

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, 2007

TOWN OF SAN ANSELMO
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

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October 18, 2007

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, the business-type 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, 2007, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Town of San Anselmo at June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2007, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Management's Discussion and Analysis, the CalPERS 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 accounting principles generally accepted in the United States of America. 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.

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, 2007. Please read this in conjunction with the Town's financial statements, which follow this discussion and analysis.

In fiscal year 2003-04, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments :Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures* along with related interpretations. The implementations of these new statements resulted in significant changes in the presentation of the financial statements. These financial statements provide comparative financial data in this new presentation.

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 \$20,641,211 liabilities of \$12,878,182 and net assets of \$7,763,029. In comparing Net Assets as of June 30, 2006 at \$4,873,452, a net gain of \$2,889,577 was realized, which is primarily attributable to the Town's capital investment in infrastructure projects.
- Total Town revenues were \$16,455,213 compared with total expenses of \$13,565,636 resulting in an increase in net assets for the fiscal year ended June 30, 2007 of \$2,889,577.
- The Town's net capital assets, net of related debt, totaled \$2,807,160 at June 30, 2007. This amount results from the Town's decision to exercise the GASB 34 "small entity" option of not valuing infrastructure (e.g. streets, sewers, sidewalks) 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 in the amount of \$1,386,211. During 2006-07 capitalized projects related to flood recovery again were responsible for increasing the Town's net capital assets in the amount of \$1,420,949.
- The Town's long-term debt (including current portion) totaled \$11,135,399 as of June 30, 2007, a decrease of \$151,068 from the prior year. This decrease reflects the principal reduction on the Measure G bonds, California Energy Commission Loan, accrued compensated absences, and County's overpayment of traffic fines, offset in part by the addition of 2006-07 capital leases for police vehicles.

Fund Highlights

As of the close of fiscal year 2007, the Town's governmental funds reported a combined ending fund balance of \$4,419,058 as compared to \$3,602,497 as of June 30, 2006. This gain was achieved principally in the Road Maintenance Fund through Road Impact fees legally reserved for infrastructure maintenance. The detailed components of Revenues and Expenditures can be found in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances.

Town of San Anselmo Management's Discussion and Analysis

Town's Highlights

In June 2006 the Town implemented a staffing reorganization that included 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.

As a result, the Town's 2006-07 budget was successfully stabilized at reduced levels, with funds allocated to road maintenance, equipment, capital projects and employee salary increases.

The December 31, 2005 flood continues to have a major impact on the Town's financial situation. Achievements for this year focused in large part on flood recovery and prevention and include the following:

- **Flood Recovery In Community** – Staff worked with residents to submit federal grant requests for individual home elevations, as well as one creek stabilization project. The Town acts as the sponsor for these projects and homeowners receive federal funding for a portion of their projects.
- **Flood Recovery in Town facilities** - Reconstruction was completed on the flood-damaged Library and public restrooms. Work to reconstruct the Police Department and Council Chambers is nearly complete. Planning began to reconstruct and improve the downtown fire station and the project will be ready for approval shortly.
- **Ross Valley Watershed** – Staff participated in the Ross Valley Watershed effort to place a Storm Drainage Fee before the voters to ensure funds for hydraulic modeling, capital, maintenance and environmental projects and improved emergency response systems, with the intent of reducing the risk of flooding in the Ross Valley.
- **Capital Projects** - Creek Park received much needed electrical improvements and new picnic benches and the Millennium Playground and picnic benches were professionally resealed.
- **Disaster Preparedness** – The Disaster Council, through the Ross Valley Fire Department, has worked with other Marin communities to prepare a two-hour community preparedness course that will be unveiled in the fall.
- **Centennial Celebration** – The Town's 100th birthday is being celebrated throughout 2007 with a series of events, culminating in a community picnic scheduled for September 2007.

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.

Town of San Anselmo Management's Discussion and Analysis

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.

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 21 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 Projects 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:

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Management's Discussion and Analysis

- 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
- Safety Fund
- P.O.S.T. Fund
- Downtown Revitalization Fund

Non-major Governmental Funds: Capital Reconstruction. This fund accounts for revenues set aside for capital projects.

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 fourth 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 third 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

	2007			2006
	Governmental Activities	Business-Type Activities	Total	Governmental Activities
Cash and investments	\$ 6,264,504		\$ 6,264,504	\$ 4,895,738
Capital assets, net	12,970,398		12,970,398	11,461,072
Other assets	1,406,309	-	1,406,309	1,770,140
Total assets	20,641,211	-	20,641,211	18,126,950
Current liabilities	1,690,689		1,690,689	1,753,093
Non-current liabilities	11,187,493		11,187,493	11,500,405
Total liabilities	12,878,182	-	12,878,182	13,253,498
Invested in capital assets, net	2,807,160		2,807,160	1,386,211
Restricted	663,194		663,194	652,728
Unrestricted	4,292,675		4,292,675	2,834,513
Net assets	\$ 7,763,029	\$ -	\$ 7,763,029	\$ 4,873,452

Net assets of \$7,763,029 at June 30, 2007, consist primarily of the following elements.

ASSETS:

- Cash and investments of \$6,264,504, an increase of \$1,368,766 from the prior year due primarily to the impact of Federal Emergency Management Agency (FEMA) and California Office of Emergency Services (OES) reimbursements for flood expenditures.
- Accounts receivable of \$1,175,805, a decrease of \$349,228 over the prior year, due primarily to smaller outstanding FEMA and QES claims for reimbursement of flood expenditures.
- Prepaid expense and other current assets of \$49,549, a decrease of \$2,845 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 \$180,955, an \$11,758 reduction from the prior year due to the reduction of outstanding principals on the Town's facility bonds.
- Net capital assets of \$12,970,398, an increase of \$1,509,326 due to the increased value of the improvements to Town buildings associated with flood recovery.

LIABILITIES:

- Accounts payable and accrued liabilities totaling \$633,806, a decrease of \$94,643 due primarily to June 2007 PERS retirement contributions being made prior to year end.

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Management's Discussion and Analysis

- Insurance Claims payable (current) totaling \$143,808, a decrease of \$32,916 from the prior year resulting from lowered actuarial requirements for current insurance claims, as calculated by the Town's Joint Powers Insurance Authority.
- Deposits Payable and deferred revenue totaling \$502,270, a decrease of \$103,107 due to the prior year's (2005-06) deferred Library fundraising donations designated for fiscal year 2006-07.
- Long term debt, net of the current portion, totaling \$10,724,594 including outstanding Measure G bonds of \$9,795,000, capital lease obligations of \$150,542, a California Energy Commission loan of \$36,741, overpayment of traffic fines of \$329,902, compensated absences liability of \$323,214 and \$500,000 repair costs associated with the Oak Springs slide to be reimbursed to the Town's insurance carrier per the lawsuit settlement. The current portion of these long-term debt obligations totals \$410,805.
- Non-current insurance claims liability of \$462,899, an increase of \$6,418 from the previous year resulting from higher 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:

	2007			2006
	Governmental Activities	Business-Type Activities	Total	Governmental Activities
Revenues:				
Program revenues:				
Charges for services	\$ 3,097,600	\$ -	\$ 3,097,600	\$ 3,165,795
Operating grants & contributions	272,855		272,855	196,871
Capital grants & contributions	2,168,001		2,168,001	2,285,724
General revenues:				
Taxes	7,827,270		7,827,270	7,311,112
Intergovernmental	450,045		450,045	664,675
Investment earnings	551,735		551,735	359,908
Franchise fees	1,914,569		1,914,569	1,916,880
Other	173,138		173,138	122,438
Transfers	-	-	-	-
Total revenues	16,455,213	-	16,455,213	16,023,403
Expenses:				
General government	1,337,061		1,337,061	1,312,008
Public safety	7,543,638		7,543,638	7,812,707
Public works	1,366,347		1,366,347	1,623,714
Planning	735,873		735,873	373,368
Library	467,482		467,482	749,925
Parks and Recreation	1,605,913		1,605,913	1,764,313
Interest on long-term debt	509,323	-	509,323	517,193
Total expenses	13,565,636	-	13,565,636	14,153,228
Change in net assets	\$ 2,889,577	\$ -	\$ 2,889,577	\$ 1,870,175

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Management's Discussion and Analysis

Net assets increased \$2,889,577 during fiscal year ended June 30, 2007 as compared to \$1,870,175 during the fiscal year ended June 30, 2006. Components of the change in net assets include:

- Charges for Services revenue of \$3,097,600 a net decrease of \$68,195, due primarily to a decline of \$45,398 in recreation fees collected from the previous year.
- Operating Grants and Contributions revenue of \$272,855, an increase of \$75,984 from the prior year as a result of the 2006-07 donation by the Friends of the Library in the amount of \$134,000 to support library operations.
- Capital grants and contributions revenue of \$2,168,001, a decrease of \$117,723 due to lower amounts in anticipated FEMA and OES reimbursement for flood recovery expenditures.
- Increased revenue in the area of property taxes in the amount of \$511,012 due to an 7.8% increase in property tax collections.
- Related decreased revenue in Franchise and other tax revenue due the State's one-time repayment of the MVLF "gap loan" of \$211,169 in 2005-06.
- Increased revenue from use of money and property due to interest rate increase during 2006-07 from 4.53% to 5.25% as well as increased interest earnings from the \$3.6M Tax Revenue Anticipation Note proceeds issued in 2006-07 to cover cashflow needs related to flood recovery.
- Decreased total expenses of \$587,592 due principally to the layoff of two managers and three staff members effective June 30, 2006, offset by COLA adjustments for remaining employee positions.
- Decreased expenses in Safety due to 2005-06 one-time safety costs related to flood response activities.
- Decreased expenses in Public Works with offsetting increase in Planning and Building due to transfer of the Building function to Planning.
- Decline in the Library department expenses due to the reduction of operating hours.

Analysis of Major Governmental Funds

General Fund

General Fund revenue and transfers-in for 2006-07 year totaled \$12,637,660 and fell short of the revised budget by \$182,890. The largest sources of the short fall came from Motor Vehicle License Fee (MVLF) revenue in the amount of \$242,637, the loss of vehicle code fines in the amount of \$79,045 due to the Superior Court's correction of its distribution formula, parking fine revenue in the amount of \$34,057, and planning fee revenue in the amount of \$40,513. These unexpected short falls were somewhat offset by interest earnings which exceeded the budget amount by \$159,873 due to improved interest rates as well as the size of the Town's TRAN and successful exemption from rebate of its arbitrage earnings to the federal government.

Mid-year budget revisions played a larger than usual role in managing the General Fund revenues during 2006-07. In December 2006 Marin County announced it would release an additional \$288,706 in one-

Town of San Anselmo
Management's Discussion and Analysis

time Education Relief Augmentation Fund (ERAF) funds from its reserve not allocated to school districts. At the same time, in its continuing budget review, staff had identified several other sources of additional funds including \$85,228 in excess revenue carried over from the prior year, \$50,209 in State Mandated Cost Reimbursements and \$30,862 in prior years' planning deposits, all of which had been placed into the contingency reserve. When added to the \$48,513 balance already in the reserve, a total of \$503,518 was recognized as available for appropriation. At its February 13, 2007 meeting, the Council considered the necessity and magnitude of the Town's ongoing flood recovery costs and directed the transfer of these funds via Resolution #3793 to the Emergency Projects Fund to reduce its projected negative balance of (\$668,545).

General Fund expenditures and transfers-out for fiscal year 2006-07 totaling \$13,172,377 fell below the revised budget amount by \$194,856. 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, Legal Services, Non-Departmental, and Streets and Parks. In addition, at year end the contingency reserve had an unspent balance of \$3,131. These savings more than offset the expenditures of the Planning & Building, Police and the Town Council departments that slightly exceeded their budgets.

Analyzing expenditures by major categories reflects the three significant areas of savings, i.e. employee benefits; outside services; and equipment and building maintenance. Employee benefit savings reflect the vacancies of regular staff positions during this fiscal year. In some cases, hourly workers or independent consultants were used to temporarily fill the positions during the recruitment period, thus achieving some savings in the areas of health care and retirement costs. In the area of outside services, Administration realized \$17,000 savings in banking services and bargaining unit negotiations performed by in-house staff, Legal Services realized savings of \$69,000 and Police realized \$10,800 savings in parking meter maintenance and booking fees. Finally, in the area of equipment and building maintenance, the Streets department realized savings of \$49,000 in custodial maintenance through the use of hourly workers during the contract bidding process for commercial custodial services.

In summary, the net impact of revenue and expenditure levels for fiscal year 2006-07 resulted in excess revenue of \$11,966. This number compares favorably to the flat revenue estimated in the 2007-08 Adoption Budget. This amount is in addition to the transfer of \$461,455 (2005-06 excess revenue) to the Emergency Projects Fund approved as part of the 2006-07 Adoption Budget as well as \$503,518 transfer the Council approved in its mid-year budget revision.

Road Maintenance Fund

The Road Maintenance Fund received revenue from three major sources. First, the Road Impact fees for construction projects and refuse vehicles, totaling \$279,249, is revenue legally restricted for use in road improvement projects. Second, this fund received \$8,665 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. Finally, a General Fund contribution of \$400,000 was transferred to this fund to support infrastructure maintenance per Town policy. Capital expenditures totaled \$138,839 for infrastructure improvements during 2006-07.

The Road Maintenance fund balance as of June 30, 2007 totaled \$1,322,198 and included the following reserves: Slurry Seal Projects \$308,634; Road Impact Fees \$712,424; Baldhill Road Improvements \$21,632; and General Fund contributions \$279,508.

Recreation Fund

The Recreation Fund received revenues in the amount of \$981,008, falling short of the budgeted amount by \$68,331. Expenditures and transfers-out totaled \$1,058,730 resulting in a net decline in the reserve of \$77,724. As a consequence, the Recreation fund balance declined from a July 1, 2006 beginning

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balance of \$66,819 to a June 30, 2007 negative ending fund balance of (\$10,905). This number compares to the \$713 estimated at the time of the 2007-08 Budget Adoption.

Emergency Reserve Fund

The Emergency Projects Fund had a beginning balance of negative (\$263,780). Total revenue for 2006-07 included reimbursement to the Town from FEMA and OES for all projects of \$1,302,010, offset by a prior year accounts receivable write off of \$333,664 in denied flood insurance claims. In addition, the Town received \$15,000 for flood mitigation assistance for projects assisting local residents. At June 30, 2007 accounts receivables were again established in anticipation of additional reimbursement of flood expenses by FEMA and OES, based on actual FEMA and OES approval documents. Total receipts from all outside sources was \$983,346.

The 2006-07 Adoption Budget included a transfer of General Fund moneys of \$461,455, which represented the General Fund's "excess revenue carryover" for the year just ended. In February 2007 as part of its mid-year budget review, the Council approved transfer of an additional \$503,518, bringing the total General Fund moneys transferred to this fund to \$964,973.

Expenditures associated with the flood totaled \$1,423,536, including \$653,129 for Town Hall building restoration and temporary facilities; \$60,825 for Library building restoration and temporary facilities; \$51,294 for fire station building restoration design and temporary facilities; \$600,912 for Allyn Avenue slide repairs; and \$57,376 for administrative costs related to flood recovery activities.

As of June 30, 2007, the Emergency Projects Fund ending balance totaled \$261,004. These funds were carried over for expenditure in the 2007-08 completion of the Police Department, Council Chambers, and Fire Station projects.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

The Town's 2007-08 budget reflects the severe financial restraints under which the Town has operated during the last five 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.

During the last five years expenditures were reduced by leaving nine positions vacant, laying off five employees, 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. Town staffing levels dropped from 63 full time employees to 49.

On December 31, 2005 the Town of San Anselmo experienced a devastating flood as the result of unusually heavy winter rains. 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.

In 2006-07 the Town's budget was stabilized at reduced levels, with funds allocated to road maintenance, equipment, capital projects and employee salary increases.

The long-term fiscal challenges facing the Town are:

Town of San Anselmo Management's Discussion and Analysis

- 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 five 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 2007-08 budget reflects funds for the following capital projects, beyond the considerable flood recovery expenditures, as follows:

- Curb ramp and detectable warning projects town wide.
- Improvements to Fire Station 20 on Butterfield Road.
- Flood prevention equipment in the Library

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

- Replacement of the Town's accounting hardware and software, which is no longer supported by the manufacturer.
- Purchase of carpet for the Town Hall second floor offices.
- Purchase of critical Police Department equipment, including MERA radios, evidence trailer and work stations for the new facility.

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.

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 recognition of the fact that we are continuing to work toward normalizing operations since the flood, the department head staff agreed to three joint work plan goals this year, as follows:

- Sustainability – Begin work to introduce ordinances that encourage sustainable practices, including green building, demolition reuse and recycling, energy efficiency and clean air, and seek out opportunities in Town operations to utilize principles of sustainability.
- Flood Recovery - Continue flood recovery efforts, including rebuilding of the downtown Fire Station, sponsoring federal home elevation grants for local homeowners and planning flood mitigation measures at the Fire Station and Town Hall with federal grant money.
- Disaster Preparedness – Conduct community disaster preparedness training in conjunction with other cities/town, obtain grants for necessary emergency equipment, attend emergency preparedness training designed for Town staff.

The 2007-08 budget represents a prudent budget that addresses the Town's most pressing capital and equipment needs, while maintaining a staffing structure that strives to meet the needs of its citizens. While our staffing numbers remain at reduced levels, the Town's staff remains committed to providing excellent community services to the residents of San Anselmo.

Town of San Anselmo
Management's Discussion and Analysis

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, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 6,264,504	\$ -	\$ 6,264,504
Accounts and interest receivable	539,195	-	539,195
Other receivables	636,610	-	636,610
Prepays and other current assets	49,549	-	49,549
Total current assets	<u>7,489,858</u>	<u>-</u>	<u>7,489,858</u>
Noncurrent assets:			
Deferred charges, net	180,955	-	180,955
Capital assets, net	12,970,398	-	12,970,398
Total noncurrent assets	<u>13,151,353</u>	<u>-</u>	<u>13,151,353</u>
Total assets	<u>20,641,211</u>	<u>-</u>	<u>20,641,211</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	633,806	-	633,806
Deposits payable and deferred revenue	502,270	-	502,270
Claims liabilities	143,808	-	143,808
Current portion of long-term debt	410,805	-	410,805
	<u>1,690,689</u>	<u>-</u>	<u>1,690,689</u>
Noncurrent liabilities:			
Claims liabilities	462,899	-	462,899
Long-term debt, net	10,724,594	-	10,724,594
Total liabilities	<u>12,878,182</u>	<u>-</u>	<u>12,878,182</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,807,160	-	2,807,160
Restricted for:			
Capital projects	-	-	-
Debt service	663,194	-	663,194
Unrestricted	4,292,675	-	4,292,675
Total net assets	<u>\$ 7,763,029</u>	<u>\$ -</u>	<u>\$ 7,763,029</u>

TOWN OF SAN ANSELMO

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
PRIMARY GOVERNMENT					
Governmental activities:					
General government	\$ 1,337,061	\$ 30,472	\$ 75,527	\$ -	\$ (1,231,062)
Public safety	7,543,638	968,066	142,493	63,826	(6,369,253)
Public works	1,366,347	938,635	-	2,081,010	1,653,298
Planning	735,873	157,902	-	-	(577,971)
Library	467,482	18,124	47,348	-	(402,010)
Parks and recreation	1,605,913	984,401	7,487	23,165	(590,860)
Interest on long-term debt	509,322	-	-	-	(509,322)
Total governmental activities	<u>13,565,636</u>	<u>3,097,600</u>	<u>272,855</u>	<u>2,168,001</u>	<u>(8,027,180)</u>
Business-type activities:					
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net (expense) revenue	<u>\$ 13,565,636</u>	<u>\$ 3,097,600</u>	<u>\$ 272,855</u>	<u>\$ 2,168,001</u>	<u>\$ (8,027,180)</u>

Continued
on next page

TOWN OF SAN ANSELMO

Statement of Activities and Changes in Net Assets (Continued)

For the Fiscal Year Ended June 30, 2007

<u>Functions/Programs</u>	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net (expense) revenue	\$ (8,027,180)	\$ -	\$ (8,027,180)
General revenues:			
Property taxes	7,077,749	-	7,077,749
Sales taxes	749,521	-	749,521
Franchise and other taxes	1,914,569	-	1,914,569
Use of money and property	551,735	-	551,735
Revenues from other agencies	450,045	-	450,045
Other revenue	173,138	-	173,138
Transfers	-	-	-
Total general revenues and transfers	<u>10,916,757</u>	<u>-</u>	<u>10,916,757</u>
Change in net assets	2,889,577	-	2,889,577
Net assets, beginning of year	4,873,452	-	4,873,452
Net assets, end of year	<u>\$ 7,763,029</u>	<u>\$ -</u>	<u>\$ 7,763,029</u>

TOWN OF SAN ANSELMO

Governmental Funds

Balance Sheet

June 30, 2007

	Major Funds					Total Governmental Funds
	General Fund	Road Maintenance	Recreation	Emergency Reserve	Other Governmental Funds	
ASSETS						
Cash and Investments	\$ 5,471,945	\$ 1,316,412	\$ 187,923	\$ -	\$ 1,134,580	\$ 8,110,860
Receivables:						
Accounts	318,418	5,886	-	-	214,891	539,195
Other	-	-	-	612,768	23,842	636,610
Prepays and other assets	8,997	-	10,003	7,808	9,546	36,353
Due from other funds	191,197	-	-	-	-	191,197
Total assets	<u>\$ 5,990,557</u>	<u>\$ 1,322,298</u>	<u>\$ 197,926</u>	<u>\$ 620,576</u>	<u>\$ 1,382,858</u>	<u>\$ 9,514,215</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Cash overdraft	\$ 3,992,739	\$ -	\$ -	\$ -	\$ -	\$ 3,992,739
Accounts payable and accrued liabilities	219,409	100	9,682	168,375	11,385	408,951
Deposits payable and deferred revenue	299,756	-	199,149	-	3,365	502,270
Due to other funds	-	-	-	191,197	-	191,197
Total liabilities	<u>4,511,904</u>	<u>100</u>	<u>208,831</u>	<u>359,572</u>	<u>14,750</u>	<u>5,095,157</u>
Fund balances						
Reserved for pension override tax	(495,314)	-	-	-	-	(495,314)
Reserved for merchant parking	41,845	-	-	-	-	41,845
Reserved for SWARAC Downtown	1,616	-	-	-	-	1,616
Reserved - Other Debt Service Funds	-	-	-	-	663,194	663,194
Reserved - Capital projects	-	1,322,198	-	-	190,200	1,512,398
Unreserved:						
Designated (deficit) - Special Revenue Funds	-	-	-	261,004	540,939	801,943
Undesignated - General Fund	1,930,506	-	-	-	-	1,930,506
Undesignated (deficit) - Special Revenue Funds	-	-	(10,905)	-	(26,225)	(37,130)
Total fund balances	<u>1,476,653</u>	<u>1,322,198</u>	<u>(10,905)</u>	<u>261,004</u>	<u>1,368,108</u>	<u>4,419,058</u>
Total liabilities and fund balances	<u>\$ 5,990,557</u>	<u>\$ 1,322,298</u>	<u>\$ 197,926</u>	<u>\$ 620,576</u>	<u>\$ 1,382,858</u>	<u>\$ 9,514,215</u>

TOWN OF SAN ANSELMO

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

June 30, 2007

Total Fund Balances - Total Governmental Funds **\$ 4,419,058**

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	45,855	
1997 General Obligation Bonds	48,681	
2000 General Obligation Bonds	37,779	
2003 General Obligation Bonds	48,640	180,955

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	15,217,850	
Less: accumulated depreciation	(4,839,302)	12,970,398

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.

(211,063)

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	(1,825,000)	
1997 General Obligation Bonds	(3,115,000)	
2000 General Obligation Bonds	(2,360,000)	
2003 General Obligation Bonds	(2,495,000)	
Capital leases	(150,542)	
California Energy Commission Loan	(36,741)	
Due to County of Marin for overpayment of traffic school and evidence fees	(329,902)	
Accrued compensated absences	(323,214)	
Due to insurance company for landslide repairs (Note 5)	(500,000)	(11,135,399)

The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

1,539,080

Net Assets of Governmental Activities

\$ 7,763,029

TOWN OF SAN ANSELMO**Governmental Funds****Statement of Revenues, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2007**

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Road Maintenance	Recreation	Emergency Reserve			
REVENUES							
Property taxes	\$ 7,077,749	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,077,749
Sales taxes	749,521	-	-	-	-	-	749,521
Franchise and other taxes	1,914,569	-	-	-	-	-	1,914,569
Licenses and permits	705,005	-	-	-	-	-	705,005
Fines and forfeitures	138,075	-	-	-	-	-	138,075
Measure G levy	-	-	-	-	-	787,062	787,062
Use of money and property	337,291	8,665	-	-	-	205,779	551,735
Revenues from other agencies	361,375	-	2,487	983,346	-	774,215	2,121,423
Current services charges	979,165	279,250	978,521	-	-	-	2,236,936
Other revenue	135,362	-	-	-	-	37,776	173,138
Total revenues	12,398,112	287,915	981,008	983,346	1,804,832	1,804,832	16,455,213
EXPENDITURES							
Current:							
General government	1,194,303	-	-	58,476	1,530	-	1,254,309
Public safety	6,969,648	-	-	123,400	125,908	-	7,218,956
Public works	934,349	-	-	-	-	-	934,349
Planning	718,133	-	-	-	-	-	718,133
Library	440,258	-	-	-	-	-	440,258
Parks and recreation	276,937	-	1,053,312	-	145,494	-	1,475,743
Capital outlay	-	138,840	-	1,241,659	773,752	-	2,154,251
Debt service:							
Principal	-	-	-	-	324,769	-	324,769
Interest	-	-	-	-	513,428	-	513,428
Total expenditures	10,533,628	138,840	1,053,312	1,423,535	1,884,881	1,884,881	15,034,196
REVENUES OVER (UNDER) EXPENDITURES	1,864,484	149,075	(72,304)	(440,189)	(80,049)	(80,049)	1,421,017
OTHER FINANCING SOURCES (USES)							
Capital lease agreements	-	-	-	-	150,542	-	150,542
Transfers in	239,565	400,000	-	964,973	543,485	-	2,148,023
Transfers out	(2,638,767)	-	(5,420)	-	(258,834)	-	(2,903,021)
Total other financing sources (uses)	(2,399,202)	400,000	(5,420)	964,973	435,193	435,193	(604,456)
Net change in fund balances	(534,718)	549,075	(77,724)	524,784	355,144	355,144	816,561
Fund balances, beginning of year	2,013,371	773,123	66,819	(263,780)	1,012,964	-	3,602,497
Fund balances, end of year	\$ 1,478,653	\$ 1,322,198	\$ (10,905)	\$ 261,004	\$ 1,368,108	\$ 1,368,108	\$ 4,419,058

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, 2007

Net Changes in Fund Balances - Total Governmental Funds **\$ 816,561**

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	1,968,166	
Depreciation expense	<u>(458,840)</u>	1,509,326

The issuance of long-term debt and capital leases provides current financial resources to governmental funds, but issuing long-term debt and capital leases increases long-term liabilities in the statement of net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds when paid, but capitalized and amortized throughout the period during which the related debt is outstanding in the statement of activities. Repayment of the principal of long-term debt and capital leases is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.

Amount by which principal repayments on long term debt exceeded capital lease / debt proceeds	<u>135,095</u>	135,095
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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	15,974	
Change in accrued interest payable	<u>4,106</u>	8,320

The net revenue (expense) of the internal service funds is reported with the governmental funds.		<u>420,275</u>
--	--	----------------

Total Changes in Net Assets of Governmental Activities **\$ 2,889,577**

TOWN OF SAN ANSELMO
Proprietary Funds
Statement of Net Assets (Deficit)
June 30, 2007

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 2,146,383
Prepaid expense		13,196
Total current assets	<u>-</u>	<u>2,159,579</u>
Noncurrent assets:		
Capital assets, net		-
Total noncurrent assets	<u>-</u>	<u>-</u>
Total assets	<u>-</u>	<u>2,159,579</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	-	13,792
Claims liabilities		143,808
Total current liabilities	<u>-</u>	<u>157,600</u>
Non-current liabilities:		
Claims liabilities	-	462,899
Total liabilities	<u>-</u>	<u>620,499</u>
NET ASSETS (DEFICIT)		
Unrestricted		1,539,080
Total net assets (deficit)	<u>\$ -</u>	<u>\$ 1,539,080</u>

TOWN OF SAN ANSELMO

Proprietary Funds

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2007

	<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	-	225,890
Claims expense	-	108,833
Total expenses	<u>-</u>	<u>334,723</u>
Operating income (loss)	<u>-</u>	<u>(334,723)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	754,998
Transfers out	<u>-</u>	<u>-</u>
	<u>-</u>	<u>754,998</u>
Change in net assets	-	420,275
Net assets, beginning of year	-	1,118,805
Net assets (deficit), end of year	<u>\$ -</u>	<u>\$ 1,539,080</u>

TOWN OF SAN ANSELMO

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2007

	<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		(365,945)
Net cash used by operating activities	<u>-</u>	<u>(365,945)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds		754,998
Transfers out to other funds		-
Net cash provided by noncapital financing activities	<u>-</u>	<u>754,998</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	-	389,053
Cash and cash equivalents at beginning of year		<u>1,757,330</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 2,146,383</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ -	\$ (334,723)
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		-
(Increase) decrease in prepaid expense		(1,002)
Increase (decrease) in accounts payable and accrued liabilities		(3,722)
Increase (decrease) in claims liabilities		(26,498)
Net cash used by operating activities	<u>\$ -</u>	<u>\$ (365,945)</u>

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

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, 2007 was 12,518.

The Town operates under the Council-Manager form of government, with five elected Council members served by a full-time Town Manager and staff. At June 30, 2007 the Town's staff was comprised of 56 regular employees who were responsible for providing the following services:

Public safety - The Town employs a total of 19 sworn and 7 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 Parks - The Town builds and maintains its streets, curbs, gutters and related public property with a force of 5 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 25 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, 2007, 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.

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

Business-type activities are financed generally through user fees. The Town had no fiduciary activities or business-type activities at June 30, 2007.

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. The Recreation Fund and the Emergency Reserve Fund are presented as major funds based on management's discretion.

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

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

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, 2007 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.

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

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, 2007, the Emergency Reserve Fund had a cash "overdraft" in the amount of \$191,197. 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, 2007.

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 30 work days for non-safety 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:

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

	<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.

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

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 25 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, 2007, those costs totaled \$69,436.

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 Manager 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 Manager 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.

Town of San Anselmo
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June 30, 2007

S. New Accounting Pronouncement

In June 2004, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement addresses standards for the measurement and recognition of other postemployment benefits in the period when the cost is incurred rather than when the benefits are paid or provided. Implementation of GASB 45 will be required for the Town not later than the fiscal year beginning July 1, 2009. The Town is currently reviewing the requirements of this standard and assessing its financial impact, which is expected to be material.

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, 2007:

	<u>Carrying Value</u>	<u>Fair Value</u>
Non-categorized:		
Cash in bank and on hand:		
Cash deposits	\$ 627,863	\$ 627,863
Petty cash	630	630
Pooled investments:		
Local Agency Investment Fund (LAIF)	<u>5,636,011</u>	<u>5,633,447</u>
Total cash and investments	<u>\$ 6,264,504</u>	<u>\$ 6,261,940</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 \$627,863 at June 30, 2007. Bank balances before reconciling items totaled \$27,766. The difference between the carrying amount and the bank balance is primarily related to deposits in transit offset by outstanding checks and overnight sweep activity, a program offered by Wells Fargo to maximize earning from unused funds.

Town of San Anselmo
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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)	\$ 5,633,447	\$ 5,633,447	\$ -	\$ -	\$ -
Total	\$ 5,633,447	\$ 5,633,447	\$ -	\$ -	\$ -

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.

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.

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Fiscal Year End	
			AAA	Not Rated
State investment pool (LAIF)	\$ 5,633,447	\$ -	\$ -	\$ 5,633,447
Total	\$ 5,633,447	\$ -	\$ -	\$ 5,633,447

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

Town of San Anselmo
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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.

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).

Town of San Anselmo
Notes to Financial Statements
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Governmental capital asset activity for the fiscal year was as follows:

	June 30, 2006	Increases	Decreases	June 30, 2007
Capital assets not being depreciated:				
Land	\$ 2,591,850	\$ -	\$ -	\$ 2,591,850
Non-depreciable capital assets	<u>2,591,850</u>	<u>-</u>	<u>-</u>	<u>2,591,850</u>
Depreciable capital assets:				
Buildings and improvements	7,289,323	1,253,708	-	8,543,031
Equipment	2,357,366	353,658	(105,837)	2,605,187
Infrastructure	3,669,910	399,722	-	4,069,632
Depreciable capital assets	<u>13,316,599</u>	<u>2,007,088</u>	<u>(105,837)</u>	<u>15,217,850</u>
Less - accumulated depreciation for:				
Buildings and improvements	3,220,801	201,812		3,422,613
Equipment	1,037,205	110,232	(66,915)	1,080,522
Infrastructure	189,371	146,796	-	336,167
Accumulated depreciation	<u>4,447,377</u>	<u>458,840</u>	<u>(66,915)</u>	<u>4,839,302</u>
Depreciable capital assets, net	<u>8,869,222</u>	<u>1,548,248</u>	<u>(38,922)</u>	<u>10,378,548</u>
Total capital assets, net	<u>\$ 11,461,072</u>	<u>\$ 1,548,248</u>	<u>\$ (38,922)</u>	<u>\$ 12,970,398</u>

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

Governmental activities:	
General government	\$ 44,719
Public safety	137,514
Public works	173,821
Library	21,175
Parks and recreation	81,611
	<u>\$ 458,840</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, 2006 in the principal amount of \$3,653,184 with an interest rate of 4.50%. The note proceeds were deposited into the Town's Local Agency Investment Fund account (LAIF) and the note was repaid in whole on June 29, 2007.

Short-term debt activity for the year ended June 30, 2007, was as follows:

	June 30, 2006	Issued	Redeemed	June 30, 2007
Tax anticipation notes	\$ -	\$ 3,653,184	\$ (3,653,184)	\$ -

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

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, 2007 are as follows:

	June 30, 2006	Additions	Retirements	June 30, 2007	Due in next fiscal year
General Obligation Bonds	\$ 10,015,000	\$ -	\$ 220,000	\$ 9,795,000	\$ 245,000
California Energy Commission Loan	46,556	-	9,815	36,741	10,108
Capital lease obligations	13,305	232,193	94,956	150,542	73,221
Compensated absences	339,189	245,798	261,773	323,214	-
Due to insurance JPA (a)	500,000	-	-	500,000	(a)
Due to County of Marin (b)	372,417	39,961	82,476	329,902	82,476
	<u>\$ 11,286,467</u>	<u>\$ 517,952</u>	<u>\$ 669,020</u>	<u>\$ 11,135,399</u>	<u>\$ 410,805</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). During fiscal years 2005 and 2006, costs of \$168,626 and \$581,377, respectively, were incurred to stabilize the land. 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.
- (b) 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 2006. The Town is obligated to repay the funds within 5 years and will be charged an interest rate of 3.87% per annum.

Town of San Anselmo
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Bonds and other debt payable at June 30, 2007, by individual issue, are as follows:

<u>Bonds payable:</u>			
General Obligation - Series 1995	2021	5.0%-6.0%	\$ 1,825,000
General Obligation - Series 1997	2023	3.9%-5.35%	3,115,000
General Obligation - Series 2000	2026	5.0%-8.0%	2,360,000
General Obligation - Series 2003	2029	2.5%-4.85%	2,495,000
			<u>\$ 9,795,000</u>
<u>Other debt:</u>			
California Energy Commission	2011	3.00%	<u>\$ 36,741</u>
Due to County of Marin	2011	3.87%	<u>\$ 329,902</u>
<u>Capital lease obligations:</u>			
Capital leases	2009	5.60%	<u>\$ 150,542</u>

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			
2008	\$ 169,823	\$ 249,735	\$ 179,425	\$ 146,984	\$ 11,138	\$ 81,651	\$ 95,482
2009	171,310	255,315	181,550	150,902	11,138	81,651	92,230
2010	172,430	260,325	183,425	159,427	11,138	-	88,979
2011	178,067	269,623	185,050	162,453	5,568	-	85,727
2012	183,070	273,185	186,425	165,152	-	-	-
2013-2017	993,615	1,453,875	984,120	871,088	-	-	-
2018-2022	878,100	1,614,614	1,058,696	960,881	-	-	-
2023-2027	-	343,961	903,225	1,058,092	-	-	-
2028-2030	-	-	-	456,461	-	-	-
Total payments	<u>2,746,415</u>	<u>4,720,633</u>	<u>3,861,916</u>	<u>4,131,440</u>	<u>38,982</u>	<u>163,303</u>	<u>362,418</u>
Less - interest	<u>(921,415)</u>	<u>(1,605,633)</u>	<u>(1,501,916)</u>	<u>(1,636,440)</u>	<u>(2,241)</u>	<u>(12,760)</u>	<u>(32,516)</u>
	<u>\$ 1,825,000</u>	<u>\$ 3,115,000</u>	<u>\$ 2,360,000</u>	<u>\$ 2,495,000</u>	<u>\$ 36,741</u>	<u>\$ 150,542</u>	<u>\$ 329,902</u>

Town of San Anselmo
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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, 2007 were:

	General Fund	Road Maintenance	Non-Major Other Funds	Total
Pension override tax	\$ (495,314)	\$ -	\$ -	\$ (495,314)
Merchant parking	41,845	-	-	41,845
SWARAC Downtown	1,616	-	-	1,616
Debt service	-	-	663,194	663,194
Capital projects	-	1,322,198	190,200	1,512,398
	<u>\$ (451,853)</u>	<u>\$ 1,322,198</u>	<u>\$ 853,394</u>	<u>\$ 1,723,739</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, 2007 were:

	General Fund	Road Maintenance	Recreation	Emergency Reserve	Non-Major Other Funds	Total
Capital reconstruction	\$ -	\$ -	\$ -	\$ -	\$ 237,231	\$ 237,231
Traffic Congestion Relief	-	-	-	-	129,606	129,606
Emergency reserve	-	-	-	261,004	-	261,004
Equipment replacement	-	-	-	-	138,441	138,441
Special events	-	-	-	-	11,179	11,179
Downtown revitalization	-	-	-	-	24,482	24,482
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 261,004</u>	<u>\$ 540,939</u>	<u>\$ 801,943</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.

Town of San Anselmo
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Transfers between individual funds during the fiscal year ended June 30, 2007 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 239,565	\$ 2,638,767
Road Maintenance Fund	400,000	-
Recreation	-	5,420
Emergency Projects Fund	964,973	-
Total major governmental funds	<u>1,604,538</u>	<u>2,644,187</u>
Non-major Governmental Funds:		
Special revenue funds:		
Capital Reconstruction	214,292	-
Traffic Congestion Relief	-	19,269
Gas Tax	-	239,565
Equipment replacement	309,924	-
Special Events	-	-
Measure G Bond Proceeds	19,269	-
Total non-major governmental funds	<u>543,485</u>	<u>258,834</u>
Internal Service Funds:		
Insurance	<u>754,998</u>	-
Total internal service funds	<u>754,998</u>	-
Total All Funds:	<u>\$ 2,903,021</u>	<u>\$ 2,903,021</u>

Due to/from other funds

At June 30, 2007, the Emergency Reserve Fund had a cash "overdraft" in the amount of \$191,197. 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 ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS 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 CalPERS' annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95811.

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 18.526% for non-safety

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employees and 34.865% for police employees, of annual covered payroll. The contribution requirements of plan members and the Town are established, and may be amended, by CalPERS.

Annual pension cost

For fiscal 2007, the Town's annual pension cost of \$1,189,090 for CalPERS was equal to the Town's required and actual contributions. The Town also contributed \$798,528 toward the Ross Valley Fire Service's annual pension cost. The required contribution was determined as part of the June 30, 2004 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 CalPERS 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). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Three-year trend information for CalPERS

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2005	\$ 1,057,027	100%	\$ -
6/30/2006	\$ 1,168,516	100%	\$ -
6/30/2007	\$ 1,189,090	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 7.65% (6.2% OASDI and 1.45% Medicare) of the employee's pay. Total contributions to Social Security during the fiscal year ended June 30, 2007 amounted to \$622,743 (\$498,152 for OASDI and \$124,592 for Medicare) 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

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

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 \$19,000,000 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 \$1,000,000. Claims over \$1,000,000 are covered by LAWCX. Excess coverage is purchased from an outside insurance carrier up to \$200 million.

During the fiscal year ended June 30, 2007, the Town incurred costs of \$ 213,698 for coverage premiums and administration of the risk pools.

The Town had the following balances at June 30, 2007:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Outstanding claims, end of period	\$ 145,831	\$ 145,340	\$ 291,171
Incurred but not reported	259,342	66,693	326,035
Total liability for unpaid claims	<u>\$ 405,173</u>	<u>\$ 212,033</u>	<u>\$ 617,206</u>
Discounted liabilities	\$ 405,173	\$ 201,534	\$ 606,707
Current portion	109,920	33,888	143,808
Noncurrent portion	<u>\$ 295,253</u>	<u>\$ 167,646</u>	<u>\$ 462,899</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.

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

Audited financial statements may be obtained from the Bay Cities Joint Powers Insurance Authority at 1831 K Street, Sacramento, CA 95811. Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2007 is as follows:

Total assets	\$ 18,493,395
Total liabilities	<u>13,343,525</u>
Net assets	<u>\$ 5,149,870</u>
Total revenues	\$ 9,545,178
Total expenditures	<u>8,109,578</u>
Net income	<u>\$ 1,435,600</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 Manager 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, 2007 was \$3,275,327 for operations and \$72,404 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 Bob Sinnott at City of Larkspur, 400 Magnolia Avenue, Larkspur, CA 94939.

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, 2007, the tax was \$39 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.

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

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,	
2008	\$ 63,474
2009	63,376
2010	63,350
2011	63,387
2012	63,334
2013-2018	378,780
2019-2020	251,544
	<u>947,246</u>
Less - interest	(272,815)
	<u>\$ 674,431</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.

The Town participates in several federal and state grant programs. The programs are subject to examination by the granters and the amount, if any, of expenses which may be disallowed by the granting

Town of San Anselmo
Notes to Financial Statements
June 30, 2007

agency cannot be determined at this time. The Town expects such amounts, if any, to be immaterial to the financial statements taken as a whole.

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 has incurred costs to date of \$750,003 for stabilization and drainage. Under the terms of the agreement, BCJPIA will pay up to \$500,000 for the necessary repairs to the land. The Town is attempting 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 Recreation 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, 2007 in the amounts of \$10,905 and \$26,225, respectively.

NOTE 15 – Excess of expenditures over appropriations:

For the fiscal year ended June 30, 2007, expenditures exceeded appropriations in the following funds:

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Public safety	\$ 6,925,048	\$ 6,969,648	\$ 44,600
Planning	708,422	718,133	9,711
Library	439,245	440,258	1,013
Parks and recreation	253,248	276,937	23,689
Emergency Reserve Fund:			
General Government	7,813	58,476	50,663
Capital Outlay	391,000	1,241,659	850,659

The excess of expenditures over appropriations in the General Fund were funded by available financial resources.

Emergency Projects Fund in general government was due to the cost of consulting services to pursue FEMA and OES reimbursements. In capital outlay, the excess was due to the cost of repair for the April 2006 Allyn Avenue slides.

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, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 6,730,873	\$ 7,019,578	\$ 7,077,749	\$ 58,171
Sales taxes	744,375	744,375	749,521	5,146
Franchise and other taxes	1,632,783	1,632,783	1,914,569	281,786
Licenses and permits	969,133	969,133	705,005	(264,128)
Fines and forfeitures	252,717	252,717	138,075	(114,642)
Earnings on investments	177,458	177,458	337,291	159,833
Revenues from other agencies	524,453	611,235	361,375	(249,860)
Current services charges	1,017,324	1,030,153	979,165	(50,988)
Other revenue	104,000	139,095	135,362	(3,733)
Total revenues	12,153,116	12,576,527	12,398,112	(178,415)
EXPENDITURES				
Current:				
General government	1,346,478	1,346,478	1,194,303	152,175
Public safety	6,925,048	6,925,048	6,969,648	(44,600)
Public works	1,056,025	1,056,025	934,349	121,676
Planning	708,422	708,422	718,133	(9,711)
Library	439,245	439,245	440,258	(1,013)
Parks and recreation	253,248	253,248	276,937	(23,689)
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	10,728,466	10,728,466	10,533,628	194,838
REVENUES OVER (UNDER) EXPENDITURES	1,424,650	1,848,061	1,864,484	16,423
OTHER FINANCING SOURCES (USES)				
Transfers in	487,728	487,728	239,565	(248,163)
Transfers out	(1,571,094)	(1,571,094)	(2,638,767)	(1,067,673)
Total other financing sources (uses)	(1,083,366)	(1,083,366)	(2,399,202)	(1,315,836)
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	\$ 341,284	\$ 764,695	(534,718)	\$ (1,299,413)
Fund balances, beginning of year			2,013,371	
Fund balances, end of year			\$ 1,478,653	

TOWN OF SAN ANSELMO
Major Special Revenue Funds
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2007

	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	3,000	3,000	8,665	5,665
Revenues from other agencies	-	-	-	-
Current services charges	253,600	253,600	279,250	25,650
Other revenue	-	-	-	-
Total revenues	256,600	256,600	287,915	31,315
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Library	-	-	-	-
Parks and recreation	-	-	-	-
Capital outlay	816,940	816,940	138,840	678,100
Debt service:	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	816,940	816,940	138,840	678,100
Excess of revenues over (under) expenditures	(560,340)	(560,340)	149,075	709,415
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	400,000	400,000
Transfers out	(250,000)	(250,000)	-	250,000
Total other financing sources (uses)	(250,000)	(250,000)	400,000	650,000
Net change in fund balances	\$ (810,340)	\$ (810,340)	549,075	\$ 1,359,415
Fund balances, beginning of year			773,123	
Fund balances, end of year			\$ 1,322,198	

TOWN OF SAN ANSELMO
Major Special Revenue Funds - Recreation Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2007

	Recreation			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	-	-	2,487	2,487
Current services charges	1,045,350	1,045,350	978,521	(66,829)
Other revenue	-	-	-	-
Total revenues	<u>1,045,350</u>	<u>1,045,350</u>	<u>981,008</u>	<u>(64,342)</u>
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Library	-	-	-	-
Parks and recreation	1,062,995	1,062,995	1,053,312	9,683
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>1,062,995</u>	<u>1,062,995</u>	<u>1,053,312</u>	<u>9,683</u>
Excess of revenues over (under) expenditures	<u>(17,645)</u>	<u>(17,645)</u>	<u>(72,304)</u>	<u>(54,659)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	(13,000)	(5,420)	7,580
Total other financing sources (uses)	<u>-</u>	<u>(13,000)</u>	<u>(5,420)</u>	<u>7,580</u>
Net change in fund balances	<u>\$ (17,645)</u>	<u>\$ (30,645)</u>	<u>(77,724)</u>	<u>\$ (47,079)</u>
Fund balances, beginning of year			<u>66,819</u>	
Fund balances, end of year			<u>\$ (10,905)</u>	

TOWN OF SAN ANSELMO

Major Special Revenue Funds - Emergency Reserve Fund

Budgetary Comparison Schedule

For the Fiscal Year Ended June 30, 2007

	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	-	-	983,346	983,346
Current services charges	-	-	-	-
Other revenue	-	-	-	-
Total revenues	-	-	983,346	983,346
EXPENDITURES				
General government	-	7,813	58,476	(50,663)
Public safety	-	1,360,000	123,400	1,236,600
Public works	-	-	-	-
Planning	-	-	-	-
Library	-	-	-	-
Parks and recreation	-	-	-	-
Capital outlay	-	391,000	1,241,659	(850,659)
Flood repairs	-	-	-	-
Debt service:	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	-	1,758,813	1,423,535	335,278
Excess of revenues over (under) expenditures	-	(1,758,813)	(440,189)	1,318,624
OTHER FINANCING SOURCES (USES)				
Transfers in	-	120,000	964,973	844,973
Transfers out	-	-	-	-
Total other financing sources (uses)	-	120,000	964,973	844,973
Net change in fund balances	\$ -	\$ (1,638,813)	524,784	\$ 2,163,597
Fund balances, beginning of year			(263,780)	
Fund balances, end of year			\$ 261,004	

TOWN OF SAN ANSELMO

Pension Plans

Schedule of Funding Progress (Unaudited)

CalPERS:

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%
6/30/2005	\$ 872,346,612	\$ 729,556,809	\$ 142,789,803	83.6%	\$ 203,995,039	69.997%

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%
6/30/2005	\$ 6,367,049,264	\$ 5,295,150,375	\$ 1,071,898,889	83.16%	\$ 664,147,796	161.395%

*The actuarial value of assets, liabilities and covered payroll are obtained from the Town of San Anselmo's annual actuarial reports received from CalPERS. This information covers the entire risk pool and not just the Town of San Anselmo. The information for fiscal years after June 30, 2005 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 2007.

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, 2007

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	\$ 490,456	\$ 644,124	\$ 1,134,580
Receivables:			
Accounts	195,821	19,070	214,891
Other taxes	23,842	-	23,842
Prepays and other assets	9,545		9,545
Total assets	<u>\$ 719,664</u>	<u>\$ 663,194</u>	<u>\$ 1,382,858</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 11,385	\$ -	\$ 11,385
Deposits payable and deferred revenue	3,365	-	3,365
Total liabilities	<u>14,750</u>	<u>-</u>	<u>14,750</u>
Fund balances:			
Reserved	190,200	663,194	853,394
Designated	540,939	-	540,939
Unreserved (deficit)	(26,225)	-	(26,225)
Total fund balances	<u>704,914</u>	<u>663,194</u>	<u>1,368,108</u>
Total liabilities and fund balances	<u>\$ 719,664</u>	<u>\$ 663,194</u>	<u>\$ 1,382,858</u>

TOWN OF SAN ANSELMO

Nonmajor Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES			
Measure G levy	\$ -	\$ 787,062	\$ 787,062
Use of money and property	182,550	23,229	205,779
Revenues from other agencies	774,215	-	774,215
Other revenue	37,776	-	37,776
Total revenues	<u>994,541</u>	<u>810,291</u>	<u>1,804,832</u>
EXPENDITURES			
Current:			
General government	-	1,530	1,530
Public safety	125,908	-	125,908
Parks and recreation	145,494	-	145,494
Capital outlay	773,752	-	773,752
Debt service:			
Principal	104,769	220,000	324,769
Interest	1,952	511,476	513,428
Total expenditures	<u>1,151,875</u>	<u>733,006</u>	<u>1,884,881</u>
REVENUES OVER (UNDER) EXPENDITURES	(157,334)	77,285	(80,049)
OTHER FINANCING SOURCES (USES)			
Capital lease agreements	150,542	-	150,542
Transfers in	543,485	-	543,485
Transfers out	(258,834)	-	(258,834)
Total other financing sources (uses)	<u>435,193</u>	<u>-</u>	<u>435,193</u>
Net change in fund balances	277,859	77,285	355,144
Fund balances, beginning of year	427,055	585,909	1,012,964
Fund balances, end of year	<u>\$ 704,914</u>	<u>\$ 663,194</u>	<u>\$ 1,368,108</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, 2007

	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. Revitalization	Downtown Revitalization	Total Other Special Revenue Funds
Cash and investments	\$ 128,755	\$ 115,302	\$ 69,470	\$ (23,842)	\$ (9,545)	\$ (27,721)	\$ 79,407	\$ 122,621	\$ 11,234	\$ 293	\$ 24,482	\$ 490,456
Receivables:												
Accounts	108,476		65,195	23,842		4,706		17,444				195,821
Other taxes					9,545							23,842
Prepaid expense												9,545
Total assets	\$ 237,231	\$ 115,302	\$ 134,665	\$ -	\$ -	\$ (23,015)	\$ 79,407	\$ 140,065	\$ 11,234	\$ 293	\$ 24,482	\$ 719,664
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities	\$ -	\$ 124	\$ 5,059	\$ -	\$ -	\$ 3,210	\$ 1,075	\$ 1,624	\$ -	\$ 293	\$ -	\$ 11,385
Deposits payable and deferred revenue							3,310		55			3,365
Total liabilities	-	124	5,059	-	-	3,210	4,385	1,624	55	293	-	14,750
Fund balances:												
Reserved	237,231	115,178	129,606			(26,225)	75,022	138,441	11,179		24,482	190,200
Designated												540,939
Unreserved (deficit)						(26,225)						(26,225)
Total fund balances	237,231	115,178	129,606	-	-	(26,225)	75,022	138,441	11,179	-	24,482	704,914
Total liabilities and fund balances	\$ 237,231	\$ 115,302	\$ 134,665	\$ -	\$ -	\$ (23,015)	\$ 79,407	\$ 140,065	\$ 11,234	\$ 293	\$ 24,482	\$ 719,664

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, 2007

	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												
Use of money and property												
Revenues from other agencies	28,165		365,577	239,565	100,000	141,440	41,110	15,000		25,908		182,550
Other revenue	5,656		10,000				6,120	13,000			3,000	37,776
Total revenues	33,821		375,577	239,565	100,000	141,440	47,230	28,000		25,908	3,000	594,541
EXPENDITURES												
Current:												
Public safety					100,000					25,908		125,908
Parks and recreation						107,498	29,844	341,393	7,013		1,139	145,484
Capital outlay	116,500	33,054	282,805					104,769				773,752
Debt services:												
Principal												
Interest	116,500	33,054	282,805		100,000	107,498	29,844	448,114	7,013	25,908	1,139	1,151,875
Total expenditures	(82,679)	(33,054)	92,772	239,565	-	33,942	17,386	(420,114)	(7,013)	-	1,861	(157,334)
Excess of revenues over (under) expenditures												
OTHER FINANCING SOURCES (USES)												
Capital lease agreements								150,542				150,542
Transfers in	214,292	19,269	(19,269)	(239,565)				309,924				543,485
Transfers out	214,292	19,269	(19,269)	(239,565)								(259,834)
Total other financing sources (uses)								460,466				435,193
Net change in fund balances	131,613	(13,785)	73,503	-	-	33,942	17,386	40,352	(7,013)	-	1,861	277,859
Fund balances, beginning of year	105,618	128,963	96,103	-	-	(60,167)	57,636	96,089	18,192	-	22,621	427,065
Fund balances, end of year	\$ 237,231	\$ 115,178	\$ 129,606	\$ -	\$ -	\$ (26,225)	\$ 75,022	\$ 136,441	\$ 11,179	\$ -	\$ 24,482	\$ 704,914

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, 2007

	Measure G 2003	Measure G 2000	Measure G 1997	Measure G 1995	Total Other Debt Service Funds
ASSETS					
Cash and investments	\$ 125,858	\$ 144,910	\$ 212,966	\$ 160,390	\$ 644,124
Accounts receivable	3,863	4,285	6,308	4,614	19,070
Total assets	<u>\$ 129,721</u>	<u>\$ 149,195</u>	<u>\$ 219,274</u>	<u>\$ 165,004</u>	<u>\$ 663,194</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	129,721	149,195	219,274	165,004	663,194
	-	-	-	-	-
Total fund balances	<u>129,721</u>	<u>149,195</u>	<u>219,274</u>	<u>165,004</u>	<u>663,194</u>
Total liabilities and fund balances	<u>\$ 129,721</u>	<u>\$ 149,195</u>	<u>\$ 219,274</u>	<u>\$ 165,004</u>	<u>\$ 663,194</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, 2007

	Measure G 2003	Measure G 2000	Measure G 1997	Measure G 1995	Total Other Debt Service Funds
REVENUES					
Measure G Levy	\$ 172,312	\$ 174,360	\$ 258,107	\$ 182,283	\$ 787,062
Use of money and property	4,291	5,456	7,694	5,788	23,229
Total revenues	<u>176,603</u>	<u>179,816</u>	<u>265,801</u>	<u>188,071</u>	<u>810,291</u>
EXPENDITURES					
Current:					
General government	500	500		530	1,530
Debt service:					
Principal	35,000	50,000	80,000	55,000	220,000
Interest	112,946	127,050	163,625	107,855	511,476
Total expenditures	<u>148,446</u>	<u>177,550</u>	<u>243,625</u>	<u>163,385</u>	<u>733,006</u>
Excess of revenues over (under) expenditures	<u>28,157</u>	<u>2,266</u>	<u>22,176</u>	<u>24,686</u>	<u>77,285</u>
OTHER FINANCING SOURCES (USES)					
Debt proceeds					-
Transfers in					-
Transfers out					-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	28,157	2,266	22,176	24,686	77,285
Fund balances, beginning of year	101,564	146,929	197,098	140,318	585,909
Fund balances, end of year	<u>\$ 129,721</u>	<u>\$ 149,195</u>	<u>\$ 219,274</u>	<u>\$ 165,004</u>	<u>\$ 663,194</u>

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, 2007

	<u>Insurance</u>	<u>Total Internal Service Funds</u>
ASSETS		
Cash and investments	\$ 2,146,383	\$ 2,146,383
Prepaid expense	13,196	13,196
Total current assets	<u>2,159,579</u>	<u>2,159,579</u>
Capital assets, net	-	-
Total assets	<u>2,159,579</u>	<u>2,159,579</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	13,792	13,792
Claims liabilities	143,808	143,808
Total current liabilities	<u>157,600</u>	<u>157,600</u>
Non-current liabilities:		
Claims liabilities	462,899	462,899
Total liabilities	<u>620,499</u>	<u>620,499</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	-	-
Unrestricted	1,539,080	1,539,080
Total net assets (deficit)	<u>\$ 1,539,080</u>	<u>\$ 1,539,080</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, 2007

	<u>Insurance</u>	<u>Total Internal Service Funds</u>
REVENUES		
Current service charges	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>
EXPENSES		
Insurance premiums	225,890	225,890
Claims expense	108,833	108,833
Total expenses	<u>334,723</u>	<u>334,723</u>
Operating income (loss)	<u>(334,723)</u>	<u>(334,723)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	754,998	754,998
Transfers out	-	-
	<u>754,998</u>	<u>754,998</u>
Change in net assets	420,275	420,275
Net assets, beginning of year	1,118,805	1,118,805
Net assets (deficit), end of year	<u>\$ 1,539,080</u>	<u>\$ 1,539,080</u>

October 18, 2007

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of San Anselmo, California (Town) as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Town Council and management and is not intended to be and should not be used by anyone other than these specified parties.

Odeberg Ullakko Muraiski & Co

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

* * * * *

JUNE 30, 2007

October 18, 2007

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, 2007. 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 Ulatko Murawski & Co LLP

TOWN OF SAN ANSELMO
APPROPRIATIONS LIMIT WORKSHEET
FISCAL YEAR 2007

A	Fiscal 2006 Appropriations Limit	\$6,740,125
B	Inflation Factor	1.0396
	Population Factor	1.0074
	Adjustment Factor	1.0473
C	Fiscal 2007 Appropriations Limit	<u>\$ 7,058,886</u>

TOWN OF SAN ANSELMO
FISCAL 2007 REPORT TO TOWN COUNCIL

October 18, 2007

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 government activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of San Anselmo (the "Town") as of and for the fiscal year ended June 30, 2007 and have issued our report thereon dated October 18, 2007. Included in this report is our statement of independence and 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 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
REPORT TO TOWN COUNCIL
FOR THE YEAR ENDED JUNE 30, 2007

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October 18, 2007

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, 2007, 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, 2007, 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 2007 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 U.S. Generally Accepted Auditing Standards

The audit of the Town's the basic financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information as of and for the fiscal year ended June 30, 2007 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;
- Collectibility of receivables; and
- Depreciation.

Management has indicated that the estimates included in the basic financial statements at June 30, 2007 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
OBSERVATIONS AND RECOMMENDATIONS

JUNE 30, 2007

Recommendation

Historically, the auditors have drafted the financial statements and related footnote disclosures, which are then reviewed and approved by management. We recommend that in future years, the Town prepare the financial statements and related disclosures, including the completion of a disclosure checklist, which can be provided by the auditor. This will allow the Town greater control over the financial statement preparation process.

Town Response

Town staff agrees with the recommendation and will implement the new procedures in the 2007-08 report.