

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

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**JUNE 30, 2009**

**CITY OF NOVATO**

**BASIC FINANCIAL STATEMENTS**

**AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009**

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January 14, 2010

**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, 2009, 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, 2009, 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.

As described in Note 1, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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. CP

**CITY OF NOVATO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

This is management's discussion and analysis of the City of Novato's financial activities and performance for the fiscal year ended June 30, 2009. 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, 2009 by \$259 million (net assets). Of this amount, \$210.7 million is invested in capital assets, net of related debt; \$33.1 million is restricted for the Hamilton Trust Fund and \$2.4 million is restricted for Debt Service. The remaining balance of \$12.8 million is unrestricted.
- The City's total net assets increased by \$2.8 million, or 1.1%, during the fiscal year ended June 30, 2009. Capital assets increased by \$3.3 million and net long-term debt decreased by \$1.2 million.
- At June 30, 2009, unreserved-designated fund balance for the General Fund was a deficit of \$(18,600).
- The City's total long-term debt decreased by \$1.2 million, which is due to normal scheduled debt payments of \$2.9 million and new debt of \$1.8 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, 2009**

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, 2009**

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
- RDA Housing Fund
- RDA General Fund
- Capital Projects 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 used 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, 2009**

**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, 2009 and 2008**

	<b>Governmental Activities</b>		
	<u>2009</u>	<u>2008</u>	<u>% change</u>
<b>Assets:</b>			
Current and other assets	\$ 109,567,412	\$ 110,849,669	(1.16%)
Capital assets	<u>242,382,207</u>	<u>239,059,980</u>	<u>1.39%</u>
Total assets	<u>351,949,619</u>	<u>349,909,649</u>	<u>0.58%</u>
<b>Liabilities:</b>			
Current and other liabilities	12,577,283	10,008,066	25.67%
Long-term liabilities	<u>80,399,943</u>	<u>83,771,826</u>	<u>(4.03%)</u>
Total liabilities	<u>92,977,226</u>	<u>93,779,892</u>	<u>(0.86%)</u>
<b>Net Assets:</b>			
Invested in capital assets net of related debt	210,664,758	206,751,826	1.89%
Restricted	35,511,332	34,896,121	1.76%
Unrestricted	<u>12,796,299</u>	<u>14,481,810</u>	<u>(11.64%)</u>
Total net assets	<u>\$ 258,972,389</u>	<u>\$ 256,129,757</u>	<u>1.11%</u>



**CITY OF NOVATO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

**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 \$259 million at June 30, 2009.

The net assets of \$259 million at June 30, 2009 were comprised of the following elements:

- Unrestricted cash and investments of \$51.2 million, cash with fiscal agents of \$3.6 million, and restricted cash and investments of \$31.6 million;
- Receivables of \$3.9 million;
- Prepaid PERS contribution of \$0.6 million;
- Homes held for resale of \$1 million;
- Non-current assets consist of bond issuance costs, prepaid PERS obligations and capital assets. Bond issuance costs are \$2.2 million and are amortized over the life of the debt. Prepaid PERS obligations of \$16 million (of which \$0.6 million is classified as a current asset) 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 Employees' Retirement System. Capital assets of \$242.4 million, net of accumulated depreciation charges of \$96.4 million, includes \$121.2 million of land, \$10 million of construction-in-progress, \$13.8 million of buildings, \$1.6 million of furniture and equipment, \$188.9 million of infrastructure, and \$4.2 million of vehicles;
- Current liabilities total \$12.6 million and include \$2.7 million of accounts payable, \$1.4 million of salaries and benefits payable, \$1.1 million of accrued liabilities, \$1.6 million of deposits and other payables, \$857,000 of deferred revenue, \$1.2 million of compensated absence payables, \$407,000 of current claims payable, and \$3.3 million of the current portion of long-term debt;
- Non-current liabilities of \$80.4 million include \$1.0 million of non-current claims payable; \$144,000 of Other Post Employment Benefits (OPEB) and \$79.2 million of long-term debt which is due in the fiscal years subsequent to fiscal 2010;
- Net assets invested in capital asset (e.g., land, buildings, equipment and infrastructure) of \$210.7 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 \$2.4 million are restricted for future debt service payments and \$33.1 million is restricted for the Hamilton Trust Fund, whose corpus amount is perpetual. The remaining balance of \$12.8 million represents unrestricted net assets.

**CITY OF NOVATO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

**Analysis of Changes in Net Assets**

The City's total net assets increased by \$2.8 million, or 1.12%, during the fiscal year ended June 30, 2009. 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 \$2.9 million increase are presented in the table below:

	<u>2009</u>	<u>2008</u>	<u>% change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 6,634,104	\$ 7,544,058	(12.06%)
Operating grants and contributions	171,901	254,441	(32.44%)
Capital grants and contributions	1,445,255	2,440,783	(40.79%)
General revenues:			
Taxes	33,722,149	34,238,342	(1.51%)
Use of money and property	3,506,995	4,695,421	(25.31%)
Revenues from other agencies	345,400	262,994	31.33%
Other revenue	1,599,512	998,751	60.15%
Transfers, net	(18,584)	57,880	(132.11%)
<b>Total revenues</b>	<u>47,406,732</u>	<u>50,492,670</u>	(6.11%)
<b>Expenses:</b>			
General government	5,911,004	8,910,933	(33.67%)
Public safety	14,222,913	13,958,113	1.90%
Public works	8,184,285	3,374,626	142.52%
Cultural and recreation	5,770,022	7,511,158	(23.18%)
Community development	2,425,672	3,817,591	(36.46%)
Interest on long-term debt	3,397,093	3,993,697	(14.94%)
Depreciation - Infrastructure	4,653,111	4,712,033	(1.25%)
<b>Total program expenses</b>	<u>44,564,100</u>	<u>46,278,151</u>	(3.70%)
 <b>Change in net assets</b>	 <u>\$ 2,842,632</u>	 <u>\$ 4,214,519</u>	 (32.55%)

The table above reflects a change in net assets of \$2.8 million, which is the result of revenues in excess of expenditures.

The decrease in revenues of \$3 million is mainly due to decreases in use of money and property of \$1.2 million; property tax revenue of \$516,000; charges for services of \$900,000; and grant revenue of \$1 million offset by increases in revenues from other agencies of \$82,400 and other revenue of \$601,000.

The \$1.7 million decrease in expenditures is largely related to deficit reduction measures implemented mid-year in the general fund of \$1.2 million and the interest paid on long term debt of \$574,000.

**CITY OF NOVATO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

**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**

	<b><u>Percent</u></b>
Taxes	71%
Charges for services	14%
Grants and contributions	3%
Use of money & property	8%
Revenues from other agencies	1%
Other revenue	3%
	<b><u>100%</u></b>

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

**Expenses by Function - Governmental Activities**

	<b><u>Percent</u></b>
General government	14%
Public safety	32%
Public works	18%
Cultural and recreation	13%
Community development	5%
Interest on long-term debt	8%
Depreciation - Infrastructure	10%
	<b><u>100%</u></b>

**CITY OF NOVATO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

**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.

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues	\$ 29.6	\$ 9.5	\$ 8.9	\$ 48.0
Current expenditures	30.7	2.2	1.9	34.8
Capital outlay	0.3	7.8	0.3	8.4
Debt service	0.1	3.1	3.7	6.9
	<u>31.1</u>	<u>13.1</u>	<u>5.9</u>	<u>50.1</u>
Debt proceeds	0.2	-	1.5	1.7
Issuance costs	-	-	(0.1)	(0.1)
Net transfers	1.1	6.1	(7.5)	(0.3)
	<u>1.3</u>	<u>6.1</u>	<u>(6.1)</u>	<u>1.3</u>
Net changes in fund balance	(0.2)	2.5	(3.1)	(0.8)
Fund balances, beg. of year	10.7	27.1	42.5	80.3
	<u>10.7</u>	<u>27.1</u>	<u>42.5</u>	<u>80.3</u>
<b>Fund balance, end of year</b>	<u>\$ 10.5</u>	<u>\$ 29.6</u>	<u>\$ 39.4</u>	<u>\$ 79.5</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 \$79.5 million, compared to \$80.3 million at June 30, 2008. The unreserved amount of \$30.6 million at June 30, 2009 is available for future spending.

The remainder of the fund balance, \$48.9 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 \$48 million, and current expenditures and debt service was \$50.1 million, yielding a net decrease in fund balance from operations of \$0.8 million.

**CITY OF NOVATO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was \$10.6 million, which is reserved and represents reserves for long-term receivables. There is a remaining unreserved amount is a deficit of \$(18,600).

The fund balance in the City's General Fund decreased by \$181,121 for the fiscal year ended June 30, 2009. The decrease in fund balance is primarily due to the general fund expenditures exceeding revenues.

**Proprietary Funds**

The net assets for proprietary funds, which are comprised of the City's internal service funds, at June 30, 2009, were \$4.3 million. Net assets decreased by \$49,093 during fiscal 2009. Assets decreased by \$8,348. This was off-set by an increase in liabilities of \$40,744.

**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 2008-09 budget was adopted in June 2008. 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 decrease estimated revenues by \$313,273 and decrease estimated expenditures by \$220,287. The net impact of the budget changes was an increase to the deficiency of revenues and other financing sources over expenditures by \$92,986.

**General Fund Operating Variances**

The revised budget projected a net decrease in fund balance of \$1.2 million and the actual results were a net decrease of \$181,121, which equates to a positive variance of \$1 million.

The variance is partly attributable to revenues being lower than the revised budget by \$171,566. This is primarily due to revenue declines greater than expected in taxes of \$150,002; licenses and permits of \$169,144; charges for services of \$129,197 which were offset by increases in revenues from fines and forfeitures of \$113,722; use of money and property of \$89,607 and revenues from other agencies of \$80,794.

Expenditures were \$1,120,504 lower than projected primarily due to unfilled positions and deliberate under spending within each department.

**CITY OF NOVATO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FISCAL YEAR ENDED JUNE 30, 2009**

**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, 2009 totaled \$242.4 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, 2009, the City's governmental activities had total long-term debts and obligations as scheduled below.

1993A general obligation bonds	\$ 1,780,000
1997A general obligation bonds	8,350,000
2000A general obligation bonds	3,695,000
2004 general obligation bonds	4,565,000
2004 general obligation bonds - premium	208,122
2007 general obligation bonds	4,870,000
2007 general obligation bonds - premium	234,954
Pension Obligation Bonds, Series A-1 & A-2	18,236,066
Pension Obligation Bonds - Discount	(157,437)
CIEDB loan	3,265,131
OPA note	3,216,242
Hamilton Field Tax Allocation bonds-2005	22,875,000
Hamilton Field 2005 Tax Allocation	
Housing bonds - Series A	8,965,000
Due to the County of Marin	305,655
Clean Renewable Energy Bonds	1,533,000
Long-term lease - Dell	196,881
Compensated absences - noncurrent	431,323
	<u>\$ 82,569,937</u>

Additional information about the City's long-term debt can be found in Note 7 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

**Economic Factors**

During fiscal year 2008-09, the economy crashed into a deep recession. All indicators point toward a sustained period of reduced consumer spending exacerbated by a weak real estate market and high unemployment. The foreclosure rate increased and homes were sold for minimal profits or in some instances losses. Property values on 25% of the single family residential parcels in the City of Novato were reassessed downwards by the county assessor for an overall city-wide reduction in assessed values of 1.8%. 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, 2009**

**Fiscal Year 2009-10 Budget**

The City has adopted an Operating Budget for FY09/10 that projects General Fund revenues will be insufficient to cover expenditures. The budget was balanced using \$500,000 of reserve funds, by freezing vacant positions and various other one-time and ongoing reductions in expenditures. The City's recommended deficit reduction strategy and proposal are available for review on our web site.

Through confirmation with the County Assessor's Office, the City's secured property taxes for FY09/10 will increase by approximately 0.2% due to wide scale market value adjustments to assessed values as a result of the recession. 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 decreased as a result of negotiated employee furloughs 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 FY09/10 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 71% 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 14% 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 programs and the amount of development and construction activity within the City. The level of activity in FY08/09 reflected a decrease when compared to FY07/08 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.

In fiscal year 07/08 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 continue work with retail developers for the development of this land.

**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, 2009**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current assets:</b>			
Operating cash and investments	\$ 51,158,262	\$ -	\$ 51,158,262
Cash with fiscal agents	3,601,347	-	3,601,347
Restricted cash and investments	31,589,980	-	31,589,980
Receivables (net of allowance where applicable):			
Interest	402,273	-	402,273
Accounts	1,418,938	-	1,418,938
Taxes	172,281	-	172,281
Loans	1,934,556	-	1,934,556
Prepaid expenses	450	-	450
Prepaid PERS contribution	593,863	-	593,863
Homes held for resale	1,016,184	-	1,016,184
Total current assets	<u>91,888,134</u>	<u>-</u>	<u>91,888,134</u>
<b>Noncurrent assets:</b>			
Bond issuance costs, net	2,238,843	-	2,238,843
Prepaid PERS contribution-noncurrent	15,440,432	-	15,440,432
Capital assets, net	<u>242,382,207</u>	<u>-</u>	<u>242,382,207</u>
Total noncurrent assets	<u>260,061,482</u>	<u>-</u>	<u>260,061,482</u>
Total assets	<u>351,949,615</u>	<u>-</u>	<u>351,949,615</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	2,688,310	-	2,688,310
Accrued salaries and benefits	1,414,950	-	1,414,950
Accrued liabilities	1,084,079	-	1,084,079
Deposits and other payables	1,581,081	-	1,581,081
Deferred revenue	856,880	-	856,880
Compensated absences	1,201,432	-	1,201,432
Claims payable	407,354	-	407,354
Current portion of long-term debt	<u>3,343,197</u>	<u>-</u>	<u>3,343,197</u>
	12,577,283	-	12,577,283
<b>Noncurrent liabilities:</b>			
Claims payable - noncurrent	1,029,646	-	1,029,646
OPEB liability	143,557	-	143,557
Long-term debt, net	<u>79,226,740</u>	<u>-</u>	<u>79,226,740</u>
Total liabilities	<u>92,977,226</u>	<u>-</u>	<u>92,977,226</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	210,664,758	-	210,664,758
Restricted for:			
Debt service	2,424,144	-	2,424,144
Hamilton Trust Fund	33,087,188	-	33,087,188
Unrestricted	<u>12,796,299</u>	<u>-</u>	<u>12,796,299</u>
Total net assets	<u>\$ 258,972,389</u>	<u>\$ -</u>	<u>\$ 258,972,389</u>

**CITY OF NOVATO**

**Statement of Activities and Changes in Net Assets**

**For the Fiscal Year Ended June 30, 2009**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Revenue</b>
					<b>Governmental Activities</b>
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental activities:</b>					
General government	\$ 5,911,004	\$ 393,720	\$ -	\$ -	\$ (5,517,284)
Public safety	14,222,913	531,103	102,333	-	(13,589,477)
Public works	8,184,285	764,411	27,000	1,445,255	(5,947,619)
Cultural and recreation	5,770,022	2,329,450	-	-	(3,440,572)
Community development	2,425,672	2,615,420	42,568	-	232,316
Interest on long-term debt	3,397,093	-	-	-	(3,397,093)
Depreciation - Infrastructure	4,653,111	-	-	-	(4,653,111)
Total governmental activities	<u>44,564,100</u>	<u>6,634,104</u>	<u>171,901</u>	<u>1,445,255</u>	<u>(36,312,840)</u>
<b>Business-type activities:</b>					
	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in net assets:</b>					
Net (expense) revenue	<u>\$ 44,564,100</u>	<u>\$ 6,634,104</u>	<u>\$ 171,901</u>	<u>\$ 1,445,255</u>	<u>\$ (36,312,840)</u>

Continued  
on next page

**CITY OF NOVATO**

**Statement of Activities and Changes in Net Assets (Continued)**

**For the Fiscal Year Ended June 30, 2009**

<b>Functions/Programs</b>	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Change in net assets:</b>			
Net (expense) revenue	\$ (36,312,840)	\$ -	\$ (36,312,840)
<b>General revenues:</b>			
Taxes	33,722,149		33,722,149
Revenues from other agencies	345,400	-	345,400
Use of money and property	3,506,995		3,506,995
Other revenue	1,599,512		1,599,512
<b>Transfers, net</b>	(18,584)		(18,584)
Total general revenues and transfers	39,155,472	-	39,155,472
Change in net assets	2,842,632	-	2,842,632
Net assets, beginning of year	256,129,757	-	256,129,757
Net assets, end of year	\$ 258,972,389	\$ -	\$ 258,972,389

**CITY OF NOVATO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2009**

	Major Funds						Total Governmental Funds
	General Fund	RDA Housing	RDA	Capital Projects Fund	Permanent Fund	Other Governmental Funds	
					Hamilton Trust Fund		
<b>ASSETS</b>							
Cash and investments	\$ 3,550,146	\$ 1	\$ 7,636,219	\$ 1,279,818	\$ -	\$ 36,342,706	\$ 48,808,890
Cash with fiscal agent	-	646,222	1,553,699	-	-	1,401,426	3,601,347
Cash and investments-restricted	-	-	-	-	31,589,980	-	31,589,980
Receivables (net of allowance where applicable):							
Taxes						172,281	172,281
Interest	244,128	-	-	-	154,146	3,999	402,273
Accounts and due from other governments	1,074,095	2,239	3,907	262	-	331,960	1,412,463
Loans	984,557	-	-	-	-	949,999	1,934,556
Prepaid expenses	450	-	-	-	-	-	450
Due from other funds	14,790,730	-	26,346,082	-	1,485,000	4,357,449	46,979,261
Deferred costs	63,640	3,726,437	6,262,982	-	-	103,552	10,156,611
Homes held for resale	-	1,016,184	-	-	-	-	1,016,184
<b>Total assets</b>	<b>\$ 20,707,746</b>	<b>\$ 5,391,083</b>	<b>\$ 41,802,889</b>	<b>\$ 1,280,080</b>	<b>\$ 33,229,126</b>	<b>\$ 43,663,372</b>	<b>\$ 146,074,296</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable	\$ 248,679	\$ 4,740	\$ 370,957	\$ 1,816,257	\$ -	\$ 127,294	\$ 2,567,927
Accrued salaries & benefits	1,414,950	-	-	-	-	-	1,414,950
Accrued liabilities	-	-	-	-	-	-	-
Due to other funds	1,030,040	26,346,082	19,544,445	-	141,938	1,981,407	49,043,912
Deposits/other payables	512,660	-	185,821	-	-	882,600	1,581,081
Deferred revenue	5,783,344	-	3,726,437	-	-	1,271,096	10,780,877
Compensated absences	1,201,432	-	-	-	-	-	1,201,432
<b>Total liabilities</b>	<b>10,191,105</b>	<b>26,350,822</b>	<b>23,827,660</b>	<b>1,816,257</b>	<b>141,938</b>	<b>4,262,397</b>	<b>66,590,179</b>
<b>Fund balances (deficits)</b>							
Reserved, reported in general fund	10,535,241	-	-	-	-	-	10,535,241
Reserved, reported in special revenue funds	-	1,016,184	185,821	-	-	1,587,495	2,789,500
Reserved for capital projects	-	-	-	-	-	-	-
Reserved for debt service	-	-	-	-	-	2,424,144	2,424,144
Reserved for Hamilton Trust Fund	-	-	-	-	33,087,188	-	33,087,188
Unreserved:							
Designated - General Fund	(18,600)	-	-	-	-	-	(18,600)
Designated - Special Revenue Funds	-	-	-	-	-	1,350,751	1,350,751
Designated - Capital Projects Funds	-	-	-	-	-	20,953,469	20,953,469
Undesignated - General Fund	-	-	-	-	-	-	-
Undesignated (deficit) - Special Revenue Funds	-	(21,975,923)	-	-	-	13,085,116	(8,890,807)
Undesignated (deficit) - Capital Project Funds	-	-	17,789,408	(536,177)	-	-	17,253,231
Undesignated (deficit) - Debt Service Funds	-	-	-	-	-	-	-
<b>Total fund balances (deficits)</b>	<b>10,516,641</b>	<b>(20,959,739)</b>	<b>17,975,229</b>	<b>(536,177)</b>	<b>33,087,188</b>	<b>39,400,976</b>	<b>79,484,117</b>
<b>Total liabilities and fund balances</b>	<b>\$ 20,707,746</b>	<b>\$ 5,391,083</b>	<b>\$ 41,802,889</b>	<b>\$ 1,280,080</b>	<b>\$ 33,229,126</b>	<b>\$ 43,663,372</b>	<b>\$ 146,074,296</b>

**CITY OF NOVATO**

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

**June 30, 2009**

**Total Fund Balances - Total Governmental Funds** **\$ 79,484,117**

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	
Clean Renewable Energy Bonds	76,650	
Accumulated amortization	<u>(520,617)</u>	2,238,843

To eliminate the effect of the purchase by the general fund of the Eucalyptus Assessment District's bonds (70,993)

Prepaid pension obligation is not a current financial resource and therefore not capitalized on the Governmental Funds Balance Sheet 16,034,295

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

Nondepreciable	131,139,450	
Depreciable	204,336,926	
Less accumulated depreciation	<u>(94,735,789)</u>	240,740,587

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. (1,084,079)

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	(23,703,076)	
Accrued compensated absences	(431,323)	
OPEB liability	(143,557)	
OPA notes payable	(3,216,242)	
CIEDB loan	(3,265,131)	
Hamilton Tax Allocation Bonds, Series 2005	(22,875,000)	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	(8,965,000)	
Pension Obligation Bonds	(18,078,629)	
Due to County of Marin	(305,655)	
Clean Renewable Energy Bonds	(1,533,000)	
Capital Lease - Dell	<u>(196,881)</u>	(82,713,494)

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. 4,343,115

**Net Assets of Governmental Activities** **\$ 258,972,389**

**CITY OF NOVATO**

**Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**For the Fiscal Year Ended June 30, 2009**

	Major Funds						Total Governmental Funds
	General Fund	RDA Housing	RDA	Capital Projects	Permanent Fund	Other Governmental Funds	
					Hamilton Trust Fund		
<b>REVENUES</b>							
Taxes	\$ 22,767,997	\$ 1,485,585	\$ 4,635,968	\$ -	\$ -	\$ 4,832,599	\$ 33,722,149
Licenses and permits	1,169,382	-	-	-	-	-	1,169,382
Revenues from other agencies	457,544	-	-	-	-	1,505,012	1,962,556
Fines and forfeitures	632,552	-	-	-	-	-	632,552
Use of money and property	566,124	-	721,381	-	1,524,219	1,322,977	4,134,701
Current service charges	3,447,908	75,823	-	12,579	53,055	1,242,806	4,832,171
Other revenue	574,948	-	-	1,021,806	-	2,758	1,599,512
Total revenues	29,616,455	1,561,408	5,357,349	1,034,385	1,577,274	8,906,152	48,053,023
<b>EXPENDITURES</b>							
Current:							
General government	5,149,122	-	-	-	-	378,282	5,527,404
Public safety	13,109,760	-	-	-	-	430,957	13,540,717
Public works	6,577,338	-	-	-	-	1,111,960	7,689,298
Cultural and recreation	5,728,976	-	-	-	-	8,885	5,737,861
Community development	104,834	1,002,849	1,005,969	-	31,315	460	2,145,427
Capital outlay	273,460	-	-	7,849,602	-	298,329	8,421,391
Debt service:							
Principal	143,498	190,000	1,102,774	-	-	1,544,769	2,981,041
Interest and fiscal agent fees	18,861	401,460	1,373,685	-	-	2,124,468	3,918,474
Total expenditures	31,105,849	1,594,309	3,482,428	7,849,602	31,315	5,898,110	49,961,613
<b>REVENUES OVER (UNDER)</b>							
<b>EXPENDITURES</b>	(1,489,394)	(32,901)	1,874,921	(6,815,217)	1,545,959	3,008,042	(1,908,590)
<b>OTHER FINANCING SOURCES (USES)</b>							
Debt proceeds	222,022	-	-	-	-	1,533,000	1,755,022
Issuance costs	-	-	-	-	-	(76,650)	(76,650)
Loss in value on homes held for resale	-	(193,230)	-	-	-	-	(193,230)
Transfers in	2,560,330	-	-	7,117,531	-	2,881,074	12,558,935
Transfers out	(1,474,079)	(116,689)	(155,364)	-	(779,661)	(10,430,008)	(12,955,801)
Total other financing sources (uses)	1,308,273	(309,919)	(155,364)	7,117,531	(779,661)	(6,092,584)	1,088,276
Net change in fund balances	(181,121)	(342,820)	1,719,557	302,314	766,298	(3,084,542)	(820,314)
Fund balances, beginning of year	10,697,762	(20,616,919)	16,255,672	(838,491)	32,320,890	42,485,517	80,304,431
Fund balances, end of year	\$ 10,516,641	\$ (20,959,739)	\$ 17,975,229	\$ (536,177)	\$ 33,087,188	\$ 39,400,975	\$ 79,484,117

**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, 2009**

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**Net Changes in Fund Balances - Total Governmental Funds** **\$ (820,314)**

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	\$ 8,203,002	
Depreciation expense	<u>(5,017,599)</u>	3,185,403
(Depreciation expense is net of Internal Service Fund depreciation of \$446,016 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 \$9,769 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).	2,994,376	
Debt proceeds	<u>(1,755,022)</u>	1,239,354

To eliminate the effect of the purchase by the general fund of the Eucalyptus Assessment District's bonds 9,769

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 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)	
Clean Renewable Energy Bonds	76,650	
Amortization of General Obligation Bond premiums	18,026	
Change in compensated absences	(32,388)	
Change in OPEB liability	(143,557)	
Amortization of prepaid PERS contribution	(593,863)	
Change in accrued interest payable	<u>51,120</u>	(722,487)

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. (49,093)

**Total Changes in Net Assets of Governmental Activities** **\$ 2,842,632**

**CITY OF NOVATO****General Fund****Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual****For the Fiscal Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 23,924,532	\$ 22,917,999	\$ 22,767,997	\$ (150,002)
Licenses and permits	1,026,275	1,338,526	1,169,382	(169,144)
Fines and forfeitures	548,500	518,830	632,552	113,722
Use of money and property	537,494	476,517	566,124	89,607
Revenues from other agencies	417,135	376,750	457,544	80,794
Current services charges	3,418,808	3,577,105	3,447,908	(129,197)
Other revenue	228,550	582,294	574,948	(7,346)
Total revenues	30,101,294	29,788,021	29,616,455	(171,566)
<b>EXPENDITURES</b>				
Current:				
General government	5,285,385	5,349,255	5,149,122	200,133
Public safety	14,006,945	13,979,575	13,109,760	869,815
Public works	7,065,094	6,977,216	6,577,338	399,878
Cultural and recreation	5,968,012	5,803,221	5,728,976	74,245
Community development	121,204	117,086	104,834	12,252
Capital outlay	-	-	273,460	(273,460)
Debt service:				
Principal	-	-	143,498	(143,498)
Interest and fiscal agent fees	-	-	18,861	(18,861)
Total expenditures	32,446,640	32,226,353	31,105,849	1,120,504
REVENUES OVER (UNDER) EXPENDITURES	(2,345,346)	(2,438,332)	(1,489,394)	948,938
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt proceeds	-	-	222,022	222,022
Cost of issuance	-	-	-	-
Transfers in	2,738,049	2,738,049	2,560,330	(177,719)
Transfers out	(1,490,576)	(1,490,576)	(1,474,079)	16,497
Total other financing sources (uses)	1,247,473	1,247,473	1,308,273	60,800
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	\$ (1,097,873)	\$ (1,190,859)	(181,121)	\$ 1,009,738
Fund balances, beginning of year			10,697,762	
Fund balances, end of year			\$ 10,516,641	



**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, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,499,800	\$ 1,499,800	\$ 1,485,585	\$ (14,215)
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	50,200	50,200	-	(50,200)
Revenues from other agencies	-	-	-	-
Current services charges	22,000	22,000	75,823	53,823
Other revenue	-	-	-	-
Total revenues	<u>1,572,000</u>	<u>1,572,000</u>	<u>1,561,408</u>	<u>(10,592)</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Cultural and recreation	-	-	-	-
Community development	981,144	981,144	1,002,849	(21,705)
Capital outlay	-	-	-	-
Debt service:				
Principal	190,000	190,000	190,000	-
Interest and fiscal agent fees	401,460	401,460	401,460	-
Total expenditures	<u>1,572,604</u>	<u>1,572,604</u>	<u>1,594,309</u>	<u>(21,705)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(604)</u>	<u>(604)</u>	<u>(32,901)</u>	<u>(32,297)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loss in value on homes held for resale	-	-	(193,230)	(193,230)
Debt proceeds	-	-	-	-
Cost of issuance	-	-	-	-
Transfers in	-	-	-	-
Transfers out	<u>(117,003)</u>	<u>(117,003)</u>	<u>(116,689)</u>	<u>314</u>
Total other financing sources (uses)	<u>(117,003)</u>	<u>(117,003)</u>	<u>(309,919)</u>	<u>(192,916)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (117,607)</u>	<u>\$ (117,607)</u>	<u>(342,820)</u>	<u>\$ (225,213)</u>
Fund balances, beginning of year			<u>(20,616,919)</u>	
Fund balances, end of year			<u>\$ (20,959,739)</u>	

**CITY OF NOVATO**

**RDA**

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

**For the Fiscal Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,681,700	\$ 4,681,700	\$ 4,635,968	\$ (45,732)
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	125,711	125,711	721,381	595,670
Revenues from other agencies	-	-	-	-
Current services charges	-	-	-	-
Other revenue	-	-	-	-
Total revenues	<u>4,807,411</u>	<u>4,807,411</u>	<u>5,357,349</u>	<u>549,938</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Cultural and recreation	-	-	-	-
Community development	2,702,314	2,762,314	1,005,969	1,756,345
Capital outlay	-	-	-	-
Debt service:				
Principal	1,102,774	1,102,774	1,102,774	-
Interest and fiscal agent fees	1,373,685	1,373,685	1,373,685	-
Total expenditures	<u>5,178,773</u>	<u>5,238,773</u>	<u>3,482,428</u>	<u>1,756,345</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(371,362)</u>	<u>(431,362)</u>	<u>1,874,921</u>	<u>2,306,283</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt proceeds	-	-	-	-
Cost of issuance	-	-	-	-
Transfers in	-	-	-	-
Transfers out	<u>(122,313)</u>	<u>(122,313)</u>	<u>(155,364)</u>	<u>(33,051)</u>
Total other financing sources (uses)	<u>(122,313)</u>	<u>(122,313)</u>	<u>(155,364)</u>	<u>(33,051)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (493,675)</u>	<u>\$ (553,675)</u>	1,719,557	<u>\$ 2,273,232</u>
Fund balances, beginning of year			<u>16,255,672</u>	
Fund balances, end of year			<u>\$ 17,975,229</u>	

**CITY OF NOVATO**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2009**

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ -	\$ 2,420,365
Cash with fiscal agents	-	-
Accounts receivables	-	6,475
Loans receivable	-	-
Due from other funds	-	2,064,651
Deposits	-	-
Prepays and other assets	-	-
Total current assets	<u>-</u>	<u>4,491,491</u>
Noncurrent assets:		
Capital assets, net	-	1,641,621
Total assets	<u>-</u>	<u>6,133,112</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	-	120,383
Deferred revenue	-	232,614
Claims payable	-	407,354
Total current liabilities	<u>-</u>	<u>760,351</u>
Claims payable, noncurrent	-	1,029,646
Total liabilities	<u>-</u>	<u>1,789,997</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	-	1,641,621
Unrestricted	-	2,701,494
Total net assets	<u>\$ -</u>	<u>\$ 4,343,115</u>

**CITY OF NOVATO**

**Proprietary Funds**

**Statement of Activities and Changes in Net Assets**

**For the Fiscal Year Ended June 30, 2009**

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
<b>REVENUES</b>		
Service charges	\$ -	\$ 1,111,212
Revenues from other agencies	-	2,876
Other revenue	-	94,063
Total operating revenue	<u>-</u>	<u>1,208,151</u>
<b>OPERATING EXPENSES</b>		
Cost of services	-	1,266,705
Depreciation	-	446,016
Total operating expenses	<u>-</u>	<u>1,712,721</u>
Operating income (loss)	<u>-</u>	<u>(504,570)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	-	77,195
Net nonoperating revenues (expenses)	<u>-</u>	<u>77,195</u>
Income (loss) before transfers	-	(427,375)
Transfers in	-	400,000
Transfers out	-	(21,718)
Net transfers	<u>-</u>	<u>378,282</u>
Changes in net assets	-	(49,093)
Net assets, beginning of year	-	4,392,208
Net assets, end of year	<u>\$ -</u>	<u>\$ 4,343,115</u>

**CITY OF NOVATO**

**Proprietary Funds**

**Statement of Cash Flows**

**For the Fiscal Year Ended June 30, 2009**

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from interfund services provided	\$ -	\$ 441,213
Cash received from other operating activities		94,063
Cash paid to suppliers		<u>(1,255,285)</u>
Net cash used by operating activities	<u>-</u>	<u>(720,009)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers in from other funds	-	400,000
Transfers out to other funds	-	<u>(21,718)</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>378,282</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments - bonds		-
Interest paid		-
Capital expenditures		<u>(582,840)</u>
Net cash used by capital and related financing activities	<u>-</u>	<u>(582,840)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	-	77,195
Repayment of loans receivable		-
Net cash provided by investing activities	<u>-</u>	<u>77,195</u>
Net change in cash and cash equivalents	-	(847,372)
Cash and cash equivalents at beginning of year	-	<u>3,267,737</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 2,420,365</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ -	\$ (504,570)
Adjustments to reconcile operating income to net cash provided (used)		
by operating activities:		
Depreciation and amortization expense	-	446,016
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	-	(6,475)
Decrease (increase) in due from other funds	-	(695,724)
Increase (decrease) in deferred revenue	-	29,324
Increase (decrease) in accounts payable	-	37,028
Increase (decrease) in claims payable	-	<u>(25,608)</u>
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ (720,009)</u>

**CITY OF NOVATO**

**Fiduciary Funds**

**Statement of Fiduciary Net Assets**

**June 30, 2009**

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	<u>Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and investments	\$ 767,520	\$ 5,033,572
Cash and investments with fiscal agent	3,761,419	4,557,131
Receivables	10,427	29,800
Capital assets, net	15,173,170	-
Other assets, net	740,775	-
Total assets	<u>20,453,311</u>	<u>9,620,503</u>
<b>LIABILITIES</b>		
Bank overdraft	-	-
Accounts payable	43,575	1,872
Deposits held in trust	690,673	9,618,631
Deferred revenue	47,178	-
Notes payable	12,335,000	-
Loans payable	-	-
Interest payable	166,615	-
Total liabilities	<u>13,283,041</u>	<u>9,620,503</u>
<b>NET ASSETS</b>		
Assets held in trust	<u>\$ 7,170,270</u>	<u>\$ -</u>

**CITY OF NOVATO**

**Fiduciary Funds**

**Statement of Changes in Fiduciary Net Assets**

**For the Fiscal Year Ended June 30, 2009**

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	<u>Trust Funds</u>
<b>ADDITIONS</b>	
Operating revenues	\$ 2,979,538
Investment income	<u>198,356</u>
Total additions to net assets	<u>3,177,894</u>
<b>DEDUCTIONS</b>	
General and administrative expenses	1,166,998
Depreciation and amortization	213,419
Interest expense	<u>739,946</u>
Total deductions from net assets	<u>2,120,363</u>
Transfers in (out)	<u>-</u>
Changes in net assets	1,057,531
Net assets, beginning of year	6,112,739
Net assets, end of year	<u><u>\$ 7,170,270</u></u>

**CITY OF NOVATO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**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 Protection 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 accompanying financial statements have been prepared assuming the City will continue as a going concern. For each of the last couple years, the City's General Fund has struggled to balance its revenues and expenditures, and it has attempted to balance its deficit spending through reductions in the workforce and other cost-cutting measures. Additionally, the economic downturn has had a dramatic negative impact to the City's revenues. The City will address the growing deficit by prioritizing service levels, optimizing cost recovery and cost reduction, and reviewing all opportunities to increase revenues. The City believes that success in increasing revenues and controlling costs is achievable, and that available cash and cash equivalents will provide adequate liquidity to fund the City's operations through at least June 30, 2010. The financial statements do not include any adjustments to reflect the future effects in the recoverability and classification of assets or the amounts and classification of liabilities that might result from the possible inability of the City to continue as a going concern.

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, 2009. 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, 2009.

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. Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no effect on fund balances or net assets.

## **N. 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 was adopted by the City for the fiscal year ended June 30, 2009.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following Governmental Accounting Standards Board (GASB) Statements:

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The Statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this Statement is effective for the City's fiscal year ending June 30, 2010.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective to this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

**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 \$250,000 until December 31, 2009 then it reverts to the original \$100,000, by the Federal Deposit Insurance Corporation ("FDIC").

**B. Authorized investments**

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

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

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

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



### **C. Cash and investment composition**

The City maintains a cash pool that is available for use by all funds. Interest income earned on pooled cash and investments is allocated quarterly to various funds based on the average cash balances of the funds. Interest income from cash and investments with fiscal agents is credited directly to the related fund. Investments are carried at a value not materially different from fair value.

Cash and investments at June 30, 2009 are comprised of the following:

	Carrying Value	Fair Value
Petty cash	\$ 2,285	\$ 2,285
Cash in bank	526,138	526,138
Federal agency securities	30,290,913	30,290,913
Money Market Funds	1,151,280	1,151,280
Treasuries	998,049	998,049
Corporate Notes	10,856,924	10,856,924
California Local Agency Investment Fund	44,723,745	44,784,757
<b>Subtotal</b>	<u>88,549,334</u>	<u>88,610,346</u>
Cash with fiscal agents:		
Money Market	6,514,538	6,514,538
Guaranteed investment contracts/investment agreements	5,405,359	5,405,359
	<u>\$ 100,469,231</u>	<u>\$ 100,530,243</u>

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

Governmental funds:	
Operating cash and investments	\$ 51,158,262
Cash with fiscal agent	3,601,347
Restricted cash and investments	31,589,980
	<u>86,349,589</u>
Trust funds:	
Cash and investments	767,520
Cash and investments with fiscal agent	3,761,419
	<u>4,528,939</u>
Agency funds:	
Cash and investments	5,033,572
Cash with fiscal agent	4,557,131
	<u>9,590,703</u>
Total	<u>\$ 100,469,231</u>

Cash and investments with fiscal agent are restricted as follows:

Hamilton Tax Allocation Bonds - Series 2005	\$ 1,553,699
Hamilton 2005 Housing Bonds - Series A	646,222
Clean Renewable Energy Bonds	1,401,426
	<u>3,601,347</u>
Trust Funds:	
Novato Financing Authority	3,761,419
	<u>3,761,419</u>
Agency Funds:	
Hamilton Bonds A.D. - CFD 1994-1, 2004 Refunding	1,686,610
Pointe Marin Assessment District - CFD 2002-1	801,937
Golden Gate Plaza Assessment District	239,682
Vintage Oaks A.D. - CFD No. 1, 2004 Refunding	1,828,902
	<u>4,557,131</u>
 Total cash with fiscal agent	 <u>\$ 11,919,897</u>

Cash and investments held by the Hamilton Trust Fund of \$31,589,980 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, 2009 was as follows:

Major funds:	
General Fund	\$ 3,550,146
Capital Projects Fund	1,279,818
RDA Housing	1
RDA	7,636,219
Other governmental non-major funds	36,342,706
Internal service fund	2,420,365
	<u>51,229,255</u>
Elimination of Eucalyptus bonds on government-wide Statement of Net Assets	 (70,993)
	<u>\$ 51,158,262</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	\$ 30,290,913	\$ 9,039,672	\$ 13,187,240	\$ 8,064,001	\$ -
Money Market Funds	1,151,280	1,151,280	-	-	-
Treasuries	998,049	-	998,049	-	-
Corporate Notes	10,856,924	1,300,456	9,556,468	-	-
State investment pool	44,723,745	44,723,745	-	-	-
Held by bond trustee:					
Money Market	6,514,538	6,514,538	-	-	-
Investment agreements	5,405,359	-	-	-	5,405,359
<b>Total</b>	<b>\$ 99,940,808</b>	<b>\$ 62,729,691</b>	<b>\$ 23,741,757</b>	<b>\$ 8,064,001</b>	<b>\$ 5,405,359</b>

**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	\$ 30,290,913	\$ -	\$ 30,290,913	\$ -	\$ -
Money Market Funds	1,151,280	1,151,280	-	-	-
Treasuries	998,049	998,049	-	-	-
Corporate Notes	10,856,924	-	-	10,856,924	-
State investment pool	44,723,745	-	-	-	44,723,745
Held by bond trustee:					
Money Market	6,514,538	6,514,538	-	-	-
Investment agreements	5,405,359	-	-	-	5,405,359
<b>Total</b>	<b>\$ 99,940,808</b>	<b>\$ 8,663,867</b>	<b>\$ 30,290,913</b>	<b>\$ 10,856,924</b>	<b>\$ 50,129,104</b>

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, 2009, 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 \$44,723,745 whose pro-rata share of fair value was estimated by the state Treasurer to be \$44,784,757. 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, 2009:

<u>Fund</u>	<u>Due to other funds</u>	<u>Due from other funds</u>
<b>MAJOR GOVERNMENTAL FUNDS</b>		
General Fund	\$ 1,030,040	\$ 14,790,730
RDA Housing	26,346,082	-
RDA Fund	19,544,445	26,346,082
Hamilton Trust Fund	141,938	1,485,000
<b>Total major funds</b>	<u>47,062,505</u>	<u>42,621,812</u>
<b>NON-MAJOR GOVERNMENTAL FUNDS</b>		
<b>Special Revenue Funds:</b>		
Subdivision Park	-	712,164
Hamilton CFD Maintenance	128,823	-
Insurance reserve	-	373,709
Emergency and Disaster Response reserve	-	1,084,384
	<u>128,823</u>	<u>2,170,257</u>
<b>Capital Project Funds:</b>		
Development Impact Fees	-	1,051,038
RDA Community Center and Performing Arts	-	390,499
Novato Public Financing Authority	1,852,584	745,655
	<u>1,852,584</u>	<u>2,187,192</u>
<b>Total non-major funds</b>	<u>1,981,407</u>	<u>4,357,449</u>
<b>Total governmental funds</b>	<u>49,043,912</u>	<u>46,979,261</u>
<b>Internal Service Funds</b>		
Equipment Replacement	-	2,064,651
F,F&E Replacement	-	-
	<u>-</u>	<u>2,064,651</u>
<b>Total</b>	<u>\$ 49,043,912</u>	<u>\$ 49,043,912</u>

<u>Operating transfers - Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<b>MAJOR GOVERNMENTAL FUNDS</b>		
General Fund	\$ 2,560,330	\$ 1,474,079
RDA Housing	-	116,689
RDA	-	155,364
Capital Projects	7,117,531	-
Hamilton Trust Fund	-	779,661
<b>Total major funds</b>	<u>9,677,861</u>	<u>2,525,793</u>
<b>NON-MAJOR GOVERNMENTAL FUNDS</b>		
<b>Special Revenue Funds:</b>		
Clean Stormwater	-	195,000
Subdivision Park	-	159,546
Art in Public Places	-	97,527
General Plan Surcharge	-	5,709
Hamilton Community Facilities	-	14,089
Pointe Marin Community Facilities	-	8,290
Chapter 27 Assessment	-	2,772
State Gas Tax	-	866,176
Traffic Congestion Relief	-	198,444
Special Police Projects	7,000	-
State Grant Funds	-	70,115
Pension Reserve	-	50,800
Insurance Reserve Fund	-	179,200
Emergency Response Fund	-	276,017
<b>Debt Service Funds:</b>		
Pension Obligation Bonds	929,381	-
<b>Capital Projects Funds:</b>		
Measure A Street Improvements	-	1,059,893
Measure B Street Bond Projects	-	534,594
Long-term Maintenance Fund	-	46,692
Civic Center	-	2,324,332
Clean Stormwater CIP	45,000	2,671
Clean Renewable Energy Bonds	-	95,493
Community Facilities Maintenance Fund	1,879,693	773,264
Community Facilities Teen/Gymnastics Center Fund	-	89,405
Community Facilities Performing Arts Fund	-	1,790,288
Proposition 1B Street Improvements	-	243,870
Street Drains Maintenance	20,000	11,727
Development Impact Fee	-	1,266,836
Novato Public Financing Authority	-	67,258
<b>Total non-major funds</b>	<u>2,881,074</u>	<u>10,430,008</u>
<b>Total governmental funds</b>	<u>12,558,935</u>	<u>12,955,801</u>
<b>Internal Service Funds:</b>		
Equipment Maintenance	-	21,718
Equipment Replacement	400,000	-
<b>Total internal service funds</b>	<u>400,000</u>	<u>21,718</u>
<b>Agency Funds:</b>		
Novato Financing Authority	33,584	-
Hamilton Bond Fund	-	15,000
<b>Total agency funds</b>	<u>33,584</u>	<u>15,000</u>
<b>Total interfund transfers</b>	<u>\$ 12,992,519</u>	<u>\$ 12,992,519</u>

### 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, 2009:

<u>Fiscal years ending June 30</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
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	158,975	80,000	78,975
2015-2019	790,375	480,000	310,375
2020-2024	788,575	655,000	133,575
	<u>\$ 2,369,325</u>	<u>\$ 1,485,000</u>	<u>\$ 884,325</u>

### **NOTE 4 - Loans receivable:**

Loans receivable of \$1,934,556 at June 30, 2009 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 2.01% at June 30, 2009). The balance of the computer loans receivable at June 30, 2009 was \$18,157 and 14 employees were participating in the program.

#### Novato Theater Restoration

The City 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 City 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, 2009 the City has a loan receivable of \$421,240 in principal and \$111,829 in interest, which is in default. An allowance for doubtful accounts for the full receivable has been recorded. The City has elected to continue to make monthly payments of \$2,250 to the former owner on behalf of the Committee to fund the mortgage on the Theatre Property.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Loan receivable	\$ 421,240	\$ 111,829	\$ 533,069
Allowance for doubtful accounts	(421,240)	(111,829)	(533,069)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

#### 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 market 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, 2009, 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.

#### 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 was paid in full when the employee left City employment.

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, 2009 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.

In June 2009, the City loaned another employee funds for housing assistance in the amount of \$666,400, which bears interest at the average LAIF rate for the prior twelve months, 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, 2009 was \$666,400 which is included as a loan receivable on the accompanying Statement of Net Assets. Interest receivable related to this loan in the amount of \$489 is included in interest receivable.

#### Promissory note with Warner Creek Senior Housing, L.P.

In July 2008, the City loaned \$350,000 to Eden Housing, Inc. (a California nonprofit public benefit corporation and sole member of Warner Creek Senior Housing, L.P.) ("developer") to study the feasibility of developing, owning and operating 57 affordable senior housing units under a predevelopment loan agreement. The loan bears interest at 3% per annum, subject to provisions of a default rate as defined in the agreement. The agreement provides the opportunity for the developer to apply for additional loans from the City for the cost of acquisition of property, additional predevelopment expenses, and construction costs. If the additional funding was subsequently approved, the initial loan would be added to the new loan. On May 1, 2009, the additional funding was approved to provide total funding from the City for this development project of \$1,504,000, and the developer drew down an additional \$600,000 in May 2009. The loan is funded with proceeds from the City's Affordable Housing In-Lieu Fund. The City has a security interest in the property and



the development. The note is to be repaid from residual receipts, as defined in the promissory note. The loan bears an interest rate of 3% per annum and the entire outstanding principal together with interest accrued thereon is payable in full on the 55<sup>th</sup> anniversary of the date the City issues the final certificate of occupancy for the development, but in no event later than March 1, 2070. Under the terms of the loan agreement, the City may forgive the amounts due under certain circumstances as defined in the agreement. The total loan receivable balance at June 30, 2009 was \$949,999. Interest receivable related to this loan was \$7,452.

**NOTE 5 – Homes held for resale:**

In fiscal 2009, the Agency purchased seven housing units that are in the affordable housing project noted above in order to maintain their affordability for low and moderate income buyers. Four of these units were resold during the fiscal year and as of June 30, 2009, three units were being held for sale. The total cost of these seven units was \$2,342,685. The remaining three units, purchased for \$1,209,414, are held for sale. The carrying value of the homes at June 30, 2009 is net of an allowance of \$193,230 for the decline in the value of the homes. The three homes sold for a total of \$1,016,184 subsequent to June 30, 2009.

**NOTE 6 - 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, 2009:

	<u>Governmental Activities</u>	<u>Internal Service Activities</u>	<u>Total</u>
Capital assets not being depreciated:			
Land	\$ 121,165,277	\$ -	\$ 121,165,277
Construction in progress	9,974,173	-	9,974,173
	<u>131,139,450</u>	<u>-</u>	<u>131,139,450</u>
Depreciable capital assets:			
Buildings	13,816,111	-	13,816,111
Furniture and equipment	1,597,323	-	1,597,323
Vehicles	-	4,175,506	4,175,506
Infrastructure	188,923,492	-	188,923,492
Total	<u>204,336,926</u>	<u>4,175,506</u>	<u>208,512,432</u>
Less: accumulated depreciation	94,735,789	2,533,886	97,269,675
Depreciable capital assets, net	<u>109,601,137</u>	<u>1,641,620</u>	<u>111,242,757</u>
Total capital assets, net	<u>\$ 240,740,587</u>	<u>\$ 1,641,620</u>	<u>\$ 242,382,207</u>

Combined governmental capital asset activity for the fiscal year ended June 30, 2009 was as follows:

	Balances June 30, 2008	Additions	Transfers/ Retirements	Balances June 30, 2009
Capital assets not being depreciated:				
Land	\$ 121,165,277	\$ -	\$ -	\$ 121,165,277
Construction in progress	5,371,349	4,602,824	-	9,974,173
Total nondepreciable assets	<u>126,536,626</u>	<u>4,602,824</u>	<u>-</u>	<u>131,139,450</u>
Depreciable capital assets:				
Buildings	13,572,789	243,322	-	13,816,111
Furniture and equipment	1,042,130	571,789	16,596	1,597,323
Infrastructure	186,138,425	2,785,067	-	188,923,492
Total depreciable assets	<u>200,753,344</u>	<u>3,600,178</u>	<u>16,596</u>	<u>204,336,926</u>
Less: accumulated depreciation for:				
Buildings	4,450,151	114,557	-	4,564,708
Furniture and equipment	564,697	249,931	16,596	798,032
Infrastructure	84,719,938	4,653,111	-	89,373,049
Total accumulated depreciation	<u>89,734,786</u>	<u>5,017,599</u>	<u>16,596</u>	<u>94,735,789</u>
Total depreciable assets, net	<u>111,018,558</u>	<u>(1,417,421)</u>	<u>-</u>	<u>109,601,137</u>
Internal service fund fixed assets:				
Depreciable assets:				
Vehicles	4,001,369	582,840	408,703	4,175,506
Total depreciable assets	<u>4,001,369</u>	<u>582,840</u>	<u>408,703</u>	<u>4,175,506</u>
Less: accumulated depreciation	2,496,573	446,016	408,703	2,533,886
Total depreciable assets, net	<u>1,504,796</u>	<u>136,824</u>	<u>-</u>	<u>1,641,620</u>
Total governmental activities	<u>\$ 239,059,980</u>	<u>\$ 3,322,227</u>	<u>\$ -</u>	<u>\$ 242,382,207</u>

Depreciation was charged to function as follows:

Government activities:

General government	\$ 66,582
Public safety	107,827
Public works	82,058
Cultural and recreation	29,684
Community development	78,337
Infrastructure	4,653,111
Capital assets held by Internal Service Fund	446,016
Total governmental activities depreciation expense	<u>\$ 5,463,615</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, 2009 is as follows:

	June 30, 2008	Additions	Retirements/ Transfers	June 30, 2009
Land	\$ 11,840,000	\$ -	\$ -	\$ 11,840,000
Land improvements	3,691,805	243,332	-	3,935,137
Buildings	792,298	61,526	-	853,824
Equipment	8,643	17,476	-	26,119
Mobile homes and improvements	177,636	-	-	177,636
Construction-in-progress	-	-	-	-
Total	16,510,382	322,334	-	16,832,716
Less: accumulated depreciation	1,479,991	179,555	-	1,659,546
	<u>\$ 15,030,391</u>	<u>\$ 142,779</u>	<u>\$ -</u>	<u>\$ 15,173,170</u>

**NOTE 7 - Long-term debt:**

**A. Long-term debt outstanding**

Governmental activities long-term debt issued and outstanding at June 30, 2009 is comprised of the following:

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding June 30, 2009
General obligation bonds:				
Series 1993A	2014	4.75-7.25%	\$ 5,000,000	\$ 1,780,000
Series 1997A	2021	5.00-8.00%	14,245,000	8,350,000
Series 2000A	2022	5.00-5.75%	5,000,000	3,695,000
Series 2004	2026	3.20-10.00%	5,000,000	4,565,000
Series 2004-Premium				208,122
Series 2007	2027	3.55-4.125%	5,000,000	4,870,000
Series 2007-Premium				234,954
Pension Obligation Bonds, A-1 & A-2	2035	5.69-6.12%	18,296,066	18,236,066
Pension Obligation Bonds-Discounts				(157,437)
CEIDB loan	2032	3.39%	3,700,000	3,265,131
OPA notes payable	2014	8.53%	9,000,000	3,216,242
Hamilton Field Tax Allocation Bonds-2005	2035	2.50-4.50%	24,835,000	22,875,000
Hamilton Field 2005 Tax Allocation	2035	4.50-4.88%	9,520,000	8,965,000
Housing Bonds - Series A				
Due to County of Marin	2011	7.75%		305,655
Compensated absences - noncurrent				431,323
Clean Renewable Energy Bonds (CREBs)	2024	0.00%	1,533,000	1,533,000
Capital Lease - Dell	2013	5.20%	222,022	196,881
				<u>\$ 82,569,937</u>

Long-term debt of the fiduciary fund (nonexpendable trust) at June 30, 2009 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, 2009</u>
Novato Financing Authority:				
Promissory note - Senior Note	2028	3.9 - 5.85%	\$ 15,485,000	\$ 11,070,000
Promissory note - Subordinate Note	2025	3.9 - 5.85%	1,585,000	<u>1,265,000</u>
Total notes payable				<u>12,335,000</u>
Total fiduciary fund long-term debt				<u>\$ 12,335,000</u>

## **B. Changes in long-term debt**

The City's long-term debt transactions for the fiscal year ended June 30, 2009 were as follows:

	<u>Balance, June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2009</u>	<u>Due in One Year</u>
<b>Governmental activities:</b>					
General Obligation Bonds	\$ 24,765,000	\$ -	\$ 1,505,000	\$ 23,260,000	\$ 1,610,000
Premium on 2004 General Obligation Bonds	221,062	-	12,940	208,122	12,940
Premium on 2007 General Obligation Bonds	247,945	-	12,991	234,954	12,992
Pension Obligation Bonds, A-1 and A-2	18,266,066	-	30,000	18,236,066	70,000
Discount on Pension Obligation Bonds	(165,342)	-	(7,905)	(157,437)	(7,904)
Compensated absences	398,935	-	(32,388)	431,323	-
OPA notes payable	3,716,149	-	499,907	3,216,242	542,523
Due to County of Marin	424,013	-	118,358	305,655	123,024
CEIDB loan	3,357,998	-	92,867	3,265,131	96,016
Hamilton Field Tax Allocation Bonds-2005	23,385,000	-	510,000	22,875,000	525,000
Hamilton Field 2005 Tax Allocation					
Housing Bonds - Series A	9,155,000	-	190,000	8,965,000	195,000
Clean Renewable Energy Bonds (CREBs)	-	1,533,000	-	1,533,000	113,315
Capital Lease - Dell	-	222,022	25,141	196,881	50,291
	<u>\$ 83,771,826</u>	<u>\$ 1,755,022</u>	<u>\$ 2,956,911</u>	<u>\$ 82,569,937</u>	<u>\$ 3,343,197</u>
<b>Fiduciary fund activities:</b>					
Promissory note - Senior Note	\$ 11,370,000	\$ -	\$ 300,000	\$ 11,070,000	\$ 310,000
Promissory note - Subordinate Note	1,305,000	-	40,000	1,265,000	45,000
	<u>\$ 12,675,000</u>	<u>\$ -</u>	<u>\$ 340,000</u>	<u>\$ 12,335,000</u>	<u>\$ 355,000</u>

## **C. General obligation bonds**

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

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

(2) On July 1, 1997, the City issued \$14,245,000 of refunding bonds (Series A) to advance 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. Clean Renewable Energy Bonds**

On February 10, 2009, the City issued Clean Renewable Energy Bonds ("CREBs") under section 54 of the Internal Revenue Code in the amount of \$1,213,525 to finance three solar system projects on City facilities. The City entered into a lease agreement with Municipal Finance Corporation ("corporation") whereby the City has leased to the corporation the City's teen/gymnastics center building ("property"), and the corporation made available to the City the borrowed funds to enable the City to finance the solar system projects. The corporation 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 bonds. On June 11, 2009, the City issued additional CREBs in the amount of \$319,475 under an amendment to the lease agreement for a total obligation of \$1,533,000. The bonds do not bear interest. In lieu of receiving periodic interest payments, bondholders are allowed annual federal income tax credits.

## **F. Capital Leases**

On January 1, 2009 the City entered into a capital lease with Dell Financial in the amount of \$222,022 to lease updated desktop computers and servers for the City's network needs. The lease bears an interest rate of 5.2% and offers a \$1 buyout option at the end of the term, and the balance at June 30, 2009 is \$196,881. At June 30, 2009, the net book value of the equipment under this capital lease is \$199,820 and is included in the statement of net assets.

## **G. Compensated absences**

At June 30, 2009, compensated absences totaled \$1,632,755 and are recorded in accrued compensated absences on the government-wide statements. The non-current portion totaling \$431,323 is recorded in long-term debt.

## **H. 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, 2009 the note payable balance is \$3,216,242.

## **I. California Infrastructure and Economic Development Bank Loan (CIEDB) loan**

During fiscal 2004, 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, 2009 the balance of the loan is \$3,265,131.

## **J. Hamilton Field Loans**

### **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.

**K. Promissory notes - Senior and Subordinate**

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

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

Fiscal Year Ending June 30,	Senior Promissory Note			Subordinate Promissory Note		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 310,000	\$ 632,208	\$ 942,208	\$ 45,000	\$ 93,188	\$ 138,188
2011	325,000	615,218	940,218	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	385,000	555,863	940,863	60,000	78,000	138,000
2015-2019	2,280,000	2,407,098	4,687,098	355,000	316,688	671,688
2020-2024	3,020,000	1,643,289	4,663,289	520,000	153,750	673,750
2025-2028	4,040,000	565,693	4,605,693	135,000	5,063	140,063
	<u>\$ 11,070,000</u>	<u>\$ 7,593,572</u>	<u>\$ 18,663,572</u>	<u>\$ 1,265,000</u>	<u>\$ 905,065</u>	<u>\$ 2,170,065</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
2010	\$ 74,130
2011	71,970
2012	69,690
2013	67,290
2014	64,755
2014-2018	280,185
2019-2023	190,590
2024-2028	65,400
Total Payments	<u>\$ 884,010</u>



## L. Future governmental activities debt service

Future governmental activities debt service at June 30, 2009 is as follows:

### General Obligation Bonds

Fiscal year ending June 30,	Principal					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
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	220,000	230,000	250,000	505,000	395,000	1,600,000
2015-2019	1,230,000	1,280,000	1,470,000	3,000,000	-	6,980,000
2020-2024	1,405,000	1,550,000	1,080,000	1,485,000	-	5,520,000
2025-2028	1,340,000	715,000	-	-	-	2,055,000
Total	<u>\$ 4,870,000</u>	<u>\$ 4,565,000</u>	<u>\$ 3,695,000</u>	<u>\$ 8,350,000</u>	<u>\$ 1,780,000</u>	<u>\$ 23,260,000</u>

Fiscal year ending June 30,	Interest					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
2010	\$ 241,439	\$ 204,243	\$ 189,183	\$ 410,556	\$ 81,125	\$ 1,126,545
2011	223,139	188,043	178,558	370,806	64,875	1,025,420
2012	203,039	170,268	167,308	328,931	47,625	917,170
2013	180,839	157,443	155,558	284,113	29,250	807,201
2014	164,464	149,990	143,308	247,853	9,875	715,489
2015-2019	678,344	617,441	501,316	800,595	-	2,597,696
2020-2024	416,644	333,813	91,300	79,144	-	920,900
2025-2028	112,616	32,513	-	-	-	145,128
Total	<u>\$ 2,220,522</u>	<u>\$ 1,853,751</u>	<u>\$ 1,426,529</u>	<u>\$ 2,521,998</u>	<u>\$ 232,750</u>	<u>\$ 8,255,550</u>

### Other notes

The annual debt service for the Pension Obligation Bonds is as follows as of June 30, 2009:

Fiscal year ending June 30,	Principal	Interest	Total
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	265,000	884,124	1,149,124
2015-2019	2,330,000	4,113,147	6,443,147
2020-2024	4,555,000	3,183,126	7,738,126
2025-2029	7,790,000	1,477,460	9,267,460
2030-2034	2,317,561	8,747,439	11,065,000
2035	428,505	2,021,495	2,450,000
	<u>\$ 18,236,066</u>	<u>\$ 24,056,875</u>	<u>\$ 42,292,941</u>

The annual debt service for the Clean Renewable Energy Bonds is as follows as of June 30, 2009:

Fiscal year ending June 30,	CREBs		
	Principal	Interest	Total
2010	\$ 113,315	\$ -	\$ 113,315
2011	113,315	-	113,315
2012	113,315	-	113,315
2013	113,315	-	113,315
2014	113,315	-	113,315
2015-2019	566,576	-	566,576
2020-2024	399,847	-	399,847
Total	<u>\$ 1,533,000</u>	<u>\$ -</u>	<u>\$ 1,533,000</u>

The annual debt service on the Capital Lease with Dell is as follows as of June 30, 2009:

Fiscal year ending June 30,	Dell Lease		
	Principal	Interest	Total
2010	\$ 50,291	\$ 9,043	\$ 59,333
2011	52,967	6,367	59,333
2012	55,785	3,548	59,333
2013	37,839	709	38,547
Total	<u>\$ 196,881</u>	<u>\$ 19,666</u>	<u>\$ 216,547</u>

The annual debt service for the OPA note is as follows as of June 30, 2009:

Fiscal year ending June 30,	OPA		
	Principal	Interest	Total
2010	\$ 542,523	\$ 257,477	\$ 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>\$ 3,216,242</u>	<u>\$ 783,758</u>	<u>\$ 4,000,000</u>

The annual debt service for the CIEDB loan is as follows as of June 30, 2009:

Fiscal years ending June 30	Payment	Principal	Interest	Annual Fee
2010	\$ 216,499	\$ 96,016	\$ 110,688	\$ 9,795
2011	216,211	99,270	107,433	9,507
2012	215,913	102,636	104,068	9,210
2013	215,605	106,115	100,588	8,902
2014	215,286	109,712	96,991	8,583
2015-2019	1,071,267	606,937	426,580	37,750
2020-2024	1,061,525	717,029	316,489	28,008
2025-2029	1,050,015	847,089	186,428	16,498
2030-2032	623,632	580,327	39,783	3,521
	<u>\$ 4,885,953</u>	<u>\$ 3,265,131</u>	<u>\$ 1,489,049</u>	<u>\$ 131,774</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, 2009:

Fiscal Year Ending June 30,	Hamilton TAB Series 2005 Bonds			Hamilton 2005 Housing Bonds, Series A		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 525,000	\$ 942,938	\$ 1,467,938	\$ 195,000	\$ 392,798	\$ 587,798
2011	540,000	925,631	1,465,631	200,000	385,160	585,160
2012	555,000	907,491	1,462,491	210,000	378,498	588,498
2013	575,000	888,063	1,463,063	215,000	371,430	586,430
2014	595,000	866,844	1,461,844	225,000	363,838	588,838
2015-2019	3,310,000	3,992,627	7,302,627	1,255,000	1,683,681	2,938,681
2020-2024	4,035,000	3,268,477	7,303,477	1,560,000	1,389,994	2,949,994
2025-2029	5,000,000	2,309,853	7,309,853	1,980,000	995,650	2,975,650
2030-2034	6,295,000	1,059,638	7,354,638	2,535,000	463,766	2,998,766
2035	1,445,000	32,513	1,477,513	590,000	14,381	604,381
	<u>\$ 22,875,000</u>	<u>\$ 15,194,072</u>	<u>\$ 38,069,072</u>	<u>\$ 8,965,000</u>	<u>\$ 6,439,195</u>	<u>\$ 15,404,195</u>

The annual debt service for the amount due to the County of Marin is as follows as of June 30, 2009:

Fiscal year ending June 30,	Principal	Interest	Total
2010	\$ 123,024	\$ 9,669	\$ 132,693
2011	127,874	4,819	132,694
2012	54,757	531	55,288
	<u>\$ 305,655</u>	<u>\$ 15,020</u>	<u>\$ 320,675</u>

**NOTE 8 - 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, 2009, the outstanding principal of the Assessment District No. 93-1 (Golden Gate Plaza) bond issue was \$1,595,000.

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, 2009 the outstanding principal of the City of Novato Redevelopment Agency Hamilton 2004 Refunding Special Tax bond issue was \$19,525,000.

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, 2009 the outstanding principal of the City of Novato

Community Facilities District No. 2002-1 (Pointe Marin) Special Tax Refunding bond issue was \$11,660,000.

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, 2009, the outstanding principal of the City of Novato Community Facilities District No. 1 (Vintage Oaks) Special Tax Refunding bond issue was \$20,990,000.

**NOTE 9 - Deficit fund balance/retained earnings:**

The following funds had deficits in fund balances or retained earnings at June 30, 2009:

**Major funds:**

RDA Housing	\$ 20,959,739
Capital Project Fund	536,177

**Other governmental funds:**

**Other Special Revenue Funds:**

Hamilton Recreation Environment Fund	48,691
Hamilton Community Facilities Fund	74,811

**Other Capital Projects Funds:**

Novato Public Financing Authority	125,474
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**Other Debt Service Funds:**

Pension Obligation Bond	2,500
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**Internal service funds:**

Equipment Maintenance	158,967
Insurance	1,437,000

Most of these deficit fund balances will be eliminated as the inter-fund loans are repaid.

**NOTE 10 - 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 \$16,034,295 at June 30, 2009. During fiscal year 2008-09, the amortization of the prepayment increased the actuarially required contributions by \$593,863 to arrive at Annual Pension Costs of \$3,859,855.

## **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 2008-09, PERS charged 14.943% for the miscellaneous plan and 24.762% for the safety plan.

## **C. Annual pension cost**

For fiscal year 2008-09, the City's annual pension cost of \$3,859,855, includes the amortization of the prepaid PERS contributions of \$593,863 (See section Note 10 A) and \$3,265,992 which was equal to the City's required and actual PERS contributions. The required contribution was determined as part of the June 30, 2006 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**

	<u>Annual pension cost (APC)</u>	<u>Percentage APC contributed</u>	<u>Net pension obligation</u>
<u>Miscellaneous employees</u>			
Fiscal year ended:			
6/30/2007	\$ 1,743,116	100%	-
6/30/2008	1,722,029	100%	-
6/30/2009	2,080,135	100%	-
<u>Safety employees</u>			
Fiscal year ended:			
6/30/2007	\$ 1,865,910	100%	-
6/30/2008	2,024,827	100%	-
6/30/2009	1,779,720	100%	-

### **NOTE 11 - 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 12 - Other postretirement employment benefits:**

Plan Description

During the fiscal year ended June 30, 2009, the City implemented GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement establishes uniform financial reporting standards for employers providing postemployment benefits. The provisions of this statement are applied on a prospective basis.

The City provides health insurance benefits under the Anthem Blue Cross, Kaiser, PERs Choice, PERs Care or PORAC health plans to eligible retirees and dependents in accordance with various labor agreements. Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled) and are eligible for a PERS pension.

Funding Policy

The City's practice is to fund these benefits on a pay-as-you-go basis, and paid \$1,186 per retiree for the fiscal year ended June 30, 2009 (a total of \$47,433) to the plan. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount which was determined as part of a July 1, 2008 actuarial valuation in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no less than every three years.

The City's OPEB unfunded actuarial accrued liability as of July 1, 2008, the date of the most recent actuarial valuation, was a total of \$1,803,000.

The City has calculated and recorded the Net OPEB obligation, representing the difference between the ARC, amortization and contributions, as follows:

Annual required contributions (ARC) and annual OPEB cost	\$ 191,000
Contributions made by the City	<u>(47,443)</u>
Increase in net OPEB obligation	143,557
Net OPEB obligations, beginning of year	-
Net OPEB obligations, end of year	<u>\$ 143,557</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2009 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/07	N/A	N/A	N/A
06/30/08	N/A	N/A	N/A
06/30/09	\$ 191,000	24.83%	\$ 143,557

Note: Disclosure of annual OPEB cost, percent contributed, and net OPEB obligation, if any, is required for the current fiscal year and each of the two preceding fiscal years. The fiscal year ended June 30, 2009 is the first year of implementation of the City's post-retirement health care plan

accounted for and reported in accordance with the requirements of GASB 45. Accordingly, three-year data is not available and will be shown when such data becomes available.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of plan benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions include a 5 percent investment rate of return, covered payroll increases of 3.5 percent per year, an inflation rate of 3.25 percent per year, and a medical increase trend rate of 4 percent per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years.

### **NOTE 13 - 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 \$204,523 for claims and \$323,348 for insurance premiums during the fiscal year ended June 30, 2009.

Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2009 is as follows:

Total assets	\$ 22,789,374
Total liabilities	14,599,439
Net assets	<u>\$ 8,189,935</u>
Total revenues	\$ 10,255,328
Total expenditures	10,377,153
Change in net assets	<u>\$ (121,825)</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 contribution 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, 2009, the City incurred costs of \$617,527 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 19<sup>th</sup> 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, 2009:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Projected known claims	\$ 479,198	\$ 30,343	\$ 509,541
Projected IBNR	753,026	174,433	927,459
Claims liabilities, June 30, 2009	<u>\$ 1,232,224</u>	<u>\$ 204,776</u>	<u>\$ 1,437,000</u>

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Claims liabilities - current	\$ 317,110	\$ 90,244	\$ 407,354
Claims liabilities - non-current	915,114	114,532	1,029,646
Total claims liabilities	<u>\$ 1,232,224</u>	<u>\$ 204,776</u>	<u>\$ 1,437,000</u>



**NOTE 14 - Contingencies:**

The City is a defendant in a number of lawsuits and claims pending at June 30, 2009. 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.

**NOTE 15 - 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. In 2007 MERA borrowed an additional \$2,250,000 from Citizen's Business Bank to finance infrastructure needs. 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, 2009:

Fiscal year ending June 30,	Minimum Service Payments
2010	\$ 246,224
2011	245,885
2012	245,924
2013	246,002
2014	246,237
2015-2019	1,230,229
2020-2023	270,559
	<u>\$ 2,731,059</u>

**NOTE 16 - Fund equity:**

In the fund financial statements, fund balances 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 reserved and unreserved/designated at June 30, 2009 are as follows:

**RESERVED**

**Major Funds:**

General Fund	\$ 10,535,241
RDA Housing	1,016,184
RDA	185,821
Hamilton Trust Fund	33,087,188
	<u>44,824,434</u>

**Other Governmental Funds:**

**Special Revenue Funds:**

Housing Opportunity	1,425,488
State Gas Tax	162,007
	<u>1,587,495</u>

**Debt Service Fund:**

Bond requirements	<u>2,424,144</u>
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<b>Total reserved</b>	<u>\$ 48,836,073</u>
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**UNRESERVED, DESIGNATED****Major Funds:**

General Fund	\$ (18,600)
	<u>(18,600)</u>

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

Affordable Housing Trust	619,387
Clean Stormwater	4,360
Parking Improvement	127,232
Chapter 27 Assessment	176,386
State Grant Funds	128,411
Federal Grant Funds	277,699
Private Grant Funds	17,276
	<u>1,350,751</u>

**Capital Projects Funds:**

Measure B	2,388,060
Measure A	1,159
Prop 1B	625,469
Clean Renewable Energy Bonds	1,361,152
Civic Center Funds	1,852,793
Clean Stormwater CIP	138,954
Street & Storm Drain Maintenance	350,884
Long Term Maintenance	664,812
Development Impact Fees	12,055,047
Community Center Maintenance	1,640,613
Novato Public Finance Authority	(125,474)
	<u>20,953,469</u>

**Total unreserved, designated**

<u>\$ 22,285,620</u>
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**NOTE 17 - Excess of expenditures over appropriations:**

For the fiscal year ended June 30, 2009, expenditures exceeded the budgeted expenditures in the following funds:

<u>Fund</u>	<u>Expenditures exceeded budget</u>
General Fund	
Capital outlay	\$ 273,460
Debt service-principal	143,498
Debt service-interest	18,861
RDA Housing Fund:	
Cultural and recreation	21,705
Loss in value on homes held for resale	193,230
RDA:	
Transfers out	33,051

**REQUIRED**  
**SUPPLEMENTARY**  
**INFORMATION**

**CITY OF NOVATO**

**Pension Plans**

**Schedule of Funding Progress (Unaudited)**

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**PERS:**

		(b)	(a)	(c)	(a)/(b)	(d)	(c)/(d)
	Valuation	Entry Age		Unfunded		Annual	UAAAL
	Date	Actuarial	Actuarial	Liability/	Funded	Covered	as a
		Accrued	Asset Value	(Excess	Ratio	Payroll	Percentage of
		Liability		Assets)			Payroll
<b>Safety</b>	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%
	6/30/2008	\$ 1,642,369,655	\$ 1,539,252,327	\$ 103,117,328	94%	\$ 210,590,567	49%
<b>Miscellaneous</b>	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%
	6/30/2008	\$ 58,961,281	\$ 58,382,611	\$ 578,670	99%	\$ 12,045,416	5%

\*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, 2009 is not available and therefore is not included in the above analysis.

**CITY OF NOVATO**

**Nonmajor Governmental Funds**

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**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, 2009**

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 13,585,415	\$ 20,338,840	\$ 2,418,451	\$ 36,342,706
Cash with fiscal agent	-	1,401,426	-	1,401,426
Receivables:	-	-	-	-
Taxes	-	169,088	3,193	172,281
Interest	3,999	-	-	3,999
Accounts	331,960	-	-	331,960
Due from other funds	2,170,257	2,187,192	-	4,357,449
Loans	949,999	-	-	949,999
Deferred costs	5,967	97,585	-	103,552
Total assets	<u>\$ 17,047,597</u>	<u>\$ 24,194,131</u>	<u>\$ 2,421,644</u>	<u>\$ 43,663,372</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 126,108	\$ 1,186	\$ -	\$ 127,294
Accrued salaries & benefits	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other funds	128,823	1,852,584	-	1,981,407
Deposits/other payables	-	885,100	(2,500)	882,600
Deferred revenue	769,304	501,792	-	1,271,096
Total liabilities	<u>1,024,235</u>	<u>3,240,662</u>	<u>(2,500)</u>	<u>4,262,397</u>
<b>Fund balances:</b>				
Reserved	1,587,495	-	2,424,144	4,011,639
Designated	1,350,751	20,953,469	-	22,304,220
Unreserved (deficit)	13,085,116	-	-	13,085,116
Total fund balances	<u>16,023,362</u>	<u>20,953,469</u>	<u>2,424,144</u>	<u>39,400,975</u>
Total liabilities and fund balances	<u>\$ 17,047,597</u>	<u>\$ 24,194,131</u>	<u>\$ 2,421,644</u>	<u>\$ 43,663,372</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, 2009**

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 1,080,799	\$ 1,175,779	\$ 2,576,021	\$ 4,832,599
Use of money and property	240,445	1,045,868	36,664	1,322,977
Revenues from other agencies	1,483,000	-	22,012	1,505,012
Current service charges	759,984	482,822	-	1,242,806
Other revenue	2,758	-	-	2,758
Total revenues	<u>3,566,986</u>	<u>2,704,469</u>	<u>2,634,697</u>	<u>8,906,152</u>
<b>EXPENDITURES</b>				
Current:				
General government	6,916	311,227	60,139	378,282
Public safety	430,957	-	-	430,957
Public works	1,111,360	600	-	1,111,960
Cultural & Recreation	57	8,828	-	8,885
Community development	460	-	-	460
Capital outlay	298,329	-	-	298,329
Debt service:				
Principal	9,769	-	1,535,000	1,544,769
Interest and fiscal agent fees	4,442	-	2,120,026	2,124,468
Total expenditures	<u>1,862,290</u>	<u>320,655</u>	<u>3,715,165</u>	<u>5,898,110</u>
REVENUES OVER (UNDER) EXPENDITURES	1,704,696	2,383,814	(1,080,468)	3,008,042
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	7,000	1,944,693	929,381	2,881,074
Transfers out	(2,123,685)	(8,306,323)	-	(10,430,008)
Debt proceeds	-	1,533,000	-	1,533,000
Issuance costs	-	(76,650)	-	(76,650)
Total other financing sources (uses)	<u>(2,116,685)</u>	<u>(4,905,280)</u>	<u>929,381</u>	<u>(6,092,584)</u>
Net change in fund balances	(411,989)	(2,521,466)	(151,087)	(3,084,542)
Fund balances, beginning of year	16,435,351	23,474,935	2,575,231	42,485,517
Fund balances, end of year	<u>\$ 16,023,362</u>	<u>\$ 20,953,469</u>	<u>\$ 2,424,144</u>	<u>\$ 39,400,975</u>



**CITY OF NOVATO**  
**Special Revenue Funds**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## CITY OF NOVATO

### Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

**Pension Reserve Fund** - accounts for set aside monies to stabilize pension expense by consistently charging the General Fund the 'Normal Cost', as determined by CalPERS. In years where the CalPERS required contribution to the retirement plans is less than the Normal Cost, the difference will be deposited into the fund. Fund balance will be utilized in years when the required contribution is greater than Normal Cost.

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

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

**CITY OF NOVATO**  
**Other Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2009**

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	Hamilton Rec/Environ Fund	Art in Public Places	General Plan Surcharge	Automation Surcharge	Hamilton Community Facilities	Pointe Marin CFD	Chapter 27 Assessment
<b>ASSETS</b>													
Cash and investments	\$ 475,490	\$ 619,387	\$ 2,402	\$ 977,294	\$ 127,315	\$ 2,578,949	\$ (48,691)	\$ 75,972	\$ 680,349	\$ 384,499	\$ 173,975	\$ 571,568	\$ 176,371
Cash with fiscal agent													
Receivables:													
Interest	3,999												15
Accounts and due from other governments			1,958										
Loans	949,999												
Deferred costs											5,967		
Due from other funds		-				712,164							
Total assets	<u>\$ 1,429,488</u>	<u>\$ 619,387</u>	<u>\$ 4,360</u>	<u>\$ 977,294</u>	<u>\$ 127,315</u>	<u>\$ 3,291,113</u>	<u>\$ (48,691)</u>	<u>\$ 75,972</u>	<u>\$ 680,349</u>	<u>\$ 384,499</u>	<u>\$ 179,942</u>	<u>\$ 571,568</u>	<u>\$ 176,386</u>
<b>LIABILITIES AND FUND BALANCES</b>													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 83	\$ -	\$ -	\$ -	\$ 54,731	\$ 20,929	\$ 15,440	\$ 5,156	\$ -
Accrued salaries & benefits													
Accrued liabilities											128,823		
Due to other funds													
Deposits/other payables													
Deferred revenue	4,000	-				174,164					110,490		
Total liabilities	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>83</u>	<u>174,164</u>	<u>-</u>	<u>-</u>	<u>54,731</u>	<u>20,929</u>	<u>254,753</u>	<u>5,156</u>	<u>-</u>
Fund balances:													
Reserved	1,425,488												
Unreserved-designated		619,387	4,360		127,232								176,386
Unreserved- (deficit)				977,294		3,116,949	(48,691)	75,972	625,618	363,570	(74,811)	566,412	
Total fund balances	<u>1,425,488</u>	<u>619,387</u>	<u>4,360</u>	<u>977,294</u>	<u>127,232</u>	<u>3,116,949</u>	<u>(48,691)</u>	<u>75,972</u>	<u>625,618</u>	<u>363,570</u>	<u>(74,811)</u>	<u>566,412</u>	<u>176,386</u>
Total liabilities and fund balances	<u>\$ 1,429,488</u>	<u>\$ 619,387</u>	<u>\$ 4,360</u>	<u>\$ 977,294</u>	<u>\$ 127,315</u>	<u>\$ 3,291,113</u>	<u>\$ (48,691)</u>	<u>\$ 75,972</u>	<u>\$ 680,349</u>	<u>\$ 384,499</u>	<u>\$ 179,942</u>	<u>\$ 571,568</u>	<u>\$ 176,386</u>

**CITY OF NOVATO**

**Other Special Revenue Funds**

**Combining Balance Sheet**

**June 30, 2009**

	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 Gas tax	Traffic Congestion Relief	2005 LLEB Grant Fund	Special Police Projects	State Grant Fund
<b>ASSETS</b>													
Cash and investments	\$ 48,023	\$ 65,927	\$ 7,445	\$ 52,494	\$ 132,825	\$ 29,327	\$ 55	\$ 14,776	\$ 162,007	\$ 142,847	\$ -	\$ 103,246	\$ (51,607)
Cash with fiscal agent													
Receivables:													
Interest													
Accounts and due from other governments	287		48	122	54	63	85		-	106,646		3,829	180,018
Loans													
Deferred costs													
Due from other funds													
Total assets	<u>\$ 48,310</u>	<u>\$ 65,927</u>	<u>\$ 7,493</u>	<u>\$ 52,616</u>	<u>\$ 132,879</u>	<u>\$ 29,390</u>	<u>\$ 140</u>	<u>\$ 14,776</u>	<u>\$ 162,007</u>	<u>\$ 249,493</u>	<u>\$ -</u>	<u>\$ 107,075</u>	<u>\$ 128,411</u>
<b>LIABILITIES AND FUND BALANCES</b>													
Liabilities:													
Accounts payable	\$ 7,157	\$ -	\$ 929	\$ 9,234	\$ -	\$ 127	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,322	\$ -
Accrued salaries & benefits													
Accrued liabilities													
Due to other funds													
Deposits/other payables													
Deferred revenue												15,465	
Total liabilities	<u>7,157</u>	<u>-</u>	<u>929</u>	<u>9,234</u>	<u>-</u>	<u>127</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,787</u>	<u>-</u>
Fund balances:													
Reserved									162,007				
Unreserved-designated													128,411
Unreserved- (deficit)	41,153	65,927	6,564	43,382	132,879	29,263	140	14,776		249,493	-	79,288	
Total fund balances	<u>41,153</u>	<u>65,927</u>	<u>6,564</u>	<u>43,382</u>	<u>132,879</u>	<u>29,263</u>	<u>140</u>	<u>14,776</u>	<u>162,007</u>	<u>249,493</u>	<u>-</u>	<u>79,288</u>	<u>128,411</u>
Total liabilities and fund balances	<u>\$ 48,310</u>	<u>\$ 65,927</u>	<u>\$ 7,493</u>	<u>\$ 52,616</u>	<u>\$ 132,879</u>	<u>\$ 29,390</u>	<u>\$ 140</u>	<u>\$ 14,776</u>	<u>\$ 162,007</u>	<u>\$ 249,493</u>	<u>\$ -</u>	<u>\$ 107,075</u>	<u>\$ 128,411</u>

**CITY OF NOVATO**

**Other Special Revenue Funds**

**Combining Balance Sheet**

**June 30, 2009**

	Fed Grant Fund	Private Grant Fund	Pension Reserve Fund	Insurance Reserve	Emergency & Disaster Response Reserve	Total Other Special Revenue Funds
<b>ASSETS</b>						
Cash and investments	\$ 238,864	\$ 96,018	\$ 1,315	\$ 897,837	\$ 4,849,136	\$ 13,585,415
Cash with fiscal agent						-
Receivables:						
Interest						3,999
Accounts and due from other governments	38,835					331,960
Loans						949,999
Deferred costs						5,967
Due from other funds				373,709	1,084,384	2,170,257
Total assets	<u>\$ 277,699</u>	<u>\$ 96,018</u>	<u>\$ 1,315</u>	<u>\$ 1,271,546</u>	<u>\$ 5,933,520</u>	<u>\$ 17,047,597</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 126,108
Accrued salaries & benefits						-
Accrued liabilities						-
Due to other funds						128,823
Deposits/other payables						-
Deferred revenue		78,742		73,709	312,734	769,304
Total liabilities	<u>-</u>	<u>78,742</u>	<u>-</u>	<u>73,709</u>	<u>312,734</u>	<u>1,024,235</u>
Fund balances:						
Reserved					-	1,587,495
Unreserved-designated	277,699	17,276				1,350,751
Unreserved- (deficit)			1,315	1,197,837	5,620,786	13,085,116
Total fund balances	<u>277,699</u>	<u>17,276</u>	<u>1,315</u>	<u>1,197,837</u>	<u>5,620,786</u>	<u>16,023,362</u>
Total liabilities and fund balances	<u>\$ 277,699</u>	<u>\$ 96,018</u>	<u>\$ 1,315</u>	<u>\$ 1,271,546</u>	<u>\$ 5,933,520</u>	<u>\$ 17,047,597</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, 2009

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	Hamilton Rec/Environ Fund	Art in Public Places	General Plan Surcharge	Automated Surcharge	Hamilton Community Facilities	Pointe Marin CFD
<b>REVENUES</b>												
Taxes	\$ -	\$ -	\$ 356,641	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 434,744	\$ 183,074
Use of money and property	26,678	15,135	262	23,460	3,115	60,407	-	2,252	22,938	11,685	3,402	13,493
Revenues from other agencies												
Current service charges	82,656			49,650		379,735		66,182	88,248	88,213		
Other revenue												
Total revenues	109,334	15,135	356,903	73,110	3,115	440,142	-	68,434	111,186	99,898	438,146	196,567
<b>EXPENDITURES</b>												
General government											2,606	
Public safety			172,398		425						166,676	
Public works								506,070	62,488		259,520	179,842
Parks & Recreation												
Community development	-	60										
Debt service:												
Principal												
Interest and fiscal charges	-									298,329		
Capital outlay									506,070	360,817	428,802	179,842
Total expenditures	-	60	172,398	-	425	-	-	-	506,070	360,817	428,802	179,842
Excess of revenues over (under)	109,334	15,075	184,505	73,110	2,690	440,142	-	68,434	(394,884)	(260,919)	9,344	16,725
<b>OTHER FINANCING SOURCES (USES)</b>												
Debt Proceeds												
Issuance Costs												
Transfers in												
Transfers out			(195,000)			(159,546)		(97,527)	(5,709)		(14,089)	(8,290)
Total other financing sources (uses)	-	-	(195,000)	-	-	(159,546)	-	(97,527)	(5,709)	-	(14,089)	(8,290)
Net change in fund balances	109,334	15,075	(10,495)	73,110	2,690	280,596	-	(29,093)	(400,593)	(260,919)	(4,745)	8,435
Fund balances, beginning of year	1,316,154	604,312	14,855	904,184	124,542	2,836,353	(48,691)	105,065	1,026,211	624,489	(70,066)	557,977
Fund balances, end of year	\$ 1,425,488	\$ 619,387	\$ 4,360	\$ 977,294	\$ 127,232	\$ 3,116,949	\$ (48,691)	\$ 75,972	\$ 625,618	\$ 363,570	\$ (74,811)	\$ 566,412

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2009

	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 Gas tax	Traffic Congestion Relief
<b>REVENUES</b>											
Taxes	\$ -	\$ 44,650	\$ -	\$ 7,905	\$ 20,264	\$ 8,910	\$ 10,442	\$ 14,169	\$ -	\$ -	\$ -
Use of money and property	5,150	1,038	1,611	124	1,074	3,114	563	(159)	362	4,969	1,353
Revenues from other agencies										891,932	446,590
Current service charges	5,300										
Other revenue								2,518		-	
Total revenues	10,450	45,688	1,611	8,029	21,338	12,024	11,005	16,528	362	896,901	447,943
<b>EXPENDITURES</b>											
General government		500		500	500		500				
Public safety											
Public works		46,512		5,442	16,308	843	217				
Parks & Recreation									57		
Community development										400	
Debt service:											
Principal								9,769			
Interest and fiscal charges	-							4,442			
Capital outlay											
Total expenditures	-	47,012	-	5,942	16,808	843	717	14,211	57	400	-
Excess of revenues over (under)	10,450	(1,324)	1,611	2,087	4,530	11,181	10,288	2,317	305	896,501	447,943
<b>OTHER FINANCING SOURCES (USES)</b>											
Debt Proceeds											
Issuance Costs											
Transfers in										-	-
Transfers out	(2,772)									(866,176)	(198,444)
Total other financing sources (uses)	(2,772)	-	-	-	-	-	-	-	-	(866,176)	(198,444)
Net change in fund balances	7,678	(1,324)	1,611	2,087	4,530	11,181	10,288	2,317	305	30,325	249,499
Fund balances, beginning of year	168,708	42,477	64,316	4,477	38,852	121,698	18,975	(2,177)	14,471	131,682	(6)
Fund balances, end of year	\$ 176,386	\$ 41,153	\$ 65,927	\$ 6,564	\$ 43,382	\$ 132,879	\$ 29,263	\$ 140	\$ 14,776	\$ 162,007	\$ 249,493

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2009

	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
<b>REVENUES</b>									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,080,799
Use of money and property	20	3,323	-	5,567	2,505	1,135	25,869	-	240,445
Revenues from other agencies		37,745	70,115	36,618					1,483,000
Current service charges									759,984
Other revenue		240							2,758
Total revenues	20	41,308	70,115	42,185	2,505	1,135	25,869	-	3,566,986
<b>EXPENDITURES</b>									
General government							2,310		6,916
Public safety	3,883	87,575							430,957
Public works				34,118					1,111,360
Parks & Recreation									57
Community development									460
Debt service									9,769
Principal									4,442
Interest and fiscal charges									298,329
Capital outlay									1,862,290
Total expenditures	3,883	87,575	-	34,118	-	-	2,310	-	1,862,290
Excess of revenues over (under)	(3,863)	(46,267)	70,115	8,067	2,505	1,135	23,559	-	1,704,696
<b>OTHER FINANCING SOURCES (USES)</b>									
Debt Proceeds									-
Issuance Costs									-
Transfers in		7,000							7,000
Transfers out			(70,115)			(50,800)	(179,200)	(276,017)	(2,123,685)
	-	7,000	(70,115)			(50,800)	(179,200)	(276,017)	(2,116,685)
Net change in fund balances	(3,863)	(39,267)	-	8,067	2,505	(49,665)	(155,641)	(276,017)	(411,989)
Fund balances, beginning of year	3,863	118,555	128,411	269,632	14,771	50,980	1,353,478	5,896,803	16,435,351
Fund balances, end of year	\$ -	\$ 79,288	\$ 128,411	\$ 277,699	\$ 17,276	\$ 1,315	\$ 1,197,837	\$ 5,620,786	\$ 16,023,362



## CITY OF NOVATO

### Capital Projects Funds

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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, 2009**

	Measure B St. Bond Project - 2007	Measure A St. Bond Project	Prop 1B Local Streets & Roads	Clean Renewable Energy Bonds (CREBS)	Civic Center	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance	Restricted Revenue	Development Impact Fee
<b>ASSETS</b>										
Cash and investments	\$ 2,388,060	\$ (167,929)	\$ 625,469	\$ (40,274)	\$ 1,852,793	\$ 138,954	\$ 350,884	\$ 664,812	\$ 885,100	\$ 11,261,047
Cash with fiscal agent				1,401,426						
Receivables:										
Property taxes		169,088								
Interest										
Accounts										
Interest										
Prepaid Expenses										
Deferred costs						-				1,051,038
Due from other funds										
Total assets	<u>\$ 2,388,060</u>	<u>\$ 1,159</u>	<u>\$ 625,469</u>	<u>\$ 1,361,152</u>	<u>\$ 1,852,793</u>	<u>\$ 138,954</u>	<u>\$ 350,884</u>	<u>\$ 664,812</u>	<u>\$ 885,100</u>	<u>\$ 12,312,085</u>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>Liabilities:</b>										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued salaries & benefits										
Accrued liabilities										
Deferred revenue										257,038
Deposits and other payables									885,100	
Due to other funds										
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>885,100</u>	<u>257,038</u>
<b>Fund balances:</b>										
Reserved for capital projects										12,055,047
Unreserved - designated	2,388,060	1,159	625,469	1,361,152	1,852,793	138,954	350,884	664,812		
Unreserved - undesignated										-
Total fund balances (deficit)	<u>2,388,060</u>	<u>1,159</u>	<u>625,469</u>	<u>1,361,152</u>	<u>1,852,793</u>	<u>138,954</u>	<u>350,884</u>	<u>664,812</u>	<u>-</u>	<u>12,055,047</u>
Total liabilities and fund balances	<u>\$ 2,388,060</u>	<u>\$ 1,159</u>	<u>\$ 625,469</u>	<u>\$ 1,361,152</u>	<u>\$ 1,852,793</u>	<u>\$ 138,954</u>	<u>\$ 350,884</u>	<u>\$ 664,812</u>	<u>\$ 885,100</u>	<u>\$ 12,312,085</u>

**CITY OF NOVATO**  
**Other Capital Projects Funds**  
**Combining Balance Sheet**  
**June 30, 2009**

	RDA Community Center Maintenance	RDA Community Center and Perf. Arts	RDA Community Center Gymnastics Center	Novato Public Financing Authority	Total Other Capital Projects Funds
<b>ASSETS</b>					
Cash and investments	\$ 1,345,613	\$ -	\$ -	\$ 1,034,311	\$ 20,338,840
Cash with fiscal agent					\$ 1,401,426
Receivables:					
Property taxes					169,088
Interest					-
Accounts					-
Interest					-
Prepaid Expenses				-	-
Deferred costs			-	97,585	97,585
Due from other funds	390,499	-		745,655	2,187,192
Total assets	<u>\$ 1,736,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,877,551</u>	<u>\$ 24,194,131</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ 1,186	\$ 1,186
Accrued salaries & benefits					-
Accrued liabilities					-
Deferred revenue	95,499	-		149,255	501,792
Deposits and other payables					885,100
Due to other funds			-	1,852,584	1,852,584
Total liabilities	<u>95,499</u>	<u>-</u>	<u>-</u>	<u>2,003,025</u>	<u>3,240,662</u>
<b>Fund balances:</b>					
Reserved for capital projects					-
Unreserved - designated	1,640,613	-	-	(125,474)	20,953,469
Unreserved - undesignated					-
Total fund balances (deficit)	<u>1,640,613</u>	<u>-</u>	<u>-</u>	<u>(125,474)</u>	<u>20,953,469</u>
Total liabilities and fund balances	<u>\$ 1,736,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,877,551</u>	<u>\$ 24,194,131</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, 2009**

	Measure B St. Bond Project-2007	Measure A St. Bonds	Prop 1B Local Streets & Roads	Clean Renewable Energy Bonds (CREBS)	Civic Center	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance	Restricted Revenue	Development Impact Fee
<b>REVENUES</b>										
Taxes	\$ -	\$ 1,175,779	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenues from other agencies										
Use of money and property	66,657	2,742	24,881	295	95,232	2,867	8,561	17,221	-	295,662
Current service charges										482,822
Other revenue										
Other revenue	-									
Total revenues	66,657	1,178,521	24,881	295	95,232	2,867	8,561	17,221	-	778,484
<b>EXPENDITURES</b>										
Current:										
General government										
Public works										
Community development										
Parks & Recreation										
Capital outlay										
Debt service:										
Principal										
Interest										
Total expenditures	-	-	-	-	-	-	-	-	-	-
Excess of revenues over (under) expenditures	66,657	1,178,521	24,881	295	95,232	2,867	8,561	17,221	-	778,484
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in						45,000	20,000	-		
Transfers out	(534,594)	(1,059,893)	(243,870)	(95,493)	(2,324,332)	(2,671)	(11,727)	(46,692)		(1,266,836)
Debt proceeds	-			1,533,000						
Issuance costs	-			(76,650)						
Total other financing sources (uses)	(534,594)	(1,059,893)	(243,870)	1,360,857	(2,324,332)	42,329	8,273	(46,692)	-	(1,266,836)
Net change in fund balances	(467,937)	118,628	(218,989)	1,361,152	(2,229,100)	45,196	16,834	(29,471)	-	(488,352)
Fund balances, beginning of year	2,855,997	(117,469)	844,458	-	4,081,893	93,758	334,050	694,283	-	12,543,399
Fund balances, end of year	\$ 2,388,060	\$ 1,159	\$ 625,469	\$ 1,361,152	\$ 1,852,793	\$ 138,954	\$ 350,884	\$ 664,812	\$ -	\$ 12,055,047

**CITY OF NOVATO**

**Other Capital Projects Funds**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**

**For the Fiscal Year Ended June 30, 2009**

	RDA Community Center Maintenance	RDA Community Center and Perf. Arts	RDA Community Center Gymnastics Center	Novato Public Financing Authority	Total Other Capital Projects Funds
<b>REVENUES</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,175,779
Revenues from other agencies					-
Use of money and property	51,545	-	-	480,205	1,045,868
Current service charges					482,822
Other revenue					-
Other revenue					-
Total revenues	51,545	-	-	480,205	2,704,469
<b>EXPENDITURES</b>					
Current:					
General government				311,227	311,227
Public works				600	600
Community development		-	-	-	-
Parks & Recreation		-		8,828	8,828
Capital outlay				-	-
Debt service:					
Principal				-	-
Interest				-	-
Total expenditures	-	-	-	320,655	320,655
Excess of revenues over (under) expenditures	51,545	-	-	159,550	2,383,814
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,879,693		-		1,944,693
Transfers out	(773,264)	(1,790,288)	(89,405)	(67,258)	(8,306,323)
Debt proceeds					1,533,000
Issuance costs					(76,650)
Total other financing sources (uses)	1,106,429	(1,790,288)	(89,405)	(67,258)	(4,905,280)
Net change in fund balances	1,157,974	(1,790,288)	(89,405)	92,292	(2,521,466)
Fund balances, beginning of year	482,639	1,790,288	89,405	(217,766)	23,474,935
Fund balances, end of year	\$ 1,640,613	\$ -	\$ -	\$ (125,474)	\$ 20,953,469

## CITY OF NOVATO

### Debt Service Fund

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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, 2009**

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	General Obligation Bonds	Financing Authority	Pension Obligation Bond	Total Other Debt Service Funds
<b>ASSETS</b>				
Cash and investments	\$ 2,420,951	\$ -	\$ (2,500)	\$ 2,418,451
Accounts receivable	3,193			3,193
Total assets	<u>\$ 2,424,144</u>	<u>\$ -</u>	<u>\$ (2,500)</u>	<u>\$ 2,421,644</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Deposits and other liabilities	\$ -	\$ -	\$ (2,500)	\$ (2,500)
Advances from other funds				-
Total liabilities	<u>-</u>	<u>-</u>	<u>(2,500)</u>	<u>(2,500)</u>
<b>Fund balances:</b>				
Reserved for debt service	2,424,144			2,424,144
Unreserved - undesignated		-		-
Total fund balances	<u>2,424,144</u>	<u>-</u>	<u>-</u>	<u>2,424,144</u>
Total liabilities and fund balances	<u>\$ 2,424,144</u>	<u>\$ -</u>	<u>\$ (2,500)</u>	<u>\$ 2,421,644</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, 2009**

	General Obligation Bonds	Financing Authority	Pension Obligation Bond	Total Other Debt Service Funds
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Taxes	2,576,021	-	-	2,576,021
Revenues from other agencies	22,012	-	-	22,012
Use of money and property	36,664	-	-	36,664
Other revenues	-	-	-	-
Total revenues	<u>2,634,697</u>	<u>-</u>	<u>-</u>	<u>2,634,697</u>
<b>EXPENDITURES</b>				
Current:				
General government	60,139	-	-	60,139
Debt service:	-	-	-	-
Principal	1,505,000	-	30,000	1,535,000
Interest and fiscal agent fees	1,220,645	-	899,381	2,120,026
Total expenditures	<u>2,785,784</u>	<u>-</u>	<u>929,381</u>	<u>3,715,165</u>
Excess of revenues over (under) expenditures	<u>(151,087)</u>	<u>-</u>	<u>(929,381)</u>	<u>(1,080,468)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt proceeds	-	-	-	-
Transfers in	-	-	929,381	929,381
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>929,381</u>	<u>929,381</u>
Net change in fund balances	<u>(151,087)</u>	<u>-</u>	<u>-</u>	<u>(151,087)</u>
Fund balances, beginning of year	2,575,231	-	-	2,575,231
Fund balances, end of year	<u>\$ 2,424,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,424,144</u>



## CITY OF NOVATO

### Internal Service Funds

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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, 2009**

	<u>Equipment Maintenance</u>	<u>Equipment Replacement</u>	<u>Furnishings, Fixtures &amp; Equipment Replacement</u>	<u>Insurance</u>	<u>Total Internal Service Funds</u>
<b>Assets</b>					
<b>ASSETS</b>					
Current assets:					
Cash and investments	\$ (125,946)	\$ 2,545,543	\$ 768	\$ -	\$ 2,420,365
Cash with fiscal agents					-
Accounts receivable	6,475	-			6,475
Loans receivable					-
Due from other funds		2,064,651	-		2,064,651
Deposits					-
Prepays and other assets					-
Total current assets	<u>(119,471)</u>	<u>4,610,194</u>	<u>768</u>	<u>-</u>	<u>4,491,491</u>
Capital assets, net		1,641,621		-	1,641,621
Total assets	<u>(119,471)</u>	<u>6,251,815</u>	<u>768</u>	<u>-</u>	<u>6,133,112</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	39,496	80,887	-		120,383
Deferred revenue		232,614	-		232,614
Claims payable				407,354	407,354
Total current liabilities	<u>39,496</u>	<u>313,501</u>	<u>-</u>	<u>407,354</u>	<u>760,351</u>
Claims payable - noncurrent				1,029,646	1,029,646
Total liabilities	<u>39,496</u>	<u>313,501</u>	<u>-</u>	<u>1,437,000</u>	<u>1,789,997</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	-	1,641,621	-	-	1,641,621
Unrestricted	(158,967)	4,296,693	768	(1,437,000)	2,701,494
Total net assets (deficit)	<u>\$ (158,967)</u>	<u>\$ 5,938,314</u>	<u>\$ 768</u>	<u>\$(1,437,000)</u>	<u>\$ 4,343,115</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, 2009**

	Equipment Maintenance	Equipment Replacement	Furnishings, Fixtures & Equipment Replacement	Insurance	Total Internal Service Funds
<b>REVENUES</b>					
Use of money and property	\$ -	\$ 77,195	\$ -	\$ -	\$ 77,195
Revenues from other agencies		2,857	19		2,876
Current service charges	819,977	291,235			1,111,212
Other revenue	6,835	35,065		52,163	94,063
Total revenues	826,812	406,352	19	52,163	1,285,346
<b>EXPENSES</b>					
Cost of services	800,089	440,061	-	26,555	1,266,705
Depreciation		446,016			446,016
Total expenses	800,089	886,077	-	26,555	1,712,721
Operating income (loss)	26,723	(479,725)	19	25,608	(427,375)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in		400,000	-		400,000
Transfers out	(21,718)	-	-		(21,718)
	(21,718)	400,000	-	-	378,282
Change in net assets	5,005	(79,725)	19	25,608	(49,093)
Net assets (deficit), beginning of year	(163,972)	6,018,039	749	(1,462,608)	4,392,208
Net assets (deficit), end of year	\$ (158,967)	\$ 5,938,314	\$ 768	\$ (1,437,000)	\$ 4,343,115

Schedule 11

**CITY OF NOVATO**

**Trust and Agency Funds**

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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, 2009**

	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
<b>ASSETS</b>										
Cash and investments	\$ 714,622	52,898	\$ 767,520	\$ 5,200	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ -	\$ 1,515,574
Cash and investments with fiscal agent		3,761,419	3,761,419							1,828,902
Receivables		10,427	10,427							10,557
Fixed assets, net		15,173,170	15,173,170							
Other assets, net		740,775	740,775							
<b>Total assets</b>	<b>\$ 714,622</b>	<b>\$ 19,738,689</b>	<b>\$ 20,453,311</b>	<b>\$ 5,200</b>	<b>\$ 1,000,000</b>	<b>\$ 176</b>	<b>\$ 23,956</b>	<b>\$ 50,060</b>	<b>\$ -</b>	<b>\$ 3,355,033</b>
<b>LIABILITIES AND FUND BALANCES</b>										
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	24,049	19,526	43,575	-	-	-	-	-	-	1,230
Due to bondholders		12,335,000	12,335,000							
Deposits held in trust	690,573	100	690,673	5,200	1,000,000	176	23,956	50,060	-	3,353,803
Deferred revenue		47,178	47,178							
Notes payable		-	-							
Loans payable		-	-							
Interest payable		166,615	166,615							
<b>Total liabilities</b>	<b>714,622</b>	<b>12,568,419</b>	<b>13,283,041</b>	<b>5,200</b>	<b>1,000,000</b>	<b>176</b>	<b>23,956</b>	<b>50,060</b>	<b>-</b>	<b>3,355,033</b>
<b>Fund balances:</b>										
Reserved	-	7,170,270	7,170,270	-	-	-	-	-	-	-
<b>Total liabilities and fund balances</b>	<b>\$ 714,622</b>	<b>\$ 19,738,689</b>	<b>\$ 20,453,311</b>	<b>\$ 5,200</b>	<b>\$ 1,000,000</b>	<b>\$ 176</b>	<b>\$ 23,956</b>	<b>\$ 50,060</b>	<b>\$ -</b>	<b>\$ 3,355,033</b>

**CITY OF NOVATO**

**Agency Funds**

**Combining Statement of Fiduciary Assets and Liabilities**

**June 30, 2009**

	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		
<b>ASSETS</b>						
Cash and investments	\$ 139,011	\$ -	\$ 1,744,772	\$ 554,823	\$ 5,033,572	\$ 5,801,092
Cash with fiscal agent	239,682		1,686,610	801,937	4,557,131	8,318,550
Receivables	1,175		12,213	5,855	29,800	40,227
Fixed assets, net					-	15,173,170
Other assets, net					-	740,775
Total assets	<u>\$ 379,868</u>	<u>\$ -</u>	<u>\$ 3,443,595</u>	<u>\$ 1,362,615</u>	<u>\$ 9,620,503</u>	<u>\$ 30,073,814</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	-	-	642	1,872	45,447
Due to bondholders					-	12,335,000
Deposits held in trust	379,868	-	3,443,595	1,361,973	9,618,631	10,309,304
Deferred revenue					-	47,178
Notes payable					-	-
Loans payable					-	-
Interest payable					-	166,615
Total liabilities	<u>379,868</u>	<u>-</u>	<u>3,443,595</u>	<u>1,362,615</u>	<u>9,620,503</u>	<u>22,903,544</u>
Fund balances:						
Reserved	-	-	-	-	-	7,170,270
Total liabilities and fund balances	<u>\$ 379,868</u>	<u>\$ -</u>	<u>\$ 3,443,595</u>	<u>\$ 1,362,615</u>	<u>\$ 9,620,503</u>	<u>\$ 30,073,814</u>

**CITY OF NOVATO**

**Fiduciary Funds**

**Combining Statement of Changes in Fiduciary Net Assets**

**June 30, 2009**

	<u>Expendable</u> <u>Trust Fund</u>	<u>Non-expendable</u> <u>Trust Fund</u>	
	<u>Deposits Held</u> <u>in Trust</u>	<u>NFA</u> <u>Mobile Home</u>	<u>Total</u>
<b>ADDITIONS</b>			
Operating revenues	\$ -	\$ 2,979,538	\$ 2,979,538
Investment income		198,356	198,356
Total additions to net assets	-	3,177,894	3,177,894
<b>DEDUCTIONS</b>			
General and administrative expenses	-	1,166,998	1,166,998
Depreciation and amortization	-	213,419	213,419
Interest expense	-	739,946	739,946
Total deductions from net assets	-	2,120,363	2,120,363
Transfers in (out)	-	-	-
Changes in net assets	-	1,057,531	1,057,531
Net assets, beginning of year	-	6,112,739	6,112,739
Net assets, end of year	\$ -	\$ 7,170,270	\$ 7,170,270