

CITY OF NOVATO
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

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JUNE 30, 2007

CITY OF NOVATO
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2007
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March 11, 2008

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Novato, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Novato, California, (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Novato as of June 30, 2007, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the PERS schedule of funding progress are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting primarily 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 thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund financial information and budgetary comparison schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Odenberg Ullakko Muranishi & Co LLP

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

This is management's discussion and analysis of the City of Novato's financial activities and performance for the fiscal year ended June 30, 2007. This section of the financial report presents a narrative overview and analysis of the financial activities.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30, 2007 by \$252 million (net assets). Of this amount, \$202 million is invested in capital assets, net of related debt, \$31.9 million is restricted for the Hamilton Trust Fund and \$2.5 million is restricted for Debt Service. The remaining balance of \$15.8 million is unrestricted.
- The City's total net assets increased by \$22.1 million, or 9.6%, during the fiscal year ended June 30, 2007. The increase is largely attributable to the final funding of the Hamilton Trust Fund. This trust fund is now fully funded at the agreed upon level of \$30M.
- At June 30, 2007, unreserved fund balance for the General Fund was \$2.1M, 7% of total General Fund Expenditures.
- The City's total long-term debt increased by \$2.9 million, which is due to the final \$5 million issuance of general obligation bonds and is partially offset by normal scheduled debt payments of \$2.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information (RSI) in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

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

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

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

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

Governmental activities – These are activities that are principally supported by taxes and intergovernmental revenues. For the City of Novato, governmental activities include police services, community development, recreation and community services, and general government administration.

Also included in governmental activities are certain component units. These are organizations whose governing body is the governing body of the primary reporting government or who report to the primary governing body. Organizations for which the nature and significance of their relationship with the primary reporting government is such that exclusion would cause the reporting government's financial statements to be misleading or incomplete are included in governmental activities. The City of Novato is the primary government in this report, and incorporated into these financial statements are the financial position and activities of two component units. These component units are the Redevelopment Agency of the City of Novato (Agency) and the City of Novato Public Financing Authority (NPFA).

Business-type activities – These are activities that are primarily funded through user charges. The City of Novato has no business-type activities.

Fiduciary activities – These are activities in which the City is involved in holding and managing net assets for external parties in accordance with trust agreements or other custodial arrangements. Fiduciary activities are reported in trust and agency funds in the fund financial statements, as fiduciary resources cannot be used to support the City's programs or services. The City of Novato Financing Authority (NFA or Authority) is included in the separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets.

Fund Financial Statements

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

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, which focus on the long-term, governmental funds financial statements focus on short-term inflows and outflows of spendable resources and the balances of those spendable resources available for spending. This information is useful in evaluating a government's short-term financing requirements.

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

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

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

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

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

- General Fund
- Capital Projects Fund
- RDA General Fund
- RDA Housing Fund
- Hamilton Trust Fund

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

Proprietary funds

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

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City has no enterprise funds.
- Internal service funds are used to accumulate and allocate costs internally among the City's various funds and departments.

The City uses internal service funds to account for anticipated replacement costs and maintenance of vehicles and equipment, and also for claim settlements and reimbursements for insurance.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City utilizes two types of fiduciary funds:

- Trust funds are used to record the assets and liabilities held for the benefit of others, under a trust agreement that specifies the degree of management performed by the trustee organization. The City accounts for the activities of the Novato Financing Authority in a trust fund.
- Agency funds are use to record assets of separate organizations for which the City serves as a custodian for the organization. All assets in agency funds are offset by a liability to the organization on whose behalf they are held.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

Notes to the Financial Statements

The notes to the financial statements 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

This report presents supplementary information concerning the City of Novato's progress in its obligation to provide pension benefits to its employees, and combining financial statements for non-major governmental funds and the City's internal service funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section of the Management Discussion and Analysis provides a comparison and review of governmental activities for two fiscal years. In addition, an analysis of the current fiscal year net assets and changes in net assets is provided.

Net Assets
June 30, 2007 and 2006

	Governmental Activities		
	<u>2007</u>	<u>2006</u>	<u>% change</u>
Assets:		(Restated *)	
Current and other assets	\$ 114,570,526	\$ 96,629,715	18.57%
Capital assets	<u>236,152,625</u>	<u>229,179,652</u>	<u>3.04%</u>
Total assets	<u>350,723,151</u>	<u>325,809,367</u>	<u>7.65%</u>
Liabilities:			
Current and other liabilities	12,948,809	12,766,357	1.43%
Long-term liabilities	<u>85,588,812</u>	<u>82,992,097</u>	<u>3.13%</u>
Total liabilities	<u>98,537,621</u>	<u>95,758,454</u>	<u>2.90%</u>
Net Assets:			
Invested in capital assets			
net of related debt	201,955,139	198,872,500	1.55%
Restricted	34,400,997	21,339,851	61.21%
Unrestricted	<u>15,829,394</u>	<u>9,838,563</u>	<u>60.89%</u>
Total net assets	<u>\$ 252,185,530</u>	<u>\$ 230,050,914</u>	<u>9.62%</u>

* 2006 balances were restated to capitalize the prepaid PERS obligation of \$17,815,883 paid in fiscal 2006. See Note 17 to the accompanying basic financial statements.

Analysis of Net Assets

Net assets are a measure of a government's financial position and over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Novato's net assets exceeded liabilities by \$252.2 million at June 30, 2007.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

The net assets of \$252.2 million at June 30, 2007 were comprised of the following elements:

- Unrestricted cash and investments of \$57.8 million, cash with fiscal agents of \$2.2 million, and restricted cash and investments of \$30.5 million;
- Receivables of \$3.8 million, including receivables from other governments of \$2.2 million;
- Non-current assets consist of bond issuance costs, prepaid PERS obligations and capital assets. Bond issuance costs are \$2.4 million and will be amortized over the life of the debt. Prepaid PERS obligations of \$17.2 million were funded with the 2006 Pension Obligation Bond proceeds and represent a prepayment of the unfunded liability of the pension plans through the California Public Employee's Retirement System. Capital assets of \$236 million, net of accumulated depreciation charges of \$87.3 million, includes \$121 million of land, \$11.8 million of buildings, \$444,000 of furniture and equipment, \$101.1 million of infrastructure, and \$1.6 million of vehicles;
- Current liabilities total \$12.9 million and includes \$2.3 million of accounts payable, \$590,000 of salaries and benefits payable, \$2.1 million of accrued liabilities, \$2.6 million of deposits and other payables, \$1.2 million of deferred revenue, \$1.4 million of compensated absence payables, \$469,000 of current claims payable, and \$2.4 million of the current portion of long-term debt;
- Non-current liabilities of \$85.6 million includes \$1.5 million of non-current claims payable and \$84.1 million of long-term debt which is due in the future fiscal years;
- Net assets invested in capital asset (e.g., land, buildings, equipment and infrastructure) of \$202 million represent the cost of capital assets, less any outstanding debt used to acquire the assets. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from sources other than the related assets, because the capital assets themselves cannot be used to repay these debts;
- Restricted net assets of \$2.5 million are restricted for future debt service payments and \$31.9 million is restricted for the Hamilton Trust Fund, whose corpus amount is perpetual. The remaining balance of \$15.8 million represents unrestricted net assets.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

Analysis of Changes in Net Assets

The City's total net assets increased by \$22.1 million, or 9.6%, during the fiscal year ended June 30, 2007. The increase is largely attributable to final funding of the Hamilton Trust Fund during the fiscal year. Activities and changes in net assets relating to the \$22.1 million increase are presented in the table below:

Changes in Governmental Net Assets
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u> (Restated *)	<u>% change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 7,893,083	\$ 9,948,708	(20.66%)
Operating grants and contributions	240,064	243,102	(1.25%)
Capital grants and contributions	820,515	1,258,545	(34.80%)
General revenues:			
Taxes	33,131,500	29,058,690	14.02%
Use of money and property	4,728,922	2,270,938	108.24%
Revenues from other agencies	2,201,722	1,671,785	31.70%
Other revenue	13,042,836	9,863,430	32.23%
Transfers, net	15,000	15,000	0.00%
Total revenues	<u>62,073,642</u>	<u>54,330,198</u>	14.25%
Expenses:			
General government	6,070,241	5,684,822	6.78%
Public safety	13,226,179	11,520,715	14.80%
Public works	1,679,273	4,946,249	(66.05%)
Cultural and recreation	5,521,245	5,113,403	7.98%
Community development	4,958,185	3,906,503	26.92%
Interest on long-term debt	3,906,131	3,414,047	14.41%
Depreciation - Infrastructure	4,583,887	4,219,216	8.64%
Total program expenses	<u>39,945,141</u>	<u>38,804,955</u>	2.94%
Change in net assets	<u>\$ 22,128,501</u>	<u>\$ 15,525,243</u>	42.53%

* 2006 expenses were restated to capitalize the prepaid PERS obligation of \$17,815,883 paid in fiscal 2006 which was previously reflected as an expense. See Note 17 to the accompanying basic financial statements.

The chart above reflects a change in net assets of \$22.1 million, which is the result of revenues in excess of expenditures. Net assets as of June 30, 2006 were restated to reflect a prior period adjustment of \$17.8 million, primarily related to capitalizing a one-time payment of \$17.8 million made in fiscal 2006 by the City to the Public Employee's Retirement System for the unfunded accrued actuarial liability, which had previously been reflected as an expense. See Note 17 to the accompanying basic financial statements.

The increase in revenues of \$7.7 million is mainly due to the Hamilton Trust Fund being fully funded during the 2006-07 fiscal year which, along with interest rate increases, provided for an additional \$2.5 million in interest earnings. The remaining increase of \$5.2 million is due to increases in tax receipts, revenue from other agencies and revenue derived from funding the Hamilton Trust Fund.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

The \$1.1 million increase in expenditures is largely related to an increase in public safety expenses of \$1.7 million due to increases in operational expenses for salaries and benefits, the MERA radio system and repayment of court fines that were remitted to the city in error, an increase in community development expenses primarily related to increases in operational expenses for salaries and benefits and increased use of contractors for plan checking, offset by a decrease in public works expenses of \$3.3 million due to decreased project expenses associated with street projects which have been ongoing for several years. There was an increase in interest on long term debt due to an additional general obligation bond issuance during the year. This was the final general obligation bond issuance approved by voters in March 2000.

Governmental Activities

The table of revenues by source below illustrates that Taxes are the largest source of operating revenue for the City. The components of Taxes are Real Estate Property Taxes, Real Property Transfer Tax, Sales and Use Tax, Hotel Taxes, Business License Taxes and Franchise fees. Charges for services are the second largest source of operating revenue and represent fees charged by departments for services provided. Charges for services include Licenses and Permits and Fine and Forfeitures.

Revenues by Source - Governmental Activities

	Percent
Taxes	53%
Charges for services	13%
Grants and contributions	2%
Use of money & property	8%
Revenues from other agencies	4%
Other revenue	21%
	100%

The table of expenses below portrays the relative proportion of expenditures by function.

Expenses by Function - Governmental Activities

	Percent
General government	18%
Public safety	33%
Public works	4%
Cultural and recreation	14%
Community development	13%
Interest on long-term debt	7%
Depreciation - Infrastructure	12%
	100%

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure compliance with finance-related legal requirements. The fund basis financial statements presented in this report address the need of the City to demonstrate compliance with financial restrictions and allow the statement's users to separately analyze individual funds.

Revenues, Expenditures and Other Changes in Fund Balances
For the Fiscal Year Ended June 30, 2007
(in millions)

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues	\$ 31.3	\$ 20.1	\$ 12.0	\$ 63.4
Current expenditures	29.5	1.3	1.1	31.9
Capital outlay	-	10.5		10.5
Debt service	0.1	3.0	4.5	7.6
	<u>29.6</u>	<u>14.8</u>	<u>5.6</u>	<u>50.0</u>
Debt proceeds	-	0.4	5.3	5.7
Issuance costs	-		(0.2)	(0.2)
Net transfers	(5.3)	9.9	(5.0)	(0.4)
	<u>(5.3)</u>	<u>10.3</u>	<u>0.1</u>	<u>5.1</u>
Net changes in fund balance	(3.6)	15.6	6.5	18.5
Fund balances, beg. of year	14.1	11.8	37.5	63.4
Prior period adjustments	<u> </u>	<u> </u>	<u> </u>	<u>-</u>
Fund balance, end of year	<u>\$ 10.5</u>	<u>\$ 27.4</u>	<u>\$ 44.0</u>	<u>\$ 81.9</u>

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$81.9 million, compared to \$63.4 million at June 30, 2006. The unreserved amount is \$37.3 million and is available for future spending.

The remainder of the fund balance, \$44.6 million, is reserved to indicate that it is not available because it has been committed for multi-year capital projects, debt service payments, special revenue funds and permanent funds.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

For this fiscal year, revenues were \$63.4 million, and current expenditures and debt service was \$50 million, yielding a net increase in fund balance from operations of \$13.4 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was \$10.5 million, of which \$8.5 million is reserved and represents reserves for long-term receivables. The remaining unreserved amount is comprised of a designated amount of \$2 million.

The fund balance in the City's General Fund decreased by \$3.6 million for the fiscal year ended June 30, 2007. This decrease is primarily attributable to Transfers Out exceeding Transfers In by \$5.3 million. Transfers In represents funding from various other City funds for specific expenses and administrative costs incurred by the General Fund. Transfers Out represents funding from the General Fund to various other City funds for specific expenses. Transfers out of \$4.6 million was to transfer the General Fund's undesignated fund balance to other City funds in order to fund specific reserves in those funds.

Proprietary Funds

The net assets for proprietary funds, which are comprised of the City's internal service funds, at June 30, 2007, were \$3.9 million. Net assets increased by \$751,000, partially due to current service charges exceeding cost of services by \$264,000 and transfers in exceeding transfers out by \$362,000. Service charges exceed cost of services primarily due to claim expenses recorded in the Insurance Fund which represents the current portion of long-term liability claims. The General Fund covers the expenses, as the cost is allocated to the various departments.

Fiduciary Funds

The City maintains fiduciary funds for the assets of one expendable trust fund, two non-expendable trust fund and several agency funds.

General Fund Budget Modifications

The original fiscal year 2006-07 budget was adopted in June 2006. During the fiscal year, quarterly budget reports and budget amendment requests are submitted to Council for review and approval. The result of revisions made to the General Fund budget during the fiscal year was to increase estimated revenues by \$494,000 and decrease estimated expenditures by \$318,000. In addition, there was a decrease to Other Financing Uses of \$2 million. The net impact of the budget changes was a decrease to the deficiency of revenues and other financing sources over expenditures by \$2.8 million.

General Fund Operating Variances

The revised budget projected a net decrease in fund balance of \$2.6 million and the actual results were a net decrease of \$3.6, which equates to a negative variance of \$1 million.

The variance is attributable to higher than anticipated transfers out, due to Council action which transferred fund balance in the general fund at the end of FY 05/06 to fund specific reserves. In addition, revenues exceeded the revised budget by \$1.6 million. This is primarily from the final funding of the Hamilton Trust Fund which generated interest revenues providing for a positive variance of \$1.6 million over budget.

Expenditures were \$2.1 million lower than projected primarily due to unfilled positions and pending projects in the Public Works departments.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

Capital Assets and Debt Administration

Capital Assets

Detailed information regarding composition and activity in capital assets is provided in Note 5 to the financial statements. The City's investment in capital assets as of June 30, 2007 totaled \$236 million (net of accumulated depreciation). The investment in capital assets includes land and land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, highways, drainage systems, and construction in progress.

Governmental Activities Long-term Debt

At June 30, 2007, the City's governmental activities had total long-term debts and obligations as scheduled below.

1997A general obligation bonds	\$ 9,755,000
1993A general obligation bonds	2,360,000
2000A general obligation bonds	4,080,000
2004 general obligation bonds	4,870,000
2004 general obligation bonds - premium	246,940
2007 general obligation bonds	5,000,000
2007 general obligation bonds - premium	260,937
Pension Obligation Bonds, Series A-1 & A-2	18,266,066
Pension Obligation Bonds - Discount	(173,577)
CIEDB loan	3,447,821
OPA note	4,176,788
Hamilton Field Tax Allocation bonds-2005	23,885,000
Hamilton Field 2005 Tax Allocation	
Housing bonds - Series A	9,340,000
Due to the County of Marin	537,881
Compensated absences - noncurrent	406,353
	<u>\$ 86,459,209</u>

Additional information about the City's long-term debt can be found in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

During fiscal year 2006-07, the economy continued to show signs of recovery. The real estate market remained active throughout fiscal year 2006-07. Many homes continued to sell and generate profits for the property owners, who sold their homes for a significantly higher price than they paid for it. As the home ownership transferred, the assessed value on the property tax roll increased, thus resulting in higher property taxes. The City also experienced an increase In-lieu vehicle license fees, as these fees are also based on increases in assessed property values.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

In addition, many home owners refinanced their homes for a higher amount than the remaining mortgage balance, which provided available cash for spending. This was reflected in increased sales taxes and increases in license and permit revenues due to home improvement construction.

Fiscal Year 2007-08 Budget

The City has adopted an Operating Budget for FY07/08 that projects General Fund revenues will be sufficient to cover expenditures. Through confirmation with the County Assessor's Office, the City's secured property taxes for FY06/07 will increase by approximately \$413,000. In addition, the City assessed valuation of property per the County's Property Tax Roll in August 2007 reflected an increase in property value which will generate increases in property tax revenues. The City conducted a User Fee Study in FY05/06 and as result increases user fees annually which is projected to generate additional revenue.

Expenditures were increased as a result of negotiated salary increases outlined in the employee contracts and memorandums of understanding. These increases are partially offset by savings from the issuance of Pension Obligation Bonds in FY 05/06. City Council's approval of the bond issuance generated a net reduction in pension related expenditures of approximately \$190,000 for FY07/08.

The City is expecting to end FY07/08 with a very small surplus.

City's Stability Outlook

The City's General Fund major revenue sources are Taxes and Charges for Services. Taxes represent 52% of General Fund revenues and will remain a primary source of revenue for the future. The tax category includes Real Estate Property Taxes, Real Property Transfer Tax, Sales and Use Tax, Hotel Tax, Business License Taxes, and Franchise Fees.

Charges for services represent 13% of General Fund revenues and comprise various fees charged by Parks & Recreation, Community Development, Public Works and Police, for City services. These revenues are highly dependent upon community participation in the City's cultural programs and the amount of development and construction activity within the City. The level of activity in FY06/07 reflected a decrease when compared to FY05/06 and is the result of a reduction in the housing and construction market activities. The City has adopted a policy which requires an annual review of fees to ensure that fees charged cover the costs of providing the services.

The City of Novato Redevelopment Agency entered into agreements with two public agencies, North Marin Water and Golden Gate Bridge districts, regarding the relocation of their facilities for the redevelopment of their gateway properties. The facilities are located in the northern section of the Downtown Redevelopment Area and are visible along Highway 101 to approximately 90,000 vehicles per day. The Agency plans to work with retail developers for the development of this land.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007

REQUESTS FOR INFORMATION

This financial report is designed to provide a comprehensive and understandable portrayal of the City's finances, and to fulfill the City's financial accountability to Novato Citizens, governmental entities, and other interested parties. Questions about this report or requests for separate financial statements for the Redevelopment Agency of the City of Novato or the Novato Financing Authority may be addressed to:

City of Novato
Finance Department
75 Rowland Way, Room 200
Novato, CA 94945

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

CITY OF NOVATO**Statement of Net Assets****June 30, 2007**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Operating cash and investments	\$ 57,835,250	\$ -	\$ 57,835,250
Cash with fiscal agents	2,247,856	-	2,247,856
Restricted cash and investments	30,475,559	-	30,475,559
Receivables:			
Interest	840,091	-	840,091
Accounts	121,489	-	121,489
Loans	611,768	-	611,768
Prepaid expenses	609,001	-	609,001
Prepaid PERS contribution	593,863	-	593,863
Due from other governments	2,248,172	-	2,248,172
Total current assets	<u>95,583,049</u>	<u>-</u>	<u>95,583,049</u>
Noncurrent assets:			
Bond issuance costs, net	2,359,319	-	2,359,319
Prepaid PERS contribution-noncurrent	16,628,157	-	16,628,157
Capital assets, net	236,152,625	-	236,152,625
Total noncurrent assets	<u>255,140,102</u>	<u>-</u>	<u>255,140,102</u>
Total assets	<u>350,723,151</u>	<u>-</u>	<u>350,723,151</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,311,235	-	2,311,235
Accrued salaries & benefits	590,761	-	590,761
Accrued liabilities	2,086,108	-	2,086,108
Deposits and other payables	2,574,711	-	2,574,711
Deferred revenue	1,179,122	-	1,179,122
Compensated absences	1,381,597	-	1,381,597
Claims payable	469,368	-	469,368
Current portion of long-term debt	2,355,907	-	2,355,907
	<u>12,948,809</u>	<u>-</u>	<u>12,948,809</u>
Noncurrent liabilities:			
Claims payable - noncurrent	1,485,510	-	1,485,510
Long-term debt, net	84,103,302	-	84,103,302
Total liabilities	<u>98,537,621</u>	<u>-</u>	<u>98,537,621</u>
NET ASSETS			
Invested in capital assets, net of related debt	201,955,139	-	201,955,139
Restricted for:			
Debt service	2,504,872	-	2,504,872
Hamilton Trust Fund	31,896,125	-	31,896,125
Unrestricted	15,829,394	-	15,829,394
Total net assets	<u>\$ 252,185,530</u>	<u>\$ -</u>	<u>\$ 252,185,530</u>

CITY OF NOVATO

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 Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue
					Governmental Activities
PRIMARY GOVERNMENT					
Governmental activities:					
General government	\$ 6,070,242	\$ 527,855	\$ -	\$ -	\$ (5,542,387)
Public safety	13,226,179	500,436	217,293	-	(12,508,450)
Public works	1,679,273	2,209,663	-	820,515	1,350,905
Cultural and recreation	5,521,245	2,328,167	12,500	-	(3,180,578)
Community development	4,958,185	2,326,962	10,271	-	(2,620,952)
Interest on long-term debt	3,906,131	-	-	-	(3,906,131)
Depreciation - Infrastructure	4,583,887	-	-	-	(4,583,887)
Total governmental activities	<u>39,945,141</u>	<u>7,893,083</u>	<u>240,064</u>	<u>820,515</u>	<u>(30,991,479)</u>
Business-type activities:					
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets:					
Net (expense) revenue	<u>\$ 39,945,141</u>	<u>\$ 7,893,083</u>	<u>\$ 240,064</u>	<u>\$ 820,515</u>	<u>\$ (30,991,479)</u>

Continued
on next page

CITY OF NOVATO

Statement of Activities and Changes in Net Assets (Continued)

For the Fiscal Year Ended June 30, 2007

Functions/Programs	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Change in net assets:			
Net (expense) revenue	\$ (30,991,479)	\$ -	\$ (30,991,479)
General revenues:			
Taxes	33,131,500		33,131,500
Revenues from other agencies	2,201,722	-	2,201,722
Use of money and property	4,728,922		4,728,922
Other revenue	13,042,836		13,042,836
Transfers, net	15,000		15,000
Total general revenues and transfers	53,119,980	-	53,119,980
Change in net assets	22,128,501	-	22,128,501
Net assets, beginning of year	212,235,031	-	212,235,031
Prior period adjustments (Note 17)	17,821,998		17,821,998
Net assets, end of year	\$ 252,185,530	\$ -	\$ 252,185,530

CITY OF NOVATO
Governmental Funds
Balance Sheet
June 30, 2007

	Major Funds						Total Governmental Funds
	General Fund	RDA Housing	RDA	Capital Projects Fund	Permanent Fund Hamilton Trust Fund	Other Governmental Funds	
ASSETS							
Cash and investments	\$ 5,422,305	\$ 2,687,688	\$ 3,964,454	\$ 373,778	\$ -	\$ 42,556,566	\$ 55,004,791
Cash with fiscal agent		659,562	1,588,294			-	2,247,856
Cash and investments-restricted					30,475,559		30,475,559
Receivables:							
Interest	743,699				96,392	-	840,091
Accounts	70,721	21,000		15,353		5,927	113,001
Loans	611,768						611,768
Prepaid expenses	24,834	-				584,167	609,001
Due from other governments	1,017,430	95,479	295,361	262		839,640	2,248,172
Due from other funds	11,250,526		25,739,960		1,595,000	5,770,561	44,356,047
Deferred costs	40,472	2,646,149	4,096,325			109,944	6,892,890
Total assets	<u>\$ 19,181,755</u>	<u>\$ 6,109,878</u>	<u>\$ 35,684,394</u>	<u>\$ 389,393</u>	<u>\$ 32,166,951</u>	<u>\$ 49,866,805</u>	<u>\$ 143,399,176</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 934,064	\$ 2,154	\$ 43,414	\$ 1,189,585	\$ -	\$ 12,860	\$ 2,182,077
Accrued salaries & benefits	590,761	-	-			-	590,761
Accrued liabilities	930,938	500				-	931,438
Due to other funds	340,472	25,739,960	17,102,564		270,826	2,634,111	46,087,933
Deposits/other payables	800,884	-	132,369			1,641,458	2,574,711
Deferred revenue	3,676,208	-	2,646,149			1,396,655	7,719,012
Compensated absences	1,381,597	-	-			-	1,381,597
Total liabilities	<u>8,654,924</u>	<u>25,742,614</u>	<u>19,924,496</u>	<u>1,189,585</u>	<u>270,826</u>	<u>5,685,084</u>	<u>61,467,529</u>
Fund balances (deficits)							
Reserved, reported in general fund	8,459,436	-	-			-	8,459,436
Reserved, reported in special revenue funds	-	-	-			1,685,964	1,685,964
Reserved for capital projects	-	-	-			-	-
Reserved for debt service	-	-	-			2,504,872	2,504,872
Reserved for Hamilton Trust Fund	-	-	-		31,896,125	-	31,896,125
Unreserved:							
Designated - General Fund	2,067,395	-	-			-	2,067,395
Designated - Special Revenue Funds	-	-	132,369			588,053	720,422
Designated - Capital Projects Funds	-	-	-			24,610,600	24,610,600
Undesignated - General Fund	-	-	-			-	-
Undesignated (deficit) - Special Revenue Funds	-	(19,632,736)	-			14,885,422	(4,747,314)
Undesignated (deficit) - Capital Project Funds	-	-	15,627,529	(800,192)		(93,190)	14,734,147
Undesignated (deficit) - Debt Service Funds	-	-	-			-	-
Total fund balances (deficits)	<u>10,526,831</u>	<u>(19,632,736)</u>	<u>15,759,898</u>	<u>(800,192)</u>	<u>31,896,125</u>	<u>44,181,722</u>	<u>81,931,647</u>
Total liabilities and fund balances	<u>\$ 19,181,755</u>	<u>\$ 6,109,878</u>	<u>\$ 35,684,394</u>	<u>\$ 389,393</u>	<u>\$ 32,166,951</u>	<u>\$ 49,866,805</u>	<u>\$ 143,399,176</u>

CITY OF NOVATO

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

June 30, 2007

Total Fund Balances - Total Governmental Funds **\$ 81,931,647**

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 the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds:

General obligation bonds 1993 A	\$ 75,202	
General obligation bonds 1997 A	137,625	
General obligation bonds 2000 A	120,706	
Lease Anticipation Note, 1999 A	30,000	
Hamilton Tax Allocation Bonds, Series 2005	1,325,028	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	391,237	
Measure B Street General Obligation Bond - 2004	141,054	
General obligation bonds 2007	162,295	
Pension Obligation Bonds	299,663	
Accumulated amortization	<u>(323,491)</u>	2,359,319

To eliminate the doubling-up effect of cash and investments related to the purchase by the general fund of the Eucalyptus Assessment District's bonds, reflected as an investment on the general fund's balance sheet and as cash on the Eucalyptus Assessment District's balance sheet in the governmental fund financial statements (115,775)

Prepaid pension obligation is not a current financial resource and therefore not capitalized on the Governmental Funds Balance Sheet 17,222,020

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

Nondepreciable	121,165,277	
Depreciable	198,292,485	
Less accumulated depreciation	<u>(84,946,079)</u>	234,511,683

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. (1,154,670)

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:

General obligation bonds	(26,572,877)	
Accrued compensated absences	(406,353)	
OPA notes payable	(4,176,788)	
CIEDB loan	(3,447,821)	
Hamilton Tax Allocation Bonds, Series 2005	(23,885,000)	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	(9,340,000)	
Pension Obligation Bonds	(18,092,489)	
Due to County of Marin	<u>(537,881)</u>	(86,459,209)

Internal service funds are used by management to charge costs of certain activities such as equipment replacement, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 3,890,514

Net Assets of Governmental Activities **\$ 252,185,530**

CITY OF NOVATO

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	Major Funds						Total Governmental Funds
	General Fund	RDA Housing	RDA	Capital Projects	Permanent Fund	Other Governmental Funds	
					Hamilton Trust Fund		
REVENUES							
Taxes	\$ 22,444,754	\$ 1,454,943	\$ 4,525,654	\$ -	\$ -	\$ 4,706,149	\$ 33,131,500
Licenses and permits	1,229,536	-	-	-	-	-	1,229,536
Revenues from other agencies	998,522	-	-	-	-	2,263,779	3,262,301
Fines and forfeitures	568,598	-	-	-	-	-	568,598
Use of money and property	2,299,022	142,378	159,165	6,103	1,386,033	2,122,688	6,115,389
Current service charges	3,257,700	-	-	-	-	2,838,172	6,095,872
Other revenue	519,508	68,918	-	238,008	12,126,749	89,655	13,042,838
Total revenues	31,317,640	1,666,239	4,684,819	244,111	13,512,782	12,020,443	63,446,034
EXPENDITURES							
Current:							
General government	5,302,686	-	-	168,734	-	1,193,141	6,664,561
Public safety	12,760,975	-	-	-	-	215,866	12,976,841
Public works	2,231,546	-	-	-	-	571,200	2,802,746
Cultural and recreation	5,491,560	-	-	-	-	-	5,491,560
Community development	3,721,995	479,980	694,432	-	5,919	63,751	4,966,077
Capital outlay	-	-	-	10,494,703	-	5,000	10,499,703
Debt service:							
Principal	64,418	80,000	1,001,332	-	-	1,261,288	2,407,038
Interest and fiscal agent fees	52,136	436,770	1,484,540	-	-	2,232,221	4,205,667
Total expenditures	29,625,316	996,750	3,180,304	10,663,437	5,919	5,542,467	50,014,193
REVENUES OVER (UNDER) EXPENDITURES	1,692,324	669,489	1,504,515	(10,419,326)	13,506,863	6,477,976	13,431,841
OTHER FINANCING SOURCES (USES)							
Debt proceeds	-	-	370,000	-	-	5,264,781	5,634,781
Issuance costs	-	-	-	-	-	(162,295)	(162,295)
Transfers in	2,257,692	56,164	-	11,212,980	-	6,793,114	20,319,950
Transfers out	(7,515,040)	(68,670)	(155,607)	(38,695)	(1,087,584)	(11,801,397)	(20,666,993)
Total other financing sources (uses)	(5,257,348)	(12,506)	214,393	11,174,285	(1,087,584)	94,203	5,125,443
Net change in fund balances	(3,565,024)	656,983	1,718,908	754,959	12,419,279	6,572,179	18,557,284
Fund balances, beginning of year	14,091,855	(20,289,719)	14,115,930	(1,540,467)	19,476,846	37,513,803	63,368,248
Prior period adjustments (Note 17)	-	-	(74,940)	(14,684)	-	95,739	6,115
Fund balances, end of year	\$ 10,526,831	\$ (19,632,736)	\$ 15,759,898	\$ (800,192)	\$ 31,896,125	\$ 44,181,721	\$ 81,931,647

CITY OF NOVATO

**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 **\$ 18,557,284**

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	11,463,282	
Depreciation expense	<u>(4,998,798)</u>	6,464,484
(Depreciation expense is net of Internal Service Fund depreciation of \$270,520 which has already been allocated to serviced funds.)		

CIEDB loan proceeds disbursed to the City in the current year were reported in the Governmental Funds Balance Sheet in the prior year; as this amount was included in the CIEDB long-term liability at June 30, 2006, the Change in Net Assets Governmental Activities is adjusted (see Note 6). (370,000)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.

Principal repayments on long-term debt (net of intra-city debt repayments of \$11,288 paid by the Eucalyptus Assessment District to the City's general fund, which had purchased the Eucalyptus Assessment District's bonds in the prior year- see below).	2,395,750	
Debt proceeds	<u>(5,264,781)</u>	(2,869,031)

To eliminate the doubling-up effect of cash and investments related to the repayment to the general fund of the Eucalyptus Assessment District's bonds, reflected as an investment on the general fund's balance sheet and as cash on the Eucalyptus Assessment District's balance sheet in the governmental fund financial statements 11,288

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. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding.

Bond issuance costs	161,372	
Amortization of bond issuance costs	(98,300)	
Amortization of General Obligation Bond premiums	9,210	
Change in compensated absences	(33,177)	
Amortization of prepaid PERS contribution	(593,863)	
Change in accrued interest payable	<u>138,515</u>	(416,242)

Internal service funds are used by management to charge the costs of certain activities, such as equipment replacement, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental funds. 750,718

Total Changes in Net Assets of Governmental Activities **\$ 22,128,501**

CITY OF NOVATO

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				
Taxes	\$ 22,075,211	\$ 22,075,211	\$ 22,444,754	\$ 369,543
Licenses and permits	1,089,000	1,089,000	1,229,536	140,536
Fines and forfeitures	612,381	612,381	568,598	(43,783)
Use of money and property	704,305	704,305	2,299,022	1,594,717
Revenues from other agencies	809,251	878,221	998,522	120,301
Current services charges	3,782,402	3,782,402	3,257,700	(524,702)
Other revenue	133,485	558,898	519,508	(39,390)
Total revenues	<u>29,206,035</u>	<u>29,700,418</u>	<u>31,317,640</u>	<u>1,617,222</u>
EXPENDITURES				
Current:				
General government	5,798,880	5,913,374	5,271,858	641,516
Public safety	12,154,720	11,764,562	12,524,546	(759,984)
Public works	7,127,724	7,214,902	2,217,848	4,997,054
Cultural and recreation	3,967,015	3,933,130	5,461,792	(1,528,662)
Community development	2,863,585	2,767,759	3,712,484	(944,725)
Capital outlay	57,000	57,000	320,234	(263,234)
PERS funding expense		-	-	-
Debt service:				
Principal			64,418	-
Interest and fiscal agent fees			52,136	-
Total expenditures	<u>31,968,924</u>	<u>31,650,727</u>	<u>29,625,316</u>	<u>2,141,965</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,762,889)</u>	<u>(1,950,309)</u>	<u>1,692,324</u>	<u>3,759,187</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Cost of issuance	-	-	-	-
Transfers in	2,374,983	1,844,928	2,257,692	412,764
Transfers out	<u>(5,041,339)</u>	<u>(2,508,320)</u>	<u>(7,515,040)</u>	<u>(5,006,720)</u>
Total other financing sources (uses)	<u>(2,666,356)</u>	<u>(663,392)</u>	<u>(5,257,348)</u>	<u>(4,593,956)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (5,429,245)</u>	<u>\$ (2,613,701)</u>	<u>(3,565,024)</u>	<u>\$ (834,769)</u>
Fund balances, beginning of year			14,091,855	
Fund balances, end of year			<u>\$ 10,526,831</u>	

CITY OF NOVATO

RDA Housing 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				
Taxes	\$ 1,170,000	\$ 1,170,000	\$ 1,454,943	\$ 284,943
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	55,000	55,000	142,378	87,378
Revenues from other agencies	-	-	-	-
Current services charges	39,000	39,000	-	29,918
Other revenue	-	-	68,918	68,918
Total revenues	<u>1,264,000</u>	<u>1,264,000</u>	<u>1,666,239</u>	<u>471,157</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Cultural and recreation	-	-	-	-
Community development	569,736	569,736	479,980	89,756
Capital outlay	-	-	-	-
Debt service:				
Principal	80,000	80,000	80,000	-
Interest and fiscal agent fees	415,860	415,860	436,770	(20,910)
Total expenditures	<u>1,065,596</u>	<u>1,065,596</u>	<u>996,750</u>	<u>68,846</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>198,404</u>	<u>198,404</u>	<u>669,489</u>	<u>540,003</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Cost of issuance	-	-	-	-
Transfers in	-	-	56,164	56,164
Transfers out	(68,670)	(68,670)	(68,670)	-
Total other financing sources (uses)	<u>(68,670)</u>	<u>(68,670)</u>	<u>(12,506)</u>	<u>56,164</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ 129,734</u>	<u>\$ 129,734</u>	656,983	<u>\$ 596,167</u>
Fund balances, beginning of year			(20,289,719)	
Fund balances, end of year			<u>\$ (19,632,736)</u>	

CITY OF NOVATO

RDA

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

For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,683,000	\$ 3,683,000	\$ 4,525,654	\$ 842,654
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	10,000	10,000	159,165	149,165
Revenues from other agencies	-	-	-	-
Current services charges	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>3,693,000</u>	<u>3,693,000</u>	<u>4,684,819</u>	<u>991,819</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Cultural and recreation	-	-	-	-
Community development	817,031	817,031	694,432	122,599
Capital outlay	-	-	-	-
Debt service:				
Principal	1,001,332	1,001,332	1,001,332	-
Interest and fiscal agent fees	1,484,540	1,484,540	1,484,540	-
Total expenditures	<u>3,302,903</u>	<u>3,302,903</u>	<u>3,180,304</u>	<u>122,599</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>390,097</u>	<u>390,097</u>	<u>1,504,515</u>	<u>1,114,418</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	370,000	370,000
Cost of issuance	-	-	-	-
Transfers in	-	-	-	-
Transfers out	<u>(1,732,630)</u>	<u>(48,000)</u>	<u>(155,607)</u>	<u>(107,607)</u>
Total other financing sources (uses)	<u>(1,732,630)</u>	<u>(48,000)</u>	<u>214,393</u>	<u>262,393</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (1,342,533)</u>	<u>\$ 342,097</u>	1,718,908	<u>\$ 1,376,811</u>
Fund balances, beginning of year			14,115,930	
Prior period adjustments			(74,940)	
Fund balances, end of year			<u>\$ 15,759,898</u>	

CITY OF NOVATO
Proprietary Funds
Statement of Net Assets
June 30, 2007

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 2,946,234
Cash with fiscal agents	-	-
Accounts receivables	-	8,488
Loans receivable	-	-
Due from other funds	-	1,731,886
Deposits	-	-
Prepays and other assets	-	-
Total current assets	<u>-</u>	<u>4,686,608</u>
Noncurrent assets:		
Capital assets, net	-	1,640,942
Total assets	<u>-</u>	<u>6,327,550</u>
LIABILITIES		
Current liabilities:		
Accounts payable	-	129,158
Deferred revenue	-	353,001
Claims payable	-	469,368
Total current liabilities	<u>-</u>	<u>951,527</u>
Claims payable, noncurrent	-	1,485,510
Total liabilities	<u>-</u>	<u>2,437,037</u>
NET ASSETS		
Invested in capital assets, net of related debt	-	1,640,942
Unrestricted	-	2,249,572
Total net assets	<u>\$ -</u>	<u>\$ 3,890,514</u>

CITY OF NOVATO

Proprietary Funds

Statement of Activities 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		
Service charges	\$ -	\$ 1,408,771
Revenues from other agencies	-	-
Other revenue	-	690,196
Total operating revenue	<u>-</u>	<u>2,098,967</u>
 OPERATING EXPENSES		
Cost of services	-	1,564,810
Depreciation	-	270,520
Total operating expenses	<u>-</u>	<u>1,835,330</u>
Operating income (loss)	<u>-</u>	<u>263,637</u>
 NONOPERATING REVENUES (EXPENSES)		
Interest income	-	125,039
Net nonoperating revenues (expenses)	<u>-</u>	<u>125,039</u>
Income (loss) before transfers	-	388,676
Transfers in	-	383,227
Transfers out	-	(21,185)
Net transfers	<u>-</u>	<u>362,042</u>
Changes in net assets	-	750,718
Net assets, beginning of year	-	3,139,796
Net assets, end of year	<u>\$ -</u>	<u>\$ 3,890,514</u>

CITY OF NOVATO

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2007

	Business-Type Activities-	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interfund services provided	\$ -	\$ 1,621,469
Cash received from other operating activities		690,196
Cash paid to suppliers		(2,104,573)
Net cash provided by operating activities	<u>-</u>	<u>207,092</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds	-	383,227
Transfers out to other funds	-	(21,185)
Net cash used by noncapital financing activities	<u>-</u>	<u>362,042</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds		-
Interest paid		-
Capital expenditures		(779,007)
Net cash used by capital and related financing activities	<u>-</u>	<u>(779,007)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	-	125,039
Repayment of loans receivable		-
Net cash provided by investing activities	<u>-</u>	<u>125,039</u>
Net change in cash and cash equivalents	-	(84,834)
Cash and cash equivalents at beginning of year		<u>3,031,071</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 2,946,237</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ -	\$ 263,637
Adjustments to reconcile operating income to net cash provided (used)		
by operating activities:		
Depreciation and amortization expense	-	270,520
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable		(5,971)
Decrease (increase) in due from other funds		106,508
Increase (decrease) in deferred revenue		112,161
Increase (decrease) in accounts payable		90,723
Increase (decrease) in claims payable		(630,486)
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ 207,092</u>

CITY OF NOVATO

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2007

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ 2,153,072	\$ 4,587,115
Cash with fiscal agent	4,305,048	4,919,018
Receivables	4,171	24,502
Capital assets, net	14,878,271	-
Other assets, net	806,611	-
Total assets	<u>22,147,173</u>	<u>9,530,635</u>
LIABILITIES		
Accounts payable	66,066	1,485
Deposits held in trust	2,122,063	3,399,056
Deferred revenue	37,121	-
Notes payable	14,525,000	-
Loans payable	-	-
Interest payable	195,642	-
Total liabilities	<u>16,945,892</u>	<u>3,400,541</u>
NET ASSETS		
Assets held in trust	<u>\$ 5,201,281</u>	<u>\$ 6,130,094</u>

CITY OF NOVATO
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2007

	<u>Trust Funds</u>
ADDITIONS	
Operating revenues	\$ 2,746,046
Investment income	<u>243,677</u>
Total additions to net assets	<u>2,989,723</u>
DEDUCTIONS	
General and administrative expenses	1,470,555
Depreciation and amortization	-
Interest expense	<u>851,379</u>
Total deductions from net assets	<u>2,321,934</u>
Transfers in (out)	<u>-</u>
Changes in net assets	667,789
Net assets, beginning of year	4,533,492
Net assets, end of year	<u><u>\$ 5,201,281</u></u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 – Description of organization and summary of significant accounting policies:

The City of Novato was incorporated on January 21, 1960. The City operates under a Council-Manager form of government and provides the following services: public safety (police protection), highways and streets, public improvements, planning and zoning, parks and recreation, and general administration services.

The accounting policies of the City of Novato conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

Generally accepted accounting principles of the United States of America require that these financial statements present the City (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit and is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The component units discussed in this note are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Individual Component Unit Disclosures:

Blended Component Units

The Redevelopment Agency of the City of Novato ("RDA" or "Agency") is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation and development of certain areas within the City. The Agency is reported as if it were part of the primary government because the City Council, although acting in a different capacity, is the controlling authority. All accounting and many administrative functions are performed by the City. The Agency meets the following fiscal matters criteria for inclusion in the City's reporting entity: selection of governing authority, ability to significantly influence operations, and accountability. The financial activities of the Agency have been included in these financial statements. The Agency's financial statements may be obtained from the City's Finance Department.

The City of Novato Public Financing Authority ("NPFA") is a separate government entity that was created by a Joint Exercise of Powers Agreement between the City of Novato and the Redevelopment Agency of the City of Novato. It is reported as if it were part of the primary government because the City Council, although acting in a different capacity, is the controlling authority. Accounting and administrative functions are performed by the City. The purpose of the NPFA was to acquire a building for the City of Novato Youth Activities Center Project and lease it to the City. The NPFA has not issued financial statements.

The Novato Financing Authority ("NFA" or "Authority") is a separate government entity, which was created by a Joint Exercise of Powers Agreement between the City of Novato and the Redevelopment Agency of the City of Novato. It is reported as if it were part of the primary government because the City Council, although acting in a different capacity, is the controlling authority. All accounting and administrative functions are performed by the property management

company and fiscal agents in a trustee capacity. The purpose of the NFA was to finance the acquisition, operation and maintenance of mobile home parks (the "Project") in the City. The Authority anticipates transferring all of its rights, title and interest in the Project to a yet-to-be incorporated 501(c) (3) corporation, at which time all of the duties and obligations would be assigned to the corporation. The Authority has agreed to assign certain duties and obligations (operation of the Project) to the Park Acquisition Corporation of Marin Valley Mobile Country Club Park pursuant to a Delegation Agreement dated as of March 1, 1997. Based on the nature of operations and the fact that the Authority cannot freely dispose of the Project, the activities of the Authority are reported within a nonexpendable trust fund within the Fiduciary Funds. The Authority's financial statements may be obtained from the City's Finance Department.

Related organizations

There are many other governmental agencies, including the Novato Unified School District, Novato Fire District, Novato Sanitary District, North Marin Water District, and the County of Marin, providing services within the City of Novato. Financial data of these other governmental agencies are not included in the financial statements of the City because the City does not exercise accountability over these organizations. The governing boards of these governmental agencies are independently elected.

B. Basis of accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. Governmental 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.

Government - Wide Financial Statements

The City 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 and Business-Type Activities for the City accompanied by a total column. Internal Service Fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary activities of the City are not included in these statements.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The Internal Service Funds are presented in a single column on the face of the proprietary fund statements.

Governmental Fund Financial Statements

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

Revenues susceptible to accrual are property taxes, franchise taxes, interest revenue, and charges for services. Sales taxes collected and held by the State at year-end on behalf of the City also are recognized as revenue. Licenses and permits are not susceptible to accrual because, generally, they are not measurable until received in cash.

Expenditures are generally recognized when incurred under the modified accrual basis of accounting. Principal and interest on general long-term debt is recognized when due. Financial resources are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus are not current liabilities of the debt service fund, as their settlement will not require expenditure of existing fund assets.

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. 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. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The major governmental funds of the City are:

- *General Fund* – This is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in a separate fund.
- *Capital Projects Fund* – This fund is used to account for the revenues and expenditures for the City of Novato's Capital Improvement Projects.
- *RDA Housing Fund* – This fund is used to account for the restricted housing set-aside tax increment revenues specific to improving and increasing the supply of low and moderate income housing in the community.
- *RDA General Fund* – This fund is used to account for the preparation and implementation of plans for improvement, rehabilitation, and development of certain areas within the City.
- *Hamilton Trust Fund* – This is a “permanent fund” as defined under GASB 34. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the City's programs. This fund is used to account for fees paid by the developer of the Hamilton project in accordance with the trust agreement, and income and earnings on the corpus which are to be partially distributed to the City, as beneficiary, in accordance with the terms of the trust agreement.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide financial statements. The City's only proprietary funds are the internal service funds. These funds are being used to account for and finance services and commodities furnished by a designated department of a governmental unit to other departments of the same governmental unit.

Proprietary funds are managed 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 present 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.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as necessary.

Fiduciary Fund Financial Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary Fund Financial Statements include a Statement of Net Assets and a Statement of Changes in Net Assets. Fiduciary funds are not reflected on the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's Fiduciary funds represent Agency Funds and Trust Funds. The

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting as are the governmental funds explained above. The Trust funds are used to record the assets and liabilities held for the benefit of others.

C. Capital assets

The City's policy is to capitalize all assets with a useful life of one year or more and a cost greater than \$5,000. All fixed assets are recorded at historical cost or, if historical cost is not available, at estimated historical cost. Donated assets are recorded at the estimated fair market value on the date donated.

Public domain ("infrastructure") capital assets consist of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

Capital assets and the related obligations acquired under lease purchase agreements are capitalized and accounted for in accordance with Financial Accounting Standards Statement No. 13.

Depreciation is charged as an expense of operations annually and accumulated depreciation is reported on the balance sheets in the government-wide financial statements. Depreciation is based on the estimated useful lives of the assets using the straight-line method.

D. Budgetary policies and accounting

The City operates under the general laws of the State of California and annually adopts a budget for its governmental and proprietary funds to be effective July 1 for the ensuing fiscal year. From the effective date of the budget, which is adopted and controlled at the departmental level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by resolution during the fiscal year. The City Manager may authorize transfers from one account to another within the same department. Debt service on bond issues constitutes a legally authorized "non-appropriated budget." Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Encumbrances are considered to be expenditures in the year the commitment is entered into. Budget appropriations lapse at the end of the fiscal year unless encumbered by specific Council approval.

E. Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. This method records purchase orders, contracts, and other commitments for the expenditure of funds in order to reserve that portion of the applicable appropriation. Encumbered funds carry over at year end as reserved fund balances.

F. Cash and investments

The City pools cash from all sources, except cash with fiscal agents and deferred compensation plan assets, for the purpose of increasing income through investment activities.

Cash and investments used in preparing the proprietary fund statement of cash flows are composed of pooled cash and investments. Specific investments are not allocated to each fund. Pooled cash and investments are comprised of cash in banks, U.S. Treasury Notes, Federal Agency Notes, Corporate Notes, and the Local Agency Investment Fund. For purposes of the statements of cash flows, all short-term interest bearing investments with original maturities of less than three months are considered cash equivalents.

G. 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.

H. Unearned revenues

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

I. Statement of cash flows

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

J. Compensated absences

A liability is calculated for all the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary and related payroll costs are those in effect at June 30, 2007. Accumulated unpaid vacation is accrued when earned.

Upon termination, the City is not liable to pay for accrued sick leave; therefore, sick leave is recorded as an expenditure in the year used. The amounts accrued for financial statement purposes represent 100% of the vacation pay liability at June 30, 2007.

For proprietary funds, compensated absences are recorded as expenses when the benefit is earned and the liability is recorded in each respective fund.

K. Property taxes and special assessment revenue

Article XIII of the California Constitution (more commonly known as Proposition 13) limits ad valorem taxes on real property to one percent (1%) of assessed value plus any amounts necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the fiscal year 1975-76 assessed valuation as the basis and limits annual increases to the cost of living, not to exceed two percent (2%), for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transaction taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors.

The County of Marin levies, bills and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the City and the County of Marin. The Teeter Plan authorizes the Auditor-Controller of the County of Marin to allocate 100% of the secured property taxes billed, but not yet paid. The County of Marin's policy is to remit tax monies to the City in three installments as follows:

50% remitted in December
45% remitted in April
5% remitted in June

Secured and unsecured property taxes are levied on January 1, which is also the lien date. Secured property taxes are due in two installments, on November 1 and February 1. Payments become delinquent and subject to penalty after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent after August 31.

L. Statement calculations and use of estimates

Due to rounding, column and row calculations may approximate actual figures. Approximations may result when decimal places are eliminated to present whole numbers.

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 and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

M. New governmental accounting standards

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ended June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assist users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ended June 30, 2007.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post employment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB liability. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2009

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which requires that limitation on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. Application of this statement is effective for the City's fiscal year ended June 30, 2007.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits, which establishes accounting standards for termination benefits*. More specifically, this statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements, and significant methods and assumptions used to determine termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement will be implemented simultaneously with the requirements of Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. For all other termination benefits, application of this statement is effective for the City's fiscal year ended June 30, 2007.

NOTE 2 - Cash and investments:

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents.

A. Cash deposits

All cash in banks is entirely insured or collateralized with securities held by the pledging financial institutions in the City's name. The California Government Code requires California banks and savings and loan associations to secure the City's deposits by pledging government securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for deposits is considered to be held in the City's name. The market value of pledged securities must equal at least 110% of the City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.

The City may waive collateral requirements for deposits that are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation ("FDIC").

B. Authorized investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, Commercial Paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Records, Certificates of Deposit, Bankers' Acceptances, Repurchase Agreements, Reverse Repurchase Agreements, and the State Treasurer's investment pool (LAIF).

The table below identifies the investment types that are authorized by the City's Investment Policy. The table also identifies certain provisions of the City's Investment Policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of *Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	N/A	N/A	N/A
U.S. Agency Securities	N/A	N/A	N/A
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	15%	10%
Medium-Term Notes	One year	30%	15%
Money Market Mutual Funds	N/A	N/A	N/A
Repurchase Agreements	90 days	N/A	N/A
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A
Negotiable Certificates of Deposits	Five years	30%	N/A

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

C. Cash and investment composition

The City maintains a cash pool that is available for use by all funds. Interest income earned on pooled cash and investments is allocated quarterly to various funds based on the average cash balances of the funds. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Cash and investments at June 30, 2007 are comprised of the following:

	<u>Carrying Value</u>	<u>Fair Value</u>
Petty cash	\$ 2,235	\$ 2,235
Cash in bank	1,795,156	1,795,156
Federal agency securities	26,206,989	26,206,989
Money Market Funds	15,412,432	15,412,432
Commercial Paper	3,566,970	3,566,970
Corporate Notes	3,185,874	3,185,874
California Local Agency Investment Fund	<u>44,881,340</u>	<u>44,860,920</u>
Subtotal	95,050,996	95,030,576
Cash with fiscal agents:		
Money Market	2,247,857	2,247,857
Guaranteed investment contracts/investment agreements	<u>9,224,065</u>	<u>9,224,065</u>
	<u>\$ 106,522,918</u>	<u>\$ 106,502,498</u>

Cash and investments are presented as follows in the financial statements:

Governmental funds:	
Operating cash and investments	\$ 57,835,250
Cash with fiscal agent	2,247,856
Restricted cash and investments	<u>30,475,559</u>
	<u>90,558,665</u>
Trust funds:	
Cash and investments	2,153,072
Cash with fiscal agent	<u>4,305,048</u>
	<u>6,458,120</u>
Agency funds:	
Cash and investments	4,587,115
Cash with fiscal agent	<u>4,919,018</u>
	<u>9,506,133</u>
Total	<u>\$ 106,522,918</u>

Cash with fiscal agent is restricted as follows:

Hamilton Tax Allocation Bonds - Series 2005	\$ 1,588,294
Hamilton 2005 Housing Bonds - Series A	<u>659,562</u>
	<u>2,247,856</u>
Trust Funds:	
Novato Financing Authority	<u>4,305,048</u>
	<u>4,305,048</u>
Agency Funds:	
Hamilton Bonds A.D. - CFD 1994-1, 2004 Refunding	1,906,909
Pointe Marin Assessment District - CFD 2002-1	908,696
Golden Gate Plaza Assessment District	231,136
Vintage Oaks A.D. - CFD No. 1, 2004 Refunding	<u>1,872,277</u>
	<u>4,919,018</u>
Total cash with fiscal agent	<u><u>\$ 11,471,922</u></u>

Cash and investments held by the Hamilton Trust Fund of \$30,475,559 are restricted. Pursuant to the trust agreement dated January 22, 2004, payments made by the developer of the Hamilton Field project area into the Hamilton Trust Fund cannot be spent by the City and are considered corpus ("principal") of the Trust Fund. Income and investment earnings can be spent for specified purposes that benefit the City as defined in the agreement.

The composition of cash and investments by funds at June 30, 2007 was as follows:

Major funds:	
General fund	\$ 5,422,305
Capital Projects Fund	373,778
RDA Housing	2,687,688
RDA	3,964,454
Other governmental non-major funds	42,556,566
Internal service fund	<u>2,946,234</u>
	57,951,025
Elimination of Eucalyptus bonds on government-wide statements to eliminate doubling-up effect. See Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets	<u>(115,775)</u>
	<u><u>\$ 57,835,250</u></u>

D. Risk Disclosures

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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. Investments which exceed five years in maturity require City Council's approval.

Investment Type	Fair Value	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal agency securities	\$ 26,206,989	\$ 8,049,000	\$ 1,999,000	\$ 7,962,000	\$ -
Money Market Funds	15,412,432	15,412,432			
Commercial Paper	3,566,970	3,566,970			
Corporate Notes	3,185,874	3,185,874			
State investment pool	44,860,920	44,860,920	-	-	-
Held by bond trustee:					
Money Market	2,247,857	2,247,857	-	-	-
Investment agreements	9,224,065				9,224,065
Total	\$ 104,705,107	\$ 77,323,053	\$ 1,999,000	\$ 7,962,000	\$ 9,224,065

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

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End		
			AAA	AA / A-1+	Not Rated
Federal agency securities	\$ 26,206,989	\$ -	\$ 23,706,989	\$ 2,500,000	\$ -
Money Market Funds	15,412,432	\$ 15,412,432			
Commercial Paper	3,566,970			3,566,970	
Corporate Notes	3,185,874			3,185,874	
State investment pool	44,860,920	-	-	-	44,860,920
Held by bond trustee:					
Money Market	2,247,857	2,247,857	-	-	-
Investment agreements	9,224,065				9,224,065
Total	\$ 104,705,107	\$ 17,660,289	\$ 23,706,989	\$ 9,252,844	\$ 54,084,985

The City'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. As of June 30, 2007, there are no investments in any one issuer that represent 5% or more of total City investments.

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 City's investment policy do not contain legal or policy requirements that would limit the

exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under State law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

E. Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holding in LAIF. The City had a contractual withdrawal value of \$44,881,340 whose pro-rata share of fair value was estimated by the state Treasurer to be \$44,860,920. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

F. Marketing investments to fair value (GASB 31)

In fiscal 1997-98, the City adopted Government Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its fair value at each succeeding fiscal year end, but these recognized gains or losses would net to zero if the investment is held to maturity. Recognized gains or losses are reported as investment income. By following the requirements of GASB 31, the City is reporting the amount of resources that would actually have been available if it had been required to liquidate all its investments at any fiscal year end.

NOTE 3 - Inter-fund transactions:

Inter-fund loans represent current balances owed between funds. Balances were comprised of the following at June 30, 2007:

<u>Fund</u>	<u>Due to other funds</u>	<u>Due from other funds</u>
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 340,472	\$ 11,250,526
RDA Housing	25,739,960	-
RDA Fund	17,102,564	25,739,960
Hamilton Trust Fund	270,826	1,595,000
Total major funds	<u>43,453,822</u>	<u>38,585,486</u>
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Housing Opportunity	-	-
Affordable Housing Trust	-	416,954
Underground Utilities	-	109,777
Subdivision Park	-	668,733
Chapter 27 Assessment	101,035	-
Insurance reserve	-	350,918
Emergency and Disaster Response reserve	-	1,882,343
	<u>101,035</u>	<u>3,428,725</u>
Capital Project Funds:		
Capital Projects	-	-
Clean Stormwater CIP	8,742	-
Street Drains Maintenance	-	148,064
Development Impact Fees	-	986,940
RDA Community Center Maintenance	-	-
RDA Community Center and Performing Arts	-	506,651
RDA Community Center Gymnastics/Teen Center	-	-
Novato Public Financing Authority	2,524,334	700,181
	<u>2,533,076</u>	<u>2,341,836</u>
Total non-major funds	<u>2,634,111</u>	<u>5,770,561</u>
Total governmental funds	<u>46,087,933</u>	<u>44,356,047</u>
Internal Service Funds		
Equipment Replacement	-	1,591,920
F,F&E Replacement	-	139,966
	<u>-</u>	<u>1,731,886</u>
Total	<u>\$ 46,087,933</u>	<u>\$ 46,087,933</u>

Operating transfers - Fund	Transfers In	Transfers Out
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 2,257,692	\$ 7,515,040
RDA Housing	56,164	68,670
RDA	-	155,607
Capital Projects	11,212,980	38,695
Hamilton Trust Fund	-	1,087,584
Total major funds	13,526,836	8,865,596
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Insurance Reserve Fund	124,000	11,691
Emergency Response Fund	2,725,851	40,051
Clean Stormwater	-	195,000
Subdivision Park	-	601,912
Art in Public Places	-	4,854
Hamilton Community Facilities	-	1,055,677
Novato Arts Center @ Hamilton	-	214,941
Chapter 27 Assessment	-	5,973
State SB-300	-	9,157
State Gas Tax	-	1,228,942
LLEBG 2003 Grant	-	39
LLEBG 2004 Grant	39	-
Traffic Congestion Relief	10,456	492,335
Special Police Projects	7,000	-
State Grant Funds	-	17,833
Federal Grant Funds	-	817,208
Debt Service Funds:		
Pension Obligation Bonds	877,880	-
Capital Projects Funds:		
Park Improvement Bond Project	-	648
Measure A Street Improvements	-	131,329
Measure B Street Bond Projects	21,324	4,175,624
Park Development	-	340
Long-term Maintenance Fund	600,000	
Civic Center	1,069,000	169,036
Clean Stormwater CIP	51,915	4,126
Community Facilities Maintenance Fund	829	471,181
Community Facilities Teen/Gymnastics Center	1,049,880	
Community Facilities Pool Fund	-	829
Community Facilities Performing Arts Fund	-	883,232
Street Drains Maintenance	-	6,252
Development Impact Fee	-	559,803
Restricted Revenue Fund	-	617
Novato Public Financing Authority	254,941	702,767
Total non-major funds	6,793,115	11,801,397
Total governmental funds	20,319,951	20,666,993
Internal Service Funds:		
Equipment Maintenance	-	14,013
Equipment Replacement	328,377	7,107
F,F & E Replacement	54,850	65
Total internal service funds	383,227	21,185
Agency Funds:		
Hamilton Bond Fund	-	15,000
Total agency funds	-	15,000
Total interfund transfers	\$ 20,703,178	\$ 20,703,178

Loan payable to Hamilton Trust

In June 2004, the Hamilton Trust Fund loaned \$1,745,000 to the City of Novato Public Finance Authority (“NPFA”) bearing interest of 6.5% per annum, due in principal and installments as defined in the loan agreement, and maturing on June 1, 2024. NPFA in turn made these funds available to the City to finance certain improvements to the City’s corporation yard. NPFA is the trustee of the Hamilton Trust Fund.

In May 2004, the City entered into a lease agreement with NPFA, whereby the City has leased to the NPFA the City’s corporation yard (“property”), and the NPFA made available to the City the borrowed funds to enable the City to finance certain improvements. The NPFA leases the property back to the City, and the City makes lease payments for the use of the property, which is used to repay the loan to the Hamilton Trust Fund. The NPFA has assigned its rights to the lease payments from the City to the Hamilton Trust Fund.

The scheduled loan payments are as follows at June 30, 2007:

<u>Fiscal years ending June 30</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 158,675	\$ 55,000	\$ 103,675
2009	155,100	55,000	100,100
2010	156,525	60,000	96,525
2011	157,625	65,000	92,625
2012	158,400	70,000	88,400
2013-2017	792,250	425,000	367,250
2018-2022	785,925	575,000	210,925
2023-2024	318,600	290,000	28,600
	<u>\$ 2,683,100</u>	<u>\$ 1,595,000</u>	<u>\$ 1,088,100</u>

NOTE 4 - Loans receivable:

Loans receivable of \$611,768 at June 30, 2007 are comprised of the following:

Computer loan program

The City has adopted an employee computer purchase program in which the City purchases personal computers for the employees and is repaid through payroll deductions the cost of the computer plus interest for a period not to exceed 36 months (interest is based on the LAIF rate plus .5%, and was 5.7% at June 30, 2007). The balance of the computer loans receivable at June 30, 2007 was \$11,768 and 14 employees were participating in the program.

Novato Theater Restoration

The Agency had agreed to loan the Novato Theater Restoration Committee (“Committee”) up to \$497,500, on a draw down basis at an interest rate of 10% per annum, compounded monthly which was due and payable on December 31, 2001. The Agency stopped accruing interest when the loan went into default in fiscal 2002. The loan was made to the Committee primarily for the acquisition of the Theater Property. In October 1986, the City entered into a contingent option to purchase the Theater Property pursuant to its rights as defined in the agreement. At June 30, 2007 the Agency has a loan receivable of \$367,240 in principal and \$111,829 in interest, which is in default. An allowance for doubtful accounts for the full receivable has been recorded. The Agency has elected to continue to make monthly payments of \$2,250 to the former owner on behalf of the Committee to fund the mortgage on the Theatre Property.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Loan receivable	\$ 367,240	\$ 111,829	\$ 479,069
Allowance for doubtful accounts	(367,240)	(111,829)	(479,069)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Employee Housing Assistance Loans

In August 2004, the City loaned an employee funds for housing assistance in the amount of \$300,000, which bears interest at the average LAIF rate for the prior six months plus 1%, and is secured by real property. The loan is due over thirty years, or upon termination of employment. The loan receivable balance at June 30, 2007 was \$300,000, which is included as a loan receivable on the accompanying Statement of Net Assets. Interest receivable related to this loan in the amount of \$2,000 is included in interest receivable.

In April 2005, the City loaned another employee funds for housing assistance in the amount of \$300,000, which bears interest at the average LAIF rate for the prior twelve months plus 1%, and is secured by real property. The loan is due over thirty years, or upon termination of employment. The loan receivable balance at June 30, 2007 was \$300,000 which is included as a loan receivable on the accompanying Statement of Net Assets. Interest receivable related to this loan in the amount of \$1,273 is included in interest receivable.

NOTE 5 - Capital assets:

Governmental activity capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Public domain (infrastructure) general fixed assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities, by function.

Depreciation of capital assets is charged as an expense against operations 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.

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

Furniture and Equipment	5 years
Vehicles	3-13 years
Buildings	50 years
Infrastructure	7 –100 years

The following is a summary of capital assets as of June 30, 2007:

	<u>Governmental Activities</u>	<u>Internal Service Activities</u>	<u>Total</u>
Capital assets not being depreciated:			
Land	\$ 121,165,277	\$ -	\$ 121,165,277
	<u>121,165,277</u>	<u>-</u>	<u>121,165,277</u>
Depreciable capital assets:			
Buildings	15,883,402	-	15,883,402
Furniture and equipment	1,289,648	-	1,289,648
Vehicles	-	3,983,863	3,983,863
Infrastructure	181,119,435		181,119,435
Total	<u>198,292,485</u>	<u>3,983,863</u>	<u>202,276,348</u>
Less: accumulated depreciation	<u>84,946,079</u>	<u>2,342,921</u>	<u>87,289,000</u>
Depreciable capital assets, net	<u>113,346,406</u>	<u>1,640,942</u>	<u>114,987,348</u>
Total capital assets, net	<u>\$ 234,511,683</u>	<u>\$ 1,640,942</u>	<u>\$ 236,152,625</u>

Combined governmental capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balances June 30, 2006	Additions	Transfers/ Retirements	Balances June 30, 2007
Capital assets not being depreciated:				
Land	\$ 121,165,277	\$ -	\$ -	\$ 121,165,277
Construction in progress	-	-	-	-
Total nondepreciable assets	<u>121,165,277</u>	<u>-</u>	<u>-</u>	<u>121,165,277</u>
Depreciable capital assets:				
Buildings	13,112,061	2,771,341		15,883,402
Furniture and equipment	1,007,589	320,234	(38,175)	1,289,648
Infrastructure	172,747,728	8,371,707	-	181,119,435
Total depreciable assets	<u>186,867,378</u>	<u>11,463,282</u>	<u>(38,175)</u>	<u>198,292,485</u>
Less: accumulated depreciation for:				
Buildings	3,781,716	310,789	-	4,092,505
Furniture and equipment	779,725	104,122	38,175	845,672
Infrastructure	75,424,015	4,583,887	-	80,007,902
Total accumulated depreciation	<u>79,985,456</u>	<u>4,998,798</u>	<u>38,175</u>	<u>84,946,079</u>
Total depreciable assets, net	<u>106,881,922</u>	<u>6,464,484</u>	<u>(76,350)</u>	<u>113,346,406</u>
Internal service fund fixed assets:				
Depreciable assets:				
Vehicles	3,520,147	779,009	315,293	3,983,863
Total depreciable assets	<u>3,520,147</u>	<u>779,009</u>	<u>315,293</u>	<u>3,983,863</u>
Less: accumulated depreciation	<u>2,387,694</u>	<u>270,520</u>	<u>315,293</u>	<u>2,342,921</u>
Total depreciable assets, net	<u>1,132,453</u>	<u>508,489</u>	<u>-</u>	<u>1,640,942</u>
Total governmental activities	<u>\$ 229,179,652</u>	<u>\$ 6,972,973</u>	<u>\$ (76,350)</u>	<u>\$ 236,152,625</u>
Depreciation was charged to function as follows:				
Governmental activities:				
General government			\$ 134,210	
Public safety			140,337	
Public works			6,128	
Cultural and recreation			122,032	
Community development			12,204	
Infrastructure			4,583,887	
Capital assets held by Internal Service Fund			270,520	
Total governmental activities depreciation expense			<u>\$ 5,269,318</u>	

The City has no business-type activities.

A summary of changes in the fiduciary fund (nonexpendable trust) capital assets for the fiscal year ended June 30, 2007 is as follows:

	June 30, 2006	Additions	Retirements/ Transfers	June 30, 2007
Land	\$ 11,840,000	\$ -	\$ -	\$ 11,840,000
Land improvements	3,361,892	52,025	-	3,413,917
Buildings	755,368	11,789	-	767,157
Equipment	8,643	-	-	8,643
Mobile homes and improvements	177,636	-	-	177,636
Construction-in-progress	-	-	-	-
Total	<u>16,143,539</u>	<u>63,814</u>	<u>-</u>	<u>16,207,353</u>
Less: accumulated depreciation	1,179,896	149,186	-	1,329,082
	<u>\$ 14,963,643</u>	<u>\$ (85,372)</u>	<u>\$ -</u>	<u>\$ 14,878,271</u>

NOTE 6 - Long-term debt:

A. Long-term debt outstanding

Governmental activities long-term debt issued and outstanding at June 30, 2007 is comprised of the following:

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding June 30, 2007
General obligation bonds:				
Series 1997A	2021	5.00-8.00%	\$ 14,245,000	\$ 9,755,000
Series 1993A	2014	4.75-7.25%	5,000,000	2,360,000
Series 2000A	2022	5.00-5.75%	5,000,000	4,080,000
Series 2004	2026	3.20-10.00%	5,000,000	4,870,000
Series 2004-Premium				246,940
Series 2007	2027	3.55-4.125%	5,000,000	5,000,000
Series 2007-Premium				260,937
Pension Obligation Bonds, A-1 & A-2	2035	5.69-6.12%	18,296,066	18,266,066
Pension Obligation Bonds-Discounts				(173,577)
CEIDB loan	2032	3.39%	3,700,000	3,447,821
OPA notes payable	2014	8.53%	9,000,000	4,176,788
Hamilton Field Tax Allocation Bonds-2005	2035	2.50-4.50%	24,835,000	23,885,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	2035	4.50-4.88%	9,520,000	9,340,000
Due to County of Marin	2011	7.75%		537,881
Compensated absences - noncurrent				406,353
				<u>\$ 86,459,209</u>

Long-term debt of the fiduciary fund (nonexpendable trust) at June 30, 2007 consisted of the following:

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding, June 30, 2007</u>
Novato Financing Authority:				
Promissory note - Senior Note	2028	3.9 - 5.85%	\$ 15,485,000	\$ 13,185,000
Promissory note - Subordinate Note	2025	3.9 - 5.85%	1,585,000	<u>1,340,000</u>
Total notes payable				<u>14,525,000</u>
Total fiduciary fund long-term debt				<u>\$ 14,525,000</u>

B. Changes in long-term debt

The City's long-term debt transactions for the fiscal year ended June 30, 2007 were as follows:

	<u>Balance, June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2007</u>	<u>Due in One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 22,285,000	\$ 5,000,000	\$ 1,220,000	\$ 26,065,000	\$ 1,300,000
Premium on 2004 General Obligation Bonds	256,211	3,669	12,940	246,940	12,940
Premium on 2007 General Obligation Bonds	-	264,781	3,844	260,937	12,992
Pension Obligation Bonds, A-1 and A-2	18,296,066	-	30,000	18,266,066	-
Discount on Pension Obligation Bonds	(181,151)	-	(7,574)	(173,577)	(7,574)
Compensated absences	373,175	33,178	-	406,353	-
OPA notes payable	4,601,243	-	424,455	4,176,788	460,639
Due to County of Marin	602,299	-	64,418	537,881	113,868
CEIDB loan	3,534,698	-	86,877	3,447,821	89,822
Hamilton Field Tax Allocation Bonds-2005	24,375,000	-	490,000	23,885,000	500,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	9,420,000	-	80,000	9,340,000	185,000
	<u>\$ 83,562,541</u>	<u>\$ 5,301,628</u>	<u>\$ 2,404,960</u>	<u>\$ 86,459,209</u>	<u>\$ 2,667,687</u>
Fiduciary fund activities:					
Promissory note - Senior Note	\$ 13,490,000	\$ -	\$ 305,000	\$ 13,185,000	\$ 320,000
Promissory note - Subordinate Note	1,375,000	-	35,000	1,340,000	35,000
	<u>\$ 14,865,000</u>	<u>\$ -</u>	<u>\$ 340,000</u>	<u>\$ 14,525,000</u>	<u>\$ 355,000</u>

C. General obligation bonds

The City has five outstanding general obligation bond issues: (1) \$5,000,000 Series 2000A, dated July 1, 2000; (2) \$14,245,000 Series 1997A, dated July 1, 1997; (3) \$5,000,000 Series 1993A, dated May 28, 1993; and (4) \$5,000,000 Series 2004, dated November 1, 2004; (5) \$5,000,000 Series 2007, dated March 14, 2007.

(1) On July 1, 2000 the City issued \$5,000,000 General Obligation Bond Series A to finance the acquisition, construction and completion of improvements to streets, storm drains and sidewalks within the City.

(2) On July 1, 1997, the City issued \$14,245,000 of refunding bonds (Series A) to advance refunding of its General Obligation Bonds, Series 1989A, General Obligation Bonds, Series 1990A, and General Obligation Bonds, Series 1992A (collectively, the "Prior Bonds"). The Prior Bonds were issued to finance the acquisition and construction of various streets, storm drains, and parks and recreational facilities throughout the City. The Prior Bonds were deposited in trust with an escrow agent to provide debt service payments until the bonds mature. The advance refunding meets the requirements of an in-substance debt defeasance and the Prior Bonds were removed from the City's

General Long-Term Debt Account Group. Interest on the 1997 Bonds is payable on February 1 and August 1 of each year, commencing February 1, 1999. Principal is payable on August 1 of each year, commencing on August 1, 1999.

The City advance refunded the Prior Bonds to maximize the resources available to finance the projects for which the Prior Bonds were issued in a manner that does not increase the burden on property taxpayers residing within the jurisdiction of the City. The accounting savings of this refunding was \$1,502,606 and the net present value savings of this refunding was \$916,675.

(3) On May 23, 1993 the City issued \$5,000,000 General Obligation Bonds, Series 1993A to finance the construction and reconstruction of streets and storm drains throughout the City.

(4) On November 1, 2004 the City issued \$5,000,000 General Obligation Bonds, Series 2004 to finance the acquisition and construction of capital improvements to various streets, storm drains and sidewalks within the City. The bonds were issued at a premium of \$268,996. These bonds are the second in a series of three (the first series were the bonds issued July 1, 2000 described above) bonds to be issued (total of up to \$15,000,000) pursuant to a March 7, 2000 election whereby more than two-thirds of the votes cast by qualified electors were in favor of issuing the bonds.

(5) On March 14, 2007, the City issued \$5,000,000 General Obligation Bonds, Series 2007 to finance the acquisition and construction of capital improvements to various streets, storm drains and sidewalks within the City. The bonds were issued at a premium of \$264,781. These bonds are the third in a series of three bonds to be issued pursuant to a March 7, 2000 election whereby more than two-thirds of the votes cast by qualified electors were in favor of issuing the bonds.

These bonds and the interest thereon are general obligations of the City and the City has the power and is obligated to levy ad valorem taxes for the payment of these bonds and interest thereon, on all property within the City subject to taxation by the City.

D. Pension Obligation Bonds

On June 29, 2006, the City issued Pension Obligation Bonds through the California Statewide Communities Development Authority in the total amount of \$18,296,066 to finance the City's employees' unfunded accrued actuarial liability ("UAAL") pension liability as determined by PERS. The bonds were issued at a discount of \$181,150.

E. Compensated absences

At June 30, 2007, compensated absences expected to be liquidated with expendable, available resources totaled \$1,381,597 and are recorded in accrued compensated absences on the government-wide statements. The non-current portion totaling \$406,353 is recorded in long-term debt.

F. Note payable

In 1994, the Agency entered into a \$9 million promissory agreement with HNH Associates for the construction and financing of certain on-site and off-site public improvements of the Vintage Oaks Retail Complex. The promissory note bears interest of 8.525% per annum and matures in the fiscal year ending June 30, 2014. Payments consist of two semi-annual installments, which will be financed with property tax increments to be generated by the retail complex. At June 30, 2007 the note payable balance is \$4,176,788.

G. California Infrastructure and Economic Development Bank Loan (CIEDB) loan

During fiscal 2003, the Agency qualified for a low interest loan of \$3.7 million from the California Infrastructure and Economic Development Bank (“CIEDB”). The loan was used to help finance a portion of the construction of the Grant Avenue improvement project, which started in April 2004, and was completed in August 2006. At June 30, 2007 the balance of the loan is \$3,447,821.

H. Hamilton Field Loans

Hamilton Field-Navy Property Development Agreement

In connection with the development of the Hamilton Field – Navy Property, the City of Novato entered into a development agreement dated December 13, 1999 with a developer whereby, among other things, to make it economically feasible for the developer to develop the property and meet the affordable housing goals of the Redevelopment OPlan, the Agency committed net tax increment available from the project to the developer, provided that all tax increment funds or bonds are used to assist in achieving the affordable housing goals. The City and the Agency agreed to use their best efforts to issue bonds supported by future tax increment revenues to provide the developer funding. The Agency is to provide the developer tax increment funding totaling \$33,260,000, to be paid as follows: (1) the Agency shall contribute 100% of the net tax increment and supported bond proceeds until a total of \$30,510,000 has been paid to the developer; (2) upon payment of \$30,510,000, the Agency shall thereafter pay \$250,000 annually of net tax increment until the developer has received a total of \$33,260,000.

In fiscal 2004, the Agency paid the developer \$874,693. In fiscal 2005, the Agency had sufficient tax increment whereby it was able to issue two bonds totaling \$34,355,000 (described below), and paid the developer an additional \$30,510,000. The remaining balance due to the developer under this agreement is \$1,875,307. Payments to the developer were expected to begin in FY 2009-10; however in FY 2007-08, this obligation was paid in full.

Hamilton Field Redevelopment Project, Tax Allocation Bonds, Series 2005

On February 2, 2005 the Agency issued Hamilton Field Redevelopment Project-Tax Allocation Bonds, Series 2005 (“Hamilton TAB-Series 2005 Bonds”) in the amount of \$24,835,000 to (i) pay a portion of an obligation incurred by the Agency under an owner participation agreement with respect to the Original Area of the Agency’s Hamilton Field Redevelopment Project (the “Project Area”), (ii) establish a reserve fund for the Hamilton TAB-Series 2005 Bonds and (iii) to pay the cost of issuance of the bonds. The bonds are payable from and secured by Tax Revenues allocated to the Agency from the Project Area. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2005. Principal is payable on September 1 of each year, commencing September 1, 2005.

Hamilton Field Redevelopment Project, 2005 Tax Allocation Housing Bonds, Series A

On February 2, 2005 the Agency issued Hamilton Field Redevelopment Project- 2005 Tax Allocation Housing Bonds, Series A (“Hamilton 2005 Housing Bonds”) in the amount of \$9,520,000 to (i) pay a portion of an obligation incurred by the Agency under an owner participation agreement with respect to the Original Area of the Agency’s Hamilton Field Redevelopment Project (the “Project Area”), (ii) establish a reserve fund for the Hamilton 2005 Housing Bonds and (iii) to pay the cost of issuance of the bonds. The bonds are payable from and secured by Housing Tax Revenues allocated to the Agency from the Project Area. Housing Tax Revenues is defined in the indenture as the 20 percent (20%) portion of tax increment revenues derived from the Project Area which must be deposited in the Agency’s Low and Moderate Income Housing Funds (the “Housing Set-Aside”). Interest on the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2005. Principal is payable on September 1 of each year, commencing September 1, 2005.

I. Promissory notes - Senior and Subordinate

The Novato Financing Authority has two promissory notes with the California Local Government Financing Authority. On March 1, 1997 the California Local Government Financing Authority issued Senior Revenue Bonds, Series 1997A in the amount of \$15,485,000 and Subordinate Revenue Bonds, Series 1997 in the amount of \$1,585,000 for the benefit of the NFA. The proceeds were used to permanently finance the acquisition of certain real property constituting the Marin Valley Mobile Country Club Park and any structures, site improvements, facilities and fixtures on the site. The real property serves as collateral for the promissory note.

The annual debt service for the promissory notes is as follows is as follows:

Fiscal year ending June 30,	Senior Promissory Note			Subordinate Promissory Note		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$320,000	\$750,388	\$1,070,388	\$35,000	\$99,188	\$134,188
2009	335,000	733,598	1,068,598	40,000	96,375	136,375
2010	350,000	715,613	1,065,613	45,000	93,188	138,188
2011	370,000	696,348	1,066,348	45,000	89,813	134,813
2012	390,000	675,633	1,065,633	50,000	86,250	136,250
2013-2016	2,310,000	3,008,648	5,318,648	310,000	366,375	676,375
2017-2022	3,060,000	2,235,166	5,295,166	450,000	226,500	676,500
2023-2027	4,070,000	1,201,590	5,271,590	365,000	42,938	407,938
2028	1,980,000	57,915	2,037,915			
Total payments	<u>\$13,185,000</u>	<u>\$10,074,896</u>	<u>\$23,259,896</u>	<u>\$1,340,000</u>	<u>\$1,100,625</u>	<u>\$2,440,625</u>

In addition to principal and interest payments, the promissory notes also have scheduled bond expenses through the fiscal year 2028. These bond expenses are fees expected to be paid to fiscal agents and for insurance costs. Anticipated payments are as follows:

<u>Fiscal year ending June 30,</u>	<u>Deferred Annual Payments</u>
2008	\$ 78,150
2009	76,185
2010	74,130
2011	71,970
2012	69,690
2013-2017	309,540
2018-2022	229,500
2023-2027	123,240
2028	5,940
Total	<u>\$ 1,038,345</u>

K. Future governmental activities debt service

Future governmental activities debt service at June 30, 2007 is as follows:

Fiscal year ending June 30,	Principal					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
2008	\$ -	\$ 145,000	\$ 190,000	\$ 685,000	\$ 280,000	\$ 1,300,000
2009	130,000	160,000	195,000	720,000	300,000	1,375,000
2010	145,000	170,000	205,000	775,000	315,000	1,465,000
2011	160,000	190,000	220,000	815,000	335,000	1,560,000
2012	175,000	205,000	230,000	860,000	355,000	1,650,000
2013-2017	1,135,000	1,195,000	1,325,000	3,110,000	775,000	6,405,000
2018-2022	1,320,000	1,430,000	1,715,000	2,790,000	-	5,935,000
2023-2027	1,580,000	1,375,000	-	-	-	1,375,000
2028	355,000	-	-	-	-	-
Total	<u>\$ 5,000,000</u>	<u>\$ 4,870,000</u>	<u>\$ 4,080,000</u>	<u>\$ 9,755,000</u>	<u>\$ 2,360,000</u>	<u>\$ 21,065,000</u>

fiscal year ending June 30,	Interest					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
2008	\$ 233,998	\$ 233,543	\$ 208,808	\$ 487,338	\$ 111,000	\$ 1,040,688
2009	257,939	219,093	199,183	447,931	96,500	962,706
2010	241,429	204,243	189,183	410,556	81,125	885,106
2011	233,139	188,043	178,558	370,806	64,875	802,281
2012	203,039	170,268	167,308	328,931	47,625	714,131
2013-2017	782,269	707,186	646,725	1,107,204	39,125	2,500,241
2018-2022	525,344	457,631	244,756	304,500	-	1,006,888
2023-2027	237,971	126,381	-	-	-	126,381
2028	7,322	-	-	-	-	-
Total	<u>\$ 2,722,449</u>	<u>\$ 2,306,386</u>	<u>\$ 1,834,519</u>	<u>\$ 3,457,267</u>	<u>\$ 440,250</u>	<u>\$ 8,038,422</u>

Other notes

The annual debt service for the Pension Obligation Bonds is as follows as of June 30, 2007:

Fiscal year ending June 30,	Principal	Interest	Total
2008	\$ -	\$ 917,681	\$ 917,681
2009	30,000	917,681	947,681
2010	70,000	915,974	985,974
2011	110,000	911,991	1,021,991
2012	160,000	905,732	1,065,732
2013-2017	1,650,000	4,325,720	5,975,720
2018-2022	3,560,000	3,632,370	7,192,370
2023-2027	6,355,000	2,272,080	8,627,080
2028-2032	5,010,447	5,303,628	10,314,075
2033-2035	1,320,620	5,789,380	7,110,000
	<u>\$ 18,266,066</u>	<u>\$ 25,892,237</u>	<u>\$ 44,158,303</u>

The annual debt service for the OPA note is as follows as of June 30, 2007:

Fiscal year ending June 30,	OPA		
	Principal	Interest	Total
2008	\$ 460,639	\$ 339,361	\$ 800,000
2009	499,907	300,093	800,000
2010	542,523	257,477	800,000
2011	588,772	211,228	800,000
2012	638,964	161,036	800,000
2013-2014	1,445,982	154,018	1,600,000
Total	<u>\$ 4,176,788</u>	<u>\$ 1,423,212</u>	<u>\$ 5,600,000</u>

The annual debt service for the CIEDB loan is as follows as of June 30, 2007:

Fiscal years ending June 30	Payment	Principal	Interest	Annual Fee
2008	\$ 217,047	\$ 89,822	\$ 116,881	\$ 10,343
2009	216,777	92,867	113,836	10,074
2010	216,499	96,016	110,688	9,795
2011	216,211	99,270	107,433	9,507
2012	215,913	102,636	104,068	9,210
2013-2017	1,074,732	567,789	465,729	41,215
2018-2022	1,065,618	670,779	362,738	32,101
2023-2027	1,054,851	792,450	241,067	21,333
2028-2032	1,042,130	936,192	97,326	8,613
	<u>\$ 5,319,778</u>	<u>\$ 3,447,821</u>	<u>\$ 1,719,766</u>	<u>\$ 152,192</u>

The annual debt service for the Hamilton Tax Allocation Bonds-Series 2005 Bonds and the Hamilton 2005 Housing Bonds, Series A are as follows as of June 30, 2007:

Fiscal Year Ending June 30,	Hamilton TAB Series 2005 Bonds			Hamilton 2005 Housing Bonds, Series A		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 500,000	\$ 975,544	\$ 1,475,544	\$ 185,000	\$ 409,898	\$ 594,898
2009	510,000	959,756	1,469,756	190,000	401,460	591,460
2010	525,000	942,938	1,467,938	195,000	392,798	587,798
2011	540,000	925,631	1,465,631	200,000	385,160	585,160
2012	555,000	907,491	1,462,491	210,000	378,498	588,498
2013-2017	3,080,000	4,224,394	7,304,394	1,160,000	1,775,299	2,935,299
2018-2022	3,720,000	3,585,325	7,305,325	1,430,000	1,518,608	2,948,608
2023-2027	4,575,000	2,724,284	7,299,284	1,795,000	1,167,759	2,962,759
2028-2032	5,740,000	1,598,710	7,338,710	2,295,000	695,300	2,990,300
2033-2035	4,140,000	285,300	4,425,300	1,680,000	125,775	1,805,775
	<u>\$ 23,885,000</u>	<u>\$ 17,129,372</u>	<u>\$ 41,014,372</u>	<u>\$ 9,340,000</u>	<u>\$ 7,250,553</u>	<u>\$ 16,590,553</u>

The annual debt service for the amount due to the County of Marin is as follows as of June 30, 2007:

Fiscal year ending June 30,	Principal	Interest	Total
2008	\$ 113,868	\$ 18,825	\$ 132,693
2009	118,358	14,336	132,693
2010	123,024	9,669	132,693
2011	127,874	4,819	132,694
2012	54,758	531	55,289
	<u>\$ 537,881</u>	<u>\$ 48,181</u>	<u>\$ 586,062</u>

NOTE 7 - Special assessment bonds:

The City acts as an agent for the property owners by collecting the assessments, forwarding the collections to the trustee and if appropriate, beginning foreclosure on the Assessment District No. 93-1 (Golden Gate Plaza). The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond trustee. At June 30, 2007, the outstanding principal of the Assessment District No. 93-1 (Golden Gate Plaza) bond issue was \$1,775,000.

The City acts as an agent for the property owners by collecting the assessments, forwarding the collections to the trustee and if appropriate, beginning foreclosure on the City of Novato Community Facilities District No. 1994-1 (Hamilton Field) Special Tax bonds. The City is not obligated in any manner for this special assessment debt, and is in now way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond trustee. At June 30, 2007, the outstanding principal of the City of Novato Community Facilities District No. 1994-1 (Hamilton Field) Special Tax Refunding bond issue was \$21,140,000.

The City acts as an agent for the property owners by collecting the assessments, forwarding the collections to the trustee and if appropriate, beginning foreclosure on the City of Novato Community Facilities District No. 2002-1 (Pointe Marin) Special Tax bonds. The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond trustee. At June 30, 2007, the outstanding principal of the City of Novato Community Facilities District No. 2002-1 (Pointe Marin) Special Tax Refunding bond issue was \$11,335,000.

The City acts as an agent for the property owners by collecting the assessments, forwarding the collections to the trustee and if appropriate, beginning foreclosure on the City of Novato Community Facilities District No. 1 (Vintage Oaks) Special Tax bonds. The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond trustee. At June 30, 2007, the outstanding principal of the City of Novato Community Facilities District No. 1 (vintage Oaks) Special Tax Refunding bond issue was \$22,450,000.

The City acts as an agent for the property owners by collecting the assessments, forwarding the collections to the trustee and if appropriate, beginning foreclosure on the City of Novato Community Facilities District No. 2004-1 (Eucalyptus Avenue) Special Tax bonds. The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond trustee. At June 30, 2007, the outstanding principal of the City of Novato Community Facilities District No. 2004-1 (Eucalyptus Avenue) Special Tax Refunding bond issue was \$115,775.

NOTE 8 - Deficit fund balance/retained earnings:

The following funds had deficits in fund balances or retained earnings at June 30, 2007:

Major funds:

RDA Housing	\$ 19,632,736
Capital Project Fund	800,192

Other governmental funds:

Other Special Revenue Funds:

Hamilton Recreation Environment Fund	48,691
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Other Capital Projects Funds:

Restricted Revenue Fund	617
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Novato Public Financing Authority	93,190
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Internal service funds:

Equipment Maintenance	207,624
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Insurance	1,954,878
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Agency Funds

Vintage Oaks Bond Administration	15,556
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Golden Gate Bond Administration	2,481
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NOTE 9 - Employees' retirement plan:

A. Plan description

The City of Novato contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee retirement system. PERS provides retirement, disability, and death benefits. Such benefits are integrated with Social Security and based on an employee's years of service, age and final compensation. All regular City employees participate. Employees vest after five years of service and qualify to receive retirement benefits at age fifty. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

The City prepaid its pension contributions with proceeds from the 2006 Pension Obligation Bonds (See Note 6). These prepaid contributions are reflected in the accompanying financial statements as Prepaid PERS Contribution which amounted to \$17,222,020 at June 30, 2007. During fiscal year 2006-07, the amortization of the prepayment increased the actuarially required contributions by \$593,863 to arrive at Annual Pension Costs of \$3,609,026. For years prior to 2006-07, Annual Pension Costs equal the Actuarially Required Contributions disclosure above.

B. Funding policy

Miscellaneous employees are required to contribute seven percent (7%) of their annual salary to PERS and Public Safety employees are required to contribute nine percent (9%) of their annual salary to PERS. The employees' required contribution is paid by the City on behalf of the employees.

The City is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. For the fiscal year 2006-07, PERS charged 15.601% for the miscellaneous plan and 24.197% for the safety plan.

C. Annual pension cost

For fiscal year 2006-07, the City's annual pension cost includes \$3,015,163 equal to the City's actual and annual required PERS contributions and amortization of the prepaid PERS contributions of \$593,863 for 2006-07 (See section Note 9 A). The City's 2006-07 annual required contributions were less than the annual pension cost as a result of the pension obligation bonds transaction. The required contribution was determined as part of the June 30, 2004 actuarial valuation which is the latest available valuation and was revised by PERS on May 12, 2006 due to the lump sum payment of the unfunded liabilities. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases of 3.25% per year compounded annually, (c) projected inflation rate of 3% compounded annually, (d) additional projected salary increases that vary by duration of service and (e) no postretirement benefit increases. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period of two to five years. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of total projected payroll for the applicable fiscal year.

D. Three-year trend information for PERS

	<u>Annual pension cost (APC)</u>	<u>Percentage APC contributed</u>	<u>Net pension asset</u>
<u>Miscellaneous employees</u>			
Fiscal year ended:			
6/30/2005	\$ 1,489,812	100%	\$ -
6/30/2006	1,646,830	586%	8,000,000
6/30/2007	1,743,116	85%	7,733,333
<u>Safety employees</u>			
Fiscal year ended:			
6/30/2005	\$ 2,044,429	100%	\$ -
6/30/2006	1,946,703	604%	9,815,883
6/30/2007	1,865,910	82%	9,488,687

NOTE 10 - Deferred compensation plan:

The City offers its eligible employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salary. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseen emergency.

During fiscal year 1999, the City adopted GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. GASB 32 was issued in response to a change in federal law that removes the assets in deferred compensation plans from the general creditors in the event of a government bankruptcy. Therefore, the City is not required to report its Section 457 Deferred Compensation Plans. As required by the Internal Revenue Code, the City established a trust for the assets and income of the Plan with an independent trustee for the exclusive benefit of participants and their beneficiaries and no longer holds assets in a trustee capacity. Therefore, the City discontinued its practices of accounting for and reporting the deferred compensation plan.

NOTE 11 - Risk management:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. Obligations and liabilities of these risk pools are the City's responsibility.

A. Risk Pools

Bay Cities Joint Powers (BCJPIA) Insurance Authority covers general liability claims in an amount up to \$14,000,000. The City has a deductible or uninsured liability of up to \$250,000 per claim. Once the City's deductible is met BCJPIA becomes responsible for payments of all claims up to the limit. The City paid \$121,071 for claims and \$279,486 for insurance premiums during the fiscal year ended June 30, 2007.

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><u>\$ 5,149,870</u></u>
Total revenues	\$ 9,545,178
Total expenditures	<u>8,109,578</u>
Change in net assets	<u><u>\$ 1,435,600</u></u>

The City 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 \$1 million coverage provided by its pool. The City has a self-insured retention of \$150,000 for claims, and the BCJPIA pool covers claims from \$150,000 to \$500,000. Claims from \$500,000 to \$50 million are covered by LAWCX.

The City's contributions with each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. During the fiscal year ended June 30, 2007, the City incurred costs of \$587,486 for coverage premiums and administration of the risk pools.

During the past four fiscal years, none of the above programs have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from the prior year.

Financial statements for BCJPIA and LAWCX may be obtained from Bickmore & Associates, 1020 19th Street, Suite 200, Sacramento, CA 95814.

B. Liability for Uninsured Claims

The City estimates its liability for the uninsured portion of claims, including a provision for claims incurred but not reported ("IBNR"), based on claims experience. Undiscounted claims liabilities were as follows at June 30, 2007:

	<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Total</u>
Projected known claims	\$ 729,773	\$ 76,832	\$ 806,605
Projected IBNR	925,677	222,596	1,148,273
Claims liabilities, June 30, 2007	<u>\$ 1,655,450</u>	<u>\$ 299,428</u>	<u>\$ 1,954,878</u>

	<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Total</u>
Claims liabilities - current	\$ 420,033	\$ 49,335	\$ 469,368
Claims liabilities - non-current	1,235,417	250,093	1,485,510
Total claims liabilities	<u>\$ 1,655,450</u>	<u>\$ 299,428</u>	<u>\$ 1,954,878</u>

NOTE 12 - Contingencies:

The City is a defendant in a number of lawsuits and claims pending at June 30, 2007. Based on correspondence with the City's legal counsel, it is the opinion of City management that the settlement of such pending cases would not materially affect the City's financial position.

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

Promissory notes on shared appreciation loans

Certain housing units in the redevelopment area are part of an affordable housing program designed to create, preserve, maintain and protect housing for persons of low or moderate income. Qualified persons (“Buyer”) are able to purchase the housing units at below fair market value, as a result of the Agency’s investment in the project. The Agency has a promissory note (“Note”) with the Buyer for the amount of the difference between the fair value and the purchase price of the unit, which is considered the Agency’s initial equity contribution. No payments are due under the Note, unless the Buyer re-sells the unit to a non-eligible buyer or otherwise defaults on the Note, as defined in the agreement. The Note is cancelled if the Buyer sells the unit to another eligible buyer. If the Buyer sells to a non-eligible buyer, the Agency will receive a pro-rata share (based on the Agency’s and Buyer’s respective equity) of the appreciation of the Unit. As of June 30, 2007, no amounts have been recorded related to these loans as any payment is contingent on sales of units to non-eligible buyers in the future.

NOTE 13 - Post retirement health care benefits:

Police who retire from the City are eligible to receive health care benefits. The City pays \$100 per month per police employee toward premiums charged for a health benefit plan. During the fiscal year ended June 30, 2007, expenditures of \$32,392 were recognized for post-retirement health care for 35 retired employees.

NOTE 14 - Commitments:

The Agency leases a facility (Community Gymnastics Teen Center) from the Novato Public Financing Authority (“NPFA”) under a thirty-year non-cancelable operating lease expiring in February 2028. Under the terms of the lease, rent is equal to the semi-annual payments due on the NPFA’s loan obligation on the facility, as defined. The Agency prepaid the rent for the remaining term of the lease in fiscal 2006 in the amount of \$1,203,296, and in turn the outstanding loan obligation on the facility in the principal amount of \$1,168,249 was paid during the fiscal year ended June 30, 2006, along with \$35,047 of accrued interest.

Marin Emergency Radio Authority Obligation

The City of Novato is a member of the Marin Emergency Radio Authority (MERA), along with the County of Marin and twenty-four other local government agencies. MERA’s purpose is to plan, finance, implement, own, and operate a multi-jurisdictional and county-wide public safety and emergency radio system. To finance this system, the MERA in 1999 issued approximately \$27 million in revenue bonds. Under the joint powers agreement with MERA, the City is obligated to make payments to MERA for use of MERA’s systems. The City’s minimum service payments are estimated to be as follows at June 30, 2007:

Fiscal year ending June 30,	Minimum Service Payments
2008	\$ 221,598
2009	221,885
2010	221,859
2011	221,520
2012	221,559
2013-2017	1,108,598
2018-2021	665,142
	<u>\$ 2,882,161</u>

NOTE 15 - Fund equity:

Fund balances and retained earnings consist of reserved and unreserved amounts. Reserved fund balances and retained earnings represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remaining portion is unreserved. Portions of the unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

Fund balances and retained earnings reserved and unreserved/designated at June 30, 2007 are as follows:

RESERVED

Major Funds:

General Fund	\$ 8,459,436
Hamilton Trust Fund	31,896,125
	<u>40,355,561</u>

Other Governmental Funds:

Special Revenue Funds:

Housing Opportunity	1,143,797
Assessment District Hillside	7,370
State SB-300	24,202
State Gas Tax	483,105
Emergency & Disaster Response Reserve	27,490
	<u>1,685,964</u>

Debt Service Fund:

Bond requirements	<u>2,504,872</u>
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Total reserved	<u><u>\$ 44,546,397</u></u>
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UNRESERVED, DESIGNATED**Major Funds:**

General Fund	\$ 2,067,395
Redevelopment Agency	132,369
	<u>2,199,764</u>

Other Governmental Funds:**Special Revenue Funds:**

Affordable Housing Trust	129,820
Clean Stormwater	34,393
Underground Utilities	100,495
Parking Improvement	119,817
O'Hair/Fuchs park	
Chapter 27 Assessment	201,603
Assessment District Wildwood Glen	1,925
	<u>588,053</u>

Capital Projects Funds:

Measure B	4,221,484
Measure A	273,439
Clean Stormwater CIP	54,739
Street & Storm Drain Maintenance	383,729
Long Term Maintenance	611,236
Restricted Revenue	(617)
Development Impact Fees	12,208,128
Community Center Maintenance	541,126
Community Facilities Performing Arts	1,843,448
Community Facilities Teen/Gym Center	85,750
Civic Center	4,388,138
	<u>24,610,600</u>
Total unreserved, designated	<u>\$ 27,398,417</u>

NOTE 16 - Excess of expenditures over appropriations:

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

<u>Fund</u>	<u>Expenditures exceeded budget</u>
General fund:	
Public safety	\$ 759,984
Cultural and recreation	1,528,662
Community development	944,725
Capital outlay	263,234
RDA Housing:	
Interest and fiscal agent fees	20,910

NOTE 17 - Prior period adjustments:

A prior period adjustment in the amount of (\$74,940) was recorded in the RDA Fund to reduce the fund balance at June 30, 2006 to correct beginning fund balance for amounts due to the City.

A prior period adjustment in the amount of (\$14,684) was recorded in the Capital Projects Fund to reduce beginning fund balance at June 30, 2006. This adjustment was to correct for an accounting entry that was posted backwards in the prior fiscal year.

A prior period adjustment in the amount of \$95,739 was recorded in the Hamilton Community Facilities Maintenance special revenue fund to increase beginning fund balance. This adjustment was recorded to correctly account for designated reserve funds that were recorded as deposits payable.

In the Government-wide financial statements, the prepaid PERS contribution asset was not recorded in the prior year when the pension obligation bonds were issued and the Actuarially Required PERS Contribution was funded. The prepaid PERS contribution asset recorded for the prior period is \$17,815,883.

REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF NOVATO

Pension Plans

Schedule of Funding Progress (Unaudited)

PERS:

	Valuation Date	(b) Entry Age Actuarial Accrued Liability	(a) Actuarial Asset Value	(c) Unfunded Liability/ (Excess Assets)	(a)/(b) Funded Ratio	(d) Annual Covered Payroll	(c)/(d) UAAL as a Percentage of Payroll
Safety	6/30/2004	\$ 1,252,484,736	\$ 1,026,500,742	\$ 225,983,994	82%	\$ 154,903,754	146%
	6/30/2005	\$ 1,325,510,754	\$ 1,137,149,859	\$ 188,360,895	86%	\$ 161,446,071	117%
	6/30/2006	\$ 1,473,284,852	\$ 1,325,056,850	\$ 148,228,002	90%	\$ 177,088,890	84%
Miscellaneous	6/30/2003	\$ 37,633,749	\$ 32,646,368	\$ 4,987,381	87%	\$ 9,162,852	54%
	6/30/2004	\$ 42,802,401	\$ 35,077,039	\$ 7,725,362	82%	\$ 9,460,645	82%
	6/30/2005	\$ 46,049,551	\$ 38,495,098	\$ 7,554,453	84%	\$ 9,923,280	76%
	6/30/2006	\$ 50,109,267	\$ 50,217,404	\$ (108,137)	100%	\$ 9,720,532	-1%

*The actuarial value of assets, liabilities and covered payroll for the Safety Plan are obtained from the City of Novato's annual actuarial reports received from PERS. This information covers the entire risk pool and not just the City of Novato. The information for fiscal year June 30, 2007 is not available and therefore is not included in the above analysis.

CITY OF NOVATO

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.

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

CITY OF NOVATO

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2007

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 13,997,089	\$ 26,072,294	\$ 2,487,183	\$ 42,556,566
Cash with fiscal agent	-	-	-	-
Receivables:				
Interest	-	-	-	-
Accounts	5,927	-	-	5,927
Pre-paid Expenses	-	584,167	-	584,167
Due from other governments	821,951	-	17,689	839,640
Due from other funds	3,428,725	2,341,836	-	5,770,561
Deferred costs	26,035	83,909	-	109,944
Total assets	<u>\$ 18,279,727</u>	<u>\$ 29,082,206</u>	<u>\$ 2,504,872</u>	<u>\$ 49,866,805</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 12,204	\$ 656	\$ -	\$ 12,860
Accrued salaries & benefits	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	101,035	2,533,076	-	2,634,111
Deposits/other payables	66,830	1,574,628	-	1,641,458
Deferred revenue	940,219	456,436	-	1,396,655
Total liabilities	<u>1,120,288</u>	<u>4,564,796</u>	<u>-</u>	<u>5,685,084</u>
Fund balances:				
Reserved	1,685,964	-	2,504,872	4,190,836
Designated	588,053	24,610,600	-	25,198,653
Unreserved (deficit)	14,885,422	(93,190)	-	14,792,232
Total fund balances	<u>17,159,439</u>	<u>24,517,410</u>	<u>2,504,872</u>	<u>44,181,721</u>
Total liabilities and fund balances	<u>\$ 18,279,727</u>	<u>\$ 29,082,206</u>	<u>\$ 2,504,872</u>	<u>\$ 49,866,805</u>

CITY OF NOVATO**Nonmajor Governmental Funds****Statement of Revenues, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2007**

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 1,123,805	\$ 397,547	\$ 3,184,797	\$ 4,706,149
Use of money and property	565,581	1,502,294	54,813	2,122,688
Revenues from other agencies	2,243,736	-	20,043	2,263,779
Current service charges	523,618	2,314,554	-	2,838,172
Other revenue	1,745	87,910	-	89,655
Total revenues	4,458,485	4,302,305	3,259,653	12,020,443
EXPENDITURES				
Current:				
General government	2,000	1,142,377	48,764	1,193,141
Public safety	215,866	-	-	215,866
Public works	571,200	-	-	571,200
Cultural & Recreation	-	-	-	-
Community development	29,038	34,713	-	63,751
Capital outlay	-	5,000	-	5,000
Debt service:				
Principal	11,288	-	1,250,000	1,261,288
Interest and fiscal agent fees	12,131	250,110	1,969,980	2,232,221
Total expenditures	841,523	1,432,200	3,268,744	5,542,467
REVENUES OVER (UNDER) EXPENDITURES	3,616,962	2,870,105	(9,091)	6,477,976
OTHER FINANCING SOURCES (USES)				
Transfers in	2,867,346	3,047,888	877,880	6,793,114
Transfers out	(4,695,614)	(7,105,783)	-	(11,801,397)
Debt proceeds	-	5,162,320	102,461	5,264,781
Issuance costs	-	(162,295)	-	(162,295)
Total other financing sources (uses)	(1,828,268)	942,130	980,341	94,203
Net change in fund balances	1,788,694	3,812,235	971,250	6,572,179
Fund balances, beginning of year	15,275,006	20,705,175	1,533,622	37,513,803
Prior period adjustments (Note17)	95,739	-	-	95,739
Fund balances, end of year	\$ 17,159,439	\$ 24,517,410	\$ 2,504,872	\$ 44,181,721

CITY OF NOVATO
Special Revenue Funds

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 City's various Special Revenue Funds and revenue sources are as follows:

Housing Opportunity Fund - accounts for the revenues from developer agreements required to implement local housing programs established by the housing element of the Novato General Plan.

Affordable Housing Trust Fund - accounts for resources used to assist qualifying families in the purchase of below market rate housing.

Clean Stormwater Fund - accounts for the revenues and expenditures for the City's clean stormwater program. The program plans to prevent pollutant discharge from entering streets and storm drains before flowing into creeks and wetlands.

Underground Utilities Trust Fund - accounts for resources to be utilized for undergrounding City overhead utilities.

Parking Improvement Fund - accounts for assessments collected from businesses in the Old Town parking improvement area to be used for services and programs related to parking facilities in the area.

Subdivision Park Trust Fund - accounts for in-lieu fees from residential subdivision developers to be used for parks and recreation areas for residents of the subdivision.

O'Hair/Fuchs Park Fund - accounts for the lease revenues from residential units on the O'Hair and Fuchs Park properties. Expenditures are restricted to planning and construction of a park and recreational facilities on the properties.

Fish America Grant - accounts for a grant received for the Scottsdale Pond Project, which ends in fiscal year 2003/2004.

Hamilton Rec/Environ Fund - accounts for Quimby in-lieu fees collected for the Hamilton Project.

Art in Public Places Fund - accounts for fees paid by developers to be used for public art projects.

General Plan Surcharge Fund - accounts for the revenues and expenditures for the advance planning and update of the City's General Plan. The expenditures are funded by the collection of surcharges on all construction permits.

Automated Surcharge Fund - accounts for the revenues and expenditures for the City's database and maintenance of software used to issue permits. The expenditures are funded by the collection of surcharges charged on all construction permits.

Hamilton Community Facilities - accounts for assessments for landscape maintenance and pump and levy maintenance for the Hamilton Community Facilities District.

Novato Art Center @ Hamilton - accounts for the revenues and expenditures in connection with the Novato Art Center at Hamilton.

Pointe Marin CFD - accounts for the revenues and expenditures in connection with landscape maintenance for the Pointe Marin Community Facilities District.

Chapter 27 Assessment Fund - accounts for assessment district activities to complete missing frontage improvements, often in cooperation with property owners.

Assessment Districts (San Marin, Country Club, Wildwood Glen, Hillside, Scottsdale, Downtown) - accounts for the collection of assessments which are used for median island landscaping and maintenance in that district.

CITY OF NOVATO
Special Revenue Funds

Downtown and San Pablo Landscape/Lighting Fund - accounts for the collection and expenditures of special assessments of the Downtown and San Pablo Landscape and Lighting District.

Eucalyptus Assessment District - accounts for the collection and expenditures of special assessments in the assessment district for Eucalyptus Avenue improvements.

State SB-300 Fund - accounts for the City's share of gasoline tax revenues that are distributed under Senate Bill 300.

State Gas Tax Fund - accounts for the City's share of gasoline tax revenues that are restricted to the maintenance and construction of City streets.

Proposition 112- State Park Fund - accounts for the City's share of bond proceeds from the Safe Neighborhood, Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000.

Traffic Congestion Relief Fund - accounts for the City's share of street and road funds allocated to the cities and counties by Assembly Bill 2928 (Chapter 91, Statutes of 2000), as amended by Senate Bill 1662 (Chapter 656, Statutes of 2000).

Local Law Enforcement Block Grant Funds - account for the revenues and expenditures associated with the grant.

Special Police Projects - accounts for resources restricted to law enforcement activities such as crime prevention and DARE programs.

State Grant Fund - accounts for revenue and expenditure activity for State grants. Pursuant to the requirement of the granting authority, grant-related transactions must be reported in a separate fund.

Federal Grant Fund - accounts for revenue and expenditure activity for federal grants. Pursuant to the requirement of the granting authority, grant-related transactions must be reported in a separate fund.

Private Grant Fund - accounts for revenue and expenditures for private grants.

Insurance Reserve Fund - accounts for set aside monies to meet uninsured losses to City facilities and property. This fund differs from the Self-insurance program operated through a joint powers agreement with other Marin cities which covers liability claims brought against the City.

Emergency and Disaster Response Reserve Fund - accounts for funds which will provide a buffer during significant economic downturns affecting revenues or for severe emergency reasons.

CITY OF NOVATO
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2007

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	O'Hair Fuchs Park Grant	Fish America Grant	Hamilton Rec/Environ Fund	Art in Public Places	General Plan Surcharge	Automated Surcharge	Hamilton Community Facilities
ASSETS													
Cash and investments	\$ 1,143,797	\$ 548,142	\$ 32,699	\$ 774,972	\$ 119,892	\$ 1,832,876	\$ -	\$ 813	\$ (48,691)	\$ 111,696	\$ 994,714	\$ 684,687	\$ 172,186
Cash with fiscal agent													
Receivables:													
Interest													
Accounts			1,694										
Assessments													
Loans													
Due from other governments													
Deferred costs													
Due from other funds		416,954		109,777		668,733							
Total assets	<u>\$ 1,143,797</u>	<u>\$ 965,096</u>	<u>\$ 34,393</u>	<u>\$ 884,749</u>	<u>\$ 119,892</u>	<u>\$ 2,501,609</u>	<u>\$ -</u>	<u>\$ 813</u>	<u>\$ (48,691)</u>	<u>\$ 111,696</u>	<u>\$ 994,714</u>	<u>\$ 684,687</u>	<u>\$ 172,186</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 75	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55	\$ 52	\$ 5,400
Accrued salaries & benefits													
Accrued liabilities													
Due to other funds													
Deposits/other payables													66,830
Deferred revenue		135,349		34,777		130,733							
Total liabilities	<u>-</u>	<u>135,349</u>	<u>-</u>	<u>34,777</u>	<u>75</u>	<u>130,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55</u>	<u>52</u>	<u>72,230</u>
Fund balances:													
Reserved	1,143,797												
Unreserved-designated		129,820	34,393	100,495	119,817								-
Unreserved- (deficit)		699,927		749,477		2,370,876	-	813	(48,691)	111,696	994,659	684,635	99,956
Total fund balances	<u>1,143,797</u>	<u>829,747</u>	<u>34,393</u>	<u>849,972</u>	<u>119,817</u>	<u>2,370,876</u>	<u>-</u>	<u>813</u>	<u>(48,691)</u>	<u>111,696</u>	<u>994,659</u>	<u>684,635</u>	<u>99,956</u>
Total liabilities and fund balances	<u>\$ 1,143,797</u>	<u>\$ 965,096</u>	<u>\$ 34,393</u>	<u>\$ 884,749</u>	<u>\$ 119,892</u>	<u>\$ 2,501,609</u>	<u>\$ -</u>	<u>\$ 813</u>	<u>\$ (48,691)</u>	<u>\$ 111,696</u>	<u>\$ 994,714</u>	<u>\$ 684,687</u>	<u>\$ 172,186</u>

CITY OF NOVATO
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2007

	Novato Art Center @ Hamilton	Pointe Marin CFD	Chapter 27 Assessment	Assessment District San Marin	Assessment District Country Club	Assessment District Wildwood Glen	Assessment District Hillside	Downtown Landscape/ Lighting	San Pablo Landscape/ Lighting	Eucalyptus Assessment District	Scottsdale Assessment District	State SB-300	State Gas tax
ASSETS													
Cash and investments	\$ -	\$ 514,966	\$ 276,580	\$ 48,090	\$ 61,602	\$ 5,976	\$ 34,522	\$ 117,412	\$ 18,582	\$ 1,891	\$ 13,879	\$ 18,269	\$ 483,105
Cash with fiscal agent													
Receivables:													
Interest													
Accounts			23	225	85	37		48	46	71			
Assessments													
Loans													
Due from other governments													
Deferred costs			26,035										
Due from other funds													
Total assets	\$ -	\$ 514,966	\$ 302,638	\$ 48,315	\$ 61,687	\$ 6,013	\$ 34,522	\$ 117,460	\$ 18,628	\$ 1,962	\$ 13,879	\$ 18,269	\$ 483,105
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ 930	\$ -	\$ 3,300	\$ -	\$ 867	\$ 1,440	\$ -	\$ 85	\$ -	\$ -	\$ -	\$ -
Accrued salaries & benefits													
Accrued liabilities													
Due to other funds			101,035										
Deposits/other payables	-												
Deferred revenue													
Total liabilities	-	930	101,035	3,300	-	867	1,440	-	85	-	-	-	-
Fund balances:													
Reserved							7,370					24,202	483,105
Unreserved-designated	-		201,603			1,925							
Unreserved- (deficit)		514,036		45,015	61,687	3,221	25,712	117,460	18,543	1,962	13,879	(5,933)	
Total fund balances	-	514,036	201,603	45,015	61,687	5,146	33,082	117,460	18,543	1,962	13,879	18,269	483,105
Total liabilities and fund balances	\$ -	\$ 514,966	\$ 302,638	\$ 48,315	\$ 61,687	\$ 6,013	\$ 34,522	\$ 117,460	\$ 18,628	\$ 1,962	\$ 13,879	\$ 18,269	\$ 483,105

CITY OF NOVATO
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2007

	Prop. 112 State Park	Traffic Congestion Relief	LLEBG	2004 LLEB Grant Fund	2005 LLEB Grant Fund	Special Police Projects	State Grant Fund	Fed Grant Fund	Private Grant Fund	Insurance Reserve	Emergency & Disaster Response Reserve	Total Other Special Revenue Funds
ASSETS												
Cash and investments	\$ 7	\$ 151,575	\$ -	\$ -	\$ 7,528	\$ 103,054	\$ 97,252	\$ (512,553)	\$ 88,071	\$ 1,047,891	\$ 5,051,607	\$ 13,997,089
Cash with fiscal agent												-
Receivables:												-
Interest												-
Accounts						3,698						5,927
Assessments												-
Loans												-
Due from other governments							31,159	790,792				821,951
Deferred costs												26,035
Due from other funds										350,918	1,882,343	3,428,725
Total assets	\$ 7	\$ 151,575	\$ -	\$ -	\$ 7,528	\$ 106,752	\$ 128,411	\$ 278,239	\$ 88,071	\$ 1,398,809	\$ 6,933,950	\$ 18,279,727
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,204
Accrued salaries & benefits												-
Accrued liabilities												-
Due to other funds												101,035
Deposits/other payables												66,830
Deferred revenue									77,749	50,918	510,693	940,219
Total liabilities	-	-	-	-	-	-	-	-	77,749	50,918	510,693	1,120,288
Fund balances:												
Reserved											27,490	1,685,964
Unreserved-designated												588,053
Unreserved- (deficit)	7	151,575	-	-	7,528	106,752	128,411	278,239	10,322	1,347,891	6,395,767	14,885,422
Total fund balances	7	151,575	-	-	7,528	106,752	128,411	278,239	10,322	1,347,891	6,423,257	17,159,439
Total liabilities and fund balances	\$ 7	\$ 151,575	\$ -	\$ -	\$ 7,528	\$ 106,752	\$ 128,411	\$ 278,239	\$ 88,071	\$ 1,398,809	\$ 6,933,950	\$ 18,279,727

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	Housing Opportunity	Affordable Housing Trust	General Plan Surcharge	Automated Surcharge	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	O'Hair/ Fuchs Park	Fish America Grant	Hamilton Rec/Environ Fund	Art in Public Places
REVENUES												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 324,764	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	67,265	25,684	44,953	30,615	1,320	50,368	5,627	91,898	(2)	39	(511)	5,360
Revenues from other agencies												
Current service charges	205,417		87,067	81,919		15,000		114,556				7,566
Other revenue												
Total revenues	<u>272,682</u>	<u>25,684</u>	<u>132,020</u>	<u>112,534</u>	<u>326,084</u>	<u>65,368</u>	<u>5,627</u>	<u>206,454</u>	<u>(2)</u>	<u>39</u>	<u>(511)</u>	<u>12,926</u>
EXPENDITURES												
General government												
Public safety							437					
Public works			8,522	14,990	144,094	-						
Parks & Recreation												
Community development	16,788	-										
Debt service:												
Principal												
Interest and fiscal charges	5,142											
Capital outlay												
Total expenditures	<u>21,930</u>	<u>-</u>	<u>8,522</u>	<u>14,990</u>	<u>144,094</u>	<u>-</u>	<u>437</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under)	<u>250,752</u>	<u>25,684</u>	<u>123,498</u>	<u>97,544</u>	<u>181,990</u>	<u>65,368</u>	<u>5,190</u>	<u>206,454</u>	<u>(2)</u>	<u>39</u>	<u>(511)</u>	<u>12,926</u>
OTHER FINANCING SOURCES (USES)												
Debt Proceeds												
Issuance Costs												
Transfers in												
Transfers out					(195,000)			(601,912)	-	-	-	(4,854)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(195,000)</u>	<u>-</u>	<u>-</u>	<u>(601,912)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,854)</u>
Net change in fund balances	250,752	25,684	123,498	97,544	(13,010)	65,368	5,190	(395,458)	(2)	39	(511)	8,072
Fund balances, beginning of year	893,045	804,063	871,161	587,091	47,403	784,604	114,627	2,766,334	2	774	(48,180)	103,624
Prior period adjustments (Note 17)												
Fund balances, end of year	<u>\$ 1,143,797</u>	<u>\$ 829,747</u>	<u>\$ 994,659</u>	<u>\$ 684,635</u>	<u>\$ 34,393</u>	<u>\$ 849,972</u>	<u>\$ 119,817</u>	<u>\$ 2,370,876</u>	<u>\$ -</u>	<u>\$ 813</u>	<u>\$ (48,691)</u>	<u>\$ 111,696</u>

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	Hamilton Community Facilities	Novato Art Center @ Hamilton	Pointe Marin CFD	Chapter 27 Assessment	Assessment District San Marin	Assessment District Country Club	Assessment District Wildwood Glen	Assessment District Hillside	Scottsdale Assessment District	Downtown Landscape/ Lighting	San Pablo Landscape/ Lighting	Eucalyptus Assessment District	State SB-300
REVENUES													
Taxes	\$ 369,518	\$ -	\$ 330,473	\$ -	\$ 41,940	\$ 85	\$ 7,448	\$ 16,779	\$ -	\$ 9,549	\$ 9,080	\$ 14,169	\$ -
Use of money and property	48,211		12,348	16,171	1,975	2,886	380	1,502	651	5,238	769	71	
Revenues from other agencies													
Current service charges				12,093									
Other revenue	-												
Total revenues	417,729	-	342,821	28,264	43,915	2,971	7,828	18,281	651	14,787	9,849	14,240	-
EXPENDITURES													
General government					500		500	500			500		
Public safety	151,909												
Public works	229,370		83,256		41,937		15,086	21,128			6,535		
Parks & Recreation													
Community development	12,250												
Debt service:													
Principal												11,288	
Interest and fiscal charges												6,989	
Capital outlay													
Total expenditures	393,529	-	83,256	-	42,437	-	15,586	21,628	-	-	7,035	18,277	-
Excess of revenues over (under)	24,200	-	259,565	28,264	1,478	2,971	(7,758)	(3,347)	651	14,787	2,814	(4,037)	-
OTHER FINANCING SOURCES (USES)													
Debt Proceeds													
Issuance Costs													
Transfers in													
Transfers out	(1,055,677)	(214,941)		(5,973)									(9,157)
Total other financing sources (uses)	(1,055,677)	(214,941)	-	(5,973)	-	-	-	-	-	-	-	-	(9,157)
Net change in fund balances	(1,031,477)	(214,941)	259,565	22,291	1,478	2,971	(7,758)	(3,347)	651	14,787	2,814	(4,037)	(9,157)
Fund balances, beginning of year	1,035,694	214,941	254,471	179,312	43,537	58,716	12,904	36,429	13,228	102,673	15,729	5,999	27,426
Prior period adjustments (Note 17)	95,739			-									
Fund balances, end of year	\$ 99,956	\$ -	\$ 514,036	\$ 201,603	\$ 45,015	\$ 61,687	\$ 5,146	\$ 33,082	\$ 13,879	\$ 117,460	\$ 18,543	\$ 1,962	\$ 18,269

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	State Gas tax	Prop. 12 State Park	Traffic Congestion Relief	LLEBG	2004 LLEB Grant Fund	2005 LLEB Grant Fund	Special Police Projects	State Grant Fund	Fed Grant Fund	Private Grant Fund	Insurance Reserve	Emergency & Disaster Response Reserve	Total Other Special Revenue Funds
REVENUES													
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,123,805
Use of money and property	33,126		23,366		242	571	3,650	1,123	230	5,257	46,049	39,149	565,581
Revenues from other agencies	963,733		363,361				72,388	20,688	823,566				2,243,736
Current service charges													523,618
Other revenue							1,745						1,745
Total revenues	996,859	-	386,727	-	242	571	77,783	21,811	823,796	5,257	46,049	39,149	4,458,485
EXPENDITURES													
General government													2,000
Public safety				(203)	10,159	5,722	47,842						215,866
Public works									6,282				571,200
Streets and roads													-
Community development													29,038
Debt service													
Principal													11,288
Interest and fiscal charges													12,131
Capital outlay													-
Total expenditures	-	-	-	(203)	10,159	5,722	47,842	-	6,282	-	-	-	841,523
Excess of revenues over (under)	996,859	-	386,727	203	(9,917)	(5,151)	29,941	21,811	817,514	5,257	46,049	39,149	3,616,962
OTHER FINANCING SOURCES (USES)													
Debt Proceeds													-
Issuance Costs													-
Transfers in			10,456		39		7,000				124,000	2,725,851	2,867,346
Transfers out	(1,228,942)		(492,335)	(39)				(17,834)	(817,208)		(11,691)	(40,051)	(4,695,614)
	(1,228,942)	-	(481,879)	(39)	39	-	7,000	(17,834)	(817,208)	-	112,309	2,685,800	(1,828,268)
Net change in fund balances	(232,083)	-	(95,152)	164	(9,878)	(5,151)	36,941	3,977	306	5,257	158,358	2,724,949	1,788,694
Fund balances, beginning of year	715,188	7	246,727	(164)	9,878	12,679	69,811	124,434	277,933	5,065	1,189,533	3,698,308	15,275,006
Prior period adjustments (Note 17)													95,739
Fund balances, end of year	\$ 483,105	\$ 7	\$ 151,575	\$ -	\$ -	\$ 7,528	\$ 106,752	\$ 128,411	\$ 278,239	\$ 10,322	\$ 1,347,891	\$ 6,423,257	\$ 17,159,439

CITY OF NOVATO

Capital Projects Funds

Capital Projects Funds are used to account 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 City's various Capital Projects Funds are as follows:

Park Improvement Bond Project Fund - accounts for the proceeds of general obligation bonds issued under Measure G for park improvements.

Measure B Street Bond Project Fund 2007 - accounts for bond proceeds and the use of street and storm drain general obligation, Measure B bond proceeds approved by the voters in November 2004.

Measure B Street Bond Project Fund 2004 - accounts for bond proceeds and the use of street and storm drain general obligation, Measure B bond proceeds approved by the voters in November 2004.

Measure A Street Bond Project Fund - accounts for funds received from Measure A for local streets and roads. These funds are received through the Transportation Authority of Marin for a 20 year period.

Park Development Fund - accounts for the acquisition, improvement, and expansion of public parks and recreation facilities supported by transfers of residential development tax from the General Fund.

Civic Center Fund - accounts for the accumulation of revenues for the eventual planning, design, and construction of a new City hall.

City Hall Rehabilitation Fund - accounts for interest primarily appropriated for rehabilitations and improvements to existing buildings on the City Hall campus.

Clean Stormwater CIP Fund - accounts for the capital improvement element of the City of Novato Clean Stormwater Program.

Clean Stormwater/Street and Storm Drain Maintenance Fund - accounts for revenues and expenditures for Novato's clean stormwater program. The program plans to prevent pollutant discharge from entering streets and storm drains before flowing into creeks and wetlands.

Long Term Maintenance Fund - accounts funds to be used for major maintenance of City facilities

Restricted Revenue Fund - accounts for in-lieu deposits from developers for construction of public improvements.

Development Impact Fees Fund - accounts for fees paid by developers for public facilities.

RDA Community Center Project Funds - A specific fund has been established for each of the following: Maintenance, Performing Arts, Gymnastics and Teen Center, and Pool.

Novato Public Financing Authority - accounts for the financing activities and operational transactions of City owned properties.

CITY OF NOVATO

Other Capital Projects Funds

Combining Balance Sheet

June 30, 2007

	Park Improvement Bond Project	Measure B St. Bond Project - 2007	Measure B St. Bond Project - 2004	Measure A St. Bond Project	Park Development	Civic Center	City Hall Rehab.	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance
ASSETS										
Cash and investments	\$ -	\$ 4,221,484	\$ -	\$ 273,439	\$ -	\$ 4,388,138	\$ -	\$ 54,739	\$ 283,729	\$ 611,236
Receivables:										
Property taxes										
Interest										
Accounts										
Interest										
Prepaid Expenses										
Due from other governments										
Deferred costs							8,742		148,064	
Due from other funds										
Total assets	\$ -	\$ 4,221,484	\$ -	\$ 273,439	\$ -	\$ 4,388,138	\$ -	\$ 63,481	\$ 431,793	\$ 611,236
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable										
Accrued salaries & benefits										
Accrued liabilities										
Deferred revenue									48,064	
Deposits and other payables										-
Due to other funds							8,742			
Total liabilities	-	-	-	-	-	-	8,742	8,742	48,064	-
Fund balances:										
Reserved for capital projects										
Unreserved - designated		4,221,484		273,439		4,388,138		54,739	383,729	611,236
Unreserved - undesignated	-		-		-					
Total fund balances (deficit)	-	4,221,484	-	273,439	-	4,388,138	-	54,739	383,729	611,236
Total liabilities and fund balances	\$ -	\$ 4,221,484	\$ -	\$ 273,439	\$ -	\$ 4,388,138	\$ -	\$ 63,481	\$ 431,793	\$ 611,236

CITY OF NOVATO

Other Capital Projects Funds

Combining Balance Sheet

June 30, 2007

	Restricted Revenue	Development Impact Fee	RDA Community Center Maintenance	RDA Community Center and Perf. Arts	RDA Community Center Gymnastics Center	RDA Community Center Pool	Novato Public Financing Authority	Total Other Capital Projects Funds
ASSETS								
Cash and investments	\$ 1,574,011	\$ 11,414,128	\$ 541,126	\$ 1,448,448	\$ 85,750	\$ -	\$ 1,176,066	\$ 26,072,294
Receivables:								
Property taxes								-
Interest								-
Accounts Interest								-
Prepaid Expenses							584,167	584,167
Due from other governments								-
Deferred costs							75,167	83,909
Due from other funds		986,940	-	506,651			700,181	2,341,836
Total assets	<u>\$ 1,574,011</u>	<u>\$ 12,401,068</u>	<u>\$ 541,126</u>	<u>\$ 1,955,099</u>	<u>\$ 85,750</u>	<u>\$ -</u>	<u>\$ 2,535,581</u>	<u>\$ 29,082,206</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable							\$ 656	\$ 656
Accrued salaries & benefits								-
Accrued liabilities								-
Deferred revenue		192,940	-	111,651			103,781	456,436
Deposits and other payables	1,574,628							1,574,628
Due to other funds							2,524,334	2,533,076
Total liabilities	<u>1,574,628</u>	<u>192,940</u>	<u>-</u>	<u>111,651</u>	<u>-</u>	<u>-</u>	<u>2,628,771</u>	<u>4,564,796</u>
Fund balances:								
Reserved for capital projects								-
Unreserved - designated	(617)	12,208,128	541,126	1,843,448	85,750			24,610,600
Unreserved - undesignated	-						(93,190)	(93,190)
Total fund balances (deficit)	<u>(617)</u>	<u>12,208,128</u>	<u>541,126</u>	<u>1,843,448</u>	<u>85,750</u>	<u>-</u>	<u>(93,190)</u>	<u>24,517,410</u>
Total liabilities and fund balances	<u>\$ 1,574,011</u>	<u>\$ 12,401,068</u>	<u>\$ 541,126</u>	<u>\$ 1,955,099</u>	<u>\$ 85,750</u>	<u>\$ -</u>	<u>\$ 2,535,581</u>	<u>\$ 29,082,206</u>

CITY OF NOVATO

Other Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	Park Improvement Bond Project	Measure B St. Bond Project-2007	Measure B St. Bond Project-2004	Measure A St. Bonds	Park Development	Civic Center	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance	Restricted Revenue	Development Impact Fee
REVENUES											
Taxes	\$ -	\$ -	\$ -	\$ 397,547	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenues from other agencies											
Use of money and property	89	90,357	82,658	7,221	7	182,119	4,045	13,617	11,236		503,696
Current service charges											2,314,554
Other revenue											
Other revenue											
Total revenues	89	90,357	82,658	404,768	7	182,119	4,045	13,617	11,236	-	2,818,250
EXPENDITURES											
Current:											
General government											
Public works											
Community development											
Capital outlay											
Debt service:											
Principal											
Interest							22,839				120,346
Total expenditures	-	-	-	-	-	-	22,839	-	-	-	120,346
Excess of revenues over (under) expenditures	89	90,357	82,658	404,768	7	182,119	(18,794)	13,617	11,236	-	2,697,904
OTHER FINANCING SOURCES (USES)											
Transfers in			21,324			1,069,000	51,915	-	600,000		
Transfers out	(648)	(868,898)	(3,306,726)	(131,329)	(340)	(169,035)	(4,126)	(6,252)		(617)	(559,803)
Debt proceeds		5,162,320	-								
Issuance costs		(162,295)									
Total other financing sources (uses)	(648)	4,131,127	(3,285,402)	(131,329)	(340)	899,965	47,789	(6,252)	600,000	(617)	(559,803)
Net change in fund balances	(559)	4,221,484	(3,202,744)	273,439	(333)	1,082,084	28,995	7,365	611,236	(617)	2,138,101
Fund balances, beginning of year	559	-	3,202,744	-	333	3,306,054	25,744	376,364	-	-	10,070,027
Prior period adjustment	-	-	-	-	-	-	-	-	-	-	-
Fund balances, end of year	\$ -	\$ 4,221,484	\$ -	\$ 273,439	\$ -	\$ 4,388,138	\$ 54,739	\$ 383,729	\$ 611,236	\$ (617)	\$ 12,208,128

CITY OF NOVATO

Other Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	RDA Community Center Maintenance	RDA Community Center and Perf. Arts	RDA Community Center Gymnastics Center	RDA Community Center Pool	Novato Public Financing Authority	Total Other Capital Projects Funds
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 397,547
Revenues from other agencies						-
Use of money and property	33,373	179,583	4,245	19	390,029	1,502,294
Current service charges						2,314,554
Other revenue						-
Other revenue					87,910	87,910
Total revenues	33,373	179,583	4,245	19	477,939	4,302,305
EXPENDITURES						
Current:						
General government					1,142,377	1,142,377
Public works						-
Community development		27,000	5,570		2,143	34,713
Capital outlay					5,000	5,000
Debt service:						
Principal					-	-
Interest					106,925	250,110
Total expenditures	-	27,000	5,570	-	1,256,445	1,432,200
Excess of revenues over (under) expenditures	33,373	152,583	(1,325)	19	(778,506)	2,870,105
OTHER FINANCING SOURCES (USES)						
Transfers in	829		1,049,879		254,941	3,047,888
Transfers out	(471,181)	(883,232)		(829)	(702,767)	(7,105,783)
Debt proceeds						5,162,320
Issuance costs						(162,295)
Total other financing sources (uses)	(470,352)	(883,232)	1,049,879	(829)	(447,826)	942,130
Net change in fund balances	(436,979)	(730,649)	1,048,554	(810)	(1,226,332)	3,812,235
Fund balances, beginning of year	978,105	2,574,097	(962,804)	810	1,133,142	20,705,175
Prior period adjustment	-	-	-	-	-	-
Fund balances, end of year	\$ 541,126	\$ 1,843,448	\$ 85,750	\$ -	\$ (93,190)	\$ 24,517,410

CITY OF NOVATO

Debt Service Fund

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

General Obligation Bonds- accounts for accumulation of resources and payment of interest and principal for general obligation bonds, Measure F and G.

Financing Authority Fund- accounts for accumulation of resources and payment of the lease revenue bond from the City to the Authority.

Pension Obligations Bond Fund- accounts for accumulation of resources and payment of pension obligation bonds.

CITY OF NOVATO

Other Debt Service Funds

Combining Balance Sheet

June 30, 2007

	General Obligation Bonds	Financing Authority	Pension Obligation Bond	Total Other Debt Service Funds
ASSETS				
Cash and investments	\$ 2,487,183	\$ -	\$ -	\$ 2,487,183
Accounts receivable				-
Due from other governments	17,689			17,689
Total assets	<u>\$ 2,504,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,504,872</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accrued liabilities	\$ -	\$ -	\$ -	\$ -
Advances from other funds				-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved for debt service	2,504,872			2,504,872
Unreserved - undesignated		-		-
Total fund balances	<u>2,504,872</u>	<u>-</u>	<u>-</u>	<u>2,504,872</u>
Total liabilities and fund balances	<u>\$ 2,504,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,504,872</u>

CITY OF NOVATO

Other Debt Service Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	501	502	503	Total Other Debt Service Funds
	General Obligation Bonds	Financing Authority	Pension Obligation Bond	
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Taxes	3,184,797	-	-	3,184,797
Revenues from other agencies	20,043	-	-	20,043
Use of money and property	49,243	5,570	-	54,813
Other revenues	-	-	-	-
Total revenues	<u>3,254,083</u>	<u>5,570</u>	<u>-</u>	<u>3,259,653</u>
EXPENDITURES				
Current:				
General government	48,764	-	-	48,764
Debt service:				
Principal	1,220,000	-	30,000	1,250,000
Interest and fiscal agent fees	1,122,100	-	847,880	1,969,980
Total expenditures	<u>2,390,864</u>	<u>-</u>	<u>877,880</u>	<u>3,268,744</u>
Excess of revenues over (under) expenditures	<u>863,219</u>	<u>5,570</u>	<u>(877,880)</u>	<u>(9,091)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	102,461	-	-	102,461
Transfers in	-	-	877,880	877,880
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>102,461</u>	<u>-</u>	<u>877,880</u>	<u>980,341</u>
Net change in fund balances	965,680	5,570	-	971,250
Fund balances, beginning of year	1,539,192	(5,570)	-	1,533,622
Fund balances, end of year	<u>\$ 2,504,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,504,872</u>

CITY OF NOVATO

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Equipment Maintenance Fund - accounts for maintenance and operation charges to user departments for use of city vehicles and equipment.

Equipment Replacement Fund - accounts for resources to be used for replacement of vehicles and equipment. Revenues are generated primarily from rental charges to user departments.

Furnishings, Fixtures & Equipment Replacement Fund - accounts for funds set aside to meet future replacement costs of major capital expenditures not already provided for in the vehicle/equipment replacement fund.

Insurance Reserve Fund - accounts for claim settlements and reimbursements in accordance with a joint powers agreement between the City and other Marin County cities.

CITY OF NOVATO

Internal Service Funds

Combining Statement of Net Assets (Deficit)

June 30, 2007

	<u>Equipment Maintenance</u>	<u>Equipment Replacement</u>	<u>Furnishings, Fixtures & Equipment Replacement</u>	<u>Insurance</u>	<u>Total Internal Service Funds</u>
ASSETS					
Current assets:					
Cash and investments	\$ (164,358)	\$ 3,102,307	\$ 8,285	\$ -	\$ 2,946,234
Cash with fiscal agents					-
Accounts receivable		8,488			8,488
Loans receivable					-
Due from other funds		1,591,920	139,966		1,731,886
Deposits					-
Prepays and other assets					-
Total current assets	<u>(164,358)</u>	<u>4,702,715</u>	<u>148,251</u>	<u>-</u>	<u>4,686,608</u>
Capital assets, net		1,640,942		-	1,640,942
Total assets	<u>(164,358)</u>	<u>6,343,657</u>	<u>148,251</u>	<u>-</u>	<u>6,327,550</u>
LIABILITIES					
Current liabilities:					
Accounts payable	43,266	50,457	35,435		129,158
Deferred revenue		313,035	39,966		353,001
Claims payable				469,368	469,368
Total current liabilities	<u>43,266</u>	<u>363,492</u>	<u>75,401</u>	<u>469,368</u>	<u>951,527</u>
Claims payable - noncurrent				1,485,510	1,485,510
Total liabilities	<u>43,266</u>	<u>363,492</u>	<u>75,401</u>	<u>1,954,878</u>	<u>2,437,037</u>
NET ASSETS					
Invested in capital assets, net of related debt	-	1,640,942	-	-	1,640,942
Unrestricted	(207,624)	4,339,224	72,850	(1,954,878)	2,249,572
Total net assets (deficit)	<u>\$ (207,624)</u>	<u>\$ 5,980,166</u>	<u>\$ 72,850</u>	<u>\$ (1,954,878)</u>	<u>\$ 3,890,514</u>

CITY OF NOVATO**Internal Service Funds****Combining Statement of Activities and Changes in Net Assets (Deficit)****For the Fiscal Year Ended June 30, 2007**

	Equipment Maintenance	Equipment Replacement	Furnishings, Fixtures & Equipment Replacement	Insurance	Total Internal Service Funds
REVENUES					
Use of money and property	\$ -	\$ 118,834	\$ 6,205	\$ -	\$ 125,039
Revenues from other agencies		-			-
Current service charges	739,139	669,632			1,408,771
Other revenue	2,000	18,704		669,492	690,196
Total revenues	741,139	807,170	6,205	669,492	2,224,006
EXPENSES					
Cost of services	757,069	525,162	243,573	39,006	1,564,810
Depreciation		270,520			270,520
Total expenses	757,069	795,682	243,573	39,006	1,835,330
Operating income (loss)	(15,930)	11,488	(237,368)	630,486	388,676
OTHER FINANCING SOURCES (USES)					
Transfers in		328,377	54,850		383,227
Transfers out	(14,013)	(7,107)	(65)		(21,185)
	(14,013)	321,270	54,785	-	362,042
Change in net assets	(29,943)	332,758	(182,583)	630,486	750,718
Net assets (deficit), beginning of year	(177,681)	5,647,408	255,433	(2,585,364)	3,139,796
		-	-		-
Net assets (deficit), end of year	\$ (207,624)	\$ 5,980,166	\$ 72,850	\$ (1,954,878)	\$ 3,890,514

CITY OF NOVATO

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the City in a fiduciary capacity or as an agent for individuals, governmental entities and others.

None of the Trust and Agency Funds are subject to budgeting of revenues and expenditures by the City.

CITY OF NOVATO

Agency Funds

Combining Statement of Fiduciary Assets and Liabilities

June 30, 2007

	+ 841									
	Trust Funds									
	Expendable	Non-expendable								
	Trust Fund	Trust Fund	Agency Funds							
	Deposits Held in Trust	NFA Mobile Home	Total Trust Funds	Unclaimed Property Fund	Buck Center	Pacheco Refunding Redemption	Pacheco Investment Earnings	Pacheco Reserve	Vintage Oaks Bond Admin.	Vintage Oaks Special Tax
ASSETS										
Cash and investments	\$ 2,142,433	\$ 10,639	\$ 2,153,072	\$ 5,200	\$ 1,000,000	\$ 206	\$ 47,720	\$ 64,084	\$ (63)	\$ 1,388,115
Cash with fiscal agent		4,305,048	4,305,048							1,872,277
Receivables		4,171	4,171							8,803
Fixed assets, net		14,878,271	14,878,271							
Other assets, net		806,611	806,611							
Total assets	<u>\$ 2,142,433</u>	<u>\$ 20,004,740</u>	<u>\$ 22,147,173</u>	<u>\$ 5,200</u>	<u>\$ 1,000,000</u>	<u>\$ 206</u>	<u>\$ 47,720</u>	<u>\$ 64,084</u>	<u>\$ (63)</u>	<u>\$ 3,269,195</u>
LIABILITIES AND FUND BALANCES										
Accounts payable	\$ 20,470	\$ 45,596	\$ 66,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to bondholders		14,525,000	14,525,000							
Deposits held in trust	2,121,963	100	2,122,063	-	1,000,000	176	39,405	50,060	15,493	3,177,071
Deferred revenue		37,121	37,121							
Notes payable		-	-							
Loans payable		-	-							
Interest payable		195,642	195,642							
Total liabilities	<u>2,142,433</u>	<u>14,803,459</u>	<u>16,945,892</u>	<u>-</u>	<u>1,000,000</u>	<u>176</u>	<u>39,405</u>	<u>50,060</u>	<u>15,493</u>	<u>3,177,071</u>
Fund balances:										
Reserved		5,201,281	5,201,281	5,200	-	30	8,315	14,024	(15,556)	92,124
Total liabilities and fund balances	<u>\$ 2,142,433</u>	<u>\$ 20,004,740</u>	<u>\$ 22,147,173</u>	<u>\$ 5,200</u>	<u>\$ 1,000,000</u>	<u>\$ 206</u>	<u>\$ 47,720</u>	<u>\$ 64,084</u>	<u>\$ (63)</u>	<u>\$ 3,269,195</u>

CITY OF NOVATO

Agency Funds

Combining Statement of Fiduciary Assets and Liabilities

June 30, 2005

	Agency Funds				Total Agency Funds	Total Trust and Agency Funds
	Golden Gate Redemption	Golden Gate Bond Admin.	Hamilton Bond Admin.	Pointe Marin CFD-2002-1		
ASSETS						
Cash and investments	\$ 152,814	\$ -	\$ 1,413,189	\$ 515,850	\$ 4,587,115	\$ 6,740,187
Cash with fiscal agent	231,136		1,906,909	908,696	4,919,018	9,224,066
Receivables	1,022		9,827	4,850	24,502	28,673
Fixed assets, net					-	14,878,271
Other assets, net					-	806,611
Total assets	<u>\$ 384,972</u>	<u>\$ -</u>	<u>\$ 3,329,925</u>	<u>\$ 1,429,396</u>	<u>\$ 9,530,636</u>	<u>\$ 31,677,809</u>
LIABILITIES AND FUND BALANCES						
Accounts payable	\$ -	\$ -	\$ -	\$ 1,485	\$ 1,485	\$ 67,551
Due to bondholders					-	14,525,000
Deposits held in trust	357,521	2,481	(705,310)	(537,841)	3,399,056	5,521,119
Deferred revenue					-	37,121
Notes payable					-	-
Loans payable					-	-
Interest payable					-	195,642
Total liabilities	<u>357,521</u>	<u>2,481</u>	<u>(705,310)</u>	<u>(536,356)</u>	<u>3,400,541</u>	<u>20,346,433</u>
Fund balances:						
Reserved	<u>27,451</u>	<u>(2,481)</u>	<u>4,035,235</u>	<u>1,965,752</u>	<u>6,130,094</u>	<u>11,331,375</u>
Total liabilities and fund balances	<u>\$ 384,972</u>	<u>\$ -</u>	<u>\$ 3,329,925</u>	<u>\$ 1,429,396</u>	<u>\$ 9,530,635</u>	<u>\$ 31,677,808</u>

CITY OF NOVATO

Fiduciary Funds

Combining Statement of Changes in Fiduciary Net Assets

June 30, 2007

	<u>Expendable Trust Fund</u>	<u>Non-expendable Trust Fund</u>	
	<u>Deposits Held in Trust</u>	<u>NFA Mobile Home</u>	<u>Total</u>
ADDITIONS			
Operating revenues	\$ -	\$ 2,746,046	\$ 2,746,046
Investment income		243,677	243,677
Total additions to net assets	<u>-</u>	<u>2,989,723</u>	<u>2,989,723</u>
DEDUCTIONS			
General and administrative expenses	-	1,470,555	1,470,555
Depreciation and amortization	-		-
Interest expense	-	851,379	851,379
Total deductions from net assets	<u>-</u>	<u>2,321,934</u>	<u>2,321,934</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	-	667,789	667,789
Net assets, beginning of year	-	4,533,492	4,533,492
Net assets, end of year	<u>\$ -</u>	<u>\$ 5,201,281</u>	<u>\$ 5,201,281</u>

Schedule 13