and supplemental taxes exceeded the budgeted amount by \$161,760, pension override tax revenue by \$104,199 and state MVLF/Property Tax In-Lieu of MVLF by a net amount of \$103,319. These additional funds were offset in part by the loss of Municipal Services Tax in the amount of \$10,635 due to the recent interpretation of fees to commercial property owners housing residents. Property transfer tax revenue was also less than budgeted by \$25,213.

Town of San Anselmo Management's Discussion and Analysis

Other sources of revenue that exceeded adopted budget amounts include interest earnings by the amount of \$70,018 due to increasing interest rates within the 12-month period from 2.85% to 4.53%. Parking meter revenue fell short of budget projections but was more than offset by vehicle code and parking fines, resulting in a net gain of \$28,718.

Sources of revenue that fell short of the budgeted amount include library fines by \$15,114 due to reduced operating hours. Traffic fines also fell short by \$91,117 as a result of the \$103,346 year end set aside necessary for the first year of a 5 year payback of traffic fine overpayments (Superior Court's miscalculation of the Town's traffic fines apportionment from July 1999 through June 2006. See also the prior period adjustment above.)

General Fund expenditures and transfers out for fiscal year 2005-06 totaling \$11,989,077 fell below the revised budget amount by \$196,339. Conscious of the budget crisis, all Town departments continued their belt-tightening strategies, particularly in the area of outside services. These efforts resulted in savings in Administration, Engineering and Inspection, Legal Services, Non-Departmental, Planning, Police, Streets and Recreation. In addition, at yearend the contingency reserve had an unspent balance of \$8,511. These savings more than offset the expenditures of the Community Resources, Library, and Parks departments that exceeded their budget due to severance and leave buyout costs for laid off staff members.

Analyzing expenditures by major expense category across all departments reflects the savings in the area of outside services. Administration realized \$22,000 savings in banking services and bargaining unit negotiations performed by in-house staff. Legal services realized savings of \$31,000 and the planning department saved \$39,000 in consultant costs. Non-departmental savings included the \$8,500 portion of the political consultant's contract not charged. Police realized \$14,700 savings in parking meter maintenance, \$12,000 in booking fee costs, and \$11,800 in outside professional service fees. Engineering and Inspection saved \$11,700 in outside plan checking costs.

In summary, the net impact of the budgeted to actual revenue gain and expenditure savings for fiscal year 2005-06 resulted in excess revenue of \$666,682. This number compares favorably to the \$461,455 excess revenue estimated in the 2006-07 Adoption Budget. In adopting the 2006-07 Budget on September 12, 2006, the Town Council approved the transfer of the \$461,455 to the Emergency Projects Fund to partially fund the local share of flood recovery costs. Even with this significant infusion of resources and optimistic estimates for FEMA, OES and insurance reimbursements, the Emergency Projects Fund budget is projected to end the 2006-07 fiscal year with a negative fund balance in the amount of (\$321,410). Thus, a potential use for this additional \$205,227 one-time excess revenue might be to further reduce this deficit.

Road Maintenance Fund

The Road Maintenance Fund received revenue from two major sources. First, the Road Impact fees for construction projects and refuse vehicles, totaling \$259,385, is revenue legally restricted for use in road improvement projects. Second, this fund received \$9,855 in interest earnings from idle Measure G bond funds invested in the Local Agency Investment Fund (LAIF). These funds are reserved by Town Council policy for use in slurry seal street repairs. Capital expenditures totaled \$393,725 for infrastructure improvements during 2005-06. In addition, a transfer of \$250,000 previously contributed General Fund monies was returned to the General Fund to maintain Town services.

The Road Maintenance fund balance as of June 30, 2006 totaled \$773,123 and included the following reserves: Slurry Seal Projects \$301,211; Road Impact Fees \$450,280; and Baldhill Road Improvements \$21,632.

Recreation Fund

The Recreation Fund received revenues in the amount of \$1,026,404, falling short of the budgeted amount by \$70,246. Expenditures totaled \$1,081,622, resulting in a savings of \$44,642. This resulted in a net decline in the reserve of \$55,218, which was \$25,604 more than the intended reduction of \$29,614

Town of San Anselmo
Management's Discussion and Analysis

budgeted for equipment replacement. As a consequence, the Recreation fund balance declined from a July 1, 2005 beginning balance of \$122,037 to a June 30, 2006 ending fund balance of \$66,819. This number compares to the \$64,766 estimated at the time of the 2006-07 Budget Adoption.

Emergency Reserve Fund

At budget adoption, the Emergency Projects Fund had a beginning balance of \$50,000 with no revenue or expenditures anticipated for the 2005-06 fiscal year. In response to the December 2005 flood, 13 community donations in the amount of \$3,078 were received. During April 2006 Wells Fargo Bank donated \$10,000 to the Town for flood relief. In May 2006, the Town received a State 9-1-1 Emergency Grant in the amount of \$19,807 to relocate the Town's 911 emergency phone system.

As of June 30, 2006 accounts receivables were established in anticipation of reimbursement of flood expenses by FEMA and OES as well as the Town's FEMA Flood Insurance coverage. In each case, the accounts receivable amount was calculated based on actual 2005-06 expenditures, the standard rate of reimbursement (i.e. FEMA at 75%; OES at 18.75%; Flood Insurance maximum coverage of \$1,080,000), and a 75% probability of recovery. The amount anticipated from FEMA Flood Insurance is \$810,000. The amount anticipated from FEMA/OES is \$245,219. In addition, as of June 30th the Town contributed a local share of \$120,000.

Expenditures associated with the flood totaled \$1,521,883, including \$278,488 for debris removal and street cleaning; \$845,980 for Town Hall building cleanup and temporary facilities; \$259,242 for Library building cleanup/restoration and temporary facilities; \$118,498 for fire station building cleanup; \$8,340 for Allyn Avenue slide repair; and \$11,335 for administrative costs related to flood recovery activities.

As of June 30, 2006, the Town expended \$263,779 beyond all sources of revenue identified to date, i.e. the \$32,885 donation and grant revenue actually received, the \$810,000 anticipated from Flood Insurance, the \$245,219 anticipated from FEMA/OES, the \$120,000 general fund contribution, and the \$50,000 Emergency Projects reserve amount. In its 2006-07 Adoption Budget, the Town Council approved a general fund contribution of \$461,455 to cover this shortfall and to fund the 2006-07 local share of flood recovery expenditures.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

The Town's 2006-07 budget reflects the severe financial restraints under which the Town has operated during the last four years, culminating in June 2006 in a major reorganization of the Town's staffing structure aimed at stabilizing the Town's structure and creating a sustainable budget.

The Town's financial outlook has been in a declining state since fiscal year 2001-02, due to the poor economy, takeaways from the State of California, declining revenues and rising expenditures. While the Town has continued to experience a steady real estate market and associated construction activity, expenditures have continued to outstrip revenues.

Over the last four years expenditures were reduced by leaving nine positions vacant, slashing department budgets, eliminating training opportunities, and deferring equipment purchases, capital projects and maintenance to Town buildings. Employee salary increases were deferred. In addition, fees and fines were increased and parking meters installed in Town parking lots

The Fiscal Advisory Committee, appointed in the spring of 2005, found that "a new tax assessment is the only means within the Town's direct control to close the gap between the reduced revenue streams and increased costs of running the Town." A ballot measure on the November 2005 ballot for a special tax assessment failed to garner the required two thirds majority.

Town of San Anselmo Management's Discussion and Analysis

As noted above, on December 31, 2005 the Town of San Anselmo experienced a devastating flood as the result of unusually heavy winter rains. San Anselmo Creek spilled its banks at approximately 4 a.m., and over 300 residences and 150 businesses were damaged, many severely, by the time the floodwaters receded at 8 a.m. Estimates of damages in San Anselmo alone are \$30 million. The Town's public buildings were not spared. The Police Department, Fire Department, Council Chambers, Public Restrooms and the lower floor of the Library were rendered inoperable by the floodwaters. Town public safety staff moved to temporary quarters while continuing to provide critical services.

To date, the Town has already spent over \$1.5 million in flood recovery. Reconstruction in the Library is complete, and plans are underway for the other facilities. Reimbursement for many of the flood expenses is expected from the Federal Emergency Management Administration (FEMA) and the State Office of Emergency Services (OES) and from the Town's flood insurance. Unfortunately, however, significant funds will be required from the Town's General Fund for flood expenses.

The long-term fiscal challenges facing the Town are:

- Regaining the progress lost during these very lean years in maintaining the Town's buildings, parks and other public facilities and replacing old, outdated equipment.
- Recovering from the devastating flood of 2005 while simultaneously trying to come back from four years of severe cutbacks.
- Ensuring sufficient funds to maintain the Town's streets and storm drain infrastructure at current levels.
- Restoring Town services that have been cut, such as Library hours and staffing.
- Relying heavily on a relatively fixed tax base, restricted by a geography offering few development possibilities for tax revenue expansion.
- Retaining experienced Town staff through sufficient employee compensation to remain competitive in the employment market. The high cost of living in Marin County makes attracting and retaining qualified employees difficult.

The 2006-07 budget allocates funds to road maintenance, badly needed capital projects and equipment purchases. Employees have received salary increases. Funds have been put aside toward the considerable flood expenses that will not be covered by FEMA or by the Town's flood insurance. Funds that were slashed from department budgets in 2004-05 have been restored.

For the first time in four years, the budget reflects funds for desperately needed capital project expenditures, as follows:

- Repairs to the Creek Park electrical system and Hub Equipment Shed.
- Matching funds for a seismic retrofit for the Town Hall Tower.
- Funds for the Ross Valley Watershed effort for flood mitigation.
- Repairs to the leaking Town Hall roof.

In addition, funds are budgeted for much needed equipment expenditures, including:

- Replacement of outdated desktop computer hardware and software.
- Replacement of the Town's accounting hardware and software, which is no longer supported by the manufacturer.
- Repair of critical equipment for Streets and Parks maintenance.

The budget also includes a \$400,000 contribution to the Town's Road Maintenance Fund, reflecting the Council's commitment to maintain the progress accomplished by the Town's Measure G bond program. Also included is a transfer of \$461,000 to the Emergency Fund, to provide for the local share of flood expenses.

Town of San Anselmo
Management's Discussion and Analysis

Each Town department head, in conjunction with the Town Manager, recommends two to four work plan items to undertake during the upcoming fiscal year. In this extraordinary year, department head staff agreed to three joint work plan goals, as follows:

- Reconstruction of the Town's flood damaged buildings, including the Police Department, Council Chambers, Public Restrooms and the Fire Department.
- Submission of grant requests for flood recovery items, including residential elevations, Town Hall Tower seismic retrofit and elevation of the downtown fire station.
- Initiation of a community preparedness program to ensure that San Anselmo residents are prepared for a disaster.

The 2006-07 budget represents a prudent and sustainable budget that addresses the Town's most pressing capital and equipment needs, while maintaining a staffing structure that meets the needs of its citizens.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors and government regulators with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Below is the contact address for questions about this report or requests for additional financial information.

Finance & Administrative Services Director
Town of San Anselmo
525 San Anselmo Avenue
San Anselmo, CA 94960

(Ph) 415-258-4678

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

* * * * *

TOWN OF SAN ANSELMO**Statement of Net Assets****June 30, 2006**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 4,895,738	\$ -	\$ 4,895,738
Accounts and interest receivable	432,071	-	432,071
Other receivables	1,092,962	-	1,092,962
Prepays and other current assets	52,394	-	52,394
Total current assets	<u>6,473,165</u>	<u>-</u>	<u>6,473,165</u>
Noncurrent assets:			
Deferred charges, net	192,713	-	192,713
Capital assets, net	11,461,072	-	11,461,072
Total noncurrent assets	<u>11,653,785</u>	<u>-</u>	<u>11,653,785</u>
Total assets	<u>18,126,950</u>	<u>-</u>	<u>18,126,950</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	728,449	-	728,449
Deposits payable and deferred revenue	605,377	-	605,377
Claims liabilities	176,724	-	176,724
Current portion of long-term debt	242,543	-	242,543
	<u>1,753,093</u>	<u>-</u>	<u>1,753,093</u>
Noncurrent liabilities:			
Long-term debt, net	11,043,924	-	11,043,924
Claims liabilities	456,481	-	456,481
Total liabilities	<u>13,253,498</u>	<u>-</u>	<u>13,253,498</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,386,211	-	1,386,211
Restricted for:			
Capital projects	-	-	-
Debt service	585,909	-	585,909
Unrestricted	2,901,332	-	2,901,332
Total net assets	<u>\$ 4,873,452</u>	<u>\$ -</u>	<u>\$ 4,873,452</u>

TOWN OF SAN ANSELMO

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

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	\$ 1,312,008	\$ 32,501	\$ 30,607	\$ -	\$ (1,248,900)
Public safety	7,812,707	1,041,401	123,167	-	(6,648,139)
Public works	1,623,714	856,282	-	2,200,413	1,432,981
Planning	373,368	157,039	-	-	(216,329)
Library	749,925	26,513	38,097	-	(685,315)
Parks and recreation	1,764,313	1,052,059	5,000	85,311	(621,943)
Interest on long-term debt	517,191	-	-	-	(517,191)
Total governmental activities	<u>14,153,227</u>	<u>3,165,795</u>	<u>196,871</u>	<u>2,285,724</u>	<u>(8,504,837)</u>
Business-type activities:					
	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net (expense) revenue	<u>\$ 14,153,227</u>	<u>\$ 3,165,795</u>	<u>\$ 196,871</u>	<u>\$ 2,285,724</u>	<u>\$ (8,504,837)</u>

TOWN OF SAN ANSELMO

Statement of Activities and Changes in Net Assets (Continued)

For the Fiscal Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net (expense) revenue	\$ (8,504,837)	\$ -	\$ (8,504,837)
General revenues:			
Property taxes	6,566,737	-	6,566,737
Sales taxes	744,375	-	744,375
Franchise and other taxes	1,916,880	-	1,916,880
Use of money and property	359,908	-	359,908
Revenues from other agencies	664,675	-	664,675
Other revenue	122,438	-	122,438
Transfers	-	-	-
Total general revenues and transfers	<u>10,375,013</u>	<u>-</u>	<u>10,375,013</u>
Change in net assets	1,870,176	-	1,870,176
Net assets, beginning of year	3,375,692	-	3,375,692
Prior period adjustment (Note 16)	(372,417)	-	(372,417)
Net assets, end of year	<u>\$ 4,873,452</u>	<u>\$ -</u>	<u>\$ 4,873,452</u>

TOWN OF SAN ANSELMO

Governmental Funds

Balance Sheet

June 30, 2006

	Major Funds					Total Governmental Funds
	General Fund	Road Maintenance	Recreation	Emergency Reserve	Other Governmental Funds	
ASSETS						
Cash and Investments	\$ 1,164,763	\$ 772,598	\$ 331,087	\$ -	\$ 869,960	\$ 3,138,408
Receivables:						
Property taxes	-	-	-	-	-	-
Other	-	-	-	1,069,159	23,803	1,092,962
Accounts	277,298	10,104	-	-	144,669	432,071
Interest	-	-	-	-	-	-
Prepays and other assets	13,624	-	13,501	6,800	6,275	40,200
Due from other funds	1,204,862	-	-	-	-	1,204,862
Total assets	\$ 2,660,547	\$ 782,702	\$ 344,588	\$ 1,075,959	\$ 1,044,707	\$ 5,908,503
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	\$ 305,503	\$ 9,579	\$ 23,592	\$ 134,877	\$ 22,216	\$ 495,767
Deposits payable and deferred revenue	341,673	-	254,177	-	9,527	605,377
Due to other funds	-	-	-	1,204,862	-	1,204,862
Total liabilities	647,176	9,579	277,769	1,339,739	31,743	2,306,006
Fund balances						
Reserved for pension override tax	154,533	-	-	-	-	154,533
Reserved for merchant parking	36,595	-	-	-	-	36,595
Reserved for SWARAC Downtown	1,616	-	-	-	-	1,616
Reserved - Other Debt Service Funds	-	-	-	-	585,909	585,909
Reserved - Capital projects	-	773,123	-	-	186,599	959,722
Unreserved:						
Designated (deficit) - Special Revenue Funds	-	-	-	-	300,623	300,623
Undesignated - General Fund	1,820,627	-	-	-	-	1,820,627
Undesignated (deficit) - Special Revenue Funds	-	-	66,819	(263,780)	(60,167)	(257,128)
Total fund balances	2,013,371	773,123	66,819	(263,780)	1,012,964	3,602,497
Total liabilities and fund balances	\$ 2,660,547	\$ 782,702	\$ 344,588	\$ 1,075,959	\$ 1,044,707	\$ 5,908,503

TOWN OF SAN ANSELMO

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

June 30, 2006

Total Fund Balances - Total Governmental Funds **\$ 3,602,497**

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:

1995 General Obligation Bonds	49,647	
1997 General Obligation Bonds	52,149	
2000 General Obligation Bonds	39,987	
2003 General Obligation Bonds	<u>50,930</u>	192,713

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

Nondepreciable	2,591,850	
Depreciable	13,316,599	
Less: accumulated depreciation	<u>(4,447,377)</u>	11,461,072

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.

(215,168)

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:

1995 General Obligation Bonds	(1,880,000)	
1997 General Obligation Bonds	(3,195,000)	
2000 General Obligation Bonds	(2,410,000)	
2003 General Obligation Bonds	(2,530,000)	
Capital leases	(13,305)	
California Energy Commission Loan	(46,556)	
Due to County of Marin for overpayment of traffic school and evidence fees	(372,417)	
Accrued compensated absences	(339,189)	
Due to insurance company for landslide repairs (Note 5)	<u>(500,000)</u>	(11,286,467)

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.

1,118,805

Net Assets of Governmental Activities

\$ 4,873,452

CITY OF SAN ANSELMO

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2006

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Road Maintenance	Recreation	Emergency Reserve			
REVENUES							
Property taxes	\$ 6,566,737	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,566,737
Sales taxes	744,375	-	-	-	-	-	744,375
Landfill and other taxes	1,916,880	-	-	-	-	-	1,916,880
Licenses and permits	627,441	-	-	-	-	-	627,441
Fines and forfeitures	256,221	-	-	-	-	-	256,221
Measure C levy	-	-	-	-	-	733,867	733,867
Use of money and property	177,439	9,855	-	-	-	172,614	359,908
Revenues from other agencies	495,344	-	-	1,075,026	-	844,452	2,414,822
Unfund services charges	973,274	259,385	1,026,404	-	-	21,650	2,280,713
Grant revenue	35,073	-	-	13,078	-	74,287	122,438
Total revenues	11,792,784	269,240	1,026,404	1,088,104	1,846,870	16,023,402	
EXPENDITURES							
Current:							
General government	1,229,352	-	-	11,335	1,530	-	1,242,217
Public safety	6,385,187	-	-	1,005,226	122,554	-	7,512,967
Public works	1,166,607	-	-	-	-	-	1,166,607
Housing	352,294	-	-	-	-	-	352,294
Library	529,523	-	-	189,939	-	-	719,462
Parks and recreation	485,020	-	1,068,622	-	114,360	-	1,668,002
Capital Outlay	-	393,725	-	315,384	1,103,957	-	1,813,066
Debt Service:							
Principal	-	-	-	-	274,769	-	274,769
Interest	-	-	-	-	521,097	-	521,097
Total expenditures	10,147,983	393,725	1,068,622	1,521,884	2,138,267	15,270,481	
REVENUES OVER (UNDER) EXPENDITURES	1,644,801	(124,485)	(42,218)	(433,780)	(291,397)	752,921	
OTHER FINANCING SOURCES (USES)							
Transfers in	490,067	-	-	120,000	533,423	-	1,143,490
Transfers out	(1,841,094)	(250,000)	(13,000)	-	(240,067)	-	(2,344,161)
Total other financing sources (uses)	(1,351,027)	(250,000)	(13,000)	120,000	293,356	(1,200,671)	
Net change in fund balances	293,774	(374,485)	(55,218)	(313,780)	1,959	(447,750)	
Fund balances, beginning of year	1,719,597	1,147,608	122,037	50,000	1,011,005	4,050,247	
Fund balances, end of year	\$ 2,013,371	\$ 773,123	\$ 66,819	\$ (263,780)	\$ 1,012,964	\$ 3,602,497	

TOWN OF SAN ANSELMO

**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 Fiscal Year Ended June 30, 2006

Net Changes in Fund Balances - Total Governmental Funds **\$ (447,750)**

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	1,511,800	
Depreciation expense	<u>(416,580)</u>	1,095,220

Long-term debt proceeds provide current financial resources to governmental		
Principal repayments of long-term debt	<u>274,769</u>	274,769

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.

Amortization of bond issuance costs	(11,760)	
Change in compensated absences	(58,962)	
Change in accrued interest payable	<u>3,906</u>	(66,816)

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.

1,014,753

Total Changes in Net Assets of Governmental Activities **\$ 1,870,176**

TOWN OF SAN ANSELMO

Proprietary Funds

Statement of Net Assets (Deficit)

June 30, 2006

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 1,757,330
Prepaid expense		12,194
Accounts Receivable		-
Total current assets	<u>-</u>	<u>1,769,524</u>
Noncurrent assets:		
Capital assets, net	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>-</u>
Total assets	<u>-</u>	<u>1,769,524</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	-	17,514
Claims liabilities		176,724
Total current liabilities	<u>-</u>	<u>194,238</u>
Non-current liabilities:		
Claims liabilities	<u>-</u>	<u>456,481</u>
Total liabilities	<u>-</u>	<u>650,719</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt		-
Unrestricted		1,118,805
Total net assets (deficit)	<u>\$ -</u>	<u>\$ 1,118,805</u>

TOWN OF SAN ANSELMO

Proprietary Funds

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
REVENUES		
Current service charges	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>
EXPENSES		
Insurance premiums	-	229,407
Claims expense	-	(43,489)
Total expenses	<u>-</u>	<u>185,918</u>
Operating income (loss)	<u>-</u>	<u>(185,918)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	1,200,671
Transfers out	<u>-</u>	<u>-</u>
	<u>-</u>	<u>1,200,671</u>
Change in net assets	-	1,014,753
Net assets, beginning of year	-	104,052
Net assets (deficit), end of year	<u>\$ -</u>	<u>\$ 1,118,805</u>

TOWN OF SAN ANSELMO

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interfund services provided	\$ -	\$ -
Cash paid to suppliers		(335,567)
Net cash provided by operating activities	<u>-</u>	<u>(335,567)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds		1,200,671
Transfers out to other funds		<u>-</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>1,200,671</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds		
Interest paid		
Net cash used by capital and related financing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received		-
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	-	865,104
Cash and cash equivalents at beginning of year		<u>892,226</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 1,757,330</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ -	\$ (185,918)
Adjustments to reconcile operating income to net cash provided (used)		
by operating activities:		
Depreciation and amortization expense		-
Changes in assets and liabilities:		
Increase (decrease) in accounts receivable and other assets		1,632
Increase (decrease) in accounts payable and accrued liabilities		(7,468)
Increase (decrease) in claims liabilities		(143,813)
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ (335,567)</u>

Town of San Anselmo
Notes to Financial Statements
June 30, 2006

NOTE 1 - Summary of significant accounting policies:

The basic financial statements of the Town of San Anselmo (the "Town"), have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP-US") 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 Town of San Anselmo (the "Town") is primarily a residential community located twenty miles north of San Francisco in Marin County, California. The Town was incorporated as a municipal corporation in 1907. Its population at June 30, 2006 was 12,418.

The Town operates under the Council-Administrator form of government, with five elected Council members served by a full-time Town Administrator and staff. At June 30, 2006 the Town's staff was comprised of 58 regular employees who were responsible for providing the following services:

Public safety - The Town employs a total of 17 sworn and 6 non-sworn police personnel to provide round-the-clock police services from a central station. The Town participates in the Ross Valley Fire Authority which provides fire services within Town boundaries.

Streets and roads - The Town builds and maintains its streets, curbs, gutters and related public property with a force of 4 regular street crew members. Major projects may be contracted out to reduce costs.

Administration, library, recreation, planning, zoning, engineering and inspection, and other services are provided by 31 regular employees.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with data of the primary government. At June 30, 2006, the Town did not have any component units that met this criterion.

B. Description of Funds

The accounts of the Town 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 Town'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 Town, accompanied by a total column. These financial statements include the financial activities of the overall Town 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 non-exchange transactions.

Business-type activities are financed generally through user fees. The Town had no fiduciary activities or business-type activities at June 30, 2006.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town'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") related to inter-fund 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. Accompanying schedules are presented to reconcile and explain the differences in net assets as presented in these fund statements to the net assets presented in the government-wide financial statements.

GASB 34 defines major funds and requires that the Town'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 and enterprise 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 Town may select other governmental funds it believes should be presented as major funds. No such funds were selected in fiscal 2006.

The major governmental funds of the Town are:

- **General Fund** – The General Fund is used to account for the resources to carry out basic governmental activities of the Town such as general government, public safety, public works, and parks, planning and library, which are not required to be accounted for in another fund.
- **Road Maintenance Fund** – This fund was established to account for interest earnings from Measure G proceeds that, by Town policy, are used for slurry seal street repair. It also accounts for the Road Impact Fees associated with construction, which are restricted for use in road improvements.
- **Recreation Fund** – This fund is used to account for the Town's various recreation activities.
- **Emergency Reserve Fund** – The fund is used to account for revenues to be used for unexpected expenditures.

E. Proprietary Fund 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.

The Town's only internal service fund at June 30, 2006 is the Insurance Fund. This fund is being used to account for the self-insured portion of the Town's workers' compensation and liability insurance programs.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total 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.

F. Basis of Accounting

The Government-Wide, Proprietary Funds 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 Town's assets and liabilities, including capital assets and long-term liabilities, if any, 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 (and long-term advances from the Town) 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 Town, 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 Town 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 Town's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Non-exchange transactions, in which the Town 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.

The Town 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 Governmental Fund financial statements to the Government-Wide financial statements are provided to explain the differences created by the integrated approach of GASB No. 34.

G. Use of Restricted/Unrestricted Net Assets

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

H. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). At June 30, 2006, the Emergency Reserve Fund had a cash "overdraft" in the amount of \$1,204,862. This has been reflected on the accompanying governmental funds balance sheets as a "loan" from the General Fund to the Emergency Reserve Fund.

Long-term advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources. The Town does not have any long-term advances between funds at June 30, 2006.

I. Capital Assets

The Town's assets are capitalized at historical cost or estimated historical cost. Town policy has set the capitalization threshold for reporting capital assets at \$2,000. 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 depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets. The Town does not record depreciation in the year of acquisition and records a full year of depreciation in the year of disposition.

The costs of normal maintenance and repairs that do not add to the value of the assets, or materially extend asset lives, are not capitalized.

J. Compensated Absences

Town employees accrue vacation, holiday, and compensatory time off benefits. Police employees accrue sick time off benefits, and are eligible for 50% at their time of retirement. Vacation may not accrue beyond 240 hours for managers, 225 hours for MAPE employees, and 360 hours for safety employees. Limited cash compensation is payable annually for accrued vacation as provided in the employees' memoranda of understanding (MOU). All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary financial statements. A liability for these amounts is reported in the governmental funds financial statements 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 Constitution Article 13 provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. Assessed value is calculated at 100% of market value as defined by the above-referenced Article 13. The State Legislature has determined the method of distribution of receipts from the \$1.00 tax levy among the counties, cities, school districts and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter approved debt service. The County of Marin assesses properties and bills for and collects property taxes according to the schedules that follow:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 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 and April 10	August 31

The term "Unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized in the fiscal year for which the taxes have been levied.

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 consists 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. Deferred Revenues

Deferred revenues in governmental funds arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Town 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 Town considers all pooled cash and investments as cash and cash equivalents because the pool is 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.

P. Measure G Tax Levy

On June 6, 1995 the Town received voter approval and authorization to issue \$10.8 million in general obligation bonds to be repaid through ad valorem taxes levied upon all property within the Town subject to taxation. The Town has directed the County of Marin to levy and collect these taxes as described in Note 1 above. As of the end of the fiscal year ended in June 30, 2003 the Town had issued all \$10.8 million of the general obligation bonds authorized (see Note 5).

Q. Post-Employment Health Care Benefits

The Town provides health care benefits for 23 retired employees. Substantially all of the Town's employees may become eligible for those benefits if they reach the normal retirement age while working for the Town. The cost of retiree health care benefits is recognized as expenditure as health care premiums are paid. For the fiscal year ended June 30, 2006, those costs totaled \$60,153.

R. Budgets and Budgetary Accounting:

Budgeting procedures

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Town Administrator submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. The Town Administrator is authorized to transfer budgeted amounts between line items within any department; however, any transfers or revisions which alter total expenditures of any fund must be approved by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and all Special Revenue Funds except the P.O.S.T. and Safety Special Revenue Funds and the Debt Service, Capital Projects and Insurance Internal Service Funds.
6. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budget/actual comparisons in this report use this budgetary basis. These budgeted amounts are as originally adopted by the Town Council.

Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve their portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

NOTE 2 – Cash and investments:

The Town's dependence on property tax receipts, which are received semi-annually, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The Town pools cash from all sources and all funds so that it can be safely invested at maximum yields, while individual funds can make expenditures at any time. Cash and investments maturing in three months or less are considered to be liquid assets for purposes of measuring cash flows.

The Town invests only in the California Local Agency Investment Fund ("LAIF"), an investment pool sponsored by the state of California. Investments are carried at a value not materially different from market value, and were as follows at June 30, 2006:

	<u>Carrying Value</u>	<u>Fair Value</u>
Non-categorized:		
Cash in bank and on hand:		
Cash deposits	\$ 588,091	\$ 587,718
Petty cash	630	630
Pooled investments:		
Local Agency Investment Fund (LAIF)	<u>4,307,015</u>	<u>4,299,201</u>
Total cash and investments	<u>\$ 4,895,736</u>	<u>\$ 4,887,549</u>

Interest earned on pooled deposits and investments is allocated to the various funds based upon average balances.

Pooled demand deposits. The California Government Code requires California banks and savings and loans to secure a local agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the agency's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes at least equal to 150% of an agency's deposits. The agency may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Cash deposits

The carrying amount of the Town's cash deposits totaled \$588,091 at June 30, 2006. Bank balances before reconciling items totaled \$919,170, of which \$100,000 was insured. The difference between the carrying amount and the bank balance is primarily related to outstanding checks.

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

Investment Type	Fair Value	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State investment pool (LAIF)	4,299,201	4,299,201	-	-	-
Total	<u>\$ 4,299,201</u>	<u>\$ 4,299,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized credit rating organization. Presented below is the actual rating as of year end for each investment type.

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End	
			AAA	Not Rated
State investment pool (LAIF)	\$ 4,299,201	-	-	\$ 4,299,201
Total	\$ 4,299,201	\$ -	\$ -	\$ 4,299,201

The Town's general policy is to apply the prudent-investor rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Authorized investments

The Town is authorized by state statutes and Town Council action to invest in the following:

- Securities of the U.S. government or its agencies
- Time certificates of deposit
- Bankers' acceptances
- Commercial paper
- California Local Agency Investment Fund deposits
- Passbook savings account demand deposits
- Repurchase agreements
- Medium-term notes
- Negotiable and non-negotiable certificates of deposit

The Town's practice is to invest only in the California Local Agency Investment Fund.

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a depositor will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Town's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Town deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Fair Value of Investments

Accounting pronouncement GASB Statement 31 generally applies to investments in external investment pools, investments purchased with maturities greater than one year, mutual funds, and certain investment pools/agreements. Generally, governmental entities need to report the "fair value" changes for these investments at year-end and records these gains or losses on their income statement.

Methods and assumptions used to estimate fair value: The Town maintains investment accounting records on amortized cost, and adjusts those records to "fair value" for external reporting purpose. The Funds investment custodians provide market values on each investment instrument on a monthly basis. The investments held by the Funds are widely traded in the financial markets, and trading values are readily available from numerous published sources. The Funds have elected to report their money market

Investments (those investments with maturities of less than one year) at amortized cost adjusted to fair value. Unrealized gains and losses are recorded and the carrying value of their investments is considered "fair value".

NOTE 3 – Capital assets:

All capital 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 allows up to four years to record the costs and depreciation on these assets, or, for smaller governments, to report infrastructure on a prospective basis only. The Town has elected to report infrastructure on a prospective basis. With the implementation of GASB 34 in fiscal 2004, the Town began recording costs and depreciation of current infrastructure assets.

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. The Town does not record depreciation in the year of acquisition and records a full year of depreciation in the year of disposition. Capital assets with a value over \$2,000 or more are capitalized.

The Town has assigned the useful lives listed below to capital assets: Buildings and improvements (30 years); Equipment (5-20 years) and Infrastructure (25 years).

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

	June 30, 2005	Increases	Decreases	June 30, 2006
Capital assets not being depreciated:				
Land	\$ 2,010,473	\$ 581,377 *	\$ -	\$ 2,591,850
Non-depreciable capital assets	<u>2,010,473</u>	<u>581,377</u>	<u>-</u>	<u>2,591,850</u>
Depreciable capital assets:				
Buildings and improvements	7,037,237	252,086	-	7,289,323
Equipment	2,337,381	115,377	(95,392)	2,357,366
Infrastructure	2,775,576	1,144,337	(250,003)	3,669,910
Depreciable capital assets	<u>12,150,194</u>	<u>1,511,800</u>	<u>(345,395)</u>	<u>13,316,599</u>
Less - accumulated depreciation for:				
Buildings and improvements	3,026,878	193,923	-	3,220,801
Equipment	1,020,963	111,634	(95,392)	1,037,205
Infrastructure	78,348	111,023	-	189,371
Accumulated depreciation	<u>4,126,189</u>	<u>416,580</u>	<u>(95,392)</u>	<u>4,447,377</u>
Depreciable capital assets, net	<u>8,024,005</u>	<u>1,095,220</u>	<u>(250,003)</u>	<u>8,869,222</u>
Total capital assets, net	<u>\$ 10,034,478</u>	<u>\$ 1,676,597</u>	<u>\$ (250,003)</u>	<u>\$ 11,461,072</u>

* - This amount represents costs incurred related to landslide stabilization - see Notes 5 and 13

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

Governmental activities:	
General government	\$ 44,945
Public safety	127,761
Public works	144,279
Library	18,159
Parks and recreation	81,436
	<u>\$ 416,580</u>

The Town has no business-type activities.

NOTE 4— Short-term debt:

The Town issues tax anticipation notes in advance of property tax collections, accounting for the proceeds in its general fund as a current investment asset and offsetting note liability. The purpose of the notes is to provide a positive cash flow for Town operations during the months prior to property tax distributions in December and April. The issuance occurred on July 1, 2005 in the principal amount of \$1,635,000 with an interest rate of 2.64%. The note proceeds were deposited into the Town's Local Agency Investment Fund account (LAIF) and the note was repaid in whole on June 23, 2006.

Short-term debt activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax anticipation notes	\$0	\$1,635,000	\$(1,635,000)	\$0

NOTE 5 – Long-term debt:

The Town generally incurs long-term debt to finance projects or purchase assets that will have useful lives equal to or greater than the related debt.

General obligation bonds

On August 1, 1995, August 1, 1997, August 1, 2000 and February 20, 2003, the Town issued \$2,125,000, \$3,550,000, \$2,560,000 and \$2,565,000, respectively, in General Obligation Bonds (total of \$10.8 million), as authorized by Town Measure G, to finance capital improvements to the library, streets and storm drains. Principal payments are due on August 1, with interest payments payable semi-annually on February 1 and August 1.

Changes in long-term obligations and debt for the fiscal year ended June 30, 2006 are as follows:

	June 30, 2005 (Restated)	Additions	Retirements	June 30, 2006	Due in next fiscal year
General Obligation Bonds	\$ 10,210,000	\$ -	\$ 195,000	\$ 10,015,000	\$ 220,000
California Energy Commission Loan	56,082	-	9,526	46,556	9,814
Capital lease obligations	83,547	-	70,242	13,305	12,729
Compensated absences	280,226	251,263	192,300	339,189	-
Due to insurance JPA (a)	168,626	331,374	-	500,000	(a)
Due to County of Marin (b)	372,417			372,417	(b)
	<u>\$ 11,170,898</u>	<u>\$ 582,637</u>	<u>\$ 467,068</u>	<u>\$ 11,286,467</u>	<u>\$ 242,543</u>

(a) In fiscal 2003, the Town acquired a piece of property for \$500,000 in connection with a settlement agreement, and the Town had agreed to repair and stabilize a landslide on the property (see Note 13). The Town's insurance carrier (Bay Cities Joint Powers Insurance Authority) has agreed to pay for up to \$500,000 of stabilization costs, for which it will be reimbursed upon the eventual sale of the land. During fiscal year 2005, costs of \$168,626 were incurred to stabilize the land. In fiscal year 2006, the Town incurred total additional costs of \$581,377 to stabilize the land, of which \$331,374 is reimbursable to the Town upon the eventual sale of the land.

(b) The prior year long-term debt obligation balances have been restated by \$372,417 to account for overpayments received from the County of Marin in prior years – See Note 16.

Bonds and other debt payable at June 30, 2006, by individual issue, are as follows:

	Due Serially to Fiscal Year Ending June 30,	Interest Rate	Principal Remaining
Bonds payable:			
General Obligation - Series 1995	2021	5.0%-6.0%	\$ 1,880,000
General Obligation - Series 1997	2023	3.9%-5.35%	3,195,000
General Obligation - Series 2000	2026	5.0%-8.0%	2,410,000
General Obligation - Series 2003	2029	2.5%-4.85%	2,530,000
			<u>\$ 10,015,000</u>
Other debt:			
California Energy Commission	2011	3.00%	\$ 46,556
Due to County of Marin	2011	7.75%	\$ 372,417
Capital lease obligations:			
Capital leases	2007	4.15%-6.25%	\$ 13,305

The minimum annual payments on the bonds, California Energy loan, capital leases and amount due to County of Marin are as follows:

Fiscal year ending June 30.	General Obligation Bonds				California Energy Loan	Capital leases	Due to County of Marin
	Series 1995	Series 1997	Series 2000	Series 2003			
2007	\$ 162,855	\$ 243,625	\$ 177,050	\$ 147,946	\$ 11,138	\$ 13,932	\$ 103,346
2008	169,823	249,735	179,425	146,984	11,138	-	97,573
2009	171,310	255,315	181,550	150,903	11,138	-	91,801
2010	172,430	260,325	183,425	159,428	11,138	-	86,028
2011	178,068	269,623	185,050	162,453	5,568	-	80,256
2012-2016	970,235	1,422,316	770,175	856,950	-	-	-
2017-2021	1,084,550	1,583,045	1,026,677	940,920	-	-	-
2022-2026	-	680,176	1,335,613	1,036,516	-	-	-
2027-2030	-	-	-	677,288	-	-	-
Total payments	2,909,271	4,964,161	4,038,965	4,279,386	50,120	13,932	459,004
Less - interest	(1,029,271)	(1,769,161)	(1,628,965)	(1,749,386)	(3,564)	(627)	(86,587)
	<u>\$ 1,880,000</u>	<u>\$ 3,195,000</u>	<u>\$ 2,410,000</u>	<u>\$ 2,530,000</u>	<u>\$ 46,556</u>	<u>\$ 13,305</u>	<u>\$ 372,417</u>

NOTE 6 – Fund equity:

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent those portions of fund balances which are not available for appropriation or are legally or third-party restricted for specific future purposes. The remaining portions are unreserved fund balances. Reserved fund balances at June 30, 2006 were:

	General Fund	Road Maintenance	Recreation	Non-Major Other Funds	Total
Pension override tax	\$ 154,533	\$ -	\$ -	\$ -	\$ 154,533
Merchant parking	36,595	-	-	-	36,595
SWARAC Downtown	1,616	-	-	-	1,616
Debt service	-	-	-	585,909	585,909
Capital projects	-	773,123	66,819	186,599	1,026,541
	<u>\$ 192,744</u>	<u>\$ 773,123</u>	<u>\$ 66,819</u>	<u>\$ 772,508</u>	<u>\$ 1,805,194</u>

Portions of unreserved fund balances may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances at June 30, 2006 were:

	General Fund	Road Maintenance	Recreation	Emergency Reserve	Non-Major Other Funds	Total
Capital reconstruction	\$ -	\$ -	\$ -	\$ -	\$ 105,618	\$ 105,618
Traffic Congestion Relief	-	-	-	-	56,103	56,103
Emergency reserve	-	-	-	-	-	-
Equipment replacement	-	-	-	-	98,089	98,089
Special events	-	-	-	-	18,192	18,192
Downtown revitalization	-	-	-	-	22,621	22,621
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 300,623</u>	<u>\$ 300,623</u>

NOTE 7 – Inter-fund transactions:Inter-fund operating transfers

With Town Council approval, resources may be transferred from one Town fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund which has made expenditures on behalf of another fund. Less often, a residual equity transfer may be made to open or close a fund.

Transfers between individual funds during the fiscal year ended June 30, 2006 were as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General fund	\$ 490,067	\$ 1,841,094
Road maintenance fund	-	250,000
Recreation	-	13,000
Emergency Reserve	120,000	-
Total major governmental funds	<u>610,067</u>	<u>2,104,094</u>
Non-major Governmental Funds:		
Special revenue funds:		
Capital reconstruction	294,699	-
Traffic congestion relief	-	-
Gas tax	-	240,067
Equipment replacement	238,724	-
Special events	-	-
Measure G bond proceeds	-	-
Total non-major governmental funds	<u>533,423</u>	<u>240,067</u>
Internal Service Funds:		
Insurance	<u>1,200,671</u>	-
Total internal service funds	<u>1,200,671</u>	-
Total interfund transfers	<u>\$ 2,344,161</u>	<u>\$ 2,344,161</u>

Due to/from other funds

At June 30, 2006, the Emergency Reserve Fund had a cash "overdraft" in the amount of \$1,204,862. This has been reflected on the accompanying governmental funds balance sheets as a "loan" from the General Fund to the Emergency Reserve Fund.

NOTE 8 – Defined benefit pension plan:

Plan description

The Town of San Anselmo contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the state of California. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The Town makes the contributions required of Town employees on their behalf and for their account. The Town is required to contribute at an actuarially determined rate; the current rate is 17.8% for non-safety employees and 35.565% for police employees, of annual covered payroll. The contribution requirements of plan members and the Town are established, and may be amended, by PERS.

Annual pension cost

For fiscal 2006, the Town's annual pension cost of \$1,168,516 for PERS was equal to the Town's required and actual contributions. The Town also contributed \$589,722 toward the Ross Valley Fire Service's annual pension cost. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Three-year trend information for PERS

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2004	\$ 625,876	100%	\$ -
6/30/2005	\$ 1,057,027	100%	\$ -
6/30/2006	\$ 1,168,516	100%	\$ -

NOTE 9 – Social Security:

The Omnibus Budget Reconciliation Act of 1990 ("OBRA") mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

All Town employees are covered under Social Security, which requires these employees and the Town to each contribute 6.2% of the employee's pay. Total contributions to Social Security during the fiscal year ended June 30, 2006 amounted to \$645,296 of which the Town paid one-half.

NOTE 10 – Deferred compensation plan:

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

The Town has no liability for any losses incurred by the Plan and does not participate in any gains, but does have the duty of due care that would be required of an ordinary prudent investor. The Town has contracts with the International City Managers' Association ("ICMA") to manage and invest the assets of the Plan. ICMA pools the assets of the Plan with those of other participants and does not make separate investments for the Town.

The Town's contract with ICMA was amended January 1, 1997 to substitute a separate trust for the Town as owner of the assets in this portion of the Plan, with the Town becoming the trustee. As before, Plan assets are managed and invested solely by ICMA, while the assets in this portion of the Plan are no longer subject to claims by creditors of the Town and are no longer reflected in the Town's financial statements.

NOTE 11 – Workers' compensation and general liability self-insurance programs:

The Town participates in a joint powers agreement through Bay Cities Joint Powers Insurance Authority ("BCJPIA"), which is a workers' compensation and general liability risk pool. The Town reports all of its risk management activities in its Insurance Internal Service Fund. Claims expenditures and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

Bay Cities Joint Powers Insurance Authority ("BCJPIA") was created in 1986 by certain public agencies in the Bay Area to provide auto, general liability and workers' compensation coverage. It is governed by a board of directors which is comprised of officials appointed by each member.

The BCJPIA is an "account pool" as defined by Government Accounting Standards Board Statement No. 10 ("GASB 10"). The BCJPIA manages separate accounts for each pool member. Losses and expenses are paid from these pools above the self-insured retention limit of \$100,000 to \$1,000,000 per occurrence. This is the Primary Liability Program. Annually, the BCJPIA evaluates the financial risk position cash, less claims reserves, claims incurred but not reported ("IBNR") and claims development of each member in the Primary Liability Program. If a member has a negative risk position, as defined by the BCJPIA, its annual assessment is increased.

The BCJPIA purchases excess insurance above the \$1,000,000 limit. This excess insurance provides risk sharing pool coverage for its members of \$1,000,000 up to \$20,000,000 per occurrence. This is the Excess Liability Program.

The Town is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool, and LAWCX in turn purchases coverage above the \$2 million coverage provided by its pool. The Town has a self-insured retention limit of \$150,000 for claims, and the BCJPIA pool covers claims from \$150,000 to \$500,000. Claims over \$500,000 are covered by LAWCX. Excess coverage is purchased from an outside insurance carrier up to \$100 million.

During the fiscal year ended June 30, 2006, the Town incurred costs of \$252,375 for coverage premiums and administration of the risk pools.

The Town had the following balances at June 30, 2006:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Outstanding claims, end of period	\$ 237,932	\$ 17,854	\$ 255,786
Incurred but not reported	323,071	58,498	381,569
Total liability for unpaid claims	<u>\$ 561,003</u>	<u>\$ 76,352</u>	<u>\$ 637,355</u>
Discounted liabilities	\$ 561,003	\$ 72,202	\$ 633,205
Current portion	156,986	19,738	176,724
Noncurrent portion	<u>\$ 404,017</u>	<u>\$ 52,464</u>	<u>\$ 456,481</u>

As allowed by GASB 10, the Town has recorded the discounted liabilities above, which includes the recognition of investment income earned on funds held prior to payout.

Audited financial statements may be obtained from the Bay Cities Joint Powers Insurance Authority at 1020 - 19th Street, Sacramento, CA 95814. Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2006 is as follows:

Total assets	\$ 14,681,898
Total liabilities	<u>10,967,628</u>
Net assets	<u>\$ 3,714,270</u>
Total revenues	\$ 8,910,573
Total expenditures	<u>8,471,833</u>
Net loss	<u>\$ 438,740</u>

NOTE 12 – Major joint powers agencies:

Ross Valley Fire Service

The Ross Valley Fire Service (the "Fire Service") was created in 1982 under a joint powers agreement between the Towns of Fairfax and San Anselmo to provide fire protection, emergency medical and related services within the Fairfax-San Anselmo area. Primary funding for the Fire Service is through contributions from the Towns. The Fire Service is governed by a board of directors appointed by the two Towns and administered by the Town Administrator of one of the Towns, as appointed by the board of directors. The Town of San Anselmo's contribution to the Fire Service for the fiscal year ended June 30, 2006 was \$3,034,088 for operations and \$72,393 for equipment replacement. Audited financial statements may be obtained from Ross Valley Fire Service, 777 San Anselmo Avenue, San Anselmo, CA 94960.

Ross Valley Paramedic Authority

The Ross Valley Paramedic Authority ("RVPA") was created on December 14, 1982 by the Town of Corte Madera, Town of Fairfax, Kentfield Fire Protection District, City of Larkspur, County of Marin, Town of Ross, Town of San Anselmo, and Sleepy Hollow Fire Protection District to provide paramedic services to these eight public entities. The RVPA is controlled by an eight member board consisting of one member from each of the participating entities. None of the entities exercises specific control over the budgeting and financing of the RVPA's activities. The County of Marin Fire Department assigns seven full-time County employees as well as supervision by County fire department superior officers to render the paramedic service. Audited financial statements may be obtained by mailing a request to the Ross Valley Paramedic Authority at 777 San Anselmo Avenue, San Anselmo, CA 94960.

RVPA's operations are financed by its members, through a tax on each residential unit and an equivalent tax for commercial property. During the fiscal year ended June 30, 2006, the tax was \$30 per living unit and per 1,500 square feet of structure on parcels in non-residential use. The City of Larkspur maintains the books and records of the RVPA.

Marin Telecommunications Agency

The Marin Telecommunications Agency was created in 1998, by an agreement between the County of Marin, the Cities of Belvedere, Larkspur, Mill Valley, Sausalito, and San Rafael, and the Towns of Corte Madera, Ross, San Anselmo, Fairfax, and Tiburon. The agreement provides for the regulation of rates for certain cable television services and equipment pursuant to the Cable Television Consumer Protection and Competition Act of 1992. The financial responsibility of each member is based on the number of its cable television subscribers. Audited financial statements may be obtained by mailing a request to the Marin Telecommunications Agency at Marin County Auditor-Controller, County of Marin, Room 225, San Rafael, CA 94903.

Marin General Services Authority

The Marin General Services Authority ("Authority") was created on April 26, 2005 to replace the Marin Street Light Acquisition Authority. All the original members of the Marin Street Light Acquisition Authority are eligible for membership. The Authority is established to finance, implement, and manage various municipal services within the member agencies including the taxicab regulation program and information management services. All assets and funds of the Street Light Authority are transferred to the General Services Authority. The financial responsibility of each member is based on a relative population and assessed value formula. Audited financial statements may be obtained by mailing a request to the Marin Street Light Authority at Marin County Auditor-Controller, County of Marin, Room 225, San Rafael, CA 94903.

Marin Emergency Radio Authority

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

The Town's annual share of the payments related to the debt financing is as follows:

Fiscal year ending June 30,	
2007	\$ 64,260
2008	64,200
2009	64,215
2010	64,298
2011	64,290
2011-2015	321,211
2016-2020	321,183
	<u>963,656</u>
Less - interest	(319,753)
	<u>\$ 643,903</u>

Red Hill Community Authority

The Red Hill Community Joint Powers Authority ("RHCA") was created on January 13, 2004 by the Town of San Anselmo and Tamalpais Union High School District to develop the Red Hill community park and its ongoing use. RHCA's operations are financed through fundraising from the public. Audited financial statements may be obtained by mailing a request to the Town of San Anselmo at 525 San Anselmo Avenue, San Anselmo, CA 94960.

NOTE 13 – Commitments and contingencies:

The Town is a defendant in a number of lawsuits which have arisen in the normal course of business. Damages are alleged in some of these actions and their outcome cannot be predicted with certainty. However, in the opinion of the Town Attorney, the outcome of these actions will not have a material adverse effect on the financial position of the Town.

In fiscal 2003, the Town purchased certain land for \$500,000 to relieve claims against the Town that it was responsible for slide and drainage damages to the land. Under the terms of the settlement agreement, the Town is obligated to repair and stabilize the land and provide drainage for the property. The Town estimates the cost for stabilization and drainage to range from \$500,000 to \$700,000. Under the terms of the agreement, BCJPIA will pay up to \$500,000 for the necessary repairs to the land. Once the repairs

have been completed, the Town will attempt to sell the property, and the proceeds from the sale will be allocated in the following order: 1) \$500,000 will reimburse BCJPIA for the repair costs; 2) \$500,000 to the Town as reimbursement for the purchase of the land; 3) reimbursement to the Town for repair expenses over the BCJPIA \$500,000 payment; and 4) remaining costs to be shared equally between the Town and BCJPIA until BCJPIA's defense costs of approximately \$137,000 related to the slide have been reimbursed, with any remainder then going to the Town. If the Town decides to not sell the property, the Town will need to reimburse BCJPIA \$500,000 for the repair costs. If the Town is unable to sell the land for more than \$500,000, the Town will be obligated to pay BCJPIA the net proceeds of the sale.

NOTE 14 – Fund deficits:

The Emergency Reserve fund, which is a major fund, and the Isabel Cook Complex fund in the Other Special Revenue Funds group have fund deficits at June 30, 2006 in the amounts of \$263,780 and \$60,167, respectively.

NOTE 15 – Excess of expenditures over appropriations:

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

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Library	\$ 513,296	\$ 529,523	\$ (16,227)
Parks and recreation	411,400	485,020	(73,620)
Emergency Reserve Fund:			
General Government	-	11,335	(11,335)
Public Safety	-	1,005,226	(1,005,226)
Library	-	189,939	(189,939)
Capital Outlay	32,885	315,384	(282,499)

The excess of expenditures over appropriations within the General Fund in Library and Parks and Recreation were due to severance and leave buyout costs for staff laid off as of June 30, 2006. The excess of expenditures over appropriations in Emergency Projects Fund in capital outlay was due to Town-wide flooding which occurred mid fiscal year and which resulted in large unanticipated expenditures. The Town worked with its Flood Insurance carrier, FEMA, and OES to obtain approval for reimbursement of these expenditures.

NOTE 16 - Prior period adjustments:

Beginning net assets of the have been reduced by an amount of \$372,417. This amount represents a correction of overpayments of traffic school fees and evidence fees paid to the Town by the County of Marin for the periods July 1999 through June 2004. The Town is obligated to repay the funds within 5 years and will be charged an interest rate of 7.75% per annum.

REQUIRED SUPPLEMENTARY INFORMATION

**(BUDGETARY INFORMATION AND
PENSION FUNDING)**

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TOWN OF SAN ANSELMO

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 6,191,577	\$ 6,191,577	\$ 6,566,737	\$ 375,160
Sales taxes	720,568	720,568	744,375	23,807
Franchise and other taxes	1,737,372	1,762,101	1,916,880	154,779
Licenses and permits	695,989	695,989	627,441	(68,548)
Fines and forfeitures	290,003	290,003	256,221	(33,782)
Earnings on investments	107,442	107,442	177,439	69,997
Revenues from other agencies	486,973	522,086	495,344	(26,742)
Current services charges	964,614	964,614	973,274	8,660
Other revenue	15,000	70,400	35,073	(35,327)
Total revenues	11,209,538	11,324,780	11,792,784	468,004
EXPENDITURES				
Current:				
General government	1,253,313	1,317,062	1,229,352	87,710
Public safety	6,325,285	6,406,584	6,385,187	21,397
Public works	1,307,955	1,314,645	1,166,607	148,038
Planning	378,109	381,335	352,294	29,041
Library	516,940	513,296	529,523	(16,227)
Parks and recreation	394,570	411,400	485,020	(73,620)
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	10,176,172	10,344,322	10,147,983	196,339
REVENUES OVER (UNDER) EXPENDITURES	1,033,366	980,458	1,644,801	664,343
OTHER FINANCING SOURCES (USES)				
Transfers in	487,728	487,728	490,067	2,339
Transfers out	(1,571,094)	(1,841,094)	(1,841,094)	-
Total other financing sources (uses)	(1,083,366)	(1,353,366)	(1,351,027)	2,339
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (50,000)</u>	<u>\$ (372,908)</u>	293,774	<u>\$ 666,682</u>
Fund balances, beginning of year			<u>1,719,597</u>	
Fund balances, end of year			<u>\$ 2,013,371</u>	

TOWN OF SAN ANSELMO

Major Special Revenue Funds

Budgetary Comparison Schedule

For the Fiscal Year Ended June 30, 2006

	Road Maintenance			Variance with Final - Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-
Franchise and other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	4,000	4,000	9,855	5,855
Revenues from other agencies	-	-	-	-
Current services charges	243,600	243,600	259,385	15,785
Other revenue	-	-	-	-
Total revenues	247,600	247,600	269,240	21,640
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Library	-	-	-	-
Parks and recreation	-	-	-	-
Capital outlay	506,300	690,332	393,725	296,607
Debt service:	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	506,300	690,332	393,725	296,607
Excess of revenues over (under) expenditures	(258,700)	(442,732)	(124,485)	318,247
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(250,000)	(250,000)	(250,000)	-
Total other financing sources (uses)	(250,000)	(250,000)	(250,000)	-
Net change in fund balances	\$ (508,700)	\$ (692,732)	(374,485)	\$ 318,247
Fund balances, beginning of year			1,147,608	
Fund balances, end of year			<u>\$ 773,123</u>	

TOWN OF SAN ANSELMO

for Special Revenue Funds - Recreation Fund

Budgetary Comparison Schedule

for the Fiscal Year Ended June 30, 2006

Recreation

	Budgeted Amounts		Actual	Variance with Final - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-
Franchise and other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Revenues from other agencies	-	-	-	-
Current services charges	1,096,650	1,096,650	1,026,404	(70,246)
Other revenue	-	-	-	-
Total revenues	1,096,650	1,096,650	1,026,404	(70,246)
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Library	-	-	-	-
Parks and recreation	1,126,264	1,113,264	1,068,622	44,642
Capital outlay	-	-	-	-
Debt service:	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	1,126,264	1,113,264	1,068,622	44,642
Excess of revenues over (under) expenditures	(29,614)	(16,614)	(42,218)	(25,604)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	(13,000)	(13,000)	-
Total other financing sources (uses)	-	(13,000)	(13,000)	-
Net change in fund balances	\$ (29,614)	\$ (29,614)	(55,218)	\$ (25,604)
Fund balances, beginning of year			122,037	
Fund balances, end of year			\$ 66,819	

TOWN OF SAN ANSELMO

for Special Revenue Funds - Emergency Reserve Fund

Budgetary Comparison Schedule

for the Fiscal Year Ended June 30, 2006

	Emergency Reserve			Variance with Final - Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-
Franchise and other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Revenues from other agencies	-	19,807	1,075,026	1,055,219
Current services charges	-	-	-	-
Other revenue	-	13,078	13,078	-
Total revenues	-	32,885	1,088,104	1,055,219
EXPENDITURES				
General government	-	-	11,335	(11,335)
Public safety	-	-	1,005,226	(1,005,226)
Public works	-	-	-	-
Planning	-	-	-	-
Library	-	-	189,939	(189,939)
Parks and recreation	-	-	-	-
Capital outlay	-	32,885	315,384	(282,499)
Flood repairs	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	32,885	1,521,884	(1,488,999)
Excess of revenues over (under) expenditures	-	-	(433,780)	(433,780)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	120,000	120,000	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	120,000	120,000	-
Net change in fund balances	\$ -	\$ 120,000	(313,780)	\$ (433,780)
Fund balances, beginning of year			50,000	
Fund balances, end of year			<u>\$ (263,780)</u>	

TOWN OF SAN ANSELMO

Pension Plans

Schedule of Funding Progress (Unaudited)

PERS:

Miscellaneous Plan:

Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability/ (Excess Assets) [(A)-(B)]	Funded Ratio [(B)/(A)]	Covered Payroll (C)	(Unfunded) Overfunded % of Covered Payroll [(A-B)/C]
6/30/2003	\$ 515,421,442	\$ 456,062,164	\$ 59,359,278	88.5%	\$ 120,692,360	49.182%
6/30/2004	\$ 681,517,006	\$ 580,960,891	\$ 100,556,115	85.2%	\$ 160,107,449	62.805%

Safety Plan:

Valuation Date	Accrued Liability (A)	Value of Assets (B)	(Excess Assets) [(A)-(B)]	Funded Ratio [(B)/(A)]	Covered Payroll	(Unfunded) Overfunded % of Covered Payroll [(A-B)/C]
6/30/2003	\$ 4,270,573,982	\$ 3,577,742,166	\$ 692,831,816	83.78%	\$ 476,089,674	145.525%
6/30/2004	\$ 5,383,921,942	\$ 4,424,586,846	\$ 959,335,096	82.18%	\$ 575,296,434	166.755%

*The actuarial value of assets, liabilities and covered payroll are obtained from the Town of San Anselmo's annual actuarial reports received from PERS. This information covers the entire risk pool and not just the Town of San Anselmo. The information for fiscal years after June 30, 2004 is not available and therefore is not included in the above analysis.

SUPPLEMENTARY INFORMATION
OTHER GOVERNMENTAL FUNDS
COMBINING FINANCIAL STATEMENTS

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TOWN OF SAN ANSELMO

Nonmajor Governmental Funds

Other Special Revenue Funds - accounts for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government.

Other Capital Projects Funds - accounts for financial resources to be used for the acquisition or construction of major capital facilities and equipment other than those financed by proprietary funds. The Town had no nonmajor capital projects funds in fiscal 2006.

Other Debt Service Funds - accounts for financial resources to be used for payment of the Town's long-term debt.

TOWN OF SAN ANSELMO
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006

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ASSETS	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
Cash and investments	\$ 302,489	\$ 567,471	\$ 869,960
Receivables:			
Property taxes	-	-	-
Other taxes	23,803	-	23,803
Accounts	126,231	18,438	144,669
Interest	-	-	-
Prepays and other assets	6,275		6,275
Due from other funds			-
Total assets	<u>\$ 458,798</u>	<u>\$ 585,909</u>	<u>\$ 1,044,707</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 22,216	\$ -	\$ 22,216
Deposits payable and deferred revenue	9,527	-	9,527
Claims payable	-	-	-
Due to other funds	-	-	-
Total liabilities	<u>31,743</u>	<u>-</u>	<u>31,743</u>
 Fund balances:			
Reserved	186,599	585,909	772,508
Designated	300,623	-	300,623
Unreserved (deficit)	(60,167)	-	(60,167)
Total fund balances	<u>427,055</u>	<u>585,909</u>	<u>1,012,964</u>
 Total liabilities and fund balances	 <u>\$ 458,798</u>	 <u>\$ 585,909</u>	 <u>\$ 1,044,707</u>

TOWN OF SAN ANSELMO

Nonmajor Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Sales taxes	-	-	-
Franchise and other taxes	-	-	-
Licenses and permits	-	-	-
Fines and forfeitures	-	-	-
Measure G levy	-	733,867	733,867
Use of money and property	156,814	15,800	172,614
Revenues from other agencies	844,452	-	844,452
Current services charges	21,650	-	21,650
Other revenue	74,287	-	74,287
Total revenues	<u>1,097,203</u>	<u>749,667</u>	<u>1,846,870</u>
EXPENDITURES			
Current:			
General government	-	1,530	1,530
Public safety	122,554	-	122,554
Public works	-	-	-
Planning	-	-	-
Library	-	-	-
Parks and recreation	114,360	-	114,360
Capital outlay	1,103,957	-	1,103,957
Debt service:			
Principal	79,769	195,000	274,769
Interest	-	521,097	521,097
Total expenditures	<u>1,420,640</u>	<u>717,627</u>	<u>2,138,267</u>
REVENUES OVER (UNDER) EXPENDITURES	(323,437)	32,040	(291,397)
OTHER FINANCING SOURCES (USES)			
Capital lease agreements	-	-	-
Transfers in	533,423	-	533,423
Transfers out	(240,067)	-	(240,067)
Total other financing sources (uses)	<u>293,356</u>	<u>-</u>	<u>293,356</u>
Net change in fund balances	(30,081)	32,040	1,959
Fund balances, beginning of year	457,136	553,869	1,011,005
Fund balances, end of year	<u>\$ 427,055</u>	<u>\$ 585,909</u>	<u>\$ 1,012,964</u>

TOWN OF SAN ANSELMO

Other Special Revenue Funds

Other Special Revenue Funds are used to account for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government. The Town's various Other Special Revenue Funds and revenue sources are as follows:

Capital Reconstruction Fund – accounts for revenues set aside for capital projects.

Measure G Bond Proceeds Fund – accounts for projects funded by the Measure G General Obligation Bonds.

Traffic Congestion Relief Fund - accounts for revenues received from state and federal grants for transportation issues.

Gas Tax - accounts for taxes raised under Street and Highway Code Sections 2106, 2107 and 2107.5, used for the maintenance and construction of town streets.

Supplemental Law Enforcement Fund - accounts for revenues received from the State of California for specified law enforcement purposes.

Isabel Cook Complex Fund - accounts for revenues received from the renters of the Isabel Cook Complex to be used for repair and restoration work at the complex.

Robson House Fund - accounts for revenues collected and used for the Robson House.

Equipment Replacement Fund - accounts for revenues that are restricted for the purchase of Town equipment.

Special Events Fund - accounts for revenues collected and used for Town special events.

P.O.S.T. Fund - accounts for revenues received for Police Officers Standards and Training.

Downtown Revitalization Fund - accounts for revenues for the downtown beautification project.

TOWN OF SAN ANSELMO
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2006

	Capital Reconstruction	Measure G Bond Proceeds	Traffic Congestion Relief	Gas Tax	Supplemental Law Enforcement Fund	Isabel Cook Center	Robson House	Equipment Replacement	Special Events	P.O.S.T.	Downtown Revitalization	Total Other Special Revenue Funds
Cash and investments	\$ 27,632	\$ 129,532	\$ 25,411	\$ (23,803)	\$ (4,517)	\$ (50,798)	\$ 61,905	\$ 101,664	\$ 17,912	\$ (5,070)	\$ 22,621	\$ 302,489
Receivables:												
Property taxes	-	-	-	-	-	-	-	-	-	-	-	-
Other taxes	-	-	-	23,803	-	-	-	-	-	-	-	23,803
Other	85,311	-	35,850	-	-	-	-	-	-	5,070	-	126,231
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid expense	-	-	-	-	5,995	-	-	-	280	-	-	6,275
Total assets	\$ 112,943	\$ 129,532	\$ 61,261	\$ -	\$ 1,478	\$ (50,798)	\$ 61,905	\$ 101,664	\$ 18,192	\$ -	\$ 22,621	\$ 458,798

LIABILITIES AND FUND BALANCES

Liabilities:												
Accounts payable and accrued liabilities	\$ 7,325	\$ 569	\$ 5,158	\$ -	\$ 1,478	\$ 6,152	\$ 959	\$ 575	\$ -	\$ -	\$ -	\$ 22,216
Deposits payable and deferred revenue	-	-	-	-	-	3,217	3,310	3,000	-	-	-	9,527
Claims payable	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	7,325	569	5,158	-	1,478	9,369	4,269	3,575	-	-	-	31,743
Fund balances:												
Reserved	-	128,963	-	-	-	-	57,636	-	-	-	-	186,599
Designated	105,618	-	56,103	-	-	(60,167)	-	98,089	18,192	-	22,621	300,623
Unreserved (deficit)	105,618	128,963	56,103	-	-	(60,167)	57,636	98,089	18,192	-	22,621	(60,167)
Total fund balances	\$ 112,943	\$ 129,532	\$ 61,261	\$ -	\$ 1,478	\$ (50,798)	\$ 61,905	\$ 101,664	\$ 18,192	\$ -	\$ 22,621	\$ 458,798
Total liabilities and fund balances												

TOWN OF SAN ANSELMO
Other Special Revenue Funds
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006

	Capital Reconstruction	Measure G Bond Proceeds	Traffic Congestion Relief	Gas Tax	Supplemental Law Enforcement Fund	Isabel Cook Center	Robson House	Equipment Replacement	Special Events	P.O.S.T.	Downtown Revitalization	Total Other Special Revenue Funds
REVENUES												
Property taxes												
Sales taxes												
Franchise and other taxes												
Licenses and permits												
Fines and forfeitures												
Use of money and property	90,311		391,520	240,067	100,000	135,061	21,753			22,554		156,814
Revenues from other agencies									21,650			844,452
Current services charges	20,074		583					5,239			600	21,650
Other revenue	110,385		392,103	240,067	100,000	135,061	47,791	5,239		22,554	600	74,287
Total revenues							69,544	5,239	21,650	22,554	600	1,097,203
EXPENDITURES												
Current:												
General government												
Public safety					100,000					22,554		122,554
Public works												
Planning												
Library												
Parks and recreation						89,024	11,908		13,428			114,360
Capital outlay	444,878	156,268	336,000					166,811				1,103,957
Debt service:												
Principal												
Interest								79,769				79,769
Total expenditures	444,878	156,268	336,000		100,000	89,024	11,908	246,580	13,428	22,554		1,420,640
Excess of revenues over (under) expenditures	(334,493)	(156,268)	56,103	240,067		46,037	57,636	(241,341)	8,222		600	(323,437)
OTHER FINANCING SOURCES (USES)												
Capital lease agreements												
Transfers in	294,699											533,423
Transfers out	(294,699)			(240,067)								(240,067)
Total other financing sources (uses)				(240,067)				238,724				293,356
Net change in fund balances	(39,794)	(156,268)	56,103			46,037	57,636	(2,617)	8,222		600	(30,081)
Fund balances, beginning of year	145,412	285,231				(106,204)		100,706	9,970		22,021	457,136
Fund balances, end of year	\$ 105,618	\$ 128,963	\$ 56,103	\$ -	\$ -	\$ (60,167)	\$ 57,636	\$ 98,089	\$ 18,192	\$ -	\$ 22,621	\$ 427,055

TOWN OF SAN ANSELMO

Other Debt Service Funds

Other Debt Service Funds are used to account for financial resources to be used for payment for the Town's long-term debt. The Town's other debt service funds are:

Measure G Debt Service Funds - accounts for principal and interest payments of the Measure G General Obligation bonds.

TOWN OF SAN ANSELMO
Other Debt Service Funds
Combining Balance Sheet
June 30, 2006

	Measure G 2003	Measure G 2000	Measure G 1997	Measure G 1995	Total Other Debt Service Funds
ASSETS					
Cash and investments	\$ 98,189	\$ 142,324	\$ 190,890	\$ 136,068	\$ 567,471
Accounts receivable	3,375	4,605	6,208	4,250	18,438
Total assets	<u>\$ 101,564</u>	<u>\$ 146,929</u>	<u>\$ 197,098</u>	<u>\$ 140,318</u>	<u>\$ 585,909</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Reserved for debt service	101,564	146,929	197,098	140,318	585,909
Total fund balances	<u>101,564</u>	<u>146,929</u>	<u>197,098</u>	<u>140,318</u>	<u>585,909</u>
Total liabilities and fund balances	<u>\$ 101,564</u>	<u>\$ 146,929</u>	<u>\$ 197,098</u>	<u>\$ 140,318</u>	<u>\$ 585,909</u>

TOWN OF SAN ANSELMO

Other Debt Service Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2006

	Measure G 2003	Measure G 2000	Measure G 1997	Measure G 1995	Total Other Debt Service Funds
REVENUES					
Measure G Levy	\$ 140,801	\$ 182,325	\$ 242,705	\$ 168,036	\$ 733,867
Use of money and property	2,732	3,989	5,299	3,780	15,800
Total revenues	143,533	186,314	248,004	171,816	749,667
EXPENDITURES					
Current:					
General government	500	500	-	530	1,530
Debt service:					
Principal	25,000	45,000	75,000	50,000	195,000
Interest	113,740	129,763	167,114	110,480	521,097
Total expenditures	139,240	175,263	242,114	161,010	717,627
Excess of revenues over (under) expenditures	4,293	11,051	5,890	10,806	32,040
OTHER FINANCING SOURCES (USES)					
Debt proceeds	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	4,293	11,051	5,890	10,806	32,040
Fund balances, beginning of year	97,271	135,878	191,208	129,512	553,869
Fund balances, end of year	\$ 101,564	\$ 146,929	\$ 197,098	\$ 140,318	\$ 585,909

TOWN OF SAN ANSELMO

Internal Service Fund

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments within the same entity on a cost reimbursement basis.

Insurance Internal Service Fund - accounts for the self-insured portion of the Town's workers' compensation and liability insurance programs.

TOWN OF SAN ANSELMO

Internal Service Funds

Combining Statement of Net Assets (Deficit)

June 30, 2006

	<u>Insurance</u>	<u>Total Internal Service Funds</u>
ASSETS		
Cash and investments	\$ 1,757,330	\$ 1,757,330
Prepaid expense	12,194	12,194
Accounts Receivable	-	-
Total current assets	<u>1,769,524</u>	<u>1,769,524</u>
Capital assets, net	-	-
Total assets	<u>1,769,524</u>	<u>1,769,524</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	17,514	17,514
Claims liabilities	<u>176,724</u>	<u>176,724</u>
Total current liabilities	194,238	194,238
Non-current liabilities:		
Claims liabilities	<u>456,481</u>	<u>456,481</u>
Total liabilities	<u>650,719</u>	<u>650,719</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	-	-
Unrestricted	1,118,805	1,118,805
Total net assets (deficit)	<u>\$ 1,118,805</u>	<u>\$ 1,118,805</u>

TOWN OF SAN ANSELMO

Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

	<u>Insurance</u>	<u>Total Internal Service Funds</u>
REVENUES		
Current service charges	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>
EXPENSES		
Insurance premiums	229,407	229,407
Claims expense	(43,489)	(43,489)
Total expenses	<u>185,918</u>	<u>185,918</u>
Operating income (loss)	<u>(185,918)</u>	<u>(185,918)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	1,200,671	1,200,671
Transfers out	-	-
	<u>1,200,671</u>	<u>1,200,671</u>
Change in net assets	1,014,753	1,014,753
Net assets, beginning of year	104,052	104,052
Net assets (deficit), end of year	<u>\$ 1,118,805</u>	<u>\$ 1,118,805</u>

TOWN OF SAN ANSELMO
INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

* * * * *

JUNE 30, 2006

September 29, 2006

To The Honorable Mayor and
Members of the Town Council of
the Town of San Anselmo, California

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below related to the Appropriations Limit worksheet No. 6 of the Town of San Anselmo, California for the fiscal year ended June 30, 2006. These procedures, which were agreed to by the Town of San Anselmo, California and the League of California Cities (as presented in the League publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), were performed solely to assist the Town of San Anselmo, California in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The Town of San Anselmo, California management is responsible for the Appropriations Limit worksheet No. 6. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets Nos. 1 through 7 and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Town Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the Town Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit worksheet No. 6, we added line A, last year's limit, to line E, total adjustments, and compared the resulting amount to line F, this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information presented in the accompanying Appropriations Limit worksheet No. 6 to the other worksheets described in No. 1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit worksheet No. 6 to the prior year appropriations limit adopted by the Town Council for the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit worksheet No. 6. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the Town Council and management of the Town of San Anselmo, California and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Odenberg Ullakko Murawski & Co LLP

TOWN OF SAN ANSELMO

APPROPRIATIONS LIMIT WORKSHEET

FISCAL YEAR 2006

A	Fiscal 2005 Appropriations Limit	\$6,382,249
B	Inflation Factor	1.0526
	Population Factor	1.0033
	Adjustment Factor	1.0561
C	Fiscal 2006 Appropriations Limit	<u>\$ 6,740,125</u>

TOWN OF SAN ANSELMO

FISCAL 2006 REPORT TO TOWN COUNCIL

September 29, 2006

To the Honorable Mayor and
Members of the Town Council of
the Town of San Anselmo

We have audited the basic financial statements of the Town of San Anselmo as of and for the fiscal year ended June 30, 2006 and have issued our report thereon dated September 29, 2006. In planning and performing our audit of the financial statements of the Town of San Anselmo for the fiscal year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matter involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

Additionally, we have included a statement on Required Communications with the Town Council as required by professional standards.

We wish to take this opportunity to express our appreciation for the cooperation and courtesy extended to our personnel during the course of our audit. This report is intended solely for the information and use of the management of the Town of San Anselmo.

Odenberg Ullakko Muranishi & Co LLP

TOWN OF SAN ANSELMO
REPORT TO TOWN COUNCIL
FOR THE YEAR ENDED JUNE 30, 2006

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September 29, 2006

To the Honorable Mayor, Members of the
Town Council and Town Manager

Auditor independence, in fact and appearance, is essential so that the public may justifiably perceive the audit process as an unbiased review of management's presentation of financial information.

At least annually, we will disclose to the Town Council the nature of all relationships between Odenberg, Ullakko, Muranishi & Co. LLP and the Town of San Anselmo (the "Town") that, in our professional judgment, may reasonably be thought to bear on our independence.

We are not aware of any relationships between our Firm and the Town for the fiscal year ended June 30, 2006, and through the date of this letter, that may reasonably be thought to impact our independence. Accordingly, relating to our audit of the basic financial statements of the Town as of and for the fiscal year ended June 30, 2006, we confirm we are independent with respect to the Town within the meaning of Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings.

This report is intended solely for the information and use of the Honorable Mayor, Members of Town Council, management, and others within the Town and should not be used for any other purpose.

Odenberg Ullakko Muranishi & Co LLP

TOWN OF SAN ANSELMO

FISCAL 2006 REPORT TO TOWN COUNCIL

I. REQUIRED COMMUNICATIONS

Professional auditing standards require auditors to communicate with the Town Council on a number of subjects. The following information satisfies these requirements, and is solely for use of management and the Town Council.

A. The auditor's responsibility under Generally Accepted Auditing Standards

The audit of the Town's basic financial statements as of and for the fiscal year ended June 30, 2006 was conducted in accordance with auditing standards generally accepted in the United States of America. The objective of an audit is the expression of an opinion concerning whether the financial statements present fairly, in all material respects, the financial position and the results of operations of the Town in conformity with accounting principles generally accepted in the United States of America.

As part of our audit, we considered the Town's internal control structure, as required by generally accepted auditing standards, for the purpose of establishing a basis for determining the nature, timing, and extent of auditing procedures necessary for expressing our opinion on the financial statements.

Our audit included procedures designed to provide reasonable assurance that errors and irregularities material to the financial statements are detected. However, there are inherent limitations in the auditing process. For example, audits are based on the concept of selective testing of the data being examined and are, therefore, subject to the limitation that such matters, if they exist, may not be detected. Also, because of the characteristics of irregularities, including attempts at concealment through collusion and forgery, a properly designed and executed audit may not detect a material irregularity.

It should be recognized that our audit provides no assurance that illegal acts generally will be detected and only reasonable assurance that illegal acts having a direct and material effect on the determination of financial statement amounts will be detected.

Financial statements and the establishment and maintenance of an internal control structure are the responsibility of management. Appropriate supervisory control procedures are necessary to provide reasonable assurance that adopted policies and procedures are adhered to and that errors and irregularities or illegal acts are identified. We did not note any illegal acts or material errors or irregularities during the course of our audit.

B. Significant changes in accounting policies and unusual transactions

- None.

C. Management judgments about accounting policies and accounting estimates

The primary responsibility for establishing the Town's accounting policies and practices as applied in its financial reporting rests with management. The financial position and results of operations of the Town at any date or for any period of time are dependent on estimates. Significant sensitive estimates that are based on subjective and objective factors include:

- Accrued self-insurance losses;

Management has indicated that the estimates included in the basic financial statements at June 30, 2006 are reasonable. However, current conditions could change, and revisions to these estimates may impact future financial statements.

D. Consultation with other accountants

- To our knowledge, no such consultations were held by management.

E. Major accounting issues discussed with management prior to our retention

- None.

F. Difficulties in performing the audit

- None.

TOWN OF SAN ANSELMO
RECOMMENDATIONS FOR IMPROVING INTERNAL
ACCOUNTING CONTROLS AND ADMINISTRATIVE EFFICIENCY

JUNE 30, 2006

CURRENT YEAR RECOMMENDATIONS

None.

PRIOR YEAR RECOMMENDATIONS

None.