

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

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JUNE 30, 2008

CITY OF NOVATO
BASIC FINANCIAL STATEMENTS
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TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	2
 BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities and Changes in Net Assets	15
 Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
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	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – RDA Housing Fund	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – RDA	23
 Proprietary Funds	
Statement of Net Assets	24
Statement of Activities and Changes in Net Assets	25
Statement of Cash Flows	26
 Fiduciary Funds	
Statement of Fiduciary Net Assets	27
Statement of Changes in Fiduciary Net Assets	28
Notes to Basic Financial Statements	29

	<u>PAGE</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Pension Plans – Schedule of Funding Progress (Unaudited)	Sch. 1
OTHER SUPPLEMENTARY INFORMATION - COMBINING FINANCIAL STATEMENTS	
Non-major Governmental Funds	
Combining Balance Sheet	Sch. 2
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	Sch. 3
Other Special Revenue Funds	
Combining Balance Sheet	Sch. 4
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	Sch. 5
Other Capital Projects Funds	
Combining Balance Sheet	Sch. 6
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	Sch. 7
Other Debt Service Funds	
Combining Balance Sheet	Sch. 8
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	Sch. 9
Internal Service Funds	
Combining Statement of Net Assets.....	Sch. 10
Combining Statement of Activities and Changes in Net Assets	Sch. 11
Agency Funds	
Combining Statement of Fiduciary Assets and Liabilities	Sch. 12
Combining Statement of Changes in Fiduciary Net Assets	Sch. 13

December 22, 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, 2008, 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, 2008, 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, 2008

This is management's discussion and analysis of the City of Novato's financial activities and performance for the fiscal year ended June 30, 2008. 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, 2008 by \$256.1 million (net assets). Of this amount, \$206.7 million is invested in capital assets, net of related debt; \$32.3 million is restricted for the Hamilton Trust Fund and \$2.6 million is restricted for Debt Service. The remaining balance of \$14.5 million is unrestricted.
- The City's total net assets increased by \$4.2 million, or 1.7%, during the fiscal year ended June 30, 2008. Capital assets increased by \$2.9 million and net long-term debt decreased by \$1.8 million.
- At June 30, 2008, unreserved-designated fund balance for the General Fund was \$413,472 or 1.3% of total General Fund Expenditures.
- The City's total long-term debt decreased by \$2.6 million, which is primarily due to normal scheduled debt payments of \$2.7 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, 2008

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, 2008

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, 2008

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, 2008 and 2007			
Governmental Activities			
	<u>2008</u>	<u>2007</u>	<u>% change</u>
Assets:			
Current and other assets	\$ 110,849,669	\$ 114,570,526	(3.25%)
Capital assets	239,059,980	236,152,625	1.23%
Total assets	<u>349,909,649</u>	<u>350,723,151</u>	<u>(0.23%)</u>
Liabilities:			
Current and other liabilities	10,008,066	12,948,809	(22.71%)
Long-term liabilities	<u>83,771,826</u>	<u>85,588,812</u>	<u>(2.12%)</u>
Total liabilities	<u>93,779,892</u>	<u>98,537,621</u>	<u>(4.83%)</u>
Net Assets:			
Invested in capital assets			
net of related debt	206,751,826	201,955,139	2.38%
Restricted	34,896,121	34,400,997	1.44%
Unrestricted	<u>14,481,810</u>	<u>15,829,394</u>	<u>(8.51%)</u>
Total net assets	<u>\$ 256,129,757</u>	<u>\$ 252,185,530</u>	<u>1.56%</u>

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 \$256.1 million at June 30, 2008.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

The net assets of \$256.1 million at June 30, 2008 were comprised of the following elements:

- Unrestricted cash and investments of \$56.2 million, cash with fiscal agents of \$2.3 million, and restricted cash and investments of \$30.8 million;
- Current receivables of \$2.1 million;
- Non-current assets consist of bond issuance costs, loans receivable from related parties, prepaid PERS obligations and capital assets. Bond issuance costs are \$2.3 million and are amortized over the life of the debt. Loans receivable from related parties totaled \$626,000. Prepaid PERS obligations of \$16.6 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 \$239 million, net of accumulated depreciation charges of \$89.7 million, includes \$121 million of land, \$18.3 million of buildings, \$1 million of furniture and equipment, \$186.8 million of infrastructure, and \$4 million of vehicles;
- Current liabilities total \$11.9 million and include \$1.7 million of accounts payable, \$1.6 million of salaries and benefits payable, \$1.1 million of accrued liabilities, \$2.2 million of deposits and other payables, \$732,000 of deferred revenue, \$1.1 million of compensated absence payables, \$381,000 of current claims payable, and \$3 million of the current portion of long-term debt;
- Non-current liabilities of \$81.9 million include \$1.1 million of non-current claims payable and \$80.8 million of long-term debt which is due in the fiscal years subsequent to fiscal 2009;
- Net assets invested in capital asset (e.g., land, buildings, equipment and infrastructure) of \$206.7 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 \$2.6 million are restricted for future debt service payments and \$32.3 million is restricted for the Hamilton Trust Fund, whose corpus amount is perpetual. The remaining balance of \$14.5 million represents unrestricted net assets.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

Analysis of Changes in Net Assets

The City's total net assets increased by \$4.2 million, or 1.7%, during the fiscal year ended June 30, 2008. The increase is largely attributable to investments in city infrastructure through the 2007 general obligation bond funds which are shown as capital assets of the City. Activities and changes in net assets relating to the \$4.2 million increase are presented in the table below:

Changes in Governmental Net Assets
June 30, 2008 and 2007

	2008	2007	% change
Revenues:			
Program revenues:			
Charges for services	\$ 7,544,058	\$ 7,893,083	(4.42%)
Operating grants and contributions	254,441	240,064	5.99%
Capital grants and contributions	2,440,783	820,515	197.47%
General revenues:			
Taxes	34,238,342	33,131,500	3.34%
Use of money and property	4,695,421	4,728,922	(0.71%)
Revenues from other agencies	262,994	2,201,722	(88.06%)
Other revenue	998,751	13,042,836	(92.34%)
Transfers, net	57,880	15,000	285.87%
Total revenues	50,492,670	62,073,642	(18.66%)
Expenses:			
General government	7,784,269	6,070,241	28.24%
Public safety	13,937,754	13,226,179	5.38%
Public works	6,578,534	1,679,273	291.75%
Cultural and recreation	6,137,789	5,521,245	11.17%
Community development	3,134,075	4,958,185	(36.79%)
Interest on long-term debt	3,993,697	3,906,131	2.24%
Depreciation - Infrastructure	4,712,033	4,583,887	2.80%
Total program expenses	46,278,151	39,945,141	15.85%
Change in net assets	\$ 4,214,519	\$ 22,128,501	(80.95%)

The chart above reflects a change in net assets of \$4.2 million, which is the result of revenues in excess of expenditures.

The decrease in revenues of \$11.6 million is mainly due to a decrease in revenues from other agencies of \$2 million and the final funding of the Hamilton Trust Fund in the amount of \$12 million in fiscal year 2006-07.

The \$6.3 million increase in expenditures is largely related to the early pay off of a developer agreement of \$1.5 million for the Hamilton redevelopment project area, an increase in capital project expenses of \$2.6 million, and an increase in public works expenses of \$1.9 million due to increased project expenses associated with street projects which have been ongoing for several years.

A prior period adjustment in the amount of \$270,292 was recorded to reduce the beginning net assets as of June 30, 2007. This correction was recorded to correct for a fiscal 2007 County Mitigation Agreement payment made in fiscal 2008.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

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

	<u>Percent</u>
Taxes	68%
Charges for services	15%
Grants and contributions	5%
Use of money & property	9%
Revenues from other agencies	1%
Other revenue	2%
	<u>100%</u>

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

Expenses by Function - Governmental Activities

	<u>Percent</u>
General government	19%
Public safety	30%
Public works	8%
Cultural and recreation	16%
Community development	8%
Interest on long-term debt	9%
Depreciation - Infrastructure	10%
	<u>100%</u>

**CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

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, 2008
(in millions)**

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues	\$ 31.1	\$ 8.5	\$ 11.8	\$ 51.4
Current expenditures	32.2	11.1	2.5	45.8
Capital outlay	-	-	-	-
Debt service	0.1	3.4	3.5	7.0
	<u>32.3</u>	<u>14.5</u>	<u>6.0</u>	<u>52.8</u>
Debt proceeds	-	-	-	-
Issuance costs	-	-	-	-
Net transfers	1.4	6.2	(7.5)	0.1
	<u>1.4</u>	<u>6.2</u>	<u>(7.5)</u>	<u>0.1</u>
Net changes in fund balance	0.2	0.2	(1.7)	(1.3)
Fund balances, beg. of year	10.5	27.2	44.2	81.9
Prior period adjustments	-	(0.3)	-	(0.3)
Fund balance, end of year	<u><u>\$ 10.7</u></u>	<u><u>\$ 27.1</u></u>	<u><u>\$ 42.5</u></u>	<u><u>\$ 80.3</u></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 \$80.3 million, compared to \$81.6 million at June 30, 2007. A prior period adjustment was recorded in the amount of \$270,292 to reduce the June 30, 2007 fund balance, and relates to fiscal 2007 payments for the County Mitigation Agreement that were paid in fiscal 2008. The unreserved amount of \$33.1 million at June 30, 2008 is available for future spending.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

The remainder of the fund balance, \$47.2 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.

For this fiscal year, revenues were \$51.4 million, and current expenditures and debt service was \$52.8 million, yielding a net decrease in fund balance from operations of \$1.4 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 \$10.7 million, of which \$10.3 million is reserved and represents reserves for long-term receivables. The remaining unreserved amount is comprised of a designated amount of \$413,472.

The fund balance in the City's General Fund increased by \$170,931 for the fiscal year ended June 30, 2008, but the unreserved balance decreased by \$1.7 million. The increase is primarily attributable to an increase in assets for amounts due to the general fund from inter-fund loans. The decrease in unreserved fund balance is primarily due to the general fund expenditures exceeding revenues by \$1.2 million.

Proprietary Funds

The net assets for proprietary funds, which are comprised of the City's internal service funds, at June 30, 2008, were \$3.9 million. Net assets increased by \$9,424 during fiscal 2008. Assets decreased by \$186,090 related to the transfer of an inter-fund loan to the general fund. This was off-set by a decrease in deferred revenue for the interest due of \$195,514 on the transferred loan.

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 2007-08 budget was adopted in June 2007. 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 \$104,049 and increase estimated expenditures by \$469,707. In addition, there was a decrease to Other Financing Uses of \$115,152. The net impact of the budget changes was an increase to the deficiency of revenues and other financing sources over expenditures by \$480,810.

General Fund Operating Variances

The revised budget projected a net decrease in fund balance of \$1.5 million and the actual results were a net increase of \$170,931, which equates to a positive variance of \$1.8 million.

The variance is partly attributable to revenues exceeding the revised budget by \$218,169. This is primarily from the final funding of the Hamilton Trust Fund which generated interest revenues providing for a positive variance of \$614,075 over budget off-set by reductions in tax revenue of \$319,964, reductions in revenues from other agencies of \$203,148 and reduced revenue from current service charges of \$145,476.

Expenditures were \$994,198 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, 2008

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, 2008 totaled \$239 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, 2008, the City's governmental activities had total long-term debts and obligations as scheduled below.

1993A general obligation bonds	\$ 2,080,000
1997A general obligation bonds	9,070,000
2000A general obligation bonds	3,890,000
2004 general obligation bonds	4,725,000
2004 general obligation bonds - premium	221,062
2007 general obligation bonds	5,000,000
2007 general obligation bonds - premium	247,945
Pension Obligation Bonds, Series A-1 & A-2	18,266,066
Pension Obligation Bonds - Discount	(165,342)
CIEDB loan	3,357,998
OPA note	3,716,149
Hamilton Field Tax Allocation bonds-2005	23,385,000
Hamilton Field 2005 Tax Allocation	
Housing bonds - Series A	9,155,000
Due to the County of Marin	424,013
Compensated absences - noncurrent	398,935
	<u>\$ 83,771,826</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 2007-08, the economy continued to show signs of recession, and the real estate market deteriorated. The foreclosure rate increased and homes were sold for minimal profits. Supplemental property taxes and property transfer taxes declined as a result of fewer sales and decreased values. Sales taxes and motor vehicle license fees have also declined dramatically due to the lack of consumer confidence and reduced spending. These significant revenue sources are not expected to rebound in the coming fiscal year.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

Fiscal Year 2008-09 Budget

The City has adopted an Operating Budget for FY08/09 that projects General Fund revenues will be insufficient to cover expenditures. The budget will be balanced using reserve funds and by freezing vacant positions and various other reductions in expenditures. Through confirmation with the County Assessor's Office, the City's secured property taxes for FY08/09 will increase by approximately \$223,000. In addition, the City assessed valuation of property per the County's Property Tax Roll in August 2008 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 increased 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. In addition, expenditures are increased for on-going contracts, such as animal control, based on the negotiated terms of the contracts.

The City is expecting to end FY08/09 with neither a surplus nor a deficit.

City's Stability Outlook

The City's General Fund major revenue sources are Taxes and Charges for Services. Taxes represent 68% 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 15% 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 FY07/08 reflected a decrease when compared to FY06/07 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, 2008

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, 2008**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Operating cash and investments	\$ 56,162,906	\$ -	\$ 56,162,906
Cash with fiscal agents	2,266,275	-	2,266,275
Restricted cash and investments	30,766,808	-	30,766,808
Receivables (net of allowance where applicable):			
Interest	619,699	-	619,699
Accounts	1,516,892	-	1,516,892
Prepaid expenses	2,000	-	2,000
Prepaid PERS contribution	593,863	-	593,863
Total current assets	<u>91,928,443</u>	<u>-</u>	<u>91,928,443</u>
Noncurrent assets:			
Bond issuance costs, net	2,260,668	-	2,260,668
Loans receivable from related parties	626,263	-	626,263
Prepaid PERS contribution-noncurrent	16,034,295	-	16,034,295
Capital assets, net	239,059,980	-	239,059,980
Total noncurrent assets	<u>257,981,206</u>	<u>-</u>	<u>257,981,206</u>
 Total assets	 <u>349,909,649</u>	 <u>-</u>	 <u>349,909,649</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,729,489	-	1,729,489
Accrued salaries and benefits	1,616,762	-	1,616,762
Accrued liabilities	1,135,199	-	1,135,199
Deposits and other payables	2,187,989	-	2,187,989
Deferred revenue	732,396	-	732,396
Compensated absences	1,143,623	-	1,143,623
Claims payable	380,799	-	380,799
Current portion of long-term debt	2,964,160	-	2,964,160
	<u>11,890,417</u>	<u>-</u>	<u>11,890,417</u>
Noncurrent liabilities:			
Claims payable - noncurrent	1,081,809	-	1,081,809
Long-term debt, net	80,807,666	-	80,807,666
 Total liabilities	 <u>93,779,892</u>	 <u>-</u>	 <u>93,779,892</u>
NET ASSETS			
Invested in capital assets, net of related debt	206,751,826	-	206,751,826
Restricted for:			
Debt service	2,575,231	-	2,575,231
Hamilton Trust Fund	32,320,890	-	32,320,890
Unrestricted	14,481,810	-	14,481,810
 Total net assets	 <u>\$ 256,129,757</u>	 <u>\$ -</u>	 <u>\$ 256,129,757</u>

CITY OF NOVATO

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2008

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	\$ 7,784,269	\$ 419,419	\$ -	\$ -	\$ (7,364,850)
Public safety	13,937,754	494,287	187,394	-	(13,256,073)
Public works	6,578,534	1,991,115	12,500	2,440,783	(2,134,136)
Cultural and recreation	6,137,789	2,323,026	-	-	(3,814,763)
Community development	3,134,075	2,316,211	54,547	-	(763,317)
Interest on long-term debt	3,993,697	-	-	-	(3,993,697)
Depreciation - Infrastructure	4,712,033	-	-	-	(4,712,033)
Total governmental activities	<u>46,278,151</u>	<u>7,544,058</u>	<u>254,441</u>	<u>2,440,783</u>	<u>(36,038,869)</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>\$ 46,278,151</u>	<u>\$ 7,544,058</u>	<u>\$ 254,441</u>	<u>\$ 2,440,783</u>	<u>\$ (36,038,869)</u>

Continued
on next page

CITY OF NOVATO

Statement of Activities and Changes in Net Assets (Continued)

For the Fiscal Year Ended June 30, 2008

Functions/Programs	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Change in net assets:			
Net (expense) revenue	<u>\$ (36,038,869)</u>	<u>\$ -</u>	<u>\$ (36,038,869)</u>
General revenues:			
Taxes	34,238,342		34,238,342
Revenues from other agencies	262,994	-	262,994
Use of money and property	4,695,421		4,695,421
Other revenue	998,751		998,751
Transfers, net	<u>57,880</u>		<u>57,880</u>
Total general revenues and transfers	<u>40,253,388</u>	<u>-</u>	<u>40,253,388</u>
Change in net assets	4,214,519	-	4,214,519
Net assets, beginning of year	252,185,530	-	252,185,530
Prior period adjustment (Note 17)	<u>(270,292)</u>		<u>(270,292)</u>
Net assets, end of year	<u>\$ 256,129,757</u>	<u>\$ -</u>	<u>\$ 256,129,757</u>

CITY OF NOVATO
Governmental Funds
Balance Sheet
June 30, 2008

	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	\$ 3,810,416	\$ 68,271	\$ 7,034,168	\$ (284,698)	\$ -	\$ 42,370,878	\$ 52,999,035
Cash with fiscal agent	-	660,139	1,589,041	-	-	17,095	2,266,275
Cash and investments-restricted	-	-	-	-	30,766,808	-	30,766,808
Receivables (net of allowance where applicable):	-	-	-	-	-	-	-
Interest	429,097	-	-	-	190,602	-	619,699
Accounts and due from other governments	1,030,282	5,737	17,638	262	-	462,973	1,516,892
Loans	626,263	-	-	-	-	-	626,263
Prepaid expenses	2,000	-	-	-	-	-	2,000
Due from other funds	13,805,125	-	25,054,151	-	1,540,000	4,269,289	44,668,565
Deferred costs	55,248	3,709,069	5,113,744	-	-	96,114	8,974,175
Total assets	\$ 19,758,431	\$ 4,443,216	\$ 38,808,742	\$ (284,436)	\$ 32,497,410	\$ 47,216,349	\$ 142,439,712
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 756,908	\$ 5,984	\$ 284,031	\$ 554,055	\$ -	\$ 45,156	\$ 1,646,134
Accrued salaries and benefits	1,616,762	-	-	-	-	-	1,616,762
Due to other funds	355,248	25,054,151	18,395,209	-	176,520	2,056,364	46,037,492
Deposits/other payables	525,837	-	164,761	-	-	1,497,391	2,187,989
Deferred revenue	4,662,291	-	3,709,069	-	-	1,131,921	9,503,281
Compensated absences	1,143,623	-	-	-	-	-	1,143,623
Total liabilities	9,060,669	25,060,135	22,553,070	554,055	176,520	4,730,832	62,135,281
Fund balances (deficits)							
Reserved, reported in general fund	10,284,290	-	-	-	-	-	10,284,290
Reserved, reported in special revenue funds	-	-	-	-	-	1,447,836	1,447,836
Reserved for capital projects	-	-	-	-	-	607,094	607,094
Reserved for debt service	-	-	-	-	-	2,575,231	2,575,231
Reserved for Hamilton Trust Fund	-	-	-	-	32,320,890	-	32,320,890
Unreserved:	-	-	-	-	-	-	-
Designated - General Fund	413,472	-	-	-	-	-	413,472
Designated - Special Revenue Funds	-	-	164,761	-	-	471,055	635,816
Designated - Capital Projects Funds	-	-	-	-	-	22,867,841	22,867,841
Undesignated - General Fund	-	-	-	-	-	-	-
Undesignated (deficit) - Special Revenue Funds	-	(20,616,919)	-	-	-	14,516,460	(6,100,459)
Undesignated (deficit) - Capital Project Funds	-	-	16,090,911	(838,491)	-	-	15,252,420
Undesignated (deficit) - Debt Service Funds	-	-	-	-	-	-	-
Total fund balances (deficits)	10,697,762	(20,616,919)	16,255,672	(838,491)	32,320,890	42,485,518	80,304,431
Total liabilities and fund balances	\$ 19,758,431	\$ 4,443,216	\$ 38,808,742	\$ (284,436)	\$ 32,497,410	\$ 47,216,349	\$ 142,439,712

CITY OF NOVATO

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

June 30, 2008

Total Fund Balances - Total Governmental Funds **\$ 80,304,431**

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>(422,142)</u>	2,260,668

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 (103,866)

Prepaid pension obligation is not a current financial resource and therefore not capitalized on the Governmental Funds Balance Sheet 16,628,157

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	206,124,693	
Less accumulated depreciation	<u>(89,734,786)</u>	237,555,184

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. (1,135,199)

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	(25,234,007)	
Accrued compensated absences	(398,935)	
OPA notes payable	(3,716,149)	
CIEDB loan	(3,357,998)	
Hamilton Tax Allocation Bonds, Series 2005	(23,385,000)	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	(9,155,000)	
Pension Obligation Bonds	(18,100,724)	
Due to County of Marin	<u>(424,013)</u>	(83,771,826)

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. 4,392,208

Net Assets of Governmental Activities **\$ 256,129,757**

CITY OF NOVATO

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2008

	Major Funds						Total Governmental Funds
	General Fund	RDA Housing	RDA	Capital Projects	Permanent Fund		
					Hamilton Trust Fund	Other Governmental Funds	
REVENUES							
Taxes	\$ 23,915,959	\$ 1,446,917	\$ 4,513,028	\$ -	\$ -	\$ 4,362,438	\$ 34,238,342
Licenses and permits	1,172,095	-	-	-	-	-	1,172,095
Revenues from other agencies	478,222	-	-	-	-	2,479,996	2,958,218
Fines and forfeitures	578,017	-	-	-	-	-	578,017
Use of money and property	1,353,486	76,596	239,054	-	1,426,849	2,584,002	5,679,987
Current service charges	3,297,845	51,189	5,200	2,696	47,775	2,389,245	5,793,950
Other revenue	353,520	-	-	642,886	-	2,345	998,751
Total revenues	31,149,144	1,574,702	4,757,282	645,582	1,474,624	11,818,026	51,419,360
EXPENDITURES							
Current:							
General government	6,469,949	-	-	-	-	1,350,983	7,820,932
Public safety	13,532,366	-	-	-	-	184,031	13,716,397
Public works	6,061,242	-	-	-	-	872,815	6,934,057
Cultural and recreation	6,027,594	-	-	-	-	75,486	6,103,080
Community development	114,370	1,862,846	1,134,337	-	16,522	7,800	3,135,875
Capital outlay	-	-	-	8,098,954	-	-	8,098,954
Debt service:							
Principal	113,868	185,000	1,050,461	-	-	1,311,909	2,661,238
Interest and fiscal agent fees	18,825	409,898	1,707,012	-	-	2,209,816	4,345,551
Total expenditures	32,338,214	2,457,744	3,891,810	8,098,954	16,522	6,012,840	52,816,084
REVENUES OVER (UNDER) EXPENDITURES	(1,189,070)	(883,042)	865,472	(7,453,372)	1,458,102	5,805,186	(1,396,724)
OTHER FINANCING SOURCES (USES)							
Debt proceeds	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-
Transfers in	3,994,303	-	-	7,415,073	-	1,185,653	12,595,029
Transfers out	(2,634,302)	(101,141)	(99,406)	-	(1,033,337)	(8,687,043)	(12,555,229)
Total other financing sources (uses)	1,360,001	(101,141)	(99,406)	7,415,073	(1,033,337)	(7,501,390)	39,800
Net change in fund balances	170,931	(984,183)	766,066	(38,299)	424,765	(1,696,204)	(1,356,924)
Fund balances, beginning of year	10,526,831	(19,632,736)	15,759,898	(800,192)	31,896,125	44,181,721	81,931,647
Prior period adjustment (Note 17)	-	-	(270,292)	-	-	-	(270,292)
Fund balances, end of year	\$ 10,697,762	\$ (20,616,919)	\$ 16,255,672	\$ (838,491)	\$ 32,320,890	\$ 42,485,517	\$ 80,304,431

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, 2008

Net Changes in Fund Balances - Total Governmental Funds **\$ (1,356,924)**

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	8,262,257	
Depreciation expense	<u>(5,218,753)</u>	3,043,504
(Depreciation expense is net of Internal Service Fund depreciation of \$421,279 which has already been allocated to serviced funds.)		

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 \$11,909 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).	2,649,329	
Debt proceeds	<u>-</u>	2,649,329

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		11,909
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 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.

Amortization of bond issuance costs	(98,476)	
Amortization of General Obligation Bond premiums	30,461	
Change in compensated absences	7,418	
Amortization of prepaid PERS contribution	(593,863)	
Change in accrued interest payable	<u>19,470</u>	(634,990)

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.		<u>501,691</u>
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Total Changes in Net Assets of Governmental Activities **\$ 4,214,519**

CITY OF NOVATO

General Fund

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

For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 24,235,923	\$ 24,235,923	\$ 23,915,959	\$ (319,964)
Licenses and permits	962,950	964,300	1,172,095	207,795
Fines and forfeitures	588,450	588,450	578,017	(10,433)
Use of money and property	739,011	739,411	1,353,486	614,075
Revenues from other agencies	680,170	681,370	478,222	(203,148)
Current services charges	3,342,721	3,443,321	3,297,845	(145,476)
Other revenue	277,701	278,200	353,520	75,320
Total revenues	<u>30,826,926</u>	<u>30,930,975</u>	<u>31,149,144</u>	<u>218,169</u>
EXPENDITURES				
Current:				
General government	5,735,495	5,874,190	6,469,949	(595,759)
Public safety	12,542,184	12,608,289	13,532,366	(924,077)
Public works	7,338,574	7,499,822	6,061,242	1,438,580
Cultural and recreation	4,251,908	4,257,408	6,027,594	(1,770,186)
Community development	2,861,851	2,960,010	114,370	2,845,640
Capital outlay	-	-	-	-
PERS funding expense	-	-	-	-
Debt service:				
Principal			113,868	
Interest and fiscal agent fees			18,825	
Total expenditures	<u>32,730,012</u>	<u>33,199,719</u>	<u>32,338,214</u>	<u>994,198</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,903,086)</u>	<u>(2,268,744)</u>	<u>(1,189,070)</u>	<u>1,212,367</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Cost of issuance	-	-	-	-
Transfers in	2,575,415	2,612,263	3,994,303	1,382,040
Transfers out	(1,685,002)	(1,837,002)	(2,634,302)	(797,300)
Total other financing sources (uses)	<u>890,413</u>	<u>775,261</u>	<u>1,360,001</u>	<u>584,740</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (1,012,673)</u>	<u>\$ (1,493,483)</u>	170,931	<u>\$ 1,797,107</u>
Fund balances, beginning of year			10,526,831	
Fund balances, end of year			<u>\$ 10,697,762</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,499,800	\$ 1,499,800	\$ 1,446,917	\$ (52,883)
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	50,200	50,200	76,596	26,396
Revenues from other agencies	-	-	-	51,189
Current services charges	22,000	22,000	51,189	(22,000)
Other revenue	-	-	-	-
Total revenues	<u>1,572,000</u>	<u>1,572,000</u>	<u>1,574,702</u>	<u>2,702</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Cultural and recreation	-	-	-	-
Community development	467,614	1,909,575	1,862,846	46,729
Capital outlay	-	-	-	-
Debt service:				
Principal	185,000	185,000	185,000	-
Interest and fiscal agent fees	409,898	409,898	409,898	-
Total expenditures	<u>1,062,512</u>	<u>2,504,473</u>	<u>2,457,744</u>	<u>46,729</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>509,488</u>	<u>(932,473)</u>	<u>(883,042)</u>	<u>49,431</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Cost of issuance	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(81,509)	(81,509)	(101,141)	(19,632)
Total other financing sources (uses)	<u>(81,509)</u>	<u>(81,509)</u>	<u>(101,141)</u>	<u>(19,632)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ 427,979</u>	<u>\$ (1,013,982)</u>	(984,183)	<u>\$ 29,799</u>
Fund balances, beginning of year			(19,632,736)	
Fund balances, end of year			<u>\$ (20,616,919)</u>	

CITY OF NOVATO

RDA

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

For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,737,013	\$ 4,910,013	\$ 4,513,028	\$ (396,985)
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	65,100	65,100	239,054	173,954
Revenues from other agencies	-	-	-	-
Current services charges	-	-	5,200	5,200
Other revenue	-	-	-	-
Total revenues	<u>4,802,113</u>	<u>4,975,113</u>	<u>4,757,282</u>	<u>(217,831)</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Cultural and recreation	-	-	-	-
Community development	1,087,561	1,357,853	1,134,337	223,516
Capital outlay	-	-	-	-
Debt service:				
Principal	1,050,461	1,050,461	1,050,461	-
Interest and fiscal agent fees	1,431,786	1,431,786	1,707,012	(275,226)
Total expenditures	<u>3,569,808</u>	<u>3,840,100</u>	<u>3,891,810</u>	<u>(51,710)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,232,305</u>	<u>1,135,013</u>	<u>865,472</u>	<u>(269,541)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Cost of issuance	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(86,235)	(86,235)	(99,406)	(13,171)
Total other financing sources (uses)	<u>(86,235)</u>	<u>(86,235)</u>	<u>(99,406)</u>	<u>(13,171)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ 1,146,070</u>	<u>\$ 1,048,778</u>	766,066	<u>\$ (282,712)</u>
Fund balances, beginning of year			15,759,898	
Prior period adjustments			(270,292)	
Fund balances, end of year			<u>\$ 16,255,672</u>	

CITY OF NOVATO
Proprietary Funds
Statement of Net Assets
June 30, 2008

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 3,267,737
Cash with fiscal agents	-	-
Accounts receivables	-	-
Loans receivable	-	-
Due from other funds	-	1,368,927
Deposits	-	-
Prepays and other assets	-	-
Total current assets	<u>-</u>	<u>4,636,664</u>
Noncurrent assets:		
Capital assets, net	-	1,504,796
Total assets	<u>-</u>	<u>6,141,460</u>
LIABILITIES		
Current liabilities:		
Accounts payable	-	83,355
Deferred revenue	-	203,290
Claims payable	-	380,799
Total current liabilities	<u>-</u>	<u>667,444</u>
Claims payable, noncurrent	<u>-</u>	<u>1,081,809</u>
Total liabilities	<u>-</u>	<u>1,749,253</u>
NET ASSETS		
Invested in capital assets, net of related debt	-	1,504,796
Unrestricted	-	2,887,412
Total net assets	<u>\$ -</u>	<u>\$ 4,392,208</u>

CITY OF NOVATO

Proprietary Funds

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2008

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
REVENUES		
Service charges	\$ -	\$ 1,674,975
Revenues from other agencies	-	-
Other revenue	-	523,509
Total operating revenue	<u>-</u>	<u>2,198,484</u>
OPERATING EXPENSES		
Cost of services	-	1,548,426
Depreciation	-	421,279
Total operating expenses	<u>-</u>	<u>1,969,705</u>
Operating income (loss)	<u>-</u>	<u>228,779</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	-	254,836
Net nonoperating revenues (expenses)	<u>-</u>	<u>254,836</u>
Income (loss) before transfers	-	483,615
Transfers in	-	475,695
Transfers out	-	(457,616)
Net transfers	<u>-</u>	<u>18,079</u>
Changes in net assets	-	501,694
Net assets, beginning of year	-	3,890,514
Net assets, end of year	<u>\$ -</u>	<u>\$ 4,392,208</u>

CITY OF NOVATO

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008

	Business-Type Activities-	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interfund services provided	\$ -	\$ 1,896,711
Cash received from other operating activities		523,509
Cash paid to suppliers		(2,086,499)
Net cash provided by operating activities	<u>-</u>	<u>333,721</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds	-	475,695
Transfers out to other funds	-	(457,616)
Net cash used by noncapital financing activities	<u>-</u>	<u>18,079</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds		-
Interest paid		-
Capital expenditures		(285,133)
Net cash used by capital and related financing activities	<u>-</u>	<u>(285,133)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	-	254,836
Repayment of loans receivable		-
Net cash provided by investing activities	<u>-</u>	<u>254,836</u>
Net change in cash and cash equivalents	-	321,503
Cash and cash equivalents at beginning of year		<u>2,946,234</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 3,267,737</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ -	\$ 228,779
Adjustments to reconcile operating income to net cash provided (used)		
by operating activities:		
Depreciation and amortization expense	-	421,279
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable		8,488
Decrease (increase) in due from other funds		362,959
Increase (decrease) in deferred revenue		(149,711)
Increase (decrease) in accounts payable		(45,803)
Increase (decrease) in claims payable		(492,270)
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ 333,721</u>

CITY OF NOVATO

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2008

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ 1,131,595	\$ 4,745,501
Cash with fiscal agent	3,353,151	16,190,154
Receivables	1,842	24,666
Capital assets, net	15,030,391	-
Other assets, net	773,693	-
Total assets	<u>20,290,672</u>	<u>20,960,321</u>
LIABILITIES		
Bank overdraft	64,674	
Accounts payable	144,303	-
Deposits held in trust	1,099,358	11,333,269
Deferred revenue	24,277	-
Notes payable	12,675,000	-
Loans payable	-	-
Interest payable	170,321	-
Total liabilities	<u>14,177,933</u>	<u>11,333,269</u>
NET ASSETS		
Assets held in trust	<u>\$ 6,112,739</u>	<u>\$ 9,627,052</u>

CITY OF NOVATO
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2008

	<u>Trust Funds</u>
ADDITIONS	
Operating revenues	\$ 2,871,037
Investment income	<u>230,703</u>
Total additions to net assets	<u>3,101,740</u>
DEDUCTIONS	
General and administrative expenses	1,426,566
Depreciation and amortization	-
Interest expense	<u>763,716</u>
Total deductions from net assets	<u>2,190,282</u>
Transfers in (out)	<u>-</u>
Changes in net assets	911,458
Net assets, beginning of year	5,201,281
Net assets, end of year	<u><u>\$ 6,112,739</u></u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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. Accounting and 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 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 as 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.
- *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.
- *Capital Projects Fund* – This fund is used to account for the revenues and expenditures for the City of Novato's Capital Improvement Projects.
- *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, 2008. 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, 2008.

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 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. The City is currently reviewing the requirements of this standard and assessing its financial impact, which is expected to be material.

NOTE 2 - Cash and investments:

The 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
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. Investments are carried at a value not materially different from fair value.

Cash and investments at June 30, 2008 are comprised of the following:

	Carrying Value	Fair Value
Petty cash	\$ 2,235	\$ 2,235
Cash in bank	642,524	642,524
Federal agency securities	28,669,483	28,636,631
Money Market Funds	3,437,030	3,437,030
Commercial Paper	2,712,261	2,734,441
Corporate Notes	10,814,044	10,824,716
California Local Agency Investment Fund	46,529,234	46,526,918
Subtotal	<u>92,806,811</u>	<u>92,804,495</u>
Cash with fiscal agents:		
Money Market	2,249,180	2,249,180
Guaranteed investment contracts/investment agreements	19,543,304	19,543,304
	<u>\$ 114,599,295</u>	<u>\$ 114,596,979</u>

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

Governmental funds:	
Operating cash and investments	\$ 56,162,906
Cash with fiscal agent	2,249,180
Restricted cash and investments	<u>30,766,808</u>
	<u>89,178,894</u>
Trust funds:	
Cash and investments	1,131,595
Cash with fiscal agent	<u>3,353,151</u>
	<u>4,484,746</u>
Agency funds:	
Cash and investments	4,745,501
Cash with fiscal agent	<u>16,190,154</u>
	<u>20,935,655</u>
Total	<u><u>\$ 114,599,295</u></u>

Cash with fiscal agent is restricted as follows:

Hamilton Tax Allocation Bonds - Series 2005	\$ 1,589,041
Hamilton 2005 Housing Bonds - Series A	<u>660,139</u>
	<u>2,249,180</u>
Trust Funds:	
Novato Financing Authority	<u>3,353,151</u>
	<u>3,353,151</u>
Agency Funds:	
Hamilton Bonds A.D. - CFD 1994-1, 2004 Refunding	1,913,905
Pointe Marin Assessment District - CFD 2002-1	12,208,709
Golden Gate Plaza Assessment District	238,540
Vintage Oaks A.D. - CFD No. 1, 2004 Refunding	<u>1,829,000</u>
	<u>16,190,154</u>
Total cash with fiscal agent	<u><u>\$ 21,792,485</u></u>

Cash and investments held by the Hamilton Trust Fund of \$30,766,808 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 a portion of the 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, 2008 was as follows:

Major funds:	
General Fund	\$ 3,810,416
Capital Projects Fund	(284,698)
RDA Housing	68,271
RDA	7,034,168
Other governmental non-major funds	42,370,878
Internal service fund	<u>3,267,737</u>
	56,266,772
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>(103,866)</u>
	<u><u>\$ 56,162,906</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	\$ 28,636,631	\$ 1,008,000	\$ 7,790,501	\$ 19,838,130	\$ -
Money Market Funds	3,437,030	3,437,030	-	-	-
Commercial Paper	2,734,441	2,734,441	-	-	-
Corporate Notes	10,824,716	5,533,969	4,276,961	1,013,786	-
State investment pool	46,526,918	46,526,918	-	-	-
Held by bond trustee:					
Money Market	2,249,180	2,249,180	-	-	-
Investment agreements	19,543,304	-	-	-	19,543,304
Total	<u>\$ 113,952,220</u>	<u>\$ 61,489,538</u>	<u>\$ 12,067,462</u>	<u>\$ 20,851,916</u>	<u>\$ 19,543,304</u>

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	\$ 28,636,631	\$ -	\$ 28,636,631	\$ -	\$ -
Money Market Funds	3,437,030	3,437,030	-	-	-
Commercial Paper	2,734,441	-	-	2,734,441	-
Corporate Notes	10,824,716	-	2,977,194	7,847,522	-
State investment pool	46,526,918	-	-	-	46,526,918
Held by bond trustee:					
Money Market	2,249,180	2,249,180	-	-	-
Investment agreements	19,543,304	-	-	-	19,543,304
Total	\$ 113,952,220	\$ 5,686,210	\$ 31,613,825	\$ 10,581,963	\$ 66,070,222

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, 2008, there are no investments in any one issuer other than government agencies 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 \$46,529,234 whose pro-rata share of fair value was estimated by the state Treasurer to be \$46,526,918. 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. The fair value change in certain investments for the year came to an amount that was not material for presentation in the financial statements.

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, 2008:

<u>Fund</u>	<u>Due to other funds</u>	<u>Due from other funds</u>
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 355,248	\$ 13,805,125
RDA Housing	* 25,054,151	-
RDA Fund	* 18,395,209	25,054,151
Hamilton Trust Fund	176,520	1,540,000
Total major funds	<u>43,981,128</u>	<u>40,399,276</u>
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Subdivision Park	-	697,756
Hamilton CFD Maintenance	156,217	
Insurance reserve	-	366,148
Emergency and Disaster Response reserve	-	1,062,445
	<u>156,217</u>	<u>2,126,349</u>
Capital Project Funds:		
Development Impact Fees	-	1,029,773
RDA Community Center and Performing Arts	-	382,598
Novato Public Financing Authority	1,900,147	730,569
	<u>1,900,147</u>	<u>2,142,940</u>
Total non-major funds	<u>2,056,364</u>	<u>4,269,289</u>
Total governmental funds	<u>46,037,492</u>	<u>44,668,565</u>
Internal Service Funds		
Equipment Replacement	-	1,368,927
F,F&E Replacement	-	-
	<u>-</u>	<u>1,368,927</u>
Total	<u>\$ 46,037,492</u>	<u>\$ 46,037,492</u>

* The RDA Housing Fund is scheduled to repay the RDA Fund \$500,000 per annum.

Operating transfers - Fund	Transfers In	Transfers Out
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 3,994,303	\$ 2,634,302
RDA Housing	-	101,141
RDA	-	99,406
Capital Projects	7,415,073	-
Hamilton Trust Fund	-	1,033,337
Total major funds	11,409,376	3,868,186
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Affordable Housing Trust	-	332,337
Clean Stormwater	-	200,000
Subdivision Park	66,129	-
Fish America Grant	-	841
Art in Public Places	-	11,402
General Plan Surcharge	-	2,409
Automation Surcharge	-	9,105
Hamilton Community Facilities	-	236,469
Pointe Marin Community Facilities	-	7,267
Chapter 27 Assessment	-	72,236
Downtown LAD	-	7,840
State SB-300	-	18,269
State Gas Tax	288	1,333,579
State Park Bonds	-	7
Traffic Congestion Relief	-	155,278
Special Police Projects	7,000	-
State Grant Funds	-	172,858
Federal Grant Funds	-	449,076
Pension Reserve	50,000	-
Insurance Reserve Fund	-	25,000
Emergency Response Fund	-	635,998
Debt Service Funds:		
Pension Obligation Bonds	893,986	-
Capital Projects Funds:		
Measure A Street Improvements	-	1,111,473
Measure B Street Bond Projects	-	1,516,278
Long-term Maintenance Fund	103,250	-
Civic Center	-	488,103
Clean Stormwater CIP	45,000	135
Community Facilities Maintenance Fund	-	80,364
Community Facilities Performing Arts Fund	-	104,290
Street Drains Maintenance	20,000	104,945
Development Impact Fee	-	1,915,209
Novato Public Financing Authority	-	(303,725)
Total non-major funds	1,185,653	8,687,043
Total governmental funds	12,595,029	12,555,229
Internal Service Funds:		
Equipment Maintenance	-	9,434
Equipment Replacement	446,928	336,458
F,F & E Replacement	28,767	111,724
Total internal service funds	475,695	457,616
Agency Funds:		
Pacheco Bond Funds	-	42,880
Hamilton Bond Fund	-	15,000
Total agency funds	-	57,880
Total interfund transfers	\$ 13,070,724	\$ 13,070,724

The principal purpose of the interfund transfers is to match revenue, which is recorded in funds designated for specific purposes, with the expenditures funded by these revenues. Interfund transfers are also used to fund debt service payments, insurance reserves and capital projects.

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, 2008:

<u>Fiscal years ending June 30</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
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	158,850	75,000	83,850
2014-2018	789,625	450,000	339,625
2019-2023	788,550	615,000	173,550
2024	159,750	150,000	9,750
	<u>\$ 2,524,425</u>	<u>\$ 1,540,000</u>	<u>\$ 984,425</u>

NOTE 4 - Loans receivable:

Loans receivable of \$626,263 at June 30, 2008 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 3.6% at June 30, 2008). The balance of the computer loans receivable at June 30, 2008 was \$26,263 and 18 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, 2008 the Agency has a loan receivable of \$394,240 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.

	Principal	Interest	Total
Loan receivable	\$ 394,240	\$ 111,829	\$ 506,069
Allowance for doubtful accounts	(394,240)	(111,829)	(506,069)
	<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, 2008 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 \$2,229 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, 2008 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, 2008:

	Governmental Activities	Internal Service Activities	Total
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	18,258,023	-	18,258,023
Furniture and equipment	1,042,130	-	1,042,130
Vehicles	-	4,001,369	4,001,369
Infrastructure	186,824,540		186,824,540
Total	<u>206,124,693</u>	<u>4,001,369</u>	<u>210,126,062</u>
Less: accumulated depreciation	<u>89,734,786</u>	<u>2,496,573</u>	<u>92,231,359</u>
Depreciable capital assets, net	<u>116,389,907</u>	<u>1,504,796</u>	<u>117,894,703</u>
Total capital assets, net	<u>\$ 237,555,184</u>	<u>\$ 1,504,796</u>	<u>\$ 239,059,980</u>

Combined governmental capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	Balances June 30, 2007	Additions	Transfers/ Retirements	Balances June 30, 2008
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	15,883,402	2,374,621	-	18,258,023
Furniture and equipment	1,289,648	182,531	430,049	1,042,130
Infrastructure	181,119,435	5,705,105	-	186,824,540
Total depreciable assets	<u>198,292,485</u>	<u>8,262,257</u>	<u>430,049</u>	<u>206,124,693</u>
Less: accumulated depreciation for:				
Buildings	4,092,505	357,646		4,450,151
Furniture and equipment	845,672	149,074	430,049	564,697
Infrastructure	80,007,902	4,712,036	-	84,719,938
Total accumulated depreciation	<u>84,946,079</u>	<u>5,218,756</u>	<u>430,049</u>	<u>89,734,786</u>
Total depreciable assets, net	<u>113,346,406</u>	<u>3,043,501</u>	<u>-</u>	<u>116,389,907</u>
Internal service fund fixed assets:				
Depreciable assets:				
Vehicles	3,983,863	285,133	267,627	4,001,369
Total depreciable assets	<u>3,983,863</u>	<u>285,133</u>	<u>267,627</u>	<u>4,001,369</u>
Less: accumulated depreciation				
Total depreciable assets, net	<u>2,342,921</u>	<u>421,279</u>	<u>267,627</u>	<u>2,496,573</u>
Total depreciable assets, net	<u>1,640,942</u>	<u>(136,146)</u>	<u>-</u>	<u>1,504,796</u>
Total governmental activities	<u>\$ 236,152,625</u>	<u>\$ 2,907,355</u>	<u>\$ -</u>	<u>\$ 239,059,980</u>

Depreciation was charged to function as follows:

Government activities:	
General government	\$ 340,936
Public safety	92,333
Public works	27,920
Cultural and recreation	37,511
Community development	8,020
Infrastructure	4,712,033
Capital assets held by Internal Service Fund	421,279
Total governmental activities depreciation expense	<u>\$ 5,640,032</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, 2008 is as follows:

	June 30, 2007	Additions	Retirements/ Transfers	June 30, 2008
Land	\$ 11,840,000	\$ -	\$ -	\$ 11,840,000
Land improvements	3,413,917	277,888	-	3,691,805
Buildings	767,157	25,141	-	792,298
Equipment	8,643	-	-	8,643
Mobile homes and improvements	177,636	-	-	177,636
Construction-in-progress	-	-	-	-
Total	<u>16,207,353</u>	<u>303,029</u>	<u>-</u>	<u>16,510,382</u>
Less: accumulated depreciation	<u>1,329,082</u>	<u>150,909</u>	<u>-</u>	<u>1,479,991</u>
	<u>\$ 14,878,271</u>	<u>\$ 152,120</u>	<u>\$ -</u>	<u>\$ 15,030,391</u>

NOTE 6 - Long-term debt:

A. Long-term debt outstanding

Governmental activities long-term debt issued and outstanding at June 30, 2008 is comprised of the following:

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding June 30, 2008
General obligation bonds:				
Series 1993A	2014	4.75-7.25%	\$ 5,000,000	\$ 2,080,000
Series 1997A	2021	5.00-8.00%	14,245,000	9,070,000
Series 2000A	2022	5.00-5.75%	5,000,000	3,890,000
Series 2004	2026	3.20-10.00%	5,000,000	4,725,000
Series 2004-Premium				221,062
Series 2007	2027	3.55-4.125%	5,000,000	5,000,000
Series 2007-Premium				247,945
Pension Obligation Bonds, A-1 & A-2	2035	5.69-6.12%	18,296,066	18,266,066
Pension Obligation Bonds-Discounts				(165,342)
CEIDB loan	2032	3.39%	3,700,000	3,357,998
OPA notes payable	2014	8.53%	9,000,000	3,716,149
Hamilton Field Tax Allocation Bonds-2005	2035	2.50-4.50%	24,835,000	23,385,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	2035	4.50-4.88%	9,520,000	9,155,000
Due to County of Marin	2011	7.75%		424,013
Compensated absences - noncurrent				398,935
				<u>\$ 83,771,826</u>

Long-term debt of the fiduciary fund (nonexpendable trust) at June 30, 2008 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, 2008</u>
Novato Financing Authority:				
Promissory note - Senior Note	2028	3.9 - 5.85%	\$ 15,485,000	\$ 11,370,000
Promissory note - Subordinate Note	2025	3.9 - 5.85%	1,585,000	<u>1,305,000</u>
Total notes payable				<u>12,675,000</u>
Total fiduciary fund long-term debt				<u>\$ 12,675,000</u>

B. Changes in long-term debt

The City's long-term debt transactions for the fiscal year ended June 30, 2008 were as follows:

	<u>Balance, June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2008</u>	<u>Due in One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 26,065,000	\$ -	\$ 1,300,000	\$ 24,765,000	\$ 1,505,000
Premium on 2004 General Obligation Bonds	246,940	-	25,878	221,062	12,940
Premium on 2007 General Obligation Bonds	260,937	-	12,992	247,945	12,992
Pension Obligation Bonds, A-1 and A-2	18,266,066	-	-	18,266,066	30,000
Discount on Pension Obligation Bonds	(173,577)	-	(8,235)	(165,342)	(7,904)
Compensated absences	406,353	-	7,418	398,935	-
OPA notes payable	4,176,788	-	460,639	3,716,149	499,907
Due to County of Marin	537,881	-	113,868	424,013	118,358
CEIDB loan	3,447,821	-	89,823	3,357,998	92,867
Hamilton Field Tax Allocation Bonds-2005	23,885,000	-	500,000	23,385,000	510,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	<u>9,340,000</u>	<u>-</u>	<u>185,000</u>	<u>9,155,000</u>	<u>190,000</u>
	<u>\$ 86,459,209</u>	<u>\$ -</u>	<u>\$ 2,687,383</u>	<u>\$ 83,771,826</u>	<u>\$ 2,964,160</u>
Fiduciary fund activities:					
Promissory note - Senior Note	\$ 13,185,000	\$ -	\$ 1,815,000	\$ 11,370,000	\$ 300,000
Promissory note - Subordinate Note	<u>1,340,000</u>	<u>-</u>	<u>35,000</u>	<u>1,305,000</u>	<u>40,000</u>
	<u>\$ 14,525,000</u>	<u>\$ -</u>	<u>\$ 1,850,000</u>	<u>\$ 12,675,000</u>	<u>\$ 340,000</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 refund 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, 2008, compensated absences expected to be liquidated with expendable, available resources totaled \$1,542,558 and are recorded in accrued compensated absences on the government-wide statements. The non-current portion totaling \$398,935 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 are financed with property tax increments generated by the retail complex. At June 30, 2008 the note payable balance is \$3,716,149.

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, 2008 the balance of the loan is \$3,357,998.

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 Plan, 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 was 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 fiscal year 2009-10; however, in fiscal year 2007-08, this obligation was paid in full at the present value of \$1,438,960.

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 Increment 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 Increment Revenues allocated to the Agency from the Project Area. Housing Tax Increment 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. On October 1, 2007, the trustee redeemed a portion of the bonds according to Section 4.01(f) of the Trust Indenture. This section requires a mandatory redemption of the outstanding bonds on October 1, 2007 and again on October 1, 2017. The Trust Indenture states that the amounts on deposit in the Senior Cash Trap Account as of August 1, 2007 will be used to redeem the bonds. On October 1, 2007, the Senior Cash Trap balance of \$1,495,000 was used to redeem outstanding bonds in a "strip call." A "strip call" is redemption of some of the bonds from each maturity over the remaining life of the bonds. As a result of this mandatory redemption, the annual bond payments were reduced by an average of \$130,000 per year.

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

Fiscal year ending	Senior Promissory Note			Subordinate Promissory Note		
	Principal	Interest	Total	Principal	Interest	Total
June 30,						
2009	\$300,000	\$648,222	\$948,222	\$40,000	\$96,375	\$136,375
2010	310,000	632,207	942,207	45,000	93,188	138,188
2011	325,000	615,217	940,217	45,000	89,813	134,813
2012	345,000	596,955	941,955	50,000	86,250	136,250
2013	365,000	577,248	942,248	55,000	82,313	137,313
2014-2018	2,160,000	2,535,860	4,695,860	330,000	342,375	672,375
2019-2023	2,850,000	1,814,310	4,664,310	485,000	191,437	676,437
2024-2028	4,715,000	821,778	5,536,778	255,000	19,688	274,688
Total payments	<u>\$11,370,000</u>	<u>\$8,241,797</u>	<u>\$19,611,797</u>	<u>\$1,305,000</u>	<u>\$1,001,439</u>	<u>\$2,306,439</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:

Fiscal year ending June 30,	Deferred Annual Payments
2009	\$ 76,185
2010	74,130
2011	71,970
2012	69,690
2013	67,290
2014-2018	295,275
2019-2023	210,600
2024-2028	95,055
	<u>\$ 960,195</u>

K. Future governmental activities debt service

Future governmental activities debt service at June 30, 2008 is as follows:

General Obligation Bonds

Fiscal year ending June 30,	Principal					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
2009	\$ 130,000	\$ 160,000	\$ 195,000	\$ 720,000	\$ 300,000	\$ 1,505,000
2010	145,000	170,000	205,000	775,000	315,000	1,610,000
2011	160,000	190,000	220,000	815,000	335,000	1,720,000
2012	175,000	205,000	230,000	860,000	355,000	1,825,000
2013	195,000	225,000	240,000	910,000	380,000	1,950,000
2014-2018	1,200,000	1,235,000	1,395,000	2,835,000	395,000	7,060,000
2019-2023	1,355,000	1,490,000	1,405,000	2,155,000	-	6,405,000
2024-2028	1,640,000	1,050,000	-	-	-	2,690,000
Total	<u>\$ 5,000,000</u>	<u>\$ 4,725,000</u>	<u>\$ 3,890,000</u>	<u>\$ 9,070,000</u>	<u>\$ 2,080,000</u>	<u>\$ 24,765,000</u>

Fiscal year ending June 30,	Interest					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
2009	\$ 257,939	\$ 219,093	\$ 199,183	\$ 447,931	\$ 96,500	\$ 1,220,646
2010	241,439	204,242	189,182	410,556	81,125	1,126,544
2011	223,139	188,043	178,558	370,806	64,875	1,025,421
2012	203,039	170,267	167,307	328,931	47,625	917,169
2013	180,839	157,443	155,557	284,113	29,250	807,202
2014-2018	727,219	663,921	576,449	952,898	9,875	2,930,362
2019-2023	471,844	397,610	159,475	174,694	-	1,203,623
2024-2028	173,004	72,225	-	-	-	245,229
Total	<u>\$ 2,478,462</u>	<u>\$ 2,072,844</u>	<u>\$ 1,625,711</u>	<u>\$ 2,969,929</u>	<u>\$ 329,250</u>	<u>\$ 9,476,196</u>

Other notes

The annual debt service for the Pension Obligation Bonds is as follows as of June 30, 2008:

Fiscal year ending June 30,	Principal	Interest	Total
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	210,000	896,388	1,106,388
2014-2018	1,975,000	4,229,084	6,204,084
2019-2023	4,040,000	3,422,060	7,462,060
2024-2028	7,045,000	1,895,228	8,940,228
2029-2033	4,197,561	6,929,198	11,126,759
2034-2035	428,505	3,951,220	4,379,725
	<u>\$ 18,266,066</u>	<u>\$ 24,974,556</u>	<u>\$ 43,240,622</u>

The annual debt service for the OPA note is as follows as of June 30, 2008:

Fiscal year ending June 30,	OPA		
	Principal	Interest	Total
2009	\$ 499,907	\$ 300,093	\$ 800,000
2010	542,524	257,476	800,000
2011	588,772	211,228	800,000
2012	638,964	161,036	800,000
2013	693,434	106,566	800,000
2014	752,548	47,452	800,000
Total	<u>\$ 3,716,149</u>	<u>\$ 1,083,851</u>	<u>\$ 4,800,000</u>

The annual debt service for the CIEDB loan is as follows as of June 30, 2008:

Fiscal years ending June 30	Payment	Principal	Interest	Annual Fee
2009	\$ 216,777	\$ 92,867	\$ 113,836	\$ 10,074
2010	216,499	96,016	110,688	9,795
2011	216,210	99,270	107,433	9,507
2012	215,914	102,636	104,068	9,210
2013	215,605	106,115	100,588	8,902
2014-2018	1,073,030	587,037	446,481	39,512
2019-2023	1,063,605	693,518	339,999	30,088
2024-2028	1,052,473	819,314	214,203	18,956
2029-2032	832,618	761,225	65,589	5,804
	<u>\$ 5,102,731</u>	<u>\$ 3,357,998</u>	<u>\$ 1,602,885</u>	<u>\$ 141,848</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, 2008:

Fiscal Year Ending June 30,	Hamilton TAB Series 2005 Bonds			Hamilton 2005 Housing Bonds, Series A		
	Principal	Interest	Total	Principal	Interest	Total
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	378,497	588,497
2013	575,000	888,063	1,463,063	215,000	371,430	586,430
2014-2018	3,190,000	4,111,687	7,301,687	1,205,000	1,731,181	2,936,181
2019-2023	3,875,000	3,431,232	7,306,232	1,495,000	1,456,108	2,951,108
2024-2028	4,780,000	2,522,491	7,302,491	1,885,000	1,084,374	2,969,374
2029-2033	6,010,000	1,335,952	7,345,952	2,410,000	582,853	2,992,853
2034-2035	2,825,000	128,587	2,953,587	1,150,000	56,794	1,206,794
	<u>\$ 23,385,000</u>	<u>\$ 16,153,828</u>	<u>\$ 39,538,828</u>	<u>\$ 9,155,000</u>	<u>\$ 6,840,655</u>	<u>\$ 15,995,655</u>

The annual debt service for the amount due to the County of Marin is as follows as of June 30, 2008:

Fiscal year ending June 30,	Principal	Interest	Total
2009	\$ 118,358	\$ 14,336	\$ 132,694
2010	123,024	9,669	132,693
2011	127,874	4,819	132,693
2012	54,757	531	55,288
	<u>\$ 424,013</u>	<u>\$ 29,355</u>	<u>\$ 453,368</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, 2008, the outstanding principal of the Assessment District No. 93-1 (Golden Gate Plaza) bond issue was \$1,690,000.

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 Redevelopment Agency Hamilton 2004 Refunding 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, 2008 the outstanding principal of the City of Novato Redevelopment Agency Hamilton 2004 Refunding Special Tax bond issue was \$20,345,000.

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. The original bond was refunded in August 2007. At June 30, 2008 the outstanding principal of the City of Novato Community Facilities District No. 2002-1 (Pointe Marin) Special Tax Refunding bond issue was \$11,915,000.

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, 2008, the outstanding principal of the City of Novato Community Facilities District No. 1 (Vintage Oaks) Special Tax Refunding bond issue was \$21,735,000.

NOTE 8 - Deficit fund balance/retained earnings:

The following funds had deficits in fund balances or retained earnings at June 30, 2008:

Major funds:

RDA Housing	\$ 20,616,919
Capital Project Fund	838,491

Other governmental funds:

Other Special Revenue Funds:

Hamilton Recreation Environment Fund	48,691
Hamilton Community Facilities Fund	70,066
Eucalyptus Assessment District	2,177
Traffic congestion Relief Fund	6

Other Capital Projects Funds:

Measure A Fund	117,469
Novato Public Financing Authority	217,766

Internal service funds:

Equipment Maintenance	163,972
Insurance	1,954,878

Agency Funds

Pacheco Investment Earnings	15,449
Vintage Oaks Bond Administration	15,493
Golden Gate Bond Administration	2,481

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 \$16,628,158 at June 30, 2008. During fiscal year 2007-08, the amortization of the prepayment increased the actuarially required contributions by \$593,863 to arrive at Annual Pension Costs of \$3,746,856. 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 2007-08, PERS charged 14.943% for the miscellaneous plan and 24.281% for the safety plan.

C. Annual pension cost

For fiscal year 2007-08, the City's annual pension cost of \$3,746,856, includes the amortization of the prepaid PERS contributions of \$593,863 (See section Note 9 A) and \$3,152,993 which was equal to the City's required and actual PERS contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation which is the latest available valuation. 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

	Annual pension cost (APC)	Percentage APC <u>contributed</u>	Net pension asset
<u>Miscellaneous employees</u>			
Fiscal year ended:			
6/30/2006	\$ 1,646,830	100%	\$ 8,000,000
6/30/2007	1,743,116	118%	7,733,333
6/30/2008	1,722,029	118%	7,733,333
<u>Safety employees</u>			
Fiscal year ended:			
6/30/2006	\$ 1,946,703	100%	\$ 9,815,883
6/30/2007	1,865,910	121%	9,488,687
6/30/2008	2,024,827	119%	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 \$101,701 for claims and \$270,878 for insurance premiums during the fiscal year ended June 30, 2008.

Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2008 is as follows:

Total assets	\$ 20,055,378
Total liabilities	<u>11,743,618</u>
Net assets	<u>\$ 8,311,760</u>
Total revenues	\$ 11,615,012
Total expenditures	<u>8,453,122</u>
Change in net assets	<u>\$ 3,161,890</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 equals 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, 2008, the City incurred costs of \$625,137 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, 2008:

	<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Total</u>
Projected known claims	\$ 498,576	\$ 59,985	\$ 558,561
Projected IBNR	<u>745,791</u>	<u>158,256</u>	<u>904,047</u>
Claims liabilities, June 30, 2008	<u>\$ 1,244,367</u>	<u>\$ 218,241</u>	<u>\$ 1,462,608</u>

	<u>Workers' Compensation</u>	<u>General Liability</u>	<u>Total</u>
Claims liabilities - current	\$ 312,474	\$ 68,325	\$ 380,799
Claims liabilities - non-current	<u>931,893</u>	<u>149,916</u>	<u>1,081,809</u>
Total claims liabilities	<u>\$ 1,244,367</u>	<u>\$ 218,241</u>	<u>\$ 1,462,608</u>

NOTE 12 - Contingencies:

The City is a defendant in a number of lawsuits and claims pending at June 30, 2008. 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, 2008, 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, 2008, expenditures of \$41,767 were recognized for post-retirement health care for 41 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, 2008:

Fiscal year ending June 30,	Minimum Service Payments
2009	\$ 221,885
2010	221,859
2011	221,520
2012	221,559
2013	221,637
2014-2018	1,108,768
2019-2021	443,335
	<u>\$ 2,660,563</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, 2008 are as follows:

RESERVED

Major Funds:

General Fund	\$ 10,284,290
Hamilton Trust Fund	32,320,890
	<u>42,605,180</u>

Other Governmental Funds:

Special Revenue Funds:

Housing Opportunity	1,316,154
State Gas Tax	131,682

Capital Project Funds

Development Impact Fees	607,094
	<u>2,054,930</u>

Debt Service Fund:

Bond requirements	2,575,231
	<u>2,575,231</u>

Total reserved

	<u>\$ 47,235,341</u>
--	----------------------

UNRESERVED, DESIGNATED**Major Funds:**

General Fund	\$ 413,472
Redevelopment Agency	164,761
	<u>578,233</u>

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

Affordable Housing Trust	129,820
Clean Stormwater	14,855
Underground Utilities	100,495
Parking Improvement	124,542
O'Hair/Fuchs park	-
Chapter 27 Assessment	101,343
Assessment District Wildwood Glen	-
	<u>471,055</u>

Capital Projects Funds:

Measure B	2,855,997
Measure A	(117,469)
Prop 1B	844,458
Clean Stormwater CIP	93,758
Street & Storm Drain Maintenance	334,050
Long Term Maintenance	694,283
Development Impact Fees	11,936,305
Community Center Maintenance	482,639
Community Facilities Performing Arts	1,790,288
Community Facilities Teen/Gym Center	89,405
Novato Public Finance Authority	(217,766)
Civic Center	4,081,893
	<u>22,867,841</u>
Total unreserved, designated	<u>\$ 23,917,129</u>

NOTE 16 - Excess of expenditures over appropriations:

For the fiscal year ended June 30, 2008, expenditures exceeded the budgeted expenditures in the following funds:

<u>Fund</u>	<u>Expenditures exceeded budget</u>
General fund:	
General government	\$ 595,759
Public safety	924,077
Cultural and recreation	1,770,186
RDA :	
Interest and fiscal agent fees	275,226

NOTE 17 - Prior period adjustments:

A prior period adjustment in the amount of (\$270,292) was recorded in the General Fund governmental fund balance sheet which resulted in a reduction of beginning fund balance. This adjustment related to not accruing for the fiscal 2007 County Mitigation Agreement payment which was made in fiscal 2008.

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	6/30/2005	\$ 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%
	6/30/2007	\$ 1,648,159,522	\$ 1,422,143,105	\$ 226,016,417	86%	\$ 200,537,256	113%
Miscellaneous	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%
	6/30/2007	\$ 54,378,556	\$ 54,428,931	\$ (50,375)	100%	\$ 10,934,961	0%

*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, 2008 is not available and therefore is not included in the above analysis.

OTHER
SUPPLEMENTARY
INFORMATION

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, 2008**

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 14,715,046	\$ 25,097,696	\$ 2,558,136	\$ 42,370,878
Cash with fiscal agent	-	-	17,095	17,095
Receivables:	-	-	-	-
Interest	-	-	-	-
Accounts	462,973	-	-	462,973
Due from other funds	2,126,349	2,142,940	-	4,269,289
Deferred costs	5,967	90,147	-	96,114
Total assets	<u>\$ 17,310,335</u>	<u>\$ 27,330,783</u>	<u>\$ 2,575,231</u>	<u>\$ 47,216,349</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 44,386	\$ 770	\$ -	\$ 45,156
Accrued salaries & benefits	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	156,217	1,900,147	-	2,056,364
Deposits/other payables	-	1,497,391	-	1,497,391
Deferred revenue	674,381	457,540	-	1,131,921
Total liabilities	<u>874,984</u>	<u>3,855,848</u>	<u>-</u>	<u>4,730,832</u>
Fund balances:				
Reserved	1,447,836	607,094	2,575,231	4,630,161
Designated	471,055	22,867,841	-	23,338,896
Unreserved (deficit)	14,516,460	-	-	14,516,460
Total fund balances	<u>16,435,351</u>	<u>23,474,935</u>	<u>2,575,231</u>	<u>42,485,517</u>
Total liabilities and fund balances	<u>\$ 17,310,335</u>	<u>\$ 27,330,783</u>	<u>\$ 2,575,231</u>	<u>\$ 47,216,349</u>

Schedule 2

CITY OF NOVATO**Nonmajor Governmental Funds****Statement of Revenues, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2008**

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 1,006,231	\$ 716,171	\$ 2,640,036	\$ 4,362,438
Use of money and property	625,782	1,893,073	65,147	2,584,002
Revenues from other agencies	1,636,759	843,237	-	2,479,996
Current service charges	662,326	1,726,919	-	2,389,245
Other revenue	2,326	19	-	2,345
Total revenues	3,933,424	5,179,419	2,705,183	11,818,026
EXPENDITURES				
Current:				
General government	2,000	1,288,844	60,139	1,350,983
Public safety	184,031	-	-	184,031
Public works	872,815	-	-	872,815
Cultural & Recreation	-	75,486	-	75,486
Community development	7,800	-	-	7,800
Capital outlay	-	-	-	-
Debt service:				
Principal	11,909	-	1,300,000	1,311,909
Interest and fiscal agent fees	32,403	8,742	2,168,671	2,209,816
Total expenditures	1,110,958	1,373,072	3,528,810	6,012,840
REVENUES OVER (UNDER) EXPENDITURES	2,822,466	3,806,347	(823,627)	5,805,186
OTHER FINANCING SOURCES (USES)				
Transfers in	123,417	168,250	893,986	1,185,653
Transfers out	(3,669,971)	(5,017,072)	-	(8,687,043)
Debt proceeds	-	-	-	-
Issuance costs	-	-	-	-
Total other financing sources (uses)	(3,546,554)	(4,848,822)	893,986	(7,501,390)
Net change in fund balances	(724,088)	(1,042,475)	70,359	(1,696,204)
Fund balances, beginning of year	17,159,439	24,517,410	2,504,872	44,181,721
Fund balances, end of year	\$ 16,435,351	\$ 23,474,935	\$ 2,575,231	\$ 42,485,517

Schedule 3

CITY OF NOVATO

Other Special Revenue Funds

Combining Balance Sheet

June 30, 2008

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	Fish America Grant	Hamilton Rec/Environ Fund	Art in Public Places	General Plan Surcharge	Automated Surcharge	Hamilton Community Facilities	Pointe Marin CFD
ASSETS													
Cash and investments	\$ 1,327,572	\$ 604,312	\$ 13,766	\$ 904,184	\$ 124,619	\$ 2,298,353	\$ -	\$ (48,691)	\$ 105,065	\$ 1,026,260	\$ 631,259	\$ 170,860	\$ 561,176
Cash with fiscal agent													
Receivables:													
Interest													
Accounts and due from other governments			1,089										
Loans													
Deferred costs												5,967	
Due from other funds		-				697,756							
Total assets	<u>\$ 1,327,572</u>	<u>\$ 604,312</u>	<u>\$ 14,855</u>	<u>\$ 904,184</u>	<u>\$ 124,619</u>	<u>\$ 2,996,109</u>	<u>\$ -</u>	<u>\$ (48,691)</u>	<u>\$ 105,065</u>	<u>\$ 1,026,260</u>	<u>\$ 631,259</u>	<u>\$ 176,827</u>	<u>\$ 561,176</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 11,418	\$ -	\$ -	\$ -	\$ 77	\$ -	\$ -	\$ -	\$ -	\$ 49	\$ 6,770	\$ 17,016	\$ 3,199
Accrued salaries & benefits													
Accrued liabilities													
Due to other funds												156,217	
Deposits/other payables													
Deferred revenue						159,756						73,660	
Total liabilities	<u>11,418</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77</u>	<u>159,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49</u>	<u>6,770</u>	<u>246,893</u>	<u>3,199</u>
Fund balances:													
Reserved	1,316,154												
Unreserved-designated		129,820	14,855	100,495	124,542								
Unreserved- (deficit)		474,492		803,689		2,836,353	-	(48,691)	105,065	1,026,211	624,489	(70,066)	557,977
Total fund balances	<u>1,316,154</u>	<u>604,312</u>	<u>14,855</u>	<u>904,184</u>	<u>124,542</u>	<u>2,836,353</u>	<u>-</u>	<u>(48,691)</u>	<u>105,065</u>	<u>1,026,211</u>	<u>624,489</u>	<u>(70,066)</u>	<u>557,977</u>
Total liabilities and fund balances	<u>\$ 1,327,572</u>	<u>\$ 604,312</u>	<u>\$ 14,855</u>	<u>\$ 904,184</u>	<u>\$ 124,619</u>	<u>\$ 2,996,109</u>	<u>\$ -</u>	<u>\$ (48,691)</u>	<u>\$ 105,065</u>	<u>\$ 1,026,260</u>	<u>\$ 631,259</u>	<u>\$ 176,827</u>	<u>\$ 561,176</u>

CITY OF NOVATO
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2008

	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	Prop. 112 State Park	Traffic Congestion Relief
ASSETS													
Cash and investments	\$ 168,686	\$ 44,174	\$ 64,316	\$ 5,023	\$ 40,172	\$ 122,044	\$ 18,928	\$ (2,248)	\$ 14,471	\$ -	\$ (102,741)	\$ -	\$ (6)
Cash with fiscal agent													
Receivables:													
Interest													
Accounts and due from other governments	22	233		39	102	47	47	71			234,423		
Loans													
Deferred costs	-												
Due from other funds													
Total assets	<u>\$ 168,708</u>	<u>\$ 44,407</u>	<u>\$ 64,316</u>	<u>\$ 5,062</u>	<u>\$ 40,274</u>	<u>\$ 122,091</u>	<u>\$ 18,975</u>	<u>\$ (2,177)</u>	<u>\$ 14,471</u>	<u>\$ -</u>	<u>\$ 131,682</u>	<u>\$ -</u>	<u>\$ (6)</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ 1,930	\$ -	\$ 585	\$ 1,422	\$ 393	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued salaries & benefits													
Accrued liabilities													
Due to other funds	-												
Deposits/other payables													
Deferred revenue													
Total liabilities	<u>-</u>	<u>1,930</u>	<u>-</u>	<u>585</u>	<u>1,422</u>	<u>393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:													
Reserved											131,682		
Unreserved-designated	101,343												
Unreserved- (deficit)	67,365	42,477	64,316	4,477	38,852	121,698	18,975	(2,177)	14,471	-			(6)
Total fund balances	<u>168,708</u>	<u>42,477</u>	<u>64,316</u>	<u>4,477</u>	<u>38,852</u>	<u>121,698</u>	<u>18,975</u>	<u>(2,177)</u>	<u>14,471</u>	<u>-</u>	<u>131,682</u>	<u>-</u>	<u>(6)</u>
Total liabilities and fund balances	<u>\$ 168,708</u>	<u>\$ 44,407</u>	<u>\$ 64,316</u>	<u>\$ 5,062</u>	<u>\$ 40,274</u>	<u>\$ 122,091</u>	<u>\$ 18,975</u>	<u>\$ (2,177)</u>	<u>\$ 14,471</u>	<u>\$ -</u>	<u>\$ 131,682</u>	<u>\$ -</u>	<u>\$ (6)</u>

CITY OF NOVATO
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2008

	2005 LLEB Grant Fund	Special Police Projects	State Grant Fund	Fed Grant Fund	Private Grant Fund	Pension Reserve Fund	Insurance Reserve	Emergency & Disaster Response Reserve	Total Other Special Revenue Funds
ASSETS									
Cash and investments	\$ 3,863	\$ 135,751	\$ (57,521)	\$ 230,797	\$ 80,991	\$ 50,980	\$ 1,053,478	\$ 5,125,153	\$ 14,715,046
Cash with fiscal agent									-
Receivables:									-
Interest									-
Accounts and due from other governments		2,133	185,932	38,835					462,973
Loans									-
Deferred costs									5,967
Due from other funds							366,148	1,062,445	2,126,349
Total assets	<u>\$ 3,863</u>	<u>\$ 137,884</u>	<u>\$ 128,411</u>	<u>\$ 269,632</u>	<u>\$ 80,991</u>	<u>\$ 50,980</u>	<u>\$ 1,419,626</u>	<u>\$ 6,187,598</u>	<u>\$ 17,310,335</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ -	\$ 1,527	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,386
Accrued salaries & benefits									-
Accrued liabilities									-
Due to other funds									156,217
Deposits/other payables									-
Deferred revenue		17,802			66,220		66,148	290,795	674,381
Total liabilities	<u>-</u>	<u>19,329</u>	<u>-</u>	<u>-</u>	<u>66,220</u>	<u>-</u>	<u>66,148</u>	<u>290,795</u>	<u>874,984</u>
Fund balances:									
Reserved								-	1,447,836
Unreserved-designated									471,055
Unreserved- (deficit)	3,863	118,555	128,411	269,632	14,771	50,980	1,353,478	5,896,803	14,516,460
Total fund balances	<u>3,863</u>	<u>118,555</u>	<u>128,411</u>	<u>269,632</u>	<u>14,771</u>	<u>50,980</u>	<u>1,353,478</u>	<u>5,896,803</u>	<u>16,435,351</u>
Total liabilities and fund balances	<u>\$ 3,863</u>	<u>\$ 137,884</u>	<u>\$ 128,411</u>	<u>\$ 269,632</u>	<u>\$ 80,991</u>	<u>\$ 50,980</u>	<u>\$ 1,419,626</u>	<u>\$ 6,187,598</u>	<u>\$ 17,310,335</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, 2008

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	Fish America Grant	Hamilton Rec/Environ Fund	Art in Public Places	General Plan Surcharge	Automated Surcharge	Hamilton Community Facilities	Pointe Marin CFD
REVENUES													
Taxes	\$ -	\$ -	\$ 339,941	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 408,415	\$ 153,759
Use of money and property	51,357	106,902	117	71,172	5,101	93,527	28	-	4,771	42,300	29,274	6,766	21,572
Revenues from other agencies													
Current service charges	128,800			-		304,881			-	86,169	85,405		
Other revenue						940						106	
Total revenues	<u>180,157</u>	<u>106,902</u>	<u>340,058</u>	<u>71,172</u>	<u>5,101</u>	<u>399,348</u>	<u>28</u>	<u>-</u>	<u>4,771</u>	<u>128,469</u>	<u>114,679</u>	<u>415,287</u>	<u>175,331</u>
EXPENDITURES													
General government													
Public safety												126,313	
Public works			159,596	16,960	376					94,508	165,720	222,527	124,123
Parks & Recreation													
Community development	7,800	-											
Debt service:													
Principal													
Interest and fiscal charges	-												
Capital outlay													
Total expenditures	<u>7,800</u>	<u>-</u>	<u>159,596</u>	<u>16,960</u>	<u>376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,508</u>	<u>165,720</u>	<u>348,840</u>	<u>124,123</u>
Excess of revenues over (under)	<u>172,357</u>	<u>106,902</u>	<u>180,462</u>	<u>54,212</u>	<u>4,725</u>	<u>399,348</u>	<u>28</u>	<u>-</u>	<u>4,771</u>	<u>33,961</u>	<u>(51,041)</u>	<u>66,447</u>	<u>51,208</u>
OTHER FINANCING SOURCES (USES)													
Debt Proceeds													
Issuance Costs													
Transfers in						66,129	-						
Transfers out		(332,337)	(200,000)			-	(841)	-	(11,402)	(2,409)	(9,105)	(236,469)	(7,267)
Total other financing sources (uses)	<u>-</u>	<u>(332,337)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>66,129</u>	<u>(841)</u>	<u>-</u>	<u>(11,402)</u>	<u>(2,409)</u>	<u>(9,105)</u>	<u>(236,469)</u>	<u>(7,267)</u>
Net change in fund balances	172,357	(225,435)	(19,538)	54,212	4,725	465,477	(813)	-	(6,631)	31,552	(60,146)	(170,022)	43,941
Fund balances, beginning of year	1,143,797	829,747	34,393	849,972	119,817	2,370,876	813	(48,691)	111,696	994,659	684,635	99,956	514,036
Prior period adjustments (Note 17)													
Fund balances, end of year	<u>\$ 1,316,154</u>	<u>\$ 604,312</u>	<u>\$ 14,855</u>	<u>\$ 904,184</u>	<u>\$ 124,542</u>	<u>\$ 2,836,353</u>	<u>\$ -</u>	<u>\$ (48,691)</u>	<u>\$ 105,065</u>	<u>\$ 1,026,211</u>	<u>\$ 624,489</u>	<u>\$ (70,066)</u>	<u>\$ 557,977</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, 2008

	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	Prop. 12 State Park	Traffic Congestion Relief
REVENUES													
Taxes	\$ -	\$ 43,393	\$ -	\$ 7,688	\$ 20,264	\$ 9,230	\$ 9,372	\$ 14,169	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	8,305	1,558	2,629	151	1,557	5,105	660	(31)	592		13,280		3,697
Revenues from other agencies											968,588		-
Current service charges	57,071												
Other revenue											-		
Total revenues	65,376	44,951	2,629	7,839	21,821	14,335	10,032	14,138	592	-	981,868	-	3,697
EXPENDITURES													
General government		500		500	500		500						
Public safety													
Public works		46,989		8,008	15,551	2,257	9,100						
Parks & Recreation													
Community development													
Debt service:													
Principal								11,909					
Interest and fiscal charges	26,035							6,368					
Capital outlay													
Total expenditures	26,035	47,489	-	8,508	16,051	2,257	9,600	18,277	-	-	-	-	-
Excess of revenues over (under)	39,341	(2,538)	2,629	(669)	5,770	12,078	432	(4,139)	592	-	981,868	-	3,697
OTHER FINANCING SOURCES (USES)													
Debt Proceeds													
Issuance Costs													
Transfers in											288		-
Transfers out	(72,236)					(7,840)				(18,269)	(1,333,579)	(7)	(155,278)
Total other financing sources (uses)	(72,236)	-	-	-	-	(7,840)	-	-	-	(18,269)	(1,333,291)	(7)	(155,278)
Net change in fund balances	(32,895)	(2,538)	2,629	(669)	5,770	4,238	432	(4,139)	592	(18,269)	(351,423)	(7)	(151,581)
Fund balances, beginning of year	201,603	45,015	61,687	5,146	33,082	117,460	18,543	1,962	13,879	18,269	483,105	7	151,575
Prior period adjustments (Note 17)	-												-
Fund balances, end of year	\$ 168,708	\$ 42,477	\$ 64,316	\$ 4,477	\$ 38,852	\$ 121,698	\$ 18,975	\$ (2,177)	\$ 14,471	\$ -	\$ 131,682	\$ -	\$ (6)

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2008

	2005 LLEB Grant Fund	Special Police Projects	State Grant Fund	Fed Grant Fund	Private Grant Fund	Pension Reserve Fund	Insurance Reserve	Emergency & Disaster Response Reserve	Total Other Special Revenue Funds
REVENUES									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,006,231
Use of money and property	270	4,702	-	(8,530)	4,449	980	43,977	109,544	625,782
Revenues from other agencies		39,214	172,858	456,099					1,636,759
Current service charges									662,326
Other revenue		1,280							2,326
Total revenues	270	45,196	172,858	447,569	4,449	980	43,977	109,544	3,933,424
EXPENDITURES									
General government									2,000
Public safety	3,935	40,393					13,390		184,031
Public works			-	7,100					872,815
Parks & Recreation									-
Community development									7,800
Debt service									11,909
Principal									32,403
Interest and fiscal charges									-
Capital outlay									-
Total expenditures	3,935	40,393	-	7,100	-	-	13,390	-	1,110,958
Excess of revenues over (under)	(3,665)	4,803	172,858	440,469	4,449	980	30,587	109,544	2,822,466
OTHER FINANCING SOURCES (USES)									
Debt Proceeds									-
Issuance Costs									-
Transfers in		7,000				50,000	-	-	123,417
Transfers out			(172,858)	(449,076)			(25,000)	(635,998)	(3,669,971)
	-	7,000	(172,858)	(449,076)	-	50,000	(25,000)	(635,998)	(3,546,554)
Net change in fund balances	(3,665)	11,803	-	(8,607)	4,449	50,980	5,587	(526,454)	(724,088)
Fund balances, beginning of year	7,528	106,752	128,411	278,239	10,322	-	1,347,891	6,423,257	17,159,439
Prior period adjustments (Note 17)									-
Fund balances, end of year	\$ 3,863	\$ 118,555	\$ 128,411	\$ 269,632	\$ 14,771	\$ 50,980	\$ 1,353,478	\$ 5,896,803	\$ 16,435,351

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, 2008

	Measure B St. Bond Project - 2007	Measure A St. Bond Project	Prop 1B Local Streets & Roads	Civic Center	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance	Restricted Revenue	Development Impact Fee	RDA Community Center Maintenance
ASSETS										
Cash and investments	\$ 2,855,997	\$ (117,469)	\$ 844,458	\$ 4,081,893	\$ 93,758	\$ 334,050	\$ 694,283	\$ 1,497,391	\$ 11,749,399	\$ 482,639
Receivables:										
Property taxes										
Interest										
Accounts										
Interest										
Prepaid Expenses										
Deferred costs					-					
Due from other funds									1,029,773	-
Total assets	<u>\$ 2,855,997</u>	<u>\$ (117,469)</u>	<u>\$ 844,458</u>	<u>\$ 4,081,893</u>	<u>\$ 93,758</u>	<u>\$ 334,050</u>	<u>\$ 694,283</u>	<u>\$ 1,497,391</u>	<u>\$ 12,779,172</u>	<u>\$ 482,639</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable										
Accrued salaries & benefits										
Accrued liabilities										
Deferred revenue						-			235,773	-
Deposits and other payables							-	1,497,391		
Due to other funds					-					
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,497,391</u>	<u>235,773</u>	<u>-</u>
Fund balances:										
Reserved for capital projects									607,094	
Unreserved - designated	2,855,997	(117,469)	844,458	4,081,893	93,758	334,050	694,283	-	11,936,305	482,639
Unreserved - undesignated		-	-				-	-		-
Total fund balances (deficit)	<u>2,855,997</u>	<u>(117,469)</u>	<u>844,458</u>	<u>4,081,893</u>	<u>93,758</u>	<u>334,050</u>	<u>694,283</u>	<u>-</u>	<u>12,543,399</u>	<u>482,639</u>
Total liabilities and fund balances	<u>\$ 2,855,997</u>	<u>\$ (117,469)</u>	<u>\$ 844,458</u>	<u>\$ 4,081,893</u>	<u>\$ 93,758</u>	<u>\$ 334,050</u>	<u>\$ 694,283</u>	<u>\$ 1,497,391</u>	<u>\$ 12,779,172</u>	<u>\$ 482,639</u>

CITY OF NOVATO

Other Capital Projects Funds

Combining Balance Sheet

June 30, 2008

	RDA Community Center and Perf. Arts	RDA Community Center Gymnastics Center	Novato Public Financing Authority	Total Other Capital Projects Funds
ASSETS				
Cash and investments	\$ 1,495,288	\$ 89,405	\$ 996,604	\$ 25,097,696
Receivables:				
Property taxes				-
Interest				-
Accounts				-
Interest				-
Prepaid Expenses			-	-
Deferred costs		-	90,147	90,147
Due from other funds	382,598		730,569	2,142,940
Total assets	<u>\$ 1,877,886</u>	<u>\$ 89,405</u>	<u>\$ 1,817,320</u>	<u>\$ 27,330,783</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable			\$ 770	\$ 770
Accrued salaries & benefits				-
Accrued liabilities				-
Deferred revenue	87,598		134,169	457,540
Deposits and other payables				1,497,391
Due to other funds		-	1,900,147	1,900,147
Total liabilities	<u>87,598</u>	<u>-</u>	<u>2,035,086</u>	<u>3,855,848</u>
Fund balances:				
Reserved for capital projects				607,094
Unreserved - designated	1,790,288	89,405	(217,766)	22,867,841
Unreserved - undesignated	-		-	-
Total fund balances (deficit)	<u>1,790,288</u>	<u>89,405</u>	<u>(217,766)</u>	<u>23,474,935</u>
Total liabilities and fund balances	<u>\$ 1,877,886</u>	<u>\$ 89,405</u>	<u>\$ 1,817,320</u>	<u>\$ 27,330,783</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, 2008

	Measure B St. Bond Project-2007	Measure A St. Bonds	Prop 1B Park Development	Civic Center	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance	Restricted Revenue	Development Impact Fee	RDA Community Center Maintenance
REVENUES										
Taxes	\$ -	\$ 716,171	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenues from other agencies			843,237							
Use of money and property	150,772	4,394	1,221	181,858	2,896	35,266	27,226	617	523,561	21,877
Current service charges									1,726,919	
Other revenue										
Other revenue	19									
Total revenues	150,791	720,565	844,458	181,858	2,896	35,266	27,226	617	2,250,480	21,877
EXPENDITURES										
Current:										
General government										
Public works				-						
Community development										
Parks & Recreation							47,429			
Capital outlay										
Debt service:										
Principal										
Interest					8,742					
Total expenditures	-	-	-	-	8,742	-	47,429	-	-	-
Excess of revenues over (under) expenditures	150,791	720,565	844,458	181,858	(5,846)	35,266	(20,203)	617	2,250,480	21,877
OTHER FINANCING SOURCES (USES)										
Transfers in					45,000	20,000	103,250			
Transfers out	(1,516,278)	(1,111,473)	-	(488,103)	(135)	(104,945)		(1,915,209)		(80,364)
Debt proceeds	-									
Issuance costs	-									
Total other financing sources (uses)	(1,516,278)	(1,111,473)	-	(488,103)	44,865	(84,945)	103,250	-	(1,915,209)	(80,364)
Net change in fund balances	(1,365,487)	(390,908)	844,458	(306,245)	39,019	(49,679)	83,047	617	335,271	(58,487)
Fund balances, beginning of year	4,221,484	273,439	-	4,388,138	54,739	383,729	611,236	(617)	12,208,128	541,126
Prior period adjustment	-									
Fund balances, end of year	\$ 2,855,997	\$ (117,469)	\$ 844,458	\$ 4,081,893	\$ 93,758	\$ 334,050	\$ 694,283	\$ -	\$ 12,543,399	\$ 482,639

CITY OF NOVATO

Other Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2008

	RDA Community Center and Perf. Arts	RDA Community Center Gymnastics Center	Novato Public Financing Authority	Total Other Capital Projects Funds
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 716,171
Revenues from other agencies				843,237
Use of money and property	78,130	3,655	861,600	1,893,073
Current service charges				1,726,919
Other revenue				-
Other revenue				19
Total revenues	78,130	3,655	861,600	5,179,419
EXPENDITURES				
Current:				
General government			1,288,844	1,288,844
Public works				-
Community development	-	-	-	-
Parks & Recreation	27,000		1,057	75,486
Capital outlay			0	-
Debt service:				-
Principal			0	-
Interest				8,742
Total expenditures	27,000	-	1,289,901	1,373,072
Excess of revenues over (under) expenditures	51,130	3,655	(428,301)	3,806,347
OTHER FINANCING SOURCES (USES)				
Transfers in		-		168,250
Transfers out	(104,290)		303,725	(5,017,072)
Debt proceeds				-
Issuance costs				-
Total other financing sources (uses)	(104,290)	-	303,725	(4,848,822)
Net change in fund balances	(53,160)	3,655	(124,576)	(1,042,475)
Fund balances, beginning of year	1,843,448	85,750	(93,190)	24,517,410
Prior period adjustment				-
Fund balances, end of year	\$ 1,790,288	\$ 89,405	\$ (217,766)	\$ 23,474,935

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, 2008

	General Obligation Bonds	Financing Authority	Pension Obligation Bond	Total Other Debt Service Funds
ASSETS				
Cash and investments	\$ 2,558,136	\$ -	\$ -	\$ 2,558,136
Accounts receivable	17,095			17,095
Total assets	<u>\$ 2,575,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,575,231</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	2,575,231			2,575,231
Unreserved - undesignated		-		-
Total fund balances	<u>2,575,231</u>	<u>-</u>	<u>-</u>	<u>2,575,231</u>
Total liabilities and fund balances	<u>\$ 2,575,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,575,231</u>

Schedule 8

CITY OF NOVATO

Other Debt Service Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2008

	General Obligation Bonds	Financing Authority	Pension Obligation Bond	Total Other Debt Service Funds
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Taxes	2,640,036	-	-	2,640,036
Revenues from other agencies	-	-	-	-
Use of money and property	65,147	-	-	65,147
Other revenues	-	-	-	-
Total revenues	<u>2,705,183</u>	<u>-</u>	<u>-</u>	<u>2,705,183</u>
EXPENDITURES				
Current:				
General government	60,139	-	-	60,139
Debt service:				
Principal	1,300,000	-	-	1,300,000
Interest and fiscal agent fees	1,274,685	-	893,986	2,168,671
Total expenditures	<u>2,634,824</u>	<u>-</u>	<u>893,986</u>	<u>3,528,810</u>
Excess of revenues over (under) expenditures	<u>70,359</u>	<u>-</u>	<u>(893,986)</u>	<u>(823,627)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Transfers in	-	-	893,986	893,986
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>893,986</u>	<u>893,986</u>
Net change in fund balances	70,359	-	-	70,359
Fund balances, beginning of year	2,504,872	-	-	2,504,872
Fund balances, end of year	<u>\$ 2,575,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,575,231</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, 2008

	<u>Equipment Maintenance</u>	<u>Equipment Replacement</u>	<u>Furnishings, Fixtures & Equipment Replacement</u>	<u>Insurance</u>	<u>Total Internal Service Funds</u>
Assets					
ASSETS					
Current assets:					
Cash and investments	\$ (136,344)	\$ 3,403,332	\$ 749	\$ -	\$ 3,267,737
Cash with fiscal agents					-
Accounts receivable		-			-
Loans receivable					-
Due from other funds		1,368,927	-		1,368,927
Deposits					-
Prepays and other assets					-
Total current assets	<u>(136,344)</u>	<u>4,772,259</u>	<u>749</u>	<u>-</u>	<u>4,636,664</u>
Capital assets, net		1,504,796		-	1,504,796
Total assets	<u>(136,344)</u>	<u>6,277,055</u>	<u>749</u>	<u>-</u>	<u>6,141,460</u>
LIABILITIES					
Current liabilities:					
Accounts payable	27,629	55,726	-		83,355
Deferred revenue		203,290	-		203,290
Claims payable				380,799	380,799
Total current liabilities	<u>27,629</u>	<u>259,016</u>	<u>-</u>	<u>380,799</u>	<u>667,444</u>
Claims payable - noncurrent				1,081,809	1,081,809
Total liabilities	<u>27,629</u>	<u>259,016</u>	<u>-</u>	<u>1,462,608</u>	<u>1,749,253</u>
NET ASSETS					
Invested in capital assets, net of related debt	-	1,504,796	-	-	1,504,796
Unrestricted	(163,972)	4,513,243	749	(1,462,608)	2,887,412
Total net assets (deficit)	<u>\$ (163,972)</u>	<u>\$ 6,018,039</u>	<u>\$ 749</u>	<u>\$ (1,462,608)</u>	<u>\$ 4,392,208</u>

Schedule 10

CITY OF NOVATO**Internal Service Funds****Combining Statement of Activities and Changes in Net Assets (Deficit)****For the Fiscal Year Ended June 30, 2008**

	Equipment Maintenance	Equipment Replacement	Furnishings, Fixtures & Equipment Replacement	Insurance	Total Internal Service Funds
REVENUES					
Use of money and property	\$ -	\$ 240,212	\$ 14,624	\$ -	\$ 254,836
Revenues from other agencies		-			-
Current service charges	1,000,514	674,461			1,674,975
Other revenue	11,035	1,214		511,260	523,509
Total revenues	1,011,549	915,887	14,624	511,260	2,453,320
EXPENSES					
Cost of services	958,463	567,205	3,768	18,990	1,548,426
Depreciation		421,279			421,279
Total expenses	958,463	988,484	3,768	18,990	1,969,705
Operating income (loss)	53,086	(72,597)	10,856	492,270	483,615
OTHER FINANCING SOURCES (USES)					
Transfers in		446,928	28,767		475,695
Transfers out	(9,434)	(336,458)	(111,724)		(457,616)
	(9,434)	110,470	(82,957)	-	18,079
Change in net assets	43,652	37,873	(72,101)	492,270	501,694
Net assets (deficit), beginning of year	(207,624)	5,980,166	72,850	(1,954,878)	3,890,514
		-	-		-
Net assets (deficit), end of year	\$ (163,972)	\$ 6,018,039	\$ 749	\$ (1,462,608)	\$ 4,392,208

Schedule 11

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, 2008

	Trust Funds		Agency Funds							
	Expendable Trust Fund	Non-expendable Trust Fund	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	\$ 1,100,868	30,727	\$ 1,131,595	\$ 5,200	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ -	\$ 1,485,704
Cash with fiscal agent		3,353,151	3,353,151							1,829,001
Receivables		1,842	1,842							8,813
Fixed assets, net		15,030,391	15,030,391							
Other assets, net		773,693	773,693							
Total assets	\$ 1,100,868	\$ 19,189,804	\$ 20,290,672	\$ 5,200	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ -	\$ 3,323,518
LIABILITIES AND FUND BALANCES										
Bank Overdraft	\$ -	\$ 64,674	\$ 64,674	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	1,610	142,693	144,303	-	-	-	-	-	-	-
Due to bondholders		12,675,000	12,675,000							
Deposits held in trust	1,099,258	100	1,099,358	-	1,000,000	176	39,405	50,060	15,493	3,127,622
Deferred revenue		24,277	24,277							
Notes payable		-	-							
Loans payable		-	-							
Interest payable		170,321	170,321							
Total liabilities	1,100,868	13,077,065	14,177,933	-	1,000,000	176	39,405	50,060	15,493	3,127,622
Fund balances:										
Reserved		6,112,739	6,112,739	5,200	-	-	(15,449)	-	(15,493)	195,896
Total liabilities and fund balances	\$ 1,100,868	\$ 19,189,804	\$ 20,290,672	\$ 5,200	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ -	\$ 3,323,518

CITY OF NOVATO

Agency Funds

Combining Statement of Fiduciary Assets and Liabilities

June 30, 2008

	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	\$ 148,319	\$ -	\$ 1,469,175	\$ 562,911	\$ 4,745,501	\$ 5,877,096
Cash with fiscal agent	238,540		1,913,905	12,208,708	16,190,154	19,543,305
Receivables	973		10,016	4,864	24,666	26,508
Fixed assets, net					-	15,030,391
Other assets, net					-	773,693
Total assets	<u>\$ 387,832</u>	<u>\$ -</u>	<u>\$ 3,393,096</u>	<u>\$ 12,776,483</u>	<u>\$ 20,960,321</u>	<u>\$ 41,250,993</u>
LIABILITIES AND FUND BALANCES						
Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,674
Accounts payable	-	-	-	-	-	144,303
Due to bondholders						12,675,000
Deposits held in trust	354,465	2,481	(2,814,532)	9,558,099	11,333,269	12,432,627
Deferred revenue					-	24,277
Notes payable					-	-
Loans payable					-	-
Interest payable					-	170,321
Total liabilities	<u>354,465</u>	<u>2,481</u>	<u>(2,814,532)</u>	<u>9,558,099</u>	<u>11,333,269</u>	<u>25,511,202</u>
Fund balances:						
Reserved	<u>33,367</u>	<u>(2,481)</u>	<u>6,207,628</u>	<u>3,218,384</u>	<u>9,627,052</u>	<u>15,739,791</u>
Total liabilities and fund balances	<u>\$ 387,832</u>	<u>\$ -</u>	<u>\$ 3,393,096</u>	<u>\$ 12,776,483</u>	<u>\$ 20,960,321</u>	<u>\$ 41,250,993</u>

CITY OF NOVATO

Fiduciary Funds

Combining Statement of Changes in Fiduciary Net Assets

June 30, 2008

	<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	\$ -	\$ 2,871,037	\$ 2,871,037
Investment income		230,703	230,703
Total additions to net assets	<u>-</u>	<u>3,101,740</u>	<u>3,101,740</u>
DEDUCTIONS			
General and administrative expenses	-	1,426,566	1,426,566
Depreciation and amortization	-	-	-
Interest expense	-	763,716	763,716
Total deductions from net assets	<u>-</u>	<u>2,190,282</u>	<u>2,190,282</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	-	911,458	911,458
Net assets, beginning of year	-	5,201,281	5,201,281
Net assets, end of year	<u>\$ -</u>	<u>\$ 6,112,739</u>	<u>\$ 6,112,739</u>