

CITY OF NOVATO

California

Financial Statements
with
Independent Auditor's Report
For the Year Ended
June 30, 2011



CITY OF NOVATO
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION:	
Elected Officials and Executive Staff	i
FINANCIAL SECTION:	
Independent Auditor's Report on Basic Financial Statements	1 - 2
Management's Discussion and Analysis	3 - 16
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements	
Balance Sheet - Governmental Funds	19 - 20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	22 - 23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Governmental Funds	24
Statement of Net Assets - Proprietary Funds	25
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	27
Statement of Net Assets - Fiduciary Funds	28
Notes to Basic Financial Statements	29 - 65
Required Supplemental Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	66 - 68
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Redevelopment Housing Fund - Special Revenue Fund	69
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Redevelopment Fund - Special Revenue Fund	70
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Hamilton Trust Fund - Special Revenue Fund	71
Notes to Required Supplemental Information	72
Schedule of Funding Progress for Other Post Employment Benefits (OPEB)	73

CITY OF NOVATO
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	Page
Combining Financial Schedules and Other Supplemental Information	
Non-Major Governmental Funds:	
Description of Non-major Funds	74 - 76
Combining Balance Sheets	77 - 85
Combining Schedules of Revenues, Expenditures and Changes in Fund Balances	86 - 94
Internal Service Funds	
Description of Internal Funds	95
Combining Schedule of Net Assets	96
Combining Schedule of Revenues, Expenses, and Changes in Net Assets	97
Agency Funds	
Description of Agency Funds	98
Combining Statement of Net Assets	99
General Fund	
Description of General Funds	100
Combining Balance Sheet	101
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	102
Other Reports	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	103 - 104
Independent Auditor's Report on Report on Compliance Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB A-133	105 - 106
Schedule of Expenditures of Federal Awards	107
Notes to the Schedule of Expenditures of Federal Awards	108
Schedule of Findings and Questioned Costs	109 - 116
Schedule of Prior Year Findings and Responses	117

INTRODUCTORY SECTION

**CITY OF NOVATO
ELECTED OFFICIALS
AND
EXECUTIVE STAFF**

JUNE 30, 2011

ELECTED OFFICIALS

Mayor	Denise Athas
Mayor Pro Tem	Pat Eklund
Council Member	Madeline Kellner
Council Member	Eric Lucan
Council Member	Jeanne MacLeamy

EXECUTIVE STAFF

City Manager	Michael S. Frank
Assistant City Manager	Cathy Capriola
City Attorney	Jeffrey A. Walter
City Clerk	Sheri Hartz
Public Works Director / City Engineer	Jason Nutt
Community Development Director	David Wallace
Human Resource Manager	Dan Weakley
Parks, Recreation and Community Services Director	Pam Shinault
Redevelopment Administrator	Ron Gerber
Police Chief	Joseph M. Kreins
Finance Manager	Brian Cochran

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the City Council of
the City of Novato
Novato, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Novato (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Novato, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 16, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The Redevelopment Agency of the City of Novato is a major component unit of the City. The effects of this legislation are uncertain pending the results of lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2012, on our consideration of the City of Novato's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Novato's financial statements as a whole. The combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "Mark Untch, CPA". The signature is written in a cursive, flowing style.

Sacramento, California
January 20, 2012

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

This section of the City of Novato California's Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide

- The assets of the City exceeded its liabilities at June 30, 2011 by \$269,829,367. Of this amount, \$175,948,778 is invested in capital assets, net of related debt; \$71,037,532 is restricted for debt service, capital projects, insurance, grants, taxes, and fees; and \$22,843,057 is unrestricted.
- The City's total net assets increased by \$2,566,837, of which \$1,504,282 was attributable to governmental activities and \$1,062,555 was attributable to business-type activities.
- Government-wide revenues increased by \$9,617,008 or 20% to \$57,461,987 from 2010's total of \$47,844,979.
- Government-wide expenses increased by \$8,530,145 or 18% to \$54,895,150 from 2010 total of \$46,365,005.

Fund level

- Governmental fund balances increased to 92,601,887 from the prior year's 74,015,076.
- Governmental fund revenues increased by \$24,151,463 or 53% to \$69,464,174 from the prior year's \$45,312,711. Of the 2011 revenue total, \$16,504,936 was related to proceeds of debt issuance, net of discount.
- Governmental fund expenditures decreased by \$1,711,221 or 3% to \$50,479,916 from the prior year's \$52,191,137.
- General fund balance increased from \$19,532,572 to \$27,194,400.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

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
FOR THE YEAR ENDED JUNE 30, 2011

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). Separate financial statements are available for the Redevelopment Agency of the City of Novato. No separate financial statements for the Novato Public Financing Authority have been issued.

Business-type activities

These are activities that are primarily funded through user charges. The City of Novato's business-type activities include activity related to the Marin Valley Mobile Country Club Park. In the prior year, this fund was included as a fiduciary fund of the City. In the current year, management has elected to classify the fund as an enterprise fund. Therefore, prior year information is presented in the management's discussion and analysis for comparative purposes and included in the total government-wide tables.

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 capital assets and long-term liabilities in the government-wide financial statements.

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

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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
- Hamilton Trust Fund

Individual fund data for each non-major governmental fund is provided in combining statements included in the 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.
- 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 one type of fiduciary funds:

- 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.

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 other postemployment benefits to its employees, and budgetary comparison information for the City's general fund and major funds.

Combining and Individual Fund Statements and Schedules

This final section of the report includes combining information for the City's nonmajor funds, internal service funds, agency funds, and general funds.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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.

Statement of Net Assets
As of June 30, 2011 and 2010
(in thousands)

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>			<u>Total Government</u>		
	<u>2011</u>	<u>2010</u>	<u>Net Change</u>	<u>2011</u>	<u>2010</u>	<u>Net Change</u>	<u>2011</u>	<u>2010</u>	<u>Net Change</u>
ASSETS									
Current and other assets	\$ 118,794	\$ 83,103	\$ 35,691	\$ 4,756	\$ 4,014	\$ 742	\$ 123,550	\$ 87,117	\$ 36,433
Capital assets	<u>244,731</u>	<u>264,338</u>	<u>(19,607)</u>	<u>15,130</u>	<u>15,100</u>	<u>30</u>	<u>259,861</u>	<u>279,438</u>	<u>(19,577)</u>
Total Assets	<u>363,525</u>	<u>347,441</u>	<u>16,084</u>	<u>19,886</u>	<u>19,114</u>	<u>772</u>	<u>383,411</u>	<u>366,555</u>	<u>16,856</u>
LIABILITIES									
Long-term liabilities	90,808	76,857	13,951	10,090	10,760	(670)	100,898	87,617	13,281
Other liabilities	<u>12,117</u>	<u>11,127</u>	<u>990</u>	<u>567</u>	<u>187</u>	<u>380</u>	<u>12,684</u>	<u>11,314</u>	<u>1,370</u>
Total Liabilities	<u>102,925</u>	<u>87,984</u>	<u>14,941</u>	<u>10,657</u>	<u>10,947</u>	<u>(290)</u>	<u>113,582</u>	<u>98,931</u>	<u>14,651</u>
NET ASSETS									
Invested in capital assets, net of related debt	171,254	218,028	(46,774)	4,695	4,340	355	175,949	222,368	(46,419)
Restricted	66,503	35,599	30,904	4,534	3,827	707	71,037	39,426	31,611
Unrestricted	<u>22,843</u>	<u>5,830</u>	<u>17,013</u>	-	-	-	<u>22,843</u>	<u>5,830</u>	<u>17,013</u>
Total Net Assets	<u>\$ 260,600</u>	<u>\$ 259,457</u>	<u>\$ 1,143</u>	<u>\$ 9,229</u>	<u>\$ 8,167</u>	<u>\$ 1,062</u>	<u>\$ 269,829</u>	<u>\$ 267,624</u>	<u>\$ 2,205</u>

Analysis of Net Assets

Net assets are a measure of a government's financial position and over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Novato's net assets exceeded liabilities by \$269,829,367 at June 30, 2011.

The net assets of \$269,829,367 million at June 30, 2011 were comprised of the following elements:

- Unrestricted cash and investments of \$45,552,149, cash with fiscal agents of \$22,776,484, and restricted cash and investments of \$32,028,741;
- Accounts, loans, interest, and taxes receivable of \$5,177,867;
- Prepaid expenses of \$448,959;
- Non-current assets consisted of bond issuance costs, deferred charges, prepaid PERS contribution and capital assets. Bond issuance costs were \$2,133,925 and are amortized over the life of the debt. Deferred charges totaled \$584,899. Prepaid PERS contribution of \$14,846,569 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 \$259,860,955, net of accumulated depreciation charges of \$110,841,284, included \$133,005,277 of land, \$2,468,973 of construction in progress, \$23,873,804 of buildings, \$383,252 of furniture and equipment, \$98,473,161 of infrastructure, and \$1,656,488 of vehicles;

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

- Current liabilities totaled \$12,683,650 and included \$1,420,045 of accounts payable, \$1,162,518 of salaries and benefits payable, \$1,582,321 of interest payable, \$7,770 of accrued liabilities, \$705,259 of deferred revenue, \$2,095,090 of deposits payable, and the current portion of claims payable of \$456,508, compensated absences of \$1,201,719, and long-term debt of \$4,052,420;
- Non-current liabilities of \$100,897,531 included \$1,110,118 of non-current claims payable; \$494,605 of Other Post Employment Benefits (OPEB), \$428,335 of compensated absences, and \$98,864,473 of the non-current portion of long-term debt which is due in the fiscal years subsequent to fiscal 2012;
- Net assets invested in capital asset (e.g., land, buildings, equipment and infrastructure) of \$175,948,778 represented 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 \$71,037,532 was comprised of \$11,252,044 restricted for debt services; \$16,922,821 restricted for capital projects; \$41,605,676 restricted for grants, taxes, and fees; and \$1,256,991 restricted for insurance. The remaining balance of \$22,843,057 represented unrestricted net assets.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Analysis of Changes in Net Assets

The City's total net assets increased by \$2,566,837, or 1%, during the fiscal year ended June 30, 2011. The increase is largely attributable to increased operating and capital grant revenue, as well as decreased expenditures in the Public Works and Community Development departments. Activities and changes in net assets relating to the \$2,566,837 increase are presented in the governmental activities and business-type activities tables following:

Governmental Activities Changes in Net Assets
For the Years Ended June 30, 2011 and 2010
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>Net Change</u>
REVENUES:			
Program revenues			
Charges for services	\$ 6,327	\$ 6,561	\$ (234)
Operating grants and contributions	1,375	672	703
Capital grants and contributions	1,129	774	355
General revenues			
Taxes	34,823	34,035	788
Use of money and property	10,208	1,825	8,383
Other revenue	376	824	(448)
Total Revenues	<u>54,238</u>	<u>44,691</u>	<u>9,547</u>
EXPENSES:			
Governmental activities			
General government	7,877	5,588	2,289
Public safety	13,748	13,723	25
Public works	10,556	11,840	(1,284)
Culture and recreation	5,660	5,045	615
Community development	2,164	4,738	(2,574)
Interest on long-term liabilities	12,729	3,273	9,456
Total Expenses	<u>52,734</u>	<u>44,207</u>	<u>8,527</u>
Change in net assets	<u>1,504</u>	<u>484</u>	<u>1,020</u>
Net assets - beginning of year	259,456	258,972	484
Restatement	(360)	-	(360)
Net assets - beginning of year, restated	<u>259,096</u>	<u>258,972</u>	<u>124</u>
Net assets - end of year	<u>\$ 260,600</u>	<u>\$ 259,456</u>	<u>\$ 1,144</u>

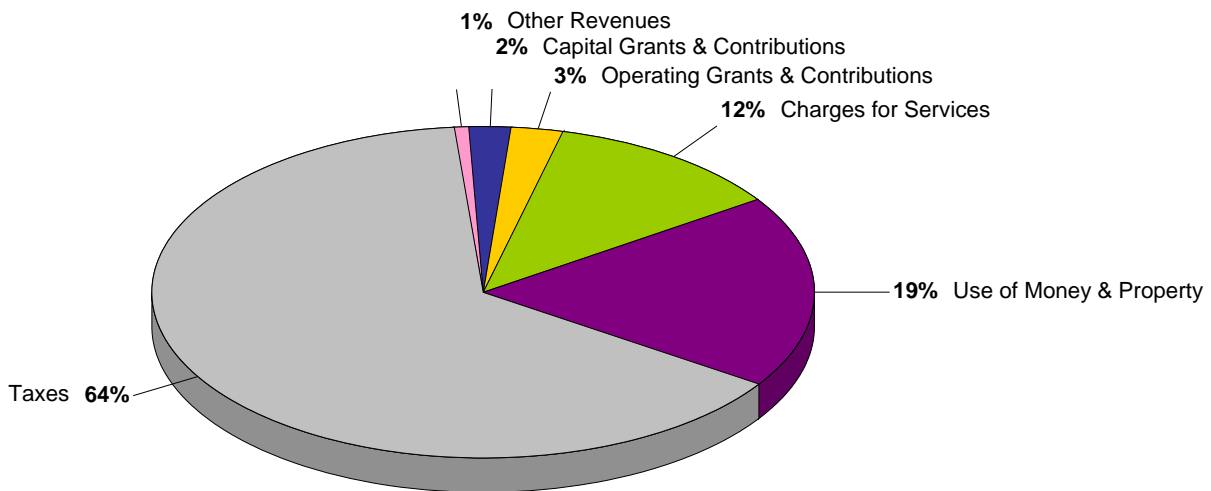
CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Governmental Activities

The table above reflects a change in net assets of \$1,504,282, which is the result of revenues in excess of expenses.

Revenues by Source

2011 Governmental Activities

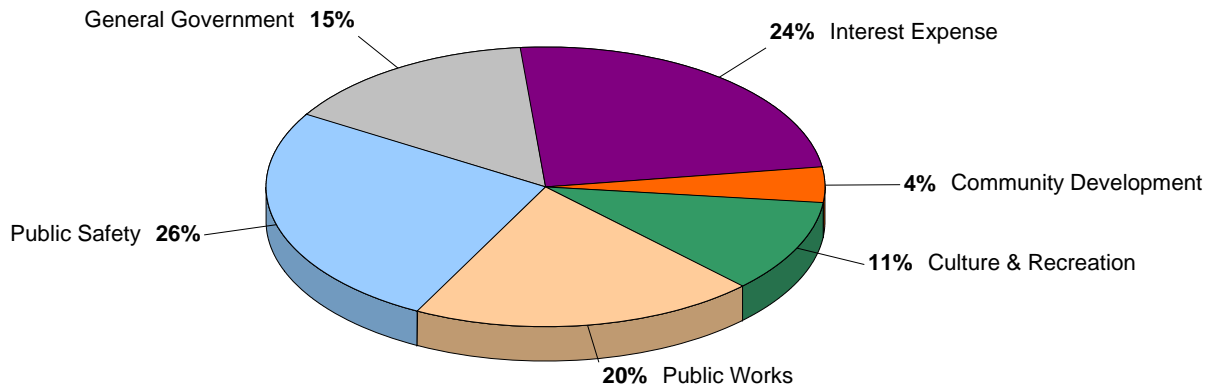


The chart of revenues by source above illustrates that taxes are the largest source of operating revenue for the City. The components of taxes are real estate property taxes, real property transfer tax, sales and use tax, hotel taxes, gas taxes, business license taxes and franchise fees. Interest and rental income were the second largest source of revenue for the City during the current year, primarily due to the repayment of interfund loans. Charges for services are the third largest source of operating revenue and represents fees charged by departments for services provided. Charges for services include licenses and permits and fines and forfeitures.

The increase in revenues of \$9,548,269 or 21% is mainly due to increased Use of Money and Property revenue, resulting from the recognition of interest revenue associated with loan repayments from the Redevelopment Agency.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Expenses by Function
2011 Governmental Activities



The chart of expenses above portrays the relative proportion of expenditures by function. Public safety is the largest use of City resources, followed by interest on long-term liabilities, public works, general government, culture and recreation, and community development.

The \$8,527,705 or 16% increase in expenditures is largely related to the interest expense associated with the repayment of Redevelopment Agency loans owed to the General Fund and other City funds.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Business-Type Activities

Business-type Activities Changes in Net Assets
For the Years Ended June 30, 2011 and 2010
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>Net Change</u>
REVENUES:			
Charges for services	\$ 2,336	\$ 2,328	\$ 8
Utilities	670	621	49
Other revenue	14	13	1
Interest revenue	<u>203</u>	<u>193</u>	<u>10</u>
Total Revenues	<u>3,223</u>	<u>3,155</u>	<u>68</u>
EXPENSES:			
Cost of services	1,182	1,093	89
Employee costs	113	102	11
Depreciation and amortization	257	311	(54)
Interest expense	<u>609</u>	<u>652</u>	<u>(43)</u>
Total Expenses	<u>2,161</u>	<u>2,158</u>	<u>3</u>
Change in net assets	<u>1,062</u>	<u>997</u>	<u>122</u>
Net assets - beginning of year	-	7,170	(7,170)
Restatement	<u>8,167</u>	<u>-</u>	<u>8,167</u>
Net assets - beginning of year, restated	<u>8,167</u>	<u>7,170</u>	<u>997</u>
Net assets - end of year	<u>\$ 9,229</u>	<u>\$ 8,167</u>	<u>\$ 1,119</u>

Business-type activities net assets increased \$1,062,555 or 13%. The increase is primarily due to the restatement of beginning net assets of the Marin Valley Mobile Country Club fund, resulting from the change of that fund to an enterprise fund.

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.

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, unassigned 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 \$92,601,887, compared to \$74,015,076 at June 30, 2010. The unassigned amount of \$(28,700,467) at June 30, 2011 is mostly comprised of inter-fund loans due from the RDA fund and the RDA housing fund.

The remainder of the fund balance of \$121,302,354, is either nonspendable, restricted, or assigned for specific purposes.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was \$27,194,400, of which \$951,804 was nonspendable; \$1,256,991 was restricted for insurance; \$23,222,051 was assigned for capital projects, pension reserve, long-term maintenance, and emergency disaster & response; and \$1,763,554 was unassigned. The fund balance in the City's General Fund increased by \$7,661,828 for the fiscal year ended June 30, 2011. The increase in fund balance is primarily due to an increase in assigned fund balance for capital projects, resulting from repayments of Redevelopment Agency loan obligations to the General Fund.

The RDA Housing Fund had a total fund deficit of \$(20,904,822), of which \$3,567,608 was nonspendable, \$646,121 was restricted, and \$(25,118,551) was unassigned. Fund balance slightly increased by \$245,818, which was mostly attributable to the repayment of outstanding bond principal on the 2005A Tax Allocation Bonds.

The RDA General Fund had a total fund balance of \$24,736,634, of which \$25,127,133 was nonspendable, \$3,267,291 was restricted, and \$(3,657,790) was unassigned. Fund balance increased by \$8,294,504 primarily due to the issuance of \$17 million (gross proceeds) in new tax allocation bonds; this increase was partially offset by the recognition of interest expense of due to the loan repayments to various City funds.

The Hamilton Trust Fund had a total fund balance of \$32,877,564 of which \$1,360,000 was nonspendable and \$31,517,564 was restricted. Fund balance slightly decreased by \$277,283 due to the use of funds in the Senior Housing account to support development of a senior housing project in the City.

The following table presents revenues from various sources as well as reflecting increases or decreases from the prior fiscal year in the governmental funds.

Revenues Classified by Source
Governmental Funds
For the Years Ended June 30, 2011 and 2010
(in thousands)

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Revenues by Source:				
Taxes	\$ 34,824	50 %	\$ 33,575	74 %
Licenses and permits	896	1 %	885	2 %
Intergovernmental	2,504	4 %	1,929	4 %
Fines and forfeitures	559	1 %	694	2 %
Use of money and property	10,172	15 %	2,447	5 %
Charges for services	3,630	5 %	4,982	11 %
Other revenues	376	1 %	801	2 %
Issuance of debt, net of discount	<u>16,505</u>	<u>24 %</u>	<u>-</u>	<u>- %</u>
	<u>\$ 69,466</u>	<u>101 %</u>	<u>\$ 45,313</u>	<u>100 %</u>

For this fiscal year, governmental revenues increased 24,150,274 or 53%. Significant changes were as follows: \$16.5 million in net proceeds from the issuance of debt, net of discount; an increase of \$1.2 million in tax revenue; an increase in interest income of \$7.7 million, mostly due to the repayment of RDA loans; and an increase of about \$600,000 in intergovernmental revenue. These gains were offset by a decline of about \$1.4 million in charges for services revenue.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The following table presents expenditures by function compared to prior fiscal year's amount in the governmental funds.

Expenditures by Function
Governmental Funds
For the Years Ended June 30, 2011 and 2010
(in thousands)

Expenditures by Function	2011		2010	
	Amount	% of Total	Amount	% of Total
General government	\$ 5,565	11 %	\$ 5,132	10 %
Public safety	13,237	26 %	13,127	25 %
Public works	5,924	12 %	6,507	12 %
Culture & recreation	4,813	10 %	5,003	10 %
Community development & SERAF	1,868	4 %	4,654	9 %
Capital outlay	3,250	6 %	10,779	21 %
Debt service: principal	3,552	7 %	3,222	6 %
Debt service: interest	12,270	24 %	3,767	7 %
	<u>\$ 50,479</u>	<u>100 %</u>	<u>\$ 52,191</u>	<u>100 %</u>

Expenditures decreased by \$1,711,221 or 3% during the year ended June 30, 2011. Significant changes were as follows: Debt service interest expense increased by \$8.5 million due to the repayment of Redevelopment Agency loans; principal repayments increased by about \$300,000; and General Government expenditures increased by about \$400,000. These expenditure increases were offset by reduced capital outlay of \$7.5 million; reductions in the Public Works department expenditures of about \$600,000; and reductions in the Community Development & SERAF expenses of \$2.8 million, mostly due to a reduction in the SERAF payment of \$2 million.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The fund includes activity related to the Marin Valley Mobile Country Club Park.

The net assets for the City's internal service funds, at June 30, 2011, were \$4,261,933. Net assets decreased by \$220,551 during fiscal 2011.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

General Fund Budget Modifications

The original fiscal year 2010-11 budget was adopted in June 2010. 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 \$139,793 and decrease estimated expenditures by \$138,618. The net impact of the budget changes was an slight decrease to the deficiency of revenues and other financing sources over expenditures by \$1,175.

General Fund Operating Variances

The revised budget projected a net decrease in fund balance of \$2,260,369 and the actual results were a net increase of \$7,661,828, which equates to a positive variance of \$9,922,197.

The variance is partly attributable to revenues being higher than the revised budget by \$8,130,283. This is primarily due to revenues exceeding budget in use of money and property of \$7,444,558, taxes exceeding budget by \$995,968, offset by a decrease in charges for services of \$292,342.

Expenditures were \$1,791,914 lower than projected primarily due to unfilled positions and deliberate under spending within each department.

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, 2011 totaled \$259,860,955 (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.

CAPITAL ASSETS (NET OF DEPRECIATION) (in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 121,165	\$ 121,165	\$ 11,840	\$ 11,840	\$ 133,005	\$ 133,005
Construction in progress	2,469	5,875	-	-	2,469	5,875
Buildings & improvements	20,597	20,950	3,276	3,243	23,873	24,193
Furniture & equipment	370	542	13	17	383	559
Infrastructure	98,473	97,257	-	-	98,473	97,257
Vehicles	<u>1,656</u>	<u>1,531</u>	<u>-</u>	<u>-</u>	<u>1,656</u>	<u>1,531</u>
Total	<u>\$ 244,730</u>	<u>\$ 247,320</u>	<u>\$ 15,129</u>	<u>\$ 15,100</u>	<u>\$ 259,859</u>	<u>\$ 262,420</u>

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Governmental Activities Long-term Debt

At June 30, 2011, the City's governmental and business-type activities had total long-term debts and obligations as scheduled below.

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Outstanding June 30, 2011</u>
<u>Governmental Activities</u>		
General obligation bonds:		
Series 1993A	2014	\$ 1,130,000
Series 1997A	2021	6,760,000
Series 2000A	2022	3,270,000
Series 2004	2026	4,205,000
Series 2007	2027	4,565,000
Pension obligation bonds, A-1 & A-2	2035	19,004,716
Tax allocation bonds:		
Hamilton Field Series 2005	2035	21,810,000
Hamilton Field 2005, Series A	2035	8,570,000
Hamilton Field Series 2011	2041	17,000,000
Bond issuance premiums (discounts)		
Series 2004 premium		182,243
Series 2007 premium		208,970
Pension obligation bonds discount		(141,629)
Hamilton Field Series 2005 discount		(170,574)
Hamilton Field 2005 Series A discount		(93,356)
Hamilton Field Series 2011 discount		(428,019)
Clean Renewable Energy Bonds (CREBS)	2024	1,306,370
CIEDB loan payable	2032	3,069,845
OPA notes payable	2014	2,084,946
Capital lease, Dell	2013	93,623
Due to County of Marin	2011	54,758
Compensated absences		<u>1,630,054</u>
Total governmental activities		<u>\$ 94,111,947</u>
<u>Business-type Activities</u>		
Senior Promissory Note	2028	<u>\$ 10,435,000</u>

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

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

During fiscal year 2010-2011, the economic recession appeared to have abated, albeit very slightly. All indicators continue to point toward a sustained period of slow-growth consumer spending exacerbated by a weak real estate market and high unemployment. Rates of mortgage default in Marin County have been fairly flat or down over the last year, while home sales have consistently been up and prices down over the prior year. Property values in the City of Novato continued to be reassessed downwards by the county assessor for an overall city wide reduction in assessed values of 2.00% in 2010-11. Assessed values for 2011-12 appear to have declined another 0.7%. Supplemental property taxes and property transfer taxes continue to decline as a result of decreased values. Conversely, sales taxes have been on the upswing as consumer demand has rebounded somewhat from the depths of the recession. Growth in retail and department store spending, food products, service stations, and new auto sales have been leading the way. Overall, these significant revenue sources are expected to grow slightly in 2011-12.

Fiscal Year 2010-11 Budget

The City continued its efforts to balance the budget and chart a long-term course toward sustainability during the FY 2011-12 budgeting process. Through the two-year package of budget reductions that was approved during the 2010-11 budget discussions, the 2011-12 budget reduced 12 positions citywide, as well as a number of other operating account reductions. Despite the reductions made to the operating budget, the current revenues are not expected to be sufficient to cover the operational costs. The remaining deficit of \$470,573 for FY 2011-12 is funded from reserves. The reserve fund is projected to remain above 15% as required by policy.

Expenditures were also decreased as a result of another term of negotiated employee furloughs outlined in the employee contracts and memorandums of understanding.

In November 2010, the City's voters approved a ½ cent sales tax increase ("Measure F"), which will sunset in five years. The additional tax is expected to generate approximately \$3.5 million per year. The increase became effective April 1, 2011.

City's Stability Outlook

The City's General Fund major revenue sources are Taxes and Charges for Services. Taxes represent 74% 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 about 10% 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 FY 2010-11 reflected a decrease when compared to FY 2009-10 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.

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

CITY OF NOVATO
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments (Note 2)	\$ 45,515,590	\$ 36,559	\$ 45,552,149
Cash with fiscal agent (Note 2)	18,710,378	4,066,106	22,776,484
Accounts receivable	687,669	130,203	817,872
Loans receivable (Note 3)	2,628,267	-	2,628,267
Interest receivable	193,519	-	193,519
Taxes receivable	1,538,209	-	1,538,209
Internal balances	105,393	(105,393)	-
Prepaid expenses	448,959	-	448,959
Restricted cash and cash equivalents (Note 2)	32,028,741	-	32,028,741
Bond issuance costs, net (Note 6)	1,904,547	229,378	2,133,925
Deferred charges, net	185,820	399,079	584,899
Prepaid PERS Contribution (Note 9)	14,846,569	-	14,846,569
Capital assets (Note 5)			
Land and construction in progress	123,634,250	11,840,000	135,474,250
Other capital assets, net of depreciation	<u>121,097,149</u>	<u>3,289,556</u>	<u>124,386,705</u>
Total capital assets	<u>244,731,399</u>	<u>15,129,556</u>	<u>259,860,955</u>
Total Assets	<u>\$ 363,525,060</u>	<u>\$ 19,885,488</u>	<u>\$ 383,410,548</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 1,371,811	\$ 48,234	\$ 1,420,045
Accrued payroll and benefits	1,162,518	-	1,162,518
Accrued liabilities	7,770	-	7,770
Accrued interest payable	1,433,196	149,125	1,582,321
Deferred revenue	681,311	23,948	705,259
Deposits payable	2,094,990	100	2,095,090
Other postemployment benefits (Note 10)			
Due in more than one year	494,605	-	494,605
Claims payable (Note 11)			
Due within one year	456,508	-	456,508
Due in more than one year	1,110,118	-	1,110,118
Accrued compensated absences (Note 6):			
Due within one year	1,201,719	-	1,201,719
Due in more than one year	428,335	-	428,335
Long-term liabilities (Note 6):			
Due within one year	3,707,420	345,000	4,052,420
Due in more than one year	<u>88,774,473</u>	<u>10,090,000</u>	<u>98,864,473</u>
Total Liabilities	<u>102,924,774</u>	<u>10,656,407</u>	<u>113,581,181</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	171,254,222	4,694,556	175,948,778
Restricted for:			
Debt service	6,717,519	4,534,525	11,252,044
Capital projects	16,922,821	-	16,922,821
Grants, taxes, and fees	41,605,676	-	41,605,676
Insurance	1,256,991	-	1,256,991
Unrestricted	<u>22,843,057</u>	<u>-</u>	<u>22,843,057</u>
Total Net Assets	<u>260,600,286</u>	<u>9,229,081</u>	<u>269,829,367</u>
Total Liabilities and Net Assets	<u>\$ 363,525,060</u>	<u>\$ 19,885,488</u>	<u>\$ 383,410,548</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total Primary Government
					Governmental Activities	Business-Type Activities	
PRIMARY GOVERNMENT							
Governmental activities:							
General government	\$ 7,876,829	\$ 1,637,541	\$ 29,799	\$ -	\$ (6,209,489)	\$ -	\$ (6,209,489)
Public safety	13,748,305	491,979	432,379	-	(12,823,947)	-	(12,823,947)
Public works	10,556,227	877,890	798,523	1,128,976	(7,750,838)	-	(7,750,838)
Culture and recreation	5,659,528	1,719,917	82,237	-	(3,857,374)	-	(3,857,374)
Community development	1,617,129	1,599,818	31,784	-	14,473	-	14,473
Interest and fiscal charges	12,729,093	-	-	-	(12,729,093)	-	(12,729,093)
SERAF	547,090	-	-	-	(547,090)	-	(547,090)
Total governmental activities	<u>52,734,201</u>	<u>6,327,145</u>	<u>1,374,722</u>	<u>1,128,976</u>	<u>(43,903,358)</u>	<u>-</u>	<u>(43,903,358)</u>
Business-type activities:							
Marin Valley Mobile Country Club	<u>2,160,949</u>	<u>3,006,278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>845,329</u>	<u>845,329</u>
Total primary government	<u>\$ 54,895,150</u>	<u>\$ 9,333,423</u>	<u>\$ 1,374,722</u>	<u>\$ 1,128,976</u>	<u>\$ (43,903,358)</u>	<u>\$ 845,329</u>	<u>\$ (43,058,029)</u>
General revenues:							
Property taxes					\$ 22,983,946	\$ -	\$ 22,983,946
Sales and use taxes					7,091,679	-	7,091,679
Motor vehicle and gas taxes					1,524,267	-	1,524,267
Other taxes					3,223,873	-	3,223,873
Use of money and property					10,208,150	203,311	10,411,461
Other revenue					<u>375,725</u>	<u>13,915</u>	<u>389,640</u>
Total general revenues and transfers					<u>45,407,640</u>	<u>217,226</u>	<u>45,624,866</u>
Change in net assets					1,504,282	1,062,555	2,566,837
Net assets - July 1, 2010					259,456,107	-	259,456,107
Prior period restatement (Note 15)					<u>(360,103)</u>	<u>8,166,526</u>	<u>7,806,423</u>
Net assets - July 1, 2010, restated					<u>259,096,004</u>	<u>8,166,526</u>	<u>267,262,530</u>
Net assets - June 30, 2011					<u>\$ 260,600,286</u>	<u>\$ 9,229,081</u>	<u>\$ 269,829,367</u>

CITY OF NOVATO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General Fund</u>	<u>RDA Housing</u>	<u>RDA</u>
<u>ASSETS</u>			
Cash and investments	\$ 11,821,112	\$ -	\$ 406,102
Cash with fiscal agent	14,187,500	646,121	3,267,291
Restricted cash and investments	584,787	-	-
Accounts receivable	264,993	60	-
Notes receivable	992,756	-	-
Interest receivable	119,210	-	-
Taxes receivable	1,489,027	9,375	29,311
Due from other funds	853,659	993	-
Advances to other funds	432,627	3,566,509	25,126,612
Prepaid expenses	437,407	1,099	516
Deferred costs	<u>81,770</u>	<u>-</u>	<u>5</u>
 Total Assets	 <u>\$ 31,264,848</u>	 <u>\$ 4,224,157</u>	 <u>\$ 28,829,837</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(DEFICITS)</u>			
LIABILITIES			
Accounts payable	\$ 553,757	\$ 2,367	\$ 171,982
Accrued payroll and benefits	1,162,518	-	-
Accrued liabilities	-	-	-
Due to other funds	-	-	-
Deposits and other payables	912,282	-	238,244
Deferred revenues	393,721	-	-
Advances from other funds	<u>1,048,170</u>	<u>25,126,612</u>	<u>3,682,977</u>
 Total Liabilities	 <u>4,070,448</u>	 <u>25,128,979</u>	 <u>4,093,203</u>
FUND BALANCES (DEFICITS)			
Nonspendable	951,804	3,567,608	25,127,133
Restricted	1,256,991	646,121	3,267,291
Assigned	23,222,051	-	-
Unassigned	<u>1,763,554</u>	<u>(25,118,551)</u>	<u>(3,657,790)</u>
 Total Fund Balances (Deficits)	 <u>27,194,400</u>	 <u>(20,904,822)</u>	 <u>24,736,634</u>
 Total Liabilities and Fund Balances	 <u>\$ 31,264,848</u>	 <u>\$ 4,224,157</u>	 <u>\$ 28,829,837</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
BALANCE SHEET (continued)
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Permanent Fund - Hamilton Trust Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Cash and investments	\$ -	\$ 30,037,777	\$ 42,264,991
Cash with fiscal agent	-	609,466	18,710,378
Restricted cash and investments	31,443,954	-	32,028,741
Accounts receivable	-	412,482	677,535
Notes receivable	-	1,635,511	2,628,267
Interest receivable	73,610	699	193,519
Taxes receivable	-	10,496	1,538,209
Due from other funds	-	-	854,652
Advances to other funds	1,360,000	116,468	30,602,216
Prepaid expenses	-	9,529	448,551
Deferred costs	-	104,045	185,820
	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>32,877,564</u>	\$ <u>32,936,473</u>	\$ <u>130,132,879</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(DEFICITS)</u>			
LIABILITIES			
Accounts payable	\$ -	\$ 576,436	\$ 1,304,542
Accrued payroll and benefits	-	-	1,162,518
Accrued liabilities	-	7,770	7,770
Due to other funds	-	441,245	441,245
Deposits and other payables	-	944,464	2,094,990
Deferred revenues	-	101,775	495,496
Advances from other funds	-	2,166,672	32,024,431
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	-	4,238,362	37,530,992
FUND BALANCES (DEFICITS)			
Nonspendable	1,360,000	227,542	31,234,087
Restricted	31,517,564	29,815,040	66,503,007
Assigned	-	343,209	23,565,260
Unassigned	-	(1,687,680)	(28,700,467)
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances (Deficits)	<u>32,877,564</u>	<u>28,698,111</u>	<u>92,601,887</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	\$ <u>32,877,564</u>	\$ <u>32,936,473</u>	\$ <u>130,132,879</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balances of governmental funds	\$ 92,601,887
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds, net of accumulated depreciation of \$105,795,462.	243,074,911
Prepaid pension obligation is not a current financial resource and therefore not capitalized in the governmental funds.	14,846,569
To eliminate the doubling-up effect of cash and investments related to the purchase by the general fund of the Eucalyptus Assessment District's bonds, originally reflected as an investment of the general fund's balance sheet and as cash on the Eucalyptus Assessment District's balance sheet in the governmental fund financial statements.	(49,813)
Long-term liabilities are not due in the current period and, therefore are not reported in the governmental funds.	
Long-term liabilities net of premiums and discounts	(92,481,893)
Compensated absences	(1,630,054)
Net OPEB obligation	(494,605)
Bond issuance costs, net of accumulated amortization for debt issuance costs are expensed when incurred and, therefore are not reported in the governmental funds.	1,904,547
Accrued interest payable from the current portion of interest due on long-term liabilities has not been reported in the governmental funds.	(1,433,196)
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 the governmental activities of the Statement of Net Assets.	<u>4,261,933</u>
Net assets of governmental activities	<u>\$ 260,600,286</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>RDA Housing</u>	<u>RDA</u>
<u>REVENUES</u>			
Taxes	\$ 23,043,351	\$ 1,424,509	\$ 4,315,619
License and permits	895,765	-	-
Intergovernmental	330,129	-	-
Fines and forfeitures	559,139	-	-
Use of money and property	7,860,923	-	152,847
Charges for services	2,741,439	28,815	-
Other revenues	<u>335,766</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>35,766,512</u>	<u>1,453,324</u>	<u>4,468,466</u>
<u>EXPENDITURES</u>			
Current:			
General government	5,183,556	-	-
Public safety	12,676,257	-	-
Public works	5,145,497	-	-
Cultural and recreation	4,618,895	-	-
Community development	104,878	384,398	799,385
SERAF shift	-	-	547,090
Capital outlay	44,730	-	-
Debt service:			
Principal	294,156	200,000	1,228,043
Interest and fiscal charges	<u>11,186</u>	<u>486,110</u>	<u>9,829,435</u>
Total Expenditures	<u>28,079,155</u>	<u>1,070,508</u>	<u>12,403,953</u>
Excess (deficiency) of Revenues over Expenditures	<u>7,687,357</u>	<u>382,816</u>	<u>(7,935,487)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Issuance of debt	-	-	17,000,000
Bond issuance discount	-	-	(495,064)
Transfers in	2,005,818	-	-
Transfers out	<u>(2,031,347)</u>	<u>(136,998)</u>	<u>(274,945)</u>
Total Other Financing Sources (Uses)	<u>(25,529)</u>	<u>(136,998)</u>	<u>16,229,991</u>
Net Change in Fund Balances	7,661,828	245,818	8,294,504
Fund Balances (Deficits) - July 1, 2010	18,263,701	(21,150,640)	16,442,130
Prior period adjustment (Note 15)	<u>1,268,871</u>	<u>-</u>	<u>-</u>
Fund Balances (Deficits) - July 1, 2010, restated	<u>19,532,572</u>	<u>(21,150,640)</u>	<u>16,442,130</u>
Fund Balances (Deficits) - June 30, 2011	<u>\$ 27,194,400</u>	<u>\$ (20,904,822)</u>	<u>\$ 24,736,634</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Permanent Fund- Hamilton Trust Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Taxes	\$ -	\$ 6,040,286	\$ 34,823,765
License and permits	-	-	895,765
Intergovernmental	-	2,173,569	2,503,698
Fines and forfeitures	-	-	559,139
Use of money and property	610,420	1,547,445	10,171,635
Charges for services	47,747	811,510	3,629,511
Other revenues	<u>-</u>	<u>39,959</u>	<u>375,725</u>
Total Revenues	<u>658,167</u>	<u>10,612,769</u>	<u>52,959,238</u>
<u>EXPENDITURES</u>			
Current:			
General government	-	381,150	5,564,706
Public safety	-	560,847	13,237,104
Public works	-	778,815	5,924,312
Cultural and recreation	-	194,329	4,813,224
Community development	32,726	-	1,321,387
SERAF shift	-	-	547,090
Capital outlay	-	3,204,908	3,249,638
Debt service:			
Principal	-	1,830,000	3,552,199
Interest and fiscal charges	<u>-</u>	<u>1,943,525</u>	<u>12,270,256</u>
Total Expenditures	<u>32,726</u>	<u>8,893,574</u>	<u>50,479,916</u>
Excess (deficiency) of Revenues over Expenditures	<u>625,441</u>	<u>1,719,195</u>	<u>2,479,322</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Issuance of debt	-	-	17,000,000
Bond issuance discount	-	-	(495,064)
Transfers in	-	5,448,987	7,454,805
Transfers out	<u>(902,724)</u>	<u>(4,506,238)</u>	<u>(7,852,252)</u>
Total Other Financing Sources (Uses)	<u>(902,724)</u>	<u>942,749</u>	<u>16,107,489</u>
Net Change in Fund Balances	(277,283)	2,661,944	18,586,811
Fund Balances (Deficits) - July 1, 2010	33,154,847	25,476,254	72,186,292
Prior period adjustment (Note 15)	<u>-</u>	<u>559,913</u>	<u>1,828,784</u>
Fund Balances (Deficits) - July 1, 2010, restated	<u>33,154,847</u>	<u>26,036,167</u>	<u>74,015,076</u>
Fund Balances (Deficits) - June 30, 2011	<u>\$ 32,877,564</u>	<u>\$ 28,698,111</u>	<u>\$ 92,601,887</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	18,586,811
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Capital asset purchases	2,971,294
Depreciation expense	(5,685,387)
To eliminate the doubling-up effect of cash and investments related to the purchase by the general fund of the Eucalyptus Assessment District's bonds, originally reflected as an investment of the general fund's balance sheet and as cash on the Eucalyptus Assessment District's balance sheet in the governmental fund financial statements.	
	10,875
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Debt principal payments	3,554,895
Issuance of debt and accreted interest	(16,784,175)
Compensated absence expenditures reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in a governmental fund. This is the net change in compensated absences for the current period.	
	62,042
Costs associated with the issuance of long-term liabilities is an expenditure in the governmental funds, but increases the assets in the Statement of Net Assets.	
Amortization of bond issuance costs	(83,496)
Bond issuance costs	305,000
Accrued interest payable is interest due on long-term liabilities. This is the net change in accrued interest in the current period.	
	(403,797)
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.	
Prepaid PERS contribution	(593,863)
Other postemployment benefits	(215,366)
Internal service funds are used by management to charge the costs of certain activities, such as equipment replacement, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental funds.	
	<u>(220,551)</u>
Change in net assets of governmental activities	<u>\$ 1,504,282</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-Type Activities	Governmental Activities
	Marin Valley Mobile Country Club	Internal Service Funds
<u>ASSETS</u>		
Current Assets		
Cash and investments	36,559	3,300,412
Cash with fiscal agent	4,066,106	-
Accounts receivable, net	130,203	10,134
Prepaid expenses	-	408
Advances to other funds	-	1,422,215
	<u>4,232,868</u>	<u>4,733,169</u>
Total Current Assets		
Non Current Assets		
Other assets, net of accumulated amortization	628,457	-
Capital assets, net of accumulated depreciation	15,129,556	1,656,488
	<u>15,758,013</u>	<u>1,656,488</u>
Total Non-Current Assets		
	<u>\$ 19,990,881</u>	<u>\$ 6,389,657</u>
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	\$ 48,234	\$ 67,269
Interest payable	149,125	-
Due to other funds	105,393	308,014
Deposits	100	-
Deferred revenue	23,948	185,815
Long-term liabilities - current portion	345,000	-
Claims payable - current portion	-	456,508
	<u>671,800</u>	<u>1,017,606</u>
Total Current Liabilities		
Non-Current Liabilities		
Long-term liabilities - net of current portion	10,090,000	-
Claims payable - net of current portion	-	1,110,118
	<u>10,090,000</u>	<u>1,110,118</u>
Total Non-Current Liabilities		
	<u>10,761,800</u>	<u>2,127,724</u>
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	4,694,556	1,656,488
Restricted	4,534,525	-
Unrestricted	-	2,605,445
	<u>9,229,081</u>	<u>4,261,933</u>
Total Net Assets		
Total Liabilities and Net Assets	<u>\$ 19,990,881</u>	<u>\$ 6,389,657</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Marin Valley Mobile Country Club</u>	<u>Internal Service Funds</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 2,336,241	\$ 1,145,285
Utilities	670,037	-
Other revenue	<u>13,915</u>	<u>97,445</u>
Total Operating Revenue	<u>3,020,193</u>	<u>1,242,730</u>
<u>OPERATING EXPENSES</u>		
Cost of services	1,181,832	1,470,429
Employee costs	112,514	-
Depreciation and amortization	<u>257,307</u>	<u>426,815</u>
Total Operating Expenses	<u>1,551,653</u>	<u>1,897,244</u>
Operating Income (Loss)	<u>1,468,540</u>	<u>(654,514)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	203,311	36,516
Interest expense	<u>(609,296)</u>	<u>-</u>
Total Non-Operating Revenues (Expenses)	<u>(405,985)</u>	<u>36,516</u>
Income (Loss) Before Transfers	<u>1,062,555</u>	<u>(617,998)</u>
<u>TRANSFERS</u>		
Transfers in	-	420,000
Transfers out	<u>-</u>	<u>(22,553)</u>
Total Transfers	<u>-</u>	<u>397,447</u>
Change in net assets	<u>1,062,555</u>	<u>(220,551)</u>
Net Assets - July 1, 2010	-	4,482,484
Prior period adjustment (Note 15)	<u>8,166,526</u>	<u>-</u>
Net Assets - July 1, 2010, restated	<u>8,166,526</u>	<u>4,482,484</u>
Net Assets - June 30, 2011	<u>\$ 9,229,081</u>	<u>\$ 4,261,933</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities	Governmental Activities
	Marin Valley Mobile Country Club	Internal Service Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 2,887,981	\$ 1,501,940
Cash paid to suppliers	(1,140,744)	(1,496,565)
Cash paid to employees	(112,514)	-
Net Cash Provided by Operating Activities	1,634,723	5,375
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Due from other funds	227,903	1,367,514
Net Cash Provided by Non-Capital Financing Activities	227,903	1,367,514
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition of capital assets	(257,934)	(552,032)
Principal paid on long-term debt	(325,000)	-
Interest paid on long-term debt	(615,219)	-
Net Cash Used for Capital and Related Financing Activities	(1,198,153)	(552,032)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest and dividends	203,309	36,510
Net Cash Provided by Investing Activities	203,309	36,510
Net Increase in Cash and Cash Equivalents	867,782	857,367
Cash and Cash Equivalents - July 1, 2010	3,234,883	2,443,045
Cash and Cash Equivalents - June 30, 2011	\$ 4,102,665	\$ 3,300,412
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</u>		
Cash and investments	\$ 36,559	\$ 3,300,412
Cash with fiscal agent	4,066,106	-
Cash and Cash Equivalents - June 30, 2011	\$ 4,102,665	\$ 3,300,412
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	1,468,540	(654,514)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	228,215	426,815
Amortization	29,092	-
Changes in assets and liabilities:		
Increase in accounts receivable	(123,638)	(3,974)
Increase in prepaid expenses	-	(408)
Increase (decrease) in accounts payable	23,940	(25,728)
Increase (decrease) in deferred revenue	8,574	(66,414)
Increase in claims payable	-	329,598
Net Cash Provided by Operating Activities	\$ 1,634,723	\$ 5,375

See accompanying notes to the basic financial statements.

CITY OF NOVATO
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

<u>ASSETS</u>	<u>Agency Funds</u>
Cash and investments (Note 2)	\$ 4,474,071
Cash with fiscal agent (Note 2)	4,555,940
Accounts receivable	<u>106,365</u>
Total Assets	\$ <u>9,136,376</u>
 <u>LIABILITIES</u>	
Deposits held in trust	\$ <u>9,136,376</u>
Total Liabilities	\$ <u>9,136,376</u>

See accompanying notes to the basic financial statements.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: 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. The Reporting Entity

The accompanying basic financial statements present the financial activity of the City along with the financial activities of its blended component units, which are entities for which the City is financially accountable. Together these entities comprise the primary government for reporting purposes. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units, which are described below, are all blended.

City of Novato Redevelopment Agency

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.

City of Novato Public Financing Authority

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 separate financial statements.

Novato Financing Authority

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. The purpose of the NFA was to finance the acquisition, operation and maintenance of the Marin Valley Mobile Country Club Park (MVMCC). The NFA acquired the MVMCC property in 1997. Until 2011, the activities of the Authority, based on the nature of operations and the fact that the Authority could not freely dispose of the property, were reported as a nonexpendable trust fund within the Fiduciary Funds of the City. Ownership of the park was transferred to the City in March, 2011. The NFA no longer owns any assets.

The activities of the MVMCC are being reported as part of the primary government because the City Council is the controlling authority. All accounting and administrative functions are performed by the property management company and fiscal agents in a trustee capacity. The City Council has agreed to continue assigning certain duties and obligations (operation of the MVMCC) to the Park Acquisition Corporation of Marin Valley Mobile Country Club Park pursuant to a Delegation Agreement dated as of March 1, 1997. The financial transactions of the MVMCC are reported in an Enterprise Fund within the City's Business-Type Activities. Prior years' financial statements for the NFA may be obtained from the City's Finance Department.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These standards require that the financial statements described below be presented.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include the activities of the overall City government except for fiduciary activities. Eliminations have been made to minimize the double counting of internal service activities. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories with each major fund displayed in a separate column. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

All remaining governmental funds are aggregated and reported as nonmajor funds in a single column, regardless of their fund type.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Capital Project Funds - Capital Project Funds are used to account for financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Funds - Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Funds

Enterprise Funds - Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency of a governmental unit to other departments or agencies of the same governmental unit on a cost-reimbursement basis.

Fiduciary Funds (not included in government-wide statements)

Agency Funds - Agency Funds are clearing type funds for the collection of taxes or deposits held in trust, on behalf of individuals, private organizations and other governments. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Major Funds

The City reported the following major governmental funds in the accompanying financial statements:

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.

Redevelopment General Fund - This fund is used to account for the preparation and implementation of plans for improvement, rehabilitation, and development of certain areas within the City.

Hamilton Trust Fund - This is a "permanent fund" as defined under GASB 34. 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.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary fund in the accompanying financial statements:

Marin Valley Mobile Country Club - This fund accounts for the operation and maintenance of the MVMCC mobile home park. Certain duties and obligations (operation of the park) have been assigned to the Park Acquisition Corporation of Marin Valley Country Club Park, a nonprofit, mutual benefit corporation, pursuant to a delegation agreement dated March 1, 1997.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and proprietary activities are presented using the economic resources measurement focus as defined in item "b" below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net assets.
- c. As agency funds report only assets and liabilities, they do not have a measurement focus. However, they use the accrual basis of accounting to recognize receivables and payables.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and proprietary activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets are available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, which do not conflict with Government Accounting Standards Board Pronouncements.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds's principal operations. The principal operating revenues of the enterprise and internal service funds are charges for services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Property Taxes

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 or 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 remits tax monies to the City in three installments as follows:

55% remitted in December
40% remitted in April
5% remitted in June

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County of Marin for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

E. Cash and Investments

The City pools the cash of all funds, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of a particular fund's equity in the pool, the pool operates like a demand deposit account for the participating funds.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on month-end balances and is adjusted at fiscal year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents to be change and petty cash funds, equity in the City's cash and investment pool, and restricted non-pooled investments with initial maturities of three months or less.

F. Accounts and Interest Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, fines, interest, and other fees. Federal and state grants are considered receivable and accrue as revenue when reimbursable costs are incurred.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Long-term loans in governmental funds are treated as expenditures in the year advanced and as revenues in the year repayment is measurable and available. Loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables.

G. Capital Assets

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, capital outlay with a cost of \$5,000 or more and a useful life of one year are capitalized. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of debt financed capital assets of business-type activities is included as part of the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

H. 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, 2011. 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, 2011.

I. Long Term Liabilities

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term liabilities, and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, including deferred refunding amounts and underwriters' discounts, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Equity Classifications

Government-wide Statements

Net assets are the excess of all the City's assets over all its liabilities, regardless of fund. Net assets are divided into three categories under GASB Statement 34. These categories apply only to net assets, which is determined at the Government-wide level, and are described below:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (1) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- d. Assigned - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed.
- e. Unassigned - Amounts representing the residual classification for the general fund or any other fund with a negative fund balance.

Further detail about the City's fund balance classification is described in Note 8.

L. General Budget Policies

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.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

N. Reclassifications

Certain accounts in prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2011 were classified in the accompanying financial statements as follows:

	<u>Cash and Investments</u>	<u>Cash with Fiscal Agent</u>	<u>Restricted Cash and Investments</u>	<u>Total</u>
Governmental activities	\$ 45,515,590	\$ 18,710,378	\$ 32,028,741	\$ 96,254,709
Business-type activities	<u>36,559</u>	<u>4,066,106</u>	<u>-</u>	<u>4,102,665</u>
Total government-wide cash and investments	<u>45,552,149</u>	<u>22,776,484</u>	<u>32,028,741</u>	<u>100,357,374</u>
Fiduciary activities	<u>4,474,071</u>	<u>4,555,940</u>	<u>-</u>	<u>9,030,011</u>
Total cash and investments	<u>\$ 50,026,220</u>	<u>\$ 27,332,424</u>	<u>\$ 32,028,741</u>	<u>\$ 109,387,385</u>

Cash and investments were carried at fair value as of June 30, 2011 and consisted of the following:

Cash on hand	\$ 3,830
Cash in banks	<u>270,620</u>
Total cash	<u>274,450</u>
Federal agency securities	14,101,000
Cash with Fiscal Agent	27,332,423
Corporate bonds	4,163,000
Local Agency Investment Fund (LAIF)	32,628,102
California Asset Management Program (CAMP)	<u>30,888,410</u>
Total investments	<u>109,112,935</u>
Total cash and investments	<u>\$ 109,387,385</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Authorized Investments of the City

The table below identifies the investment types that are authorized by the City's investment policy. 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 California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury obligations	N/A	None	None
U.S. Agency securities	N/A	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	15%	10%
Repurchase agreements	90 days	N/A	N/A
Medium term corporate notes	1 year	30%	15%
Money market mutual funds	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	N/A	None	None
Negotiable certificates of deposits	5 years	30%	None

The City complies with the provisions of California Government Code (or the City's investment policy, where more restrictive) pertaining to the types of investments held, institutions in which deposits were made and security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury obligations	None	None	None
U.S. Agency securities	None	None	None
Money market funds rated "AAAm" or better	None	None	None
Certificates of deposit	365 days	None	None
Guaranteed investment agreements	None	None	None
Commercial Paper rated "A-1+" or better	None	None	None
State municipal bonds	None	None	None
Bankers acceptances rated "A-1+" or better	365 days	None	None
Local agency investment fund (LAIF)	None	None	None

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

Interest rate risk 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's interest rate risk is mitigated 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.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity as of June 30, 2011:

	Remaining Maturity		
	12 months or less	1-5 years	Fair Value
Federal Agency Securities	\$ -	\$ 14,101,000	\$ 14,101,000
Corporate bonds	2,045,000	2,118,000	4,163,000
Local Agency Investment Fund	32,628,102	-	32,628,102
California Asset Management Program	30,888,410	-	30,888,410
Held by bond trustee:			
Investment agreements	<u>-</u>	<u>27,332,423</u>	<u>27,332,423</u>
	<u>\$ 65,561,512</u>	<u>\$ 43,551,423</u>	<u>\$ 109,112,935</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City had no investments (including investments held by bond trustees) that were highly sensitive to interest rate fluctuations as of June 30, 2011.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Rating as of Fiscal Year End		
		S&P	Moody's	N/A
Federal Agency Securities	\$ 14,101,000	AAA	Aaa	
Corporate bonds	4,163,000		AA2	
Local Agency Investment Fund	32,628,102			Not rated
California Asset Management Program	30,888,410	AAAm		
Held by bond trustee:				
Money market funds	<u>27,332,423</u>			Not rated
	<u>\$ 109,112,935</u>			

CITY OF NOVATO
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The investment policy of the City limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury obligations, LAIF, and local investment pools. Investments in any one issuer (other than mutual funds and external investment pools) that represented 5% or more of total City investments were as follows:

<u>Issuers</u>	<u>Investment Type</u>	<u>Amount</u>
Federal Home Loan Bank	U.S. Agency security	\$ 783,382
Berkshire Hathaway, Inc.	Corporate note	2,118,000
GE Capital Corporation	Corporate note	2,045,000

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government 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 counterparty (e.g. broker-dealer) to a transaction, a government 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 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 provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). 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's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, the carrying amount of the City's deposits was \$274,450 and bank balances were \$1,353,486. Under the Dodd-Frank Deposit Insurance provision, all bank balances are fully FDIC insured.

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 fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by the LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

Allocation of Interest Income Among Funds

Interest income from pooled investments is allocated to those funds which are required by law or administrative action to receive interest. Interest is allocated monthly based on the ending cash balances of the previous month in each fund receiving interest.

NOTE 3: LOANS RECEIVABLE

Loans receivable of \$2,628,267 at June 30, 2011 were comprised of the following:

Computer loan program

The City has adopted an employee computer purchase program in which the City purchases personal computers for 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 1.06% at June 30, 2011). The balance of the computer loans receivable at June 30, 2011 was \$26,356 and 21 employees were participating in the program.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3: NOTES AND LOANS RECEIVABLE (CONTINUED)

Employee Housing Assistance Loans

In April 2005, 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 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, 2011 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 \$1,702 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, 2011 was \$666,400 which is included as a loan receivable on the accompanying Statement of Net Assets.

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 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 55th 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, 2011 was \$1,570,511. Interest receivable related to this loan in the amount of \$34,439 is included in the loan receivable balance.

Low and Moderate Income Housing Property Loan

In November 2010, the City provided a loan in the amount of \$65,000 in connection with a sale of property, that is part of an affordable housing program designed to create, preserve, maintain and protect housing for persons of low and moderate income, by Habitat for Humanity Greater San Francisco, and is secured by real property. The loan receivable balance at June 30, 2011 was \$65,000 which is included as a loan receivable on the accompanying Statement of Net Assets.

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, 2011, 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.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4: INTERFUND AND INTRA-FUND TRANSACTIONS

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2011 was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Description</u>	<u>Amount</u>
<u>Governmental Funds</u>			
General Fund	Non-major funds	Deficit cash balances	\$ 441,245
	Hamilton Fund	Hamilton levy project	432,627
	MVMCC	Deficit cash balances	96,323
	MVMCC	Administrative costs	8,077
	Equipment Maintenance	Deficit cash balances	308,014
RDA Housing Fund	MVMCC Fund	Administrative costs	993
	RDA General Fund	Long term loan	3,566,509
RDA General Fund	RDA Housing Fund	Affordable housing loan	25,126,612
Hamilton Trust Fund	NPFA Fund	Corporation yard lease	1,360,000
Development Impact	RDA General Fund	Skate park loan	<u>116,468</u>
	Total Governmental Funds		<u>31,456,868</u>
<u>Internal Service Funds</u>			
Equipment Replacement	General Fund	Employee housing loan	1,048,170
	NPFA Fund	Long term loan	<u>374,045</u>
	Total Internal Service Funds		<u>1,422,215</u>
		Total Interfund Receivables/Payables	\$ <u>32,879,083</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4: INTERFUND AND INTRA-FUND TRANSACTIONS (CONTINUED)

Interfund Transfers to/from Other Funds

Transfers between funds during the fiscal year ended June 30, 2011 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Description of Transfer</u>	<u>Amount</u>
<u>Major Governmental Funds</u>			
General Fund	Chapter 27 Assessments	Expense reimbursement	\$ 5,390
	Special Police Projects	City share of program costs	12,000
	Capital Improvements Program	CIP projects	353,322
	Pension Obligation Bonds	Debt service	971,807
	Equipment Replacement	Annual MERA debt service	420,000
	Capital Improvement Projects	CIP Projects	29,244
	Capital Improvement Projects	CIP projects	239,584
RDA Housing Fund	General Fund	Administration service charge	128,860
	Pension Obligation Bonds	Debt service	8,138
RDA General Fund	General Fund	Administration service charge	255,653
	Capital Improvement Projects	CIP projects	2,625
	Pension Obligation Bonds	Debt service	16,667
Hamilton Trust Fund	General Fund	Administration service charge	435,883
	Housing Opportunity	Eden Housing loan	466,841
		Total Major Governmental Interfund Transfers	<u>3,346,014</u>
<u>Non-Major Governmental Funds</u>			
Clean Stormwater	General Fund	Administration service charge	177,500
	Clean Stormwater CIP	Reserve for CIP projects	45,000
Park Improvement	Capital Improvement Projects	CIP projects	36,054
Subdivision Park	General Fund	Administration service charge	500
	Capital Improvement Projects	CIP projects	7,750
General Plan Surcharge	Pension Obligation Bonds	Debt service	4,718
Automation Surcharge	Pension Obligation Bonds	Debt service	1,208
Hamilton Community Facilities	Pension Obligation Bonds	Debt service	8,060
Novato Arts Center	NPFA	Separating Arts Center funds	70,879
Pt Marin CFD	Pension Obligation Bonds	Debt service	5,208
Chapter 27 Assessments	Capital Improvement Projects	CIP projects	8,274
Downtown Lighting & Landscaping	General Fund	Administration service charge	1,769
	Chapter 27 Assessment	Expense reimbursement	60,357
Gas Tax	General Fund	Administration service charge	817,000
	Capital Improvement Projects	CIP projects	32,458
State Park Bonds	Capital Improvement Projects	CIP projects	312,008
Traffic Congestion Relief	Capital Improvement Projects	CIP projects	214,895
Federal Grants	General Fund	Administration service charge	37,500
	Capital Improvement Projects	CIP projects	816,968
Capital Improvements Projects	Art in Public Places Fund	Return funds	200
Measure B Street Bonds 2007	General Fund	Administration service charge	32,414
	Capital Improvement Projects	CIP projects	86,607
Measure A Street Bonds	Capital Improvement Projects	CIP projects	332,990
Proposition 1B Fund	Capital Improvement Projects	CIP projects	240,730
CREBS Bonds Fund	Long-Term Maintenance	Reserve funds for maintenance	306
Street/Storm Drain Maintenance	Capital Improvement Projects	CIP projects	29,138
Development Impact Fee	General Fund	Administration service charge	105,433
	Capital Improvement Projects	CIP projects	183,655
Community Facility Maintenance	Capital Improvement Projects	CIP projects	70,339
NPFA Fund	General Fund	Administration service charge	13,000
	Hamilton Arts Center	Dedicate Arts Center funds	713,342
	Capital Improvement Projects	CIP projects	38,959
	Pension Obligation Bonds	Debt service	1,019
		Total Non- Major Governmental Interfund Transfer	<u>4,506,238</u>
<u>Internal Service Funds</u>			
Equipment Maintenance	Pension Obligation Bonds	Debt service	10,441
Equipment Replacement	Capital Improvement Projects	CIP projects	12,112
		Total Internal Service Fund Transfers	<u>22,553</u>
		Total Interfund Transfers	<u>\$ 7,874,805</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5: CAPITAL ASSETS

Governmental Activities:

	<u>Balance at July 1, 2010</u>	<u>Prior Period Adjustment</u>	<u>Balance at July 1, 2010, Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ Adjustments</u>	<u>Balance at June 30, 2011</u>
Capital assets not being depreciated							
Land	\$ 121,165,277	\$ -	\$ 121,165,277	\$ -	\$ -	\$ -	\$ 121,165,277
Construction-in-progress	<u>5,875,205</u>	<u>-</u>	<u>5,875,205</u>	<u>2,041,309</u>	<u>-</u>	<u>(5,447,541)</u>	<u>2,468,973</u>
Total capital assets not being depreciated	<u>127,040,482</u>	<u>-</u>	<u>127,040,482</u>	<u>2,041,309</u>	<u>-</u>	<u>(5,447,541)</u>	<u>123,634,250</u>
Capital assets being depreciated							
Buildings and improvements	25,904,640	-	25,904,640	165,194	(38,028)	-	26,031,806
Furniture and equipment	1,601,751	52,550	1,654,301	48,578	(59,045)	-	1,643,834
Infrastructure	<u>191,396,729</u>	<u>-</u>	<u>191,396,729</u>	<u>716,213</u>	<u>-</u>	<u>5,447,541</u>	<u>197,560,483</u>
Total capital assets being depreciated	<u>218,903,120</u>	<u>52,550</u>	<u>218,955,670</u>	<u>929,985</u>	<u>(97,073)</u>	<u>5,447,541</u>	<u>225,236,123</u>
Less accumulated depreciation							
Buildings and improvements	(4,955,037)	-	(4,955,037)	(517,376)	38,028	-	(5,434,385)
Furniture and equipment	(1,059,661)	(52,550)	(1,112,211)	(220,589)	59,045	-	(1,273,755)
Infrastructure	<u>(94,102,927)</u>	<u>(36,973)</u>	<u>(94,139,900)</u>	<u>(4,947,422)</u>	<u>-</u>	<u>-</u>	<u>(99,087,322)</u>
Total accumulated depreciation	<u>(100,117,625)</u>	<u>(89,523)</u>	<u>(100,207,148)</u>	<u>(5,685,387)</u>	<u>97,073</u>	<u>-</u>	<u>(105,795,462)</u>
Total Capital Assets, net	<u>245,825,977</u>	<u>(36,973)</u>	<u>245,789,004</u>	<u>(2,714,093)</u>	<u>-</u>	<u>-</u>	<u>243,074,911</u>
Internal Service Funds:							
Capital assets being depreciated							
Vehicles	<u>4,317,668</u>	<u>-</u>	<u>4,317,668</u>	<u>552,032</u>	<u>(266,909)</u>	<u>-</u>	<u>4,602,791</u>
Less accumulated depreciation							
Vehicles	<u>(2,786,399)</u>	<u>-</u>	<u>(2,786,399)</u>	<u>(426,813)</u>	<u>266,909</u>	<u>-</u>	<u>(2,946,303)</u>
Total Capital Assets, net	<u>1,531,269</u>	<u>-</u>	<u>1,531,269</u>	<u>125,219</u>	<u>-</u>	<u>-</u>	<u>1,656,488</u>
Total Governmental Activities	<u>\$ 247,357,246</u>	<u>\$ (36,973)</u>	<u>\$ 247,320,273</u>	<u>\$ (2,588,874)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,731,399</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5: CAPITAL ASSETS (CONTINUED)

Depreciation was charged to functions based on their usage of the related assets as follows:

Governmental Activities:

General government	\$ 244,285
Public safety	262,089
Culture and recreation	741,663
Community development	80,078
Public ways and facilities	<u>4,784,085</u>

Total governmental activities depreciation expense \$ 6,112,200

Business-type Activities:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ Adjustments</u>	<u>Balance at June 30, 2011</u>
Capital assets not being depreciated					
Land	\$ 11,840,000	\$ -	\$ -	\$ -	\$ 11,840,000
Capital assets being depreciated					
Buildings and improvements	5,101,422	257,934	-	-	5,359,356
Furniture and equipment	<u>29,719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,719</u>
Total capital assets being depreciated	<u>5,131,141</u>	<u>257,934</u>	<u>-</u>	<u>-</u>	<u>5,389,075</u>
Less accumulated depreciation					
Buildings and improvements	(1,858,906)	(224,067)	-	-	(2,082,973)
Furniture and equipment	<u>(12,398)</u>	<u>(4,148)</u>	<u>-</u>	<u>-</u>	<u>(16,546)</u>
Total accumulated depreciation	<u>(1,871,304)</u>	<u>(228,215)</u>	<u>-</u>	<u>-</u>	<u>(2,099,519)</u>
Total Capital Assets, net	<u>\$ 15,099,837</u>	<u>\$ 29,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,129,556</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITIES

Governmental activities long-term debt issued and outstanding at June 30, 2011 was comprised of the following:

Type of Indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding June 30, 2011
General obligation bonds:				
Series 1993A	2014	4.75-7.25%	\$ 5,000,000	\$ 1,130,000
Series 1997A	2021	5.00-8.00%	14,245,000	6,760,000
Series 2000A	2022	5.00-5.75%	5,000,000	3,270,000
Series 2004	2026	3.20-10.00%	5,000,000	4,205,000
Series 2007	2027	3.55-4.125%	5,000,000	4,565,000
Pension obligation bonds, A-1 & A-2	2035	5.69-6.12%	18,296,066	19,004,716
Tax allocation bonds:				
Hamilton Field Series 2005	2035	2.50-4.50%	24,835,000	21,810,000
Hamilton Field 2005, Series A	2035	4.50-4.88%	9,520,000	8,570,000
Hamilton Field Series 2011	2041	2.00-6.5%	17,000,000	17,000,000
Bond issuance premiums (discounts)				
Series 2004 premium				182,243
Series 2007 premium				208,970
Pension obligation bonds discount				(141,629)
Hamilton Field Series 2005 discount				(170,574)
Hamilton Field 2005 Series A discount				(93,356)
Hamilton Field Series 2011 discount				(428,019)
Clean Renewable Energy Bonds (CREBS)	2024	0.00%	1,533,000	1,306,370
CIEDB loan payable	2032	3.39%	3,700,000	3,069,845
OPA notes payable	2014	8.53%	9,000,000	2,084,946
Capital lease, Dell	2013	5.20%	222,022	93,623
Due to County of Marin	2011	7.75%	-	54,758
Compensated absences				<u>1,630,054</u>
Total governmental activities				<u>\$ 94,111,947</u>

Business-type activities long-term debt issued and outstanding at June 30, 2011 was comprised of the following:

Type of Indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding June 30, 2011
Senior Promissory Note	2028	3.9 - 5.85%	\$ 15,485,000	<u>\$ 10,435,000</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Prior Period Restatement</u>	<u>Balance at July 1, 2010, Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Governmental Activities:							
General obligation bonds	\$ 21,650,000	\$ -	\$ 21,650,000	\$ -	\$ (1,720,000)	\$ 19,930,000	\$ 1,825,000
Pension obligation bonds	18,166,066	732,516	18,898,582	216,134	(110,000)	19,004,716	160,000
Tax allocation bonds	31,120,000	-	31,120,000	17,000,000	(740,000)	47,380,000	765,000
Clean renewable energy bonds	1,419,685	-	1,419,685	-	(113,315)	1,306,370	113,315
Premium (discount) on bonds, net	(7,710)	-	(7,710)	(431,959)	(2,696)	(442,365)	(8,038)
CIEDB loan payable	3,169,116	-	3,169,116	-	(99,271)	3,069,845	102,636
OPA notes payable	2,673,718	-	2,673,718	-	(588,772)	2,084,946	638,964
Capital lease, Dell	146,590	-	146,590	-	(52,967)	93,623	55,785
Due to County of Marin	<u>182,632</u>	<u>-</u>	<u>182,632</u>	<u>-</u>	<u>(127,874)</u>	<u>54,758</u>	<u>54,758</u>
Total bonds and notes payable	<u>78,520,097</u>	<u>732,516</u>	<u>79,252,613</u>	<u>16,784,175</u>	<u>(3,554,895)</u>	<u>92,481,893</u>	<u>3,707,420</u>
Other liabilities:							
Compensated absences	<u>448,325</u>	<u>1,243,771</u>	<u>1,692,096</u>	<u>-</u>	<u>(62,042)</u>	<u>1,630,054</u>	<u>1,201,719</u>
Total Governmental Activities	<u>\$ 78,968,422</u>	<u>\$ 1,976,287</u>	<u>\$ 80,944,709</u>	<u>\$ 16,784,175</u>	<u>\$ (3,616,937)</u>	<u>\$ 94,111,947</u>	<u>\$ 4,909,139</u>
	<u>Balance at July 1, 2010</u>	<u>Prior Period Restatement</u>	<u>Balance at July 1, 2010, Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
Business-type Activities							
Senior promissory note	<u>\$ 10,760,000</u>	<u>\$ -</u>	<u>\$ 10,760,000</u>	<u>\$ -</u>	<u>\$ (325,000)</u>	<u>\$ 10,435,000</u>	<u>\$ 345,000</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

A description of the long-term liabilities related to governmental activities at June 30, 2011 follows:

A. Governmental Activities

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 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.

(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 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.

(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.

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 as capital appreciation bonds at a discount of \$181,150.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

Tax Allocation Bonds

(1) 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.

(2) 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.

(3) Hamilton Field Redevelopment Project, Tax Allocation Bonds, Series 2011 - On March 23, 2011 the Agency issued Hamilton Field Redevelopment Project-Tax Allocation Bonds, Series 2011 ("Hamilton TAB-Series 2011") in the amount of \$17,000,000 to (i) repay a loan from the City of Novato and finance redevelopment activities, (ii) fund a reserve account for the 2011 Bonds, and (iii) pay the costs of issuing the 2011 bonds. The bonds are payable from and secured by a pledge of Tax Revenues on a parity with the Agency's outstanding Redevelopment Agency of the City of Novato Hamilton Field Redevelopment Project Tax Allocation Bonds, Series 2005. In addition, the Agency is authorized to incur additional debt ("Parity Debt") secured by Tax Revenues on a parity of the 2011 bonds and the outstanding 2005 Parity Bonds. Interest on the Bonds is payable on March 1 and September 1 each year, commencing September 1, 2011. Principal is payable on September 1 of each year, commencing September 1, 2012.

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.

CIEDB Loan Payable

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, 2011 the balance of the loan was \$3,069,845.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITES (CONTINUED)

OPA 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, 2011 the note payable balance was \$2,084,946.

Capital Lease

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, 2011 is \$93,623. At June 30, 2011, the net book value of the equipment under this capital lease is \$94,722 and is included in the Statement of Net Assets.

Bond Issuance Costs

Capitalized bond costs related to the above issuances have been recorded as deferred charges, net of accumulated amortization, in the amount of \$1,904,547 in the government-wide financial statements. The balance is amortized using the straight line method over the bond terms which range from 20 to 30 years. Net amortization expense for bond costs for the year ended June 30, 2011 was \$221,504.

Compensated Absences

At June 30, 2011, compensated absences totaled \$1,630,054, of which \$1,201,719 was recorded as a current liability and the non-current portion totaled \$428,335.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

Governmental Activities Long-Term Liabilities Future Debt Service

General Obligation Bonds

<u>For the Year</u> <u>Ending June 30</u>	<u>Principal</u>					
	<u>Series 1993A</u>	<u>Series 1997A</u>	<u>Series 2000A</u>	<u>Series 2004</u>	<u>Series 2007</u>	<u>Total</u>
2012	\$ 355,000	\$ 860,000	\$ 230,000	\$ 205,000	\$ 175,000	\$ 1,825,000
2013	380,000	910,000	240,000	225,000	195,000	1,950,000
2014	395,000	505,000	250,000	230,000	220,000	1,600,000
2015	-	540,000	265,000	240,000	230,000	1,275,000
2016	-	560,000	280,000	245,000	240,000	1,325,000
2017 - 2021	-	3,385,000	1,625,000	1,375,000	1,290,000	7,675,000
2022 - 2026	-	-	380,000	1,685,000	1,515,000	3,580,000
2027 - 2031	-	-	-	-	700,000	700,000
Total	\$ 1,130,000	\$ 6,760,000	\$ 3,270,000	\$ 4,205,000	\$ 4,565,000	\$ 19,930,000

<u>For the Year</u> <u>Ending June 30</u>	<u>Interest</u>					
	<u>Series 1993A</u>	<u>Series 1997A</u>	<u>Series 2000A</u>	<u>Series 2004</u>	<u>Series 2007</u>	<u>Total</u>
2012	\$ 47,625	\$ 328,931	\$ 167,308	\$ 170,268	\$ 203,039	\$ 917,171
2013	29,250	284,113	155,558	157,443	180,839	807,203
2014	9,875	247,853	143,308	149,990	164,464	715,490
2015	-	220,873	130,300	142,058	150,388	643,619
2016	-	192,272	116,262	133,507	145,788	587,829
2017 - 2021	-	466,594	335,603	514,251	582,340	1,898,788
2022 - 2026	-	-	10,450	193,955	300,040	504,445
2027 - 2031	-	-	-	-	29,038	29,038
Total	\$ 86,750	\$ 1,740,636	\$ 1,058,789	\$ 1,461,472	\$ 1,755,936	\$ 6,103,583

Pension Obligation Bonds

<u>For the Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	325,000	868,648	1,193,648
2016	390,000	849,668	1,239,668
2017 - 2021	3,120,000	3,816,452	6,936,452
2022 - 2026	5,710,000	2,610,684	8,320,684
2027 - 2031	6,408,513	3,544,771	9,953,284
2032 - 2036	<u>2,416,203</u>	<u>6,903,798</u>	<u>9,320,001</u>
Total	\$ 19,004,716	\$ 21,280,265	\$ 40,284,981

CITY OF NOVATO
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITES (CONTINUED)

Tax Allocation Bonds

For the Year Ending June 30	Principal			Total Principal
	Hamilton Series 2005	Hamilton Housing, Series A	Hamilton Series 2011	
2012	\$ 555,000	\$ 210,000	\$ -	\$ 765,000
2013	575,000	215,000	215,000	1,005,000
2014	595,000	225,000	215,000	1,035,000
2015	615,000	230,000	230,000	1,075,000
2016	635,000	240,000	235,000	1,110,000
2017 - 2021	3,575,000	1,370,000	1,320,000	6,265,000
2022 - 2026	4,385,000	1,710,000	1,360,000	7,455,000
2027 - 2031	5,480,000	2,185,000	195,000	7,860,000
2032 - 2036	5,395,000	2,185,000	2,180,000	9,760,000
2037 - 2041	-	-	11,050,000	11,050,000
Total	\$ 21,810,000	\$ 8,570,000	\$ 17,000,000	\$ 47,380,000

For the Year Ending June 30	Interest			Total Interest
	Hamilton Series 2005	Hamilton Housing, Series A	Hamilton Series 2011	
2012	\$ 907,491	\$ 378,498	\$ 1,017,336	\$ 2,303,325
2013	888,063	371,430	1,084,618	2,344,111
2014	866,844	363,838	1,079,243	2,309,925
2015	845,233	355,731	1,071,706	2,272,670
2016	823,665	346,912	1,062,400	2,232,977
2017 - 2021	3,730,410	1,577,329	5,127,917	10,435,656
2022 - 2026	2,915,440	1,246,265	4,711,045	8,872,750
2027 - 2031	1,848,524	801,250	4,496,290	7,146,064
2032 - 2036	499,840	219,983	4,375,015	5,094,838
2037 - 2041	-	-	1,843,424	1,843,424
Total	\$ 13,325,510	\$ 5,661,236	\$ 25,868,994	\$ 44,855,740

Clean Renewable Energy Bonds

For the Year Ending June 30	Principal	Interest	Total
2012	\$ 113,315	\$ -	\$ 113,315
2013	113,315	-	113,315
2014	113,315	-	113,315
2015	113,315	-	113,315
2016	113,315	-	113,315
2017 - 2021	566,575	-	566,575
2022 - 2026	173,220	-	173,220
Total	\$ 1,306,370	\$ -	\$ 1,306,370

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITES (CONTINUED)

CIEDB Loan Payable

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 102,636	\$ 104,068	\$ 206,704
2013	106,115	100,588	206,703
2014	109,712	96,991	206,703
2015	113,432	93,272	206,704
2016	117,277	89,426	206,703
2017 - 2021	648,786	384,730	1,033,516
2022 - 2026	766,467	267,050	1,033,517
2027 - 2031	905,495	128,022	1,033,517
2032 - 2036	<u>199,925</u>	<u>6,778</u>	<u>206,703</u>
Total	\$ <u>3,069,845</u>	\$ <u>1,270,925</u>	\$ <u>4,340,770</u>

OPA Note Payable

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 638,964	\$ 161,036	\$ 800,000
2013	693,434	106,566	800,000
2014	<u>752,548</u>	<u>47,452</u>	<u>800,000</u>
Total	\$ <u>2,084,946</u>	\$ <u>315,054</u>	\$ <u>2,400,000</u>

Capital Lease - Dell

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 55,785	\$ 3,548	\$ 59,333
2013	<u>37,838</u>	<u>709</u>	<u>38,547</u>
Total	\$ <u>93,623</u>	\$ <u>4,257</u>	\$ <u>97,880</u>

Due to County of Marin

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ <u>54,758</u>	\$ <u>531</u>	\$ <u>55,289</u>
Total	\$ <u>54,758</u>	\$ <u>531</u>	\$ <u>55,289</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITES (CONTINUED)

Total Governmental Activities Future Debt Service

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,715,458	\$ 4,395,411	\$ 8,110,869
2013	4,115,702	4,255,565	8,371,267
2014	3,875,575	4,053,982	7,929,557
2015	2,901,747	3,878,209	6,779,956
2016	3,055,592	3,759,900	6,815,492
2017 - 2021	18,275,361	16,535,626	34,810,987
2022 - 2026	17,684,687	12,254,929	29,939,616
2027 - 2031	15,874,008	10,847,895	26,721,903
2032 - 2036	12,376,128	5,101,616	17,477,744
2037 - 2041	<u>11,050,000</u>	<u>1,843,424</u>	<u>12,893,424</u>
Total	<u>\$ 92,924,258</u>	<u>\$ 66,926,557</u>	<u>\$159,850,815</u>

B. Business-type Activities

Senior Promissory Note

On March 1, 1997, the Authority issued Senior Revenue Bonds, Series 1997 in the amount of \$15,485,000. The proceeds were used to permanently finance the acquisition of certain real property constituting the Marin Valley Mobile Country Club Park. The debt is secured by the Marin Valley Mobile Country Club Park property.

Bond Issuance Costs

Capitalized bond costs related to the above issuance has been recorded as bond issuance costs, net of accumulated amortization, in the amount of \$229,378 in the government-wide financial statements. The balance is amortized using the straight line method over the bond term. Amortization expense for bond costs for the year ended June 30, 2011 was \$14,156.

Business-type Activities Long-Term Liabilities Future Debt Service

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 345,000	\$ 596,955	\$ 941,955
2013	365,000	577,248	942,248
2014	385,000	555,863	940,863
2015	405,000	532,953	937,953
2016	435,000	508,593	943,593
2017 - 2021	2,545,000	2,127,395	4,672,395
2022 - 2026	3,390,000	1,269,157	4,659,157
2027 - 2031	<u>2,565,000</u>	<u>177,985</u>	<u>2,742,985</u>
Total	<u>\$ 10,435,000</u>	<u>\$ 6,346,149</u>	<u>\$ 16,781,149</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7: SPECIAL ASSESSMENT DEBT

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, 2011, the outstanding principal of the Assessment District No. 93-1 (Golden Gate Plaza) bond issue was \$1,390,000.

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, 2011 the outstanding principal of the City of Novato Redevelopment Agency Hamilton 2004 Refunding Special Tax bond issue was \$17,815,000.

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, 2011 the outstanding principal of the City of Novato Community Facilities District No. 2002-1 (Pointe Marin) Special Tax Refunding bond issue was \$11,060,000.

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, 2011, the outstanding principal of the City of Novato Community Facilities District No.1 (Vintage Oaks) Special Tax Refunding bond issue was \$19,415,000.

NOTE 8: FUND BALANCE

Beginning with fiscal year 2010-2011, the City implemented GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions."* This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non Spendable: Amounts that cannot be spent because they are either (a) not in spendable form (not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted: Amounts subject to externally enforceable legal restrictions or constrained for a specific purpose by external parties, constitutional provision, or enabling legislation. This fund balance type is essentially the same definition as restricted net assets under GASB Statement No. 34.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by the formal action of the government's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance) it employed to previously commit those amounts. Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

Assigned: Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be expressed by the governing body itself or an official to whom the governing body has delegated authority to assign amounts. This classification also represents all remaining amounts (except negative balances) reported in governmental funds, other than the general fund, that are not classified as non spendable, restricted, or committed.

Unassigned: Residual amounts in the general fund, not classified as non spendable, restricted, committed, or assigned. For other governmental fund types, unassigned is only used when a deficit or negative fund balance occurs.

CITY OF NOVATO
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 8: FUND BALANCE (CONTINUED)

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

City policy is to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 15% of the actual general fund GAAP basis expenditures and other financing sources and uses. This balance is held, for internal tracking purposes, in an Emergency Reserve fund.

As of June 30, 2011, fund balances were comprised of the following:

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Permanent Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable					
Prepaid expenses	\$ 437,407	\$ 1,620	\$ -	\$ 7,029	\$ 446,056
Advances	432,627	28,693,121	1,360,000	116,468	30,602,216
Deferred costs	<u>81,770</u>	<u>-</u>	<u>-</u>	<u>104,045</u>	<u>185,815</u>
Total Nonspendable	<u>951,804</u>	<u>28,694,741</u>	<u>1,360,000</u>	<u>227,542</u>	<u>31,234,087</u>
Restricted					
Grants, taxes, & fees	-	-	31,517,564	10,088,112	41,605,676
Insurance	1,256,991	-	-	-	1,256,991
Capital projects	-	-	-	16,922,821	16,922,821
Debt service	<u>-</u>	<u>3,913,412</u>	<u>-</u>	<u>2,804,107</u>	<u>6,717,519</u>
Total Restricted	<u>1,256,991</u>	<u>3,913,412</u>	<u>31,517,564</u>	<u>29,815,040</u>	<u>66,503,007</u>
Assigned					
Capital projects	17,082,475	-	-	-	17,082,475
Pension reserve	1,350	-	-	-	1,350
Emergency & disaster response	5,650,265	-	-	-	5,650,265
Long-term maintenance	<u>487,961</u>	<u>-</u>	<u>-</u>	<u>343,209</u>	<u>831,170</u>
Total Assigned	<u>23,222,051</u>	<u>-</u>	<u>-</u>	<u>343,209</u>	<u>23,565,260</u>
Unassigned					
	<u>1,763,554</u>	<u>(28,776,341)</u>	<u>-</u>	<u>(1,687,680)</u>	<u>(28,700,467)</u>
Total Fund Balance	<u>\$ 27,194,400</u>	<u>\$ 3,831,812</u>	<u>\$ 32,877,564</u>	<u>\$ 28,698,111</u>	<u>\$ 92,601,887</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8: FUND BALANCE (CONTINUED)

Fund Balance Deficits

As of June 30, 2011, the following funds had a fund deficit:

<u>Fund</u>	<u>Deficit</u>
Redevelopment Housing Fund	\$ 20,904,822
Hamilton Community Facilities	463,748
Justice Assistance Grants	21,470
State Grant Fund	1,214
Federal Grant Fund	37,491
Capital Improvement Projects	490,214
Novato Public Financing Authority	569,498

These deficits were a result of expenditures incurred in advance of receipt of revenue and will be eliminated through future revenues and expenditure reductions.

NOTE 9: DEFINED BENEFIT PENSION PLAN

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 \$14,846,569 at June 30, 2011. During fiscal year 2010-11, the amortization of the prepayment increased the actuarially required contributions by \$593,863 to arrive at Annual Pension Costs of \$3,716,878.

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 2010-11, the City's contribution rate was 9.037% for the miscellaneous plan and 16.561% for the safety plan.

CITY OF NOVATO
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 9: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost

For fiscal year 2010-11, the City's annual pension cost of \$3,716,878, includes the amortization of the prepaid PERS contributions of \$593,863 (See section Note 9 - Plan Description) and \$3,120,015 which was equal to the City's required and actual PERS contributions. The required contribution was determined as part of the June 30, 2009 actuarial 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.

Three Year Trend Information for PERS - Miscellaneous Employees

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 2,106,387	100%	-
2010	\$ 1,952,815	100%	-
2011	\$ 1,870,675	100%	-

Three Year Trend Information for PERS - Safety Employees

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 1,753,468	100%	-
2010	\$ 1,850,147	100%	-
2011	\$ 1,846,203	100%	-

NOTE 10: OTHER POST EMPLOYMENT BENEFITS

Description of the Plan

The City provides health insurance benefits under the Blue Shield, Kaiser, PERs Choice, PERS Select, 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.

As of the most recent actuarial report dated January 2010, the City reported 209 active employees and 124 retiree employees.

Funding Policy

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, and amount which was determined as part of a January 1, 2010 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 is currently funding the benefits on a pay-as-you-go basis. No separate financial statements are issued for the Plan.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The City's OPEB unfunded actuarial accrued liability as of January 1, 2010, the date of the most recent actuarial valuation totaled \$494,605.

Annual required contribution		
Service cost at year-end	\$	152,000
30-year amortization of funded liability		<u>126,000</u>
Total annual required contribution		<u>278,000</u>
Employer contributions		(62,634)
Net pension obligation, July 1, 2010		<u>279,239</u>
Net pension obligation, June 30, 2011	\$	<u><u>494,605</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2011 and the two preceding years were as follows:

Year Ended	Annual OPEB cost	Actual Employer Contribution	Percentage Contributed	Net Ending OPEB
June 30, 2009	\$ 191,000	\$ 47,443	24.84 %	\$ 143,557
June 30, 2010	\$ 191,000	\$ 55,318	28.96 %	\$ 279,239
June 30, 2011	\$ 278,000	\$ 62,634	22.53 %	\$ 494,605

Funded Status and Funding Progress

The funded status of the plan based on an actuarial study using age-adjusted premiums as of June 30, 2011, was as follows:

Actuarial accrued liability (AAL)		
Active employees	\$	905,000
Retired employees		<u>898,000</u>
		<u>1,803,000</u>
Actuarial value of plan assets		<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>1,803,000</u></u>
Funded Ratio (actuarial value of plan assets / AAL)		0 %
Covered payroll (active plan members)	\$	15,730,000
UAAL as a percentage of covered payroll		11 %

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on the values which the City's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because 2009 was the year of implementation of GASB Statement No. 45 and the City elected to apply the statement prospectively, only two years are presented in the schedule at this time. In future years, required trend data will be presented.

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 Entry Age Normal. The actuarial assumptions include a 4.5 percent investment rate of return, covered payroll increases of 3.5 percent per year, and an inflation rate of 3.0 percent per year. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percent of payroll over a 30 year fixed (closed) period.

NOTE 11: RISK MANAGEMENT

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

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

A. Risk Pools

Bay Cities Joint Powers Insurance Authority (BCJPIA) 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 \$141,556 for claims and \$318,813 for insurance premiums during the fiscal year ended June 30, 2011.

The City is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess (LAWCX) Insurance Joint Powers Authority's risk pool, and LAWXCX 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 LAWXCX.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 11: RISK MANAGEMENT (CONTINUED)

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

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, 2011, the City incurred costs of \$559,181 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.

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, 2011:

	Workers' Compensation	General Liability	Total
Projected known claims	\$ 485,953	\$ 277,610	\$ 763,563
Projected IBNR	640,032	153,031	793,063
Total Claims Liability	\$ 1,125,985	\$ 430,641	\$ 1,556,626
Claims liability - current	\$ 287,459	\$ 169,049	\$ 456,508
Claims liability - non-current	838,526	271,592	1,110,118
Total Claims Liability	\$ 1,125,985	\$ 440,641	\$ 1,566,626

NOTE 12: EXCESS EXPENDITURES AND TRANSFERS OVER APPROPRIATIONS

The following funds incurred expenditures and/or transfers in excess of appropriations in the following amounts for the year ended June 30, 2011:

Fund	Excess Expenditures
Redevelopment Housing	\$ 101,734
Redevelopment	8,011,414
Hamilton Trust	307,868
Hamilton CFD Maintenance	104,987
Hamilton Arts Center	242,509
Assessment District - Wildwood Glen	3,907
Assessment District - Hillside	1,517
Lighting & Landscaping - Downtown	64,103
CREBs	306
Novato Public Financing Authority	815,525

The excess expenditures were covered by available fund balance in the funds.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 13: CONTINGENCIES AND COMMITMENTS

Grant Awards

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Litigation

The City is involved in several pending lawsuits of a nature common to many similar jurisdictions. City management estimates that potential claims against the City, not covered by insurance, will not have a material adverse effect on the financial statements of the City.

NPFA Lease

The City's Redevelopment Agency leased 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.

Operating Lease

The City entered into a lease agreement January 2007 for its building facilities which commenced on October 1, 2008. The current lease expires in October 2013, with an option to renew for five years. Future lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Future Payments</u>
2012	\$ 722,344
2013	744,031
2014	<u>187,377</u>
Total	<u>\$ 1,653,752</u>

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.

<u>Fiscal Year Ending June 30,</u>	<u>Minimum Service Payments</u>
2012	\$ 245,498
2013	245,771
2014	245,662
2015	245,714
2016	245,735
2017 - 2021	1,229,185
2022 - 2026	<u>24,365</u>
Total	<u>\$ 2,481,930</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 14: SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND

In July 2009, the California Legislature passed ABX4-26 as part of the State's budget package which required redevelopment agencies to remit approximately \$2.05 billion in redevelopment revenues back to the State over fiscal years 2009-10 and 2010-11. Under ABX4-26, each redevelopment agency contributed a proportionate share of revenue to the newly created Supplemental Educational Revenue Augmentation Fund (SERAF). The amount paid to the State from the Agency for the year ended June 30, 2011 totaled \$547,090.

NOTE 15: PRIOR PERIOD ADJUSTMENTS

The City determined that certain accounts were invalid or inactive and should be adjusted to actual amounts. Accordingly, the balance sheet of the fund financial statements has been adjusted to reflect the following prior period adjustments:

<u>Fund</u>	<u>Description of Restatement</u>	<u>Amount</u>
<u>Governmental funds</u>		
Major Funds		
General Fund	To remove compensated absences from governmental funds	\$ 1,243,771
General Fund	To remove reserved set-aside accounts from liabilities	<u>25,100</u>
	Total Major Fund Balance Restatement	<u>1,268,871</u>
Non Major Funds		
Hamilton Community Facilities	To remove reserved set-aside accounts from liabilities	147,320
Hamilton Arts Center	To record revenue received in the prior year	105,659
COPS Grant	To account for grant in separate fund	284,906
NPFA	To record revenue received in the prior year	<u>22,028</u>
	Total Non Major Fund Balance Restatement	<u>559,913</u>
	Total Governmental Fund Balance Restatement	<u>\$ 1,828,784</u>
<u>Proprietary funds</u>		
MVMCC	Reclassification of fund type	<u>\$ 8,166,526</u>
	Total Proprietary Fund Balance Restatement	<u>\$ 8,166,526</u>

In addition, the Government-wide Statement of Net Assets for governmental activities has been adjusted by the following:

<u>Description of Restatement</u>	<u>Amount</u>
Fund prior period adjustments	\$ 1,828,784
Capital assets	(36,973)
Compensated absences	(1,243,771)
Pension obligation bond discount	(175,627)
Long-term liabilities accreted interest	<u>(732,516)</u>
Total Government-wide Restatement	<u>\$ (360,103)</u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16: SUBSEQUENT EVENTS

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011/12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Novato intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012/13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (EOPS) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (ROPS) by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On August 23, 2011, City Ordinance No. 1562 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$2.3 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$540,000 will be due annually. The amounts to be paid after fiscal year 2012/13 have yet to be determined. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund in order to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 16: SUBSEQUENT EVENTS (CONTINUED)

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012, except for the payment due under the terms of AB X1 27. If AB X1 27 is determined to be constitutional, the City has agreed to loan the Redevelopment Agency sufficient funds to make the payments for the first three fiscal years, through FY 13/14, after which time the Agency should have sufficient tax increment to make the annual payments, in addition to its other obligations. The loan agreement entered into between the City and the Agency will require repayments of principal and interest beginning in FY 17/18, until the full amount of the loan is repaid. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state.

On December 29, 2011, the California Supreme Court upheld AB X1 26 which abolishes redevelopment agencies but struck down AB X1 27. The California Redevelopment Association along with the League of California Cities is working on immediate pieces of legislation to preserve the ability to create a restructured redevelopment program and to temporarily postpone the formal dissolution process contained in ABX1 26 and is currently scheduled to take place on February 1, 2012 as part of the Supreme Court's ruling. The Court's ruling requires that redevelopment agencies be dissolved on February 1, 2012. Without legislative action to postpone this deadline, a complicated process would be initiated of abolishing agencies and settling in place successor agencies charged with winding down redevelopment agency activities. Due to the uncertainty of these events, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NOVATO
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2010 - 2011			Variance with Final Budget Positive (Negative)
	Budgeted Amounts			
	Original	Final	Actual Amounts	
REVENUES				
Taxes	\$ 21,635,408	\$ 22,047,383	\$ 23,043,351	\$ 995,968
Licenses and permits	988,506	986,506	895,765	(90,741)
Intergovernmental	450,380	246,950	330,129	83,179
Fines and forfeitures	552,500	552,500	559,139	6,639
Use of money and property	382,454	416,365	7,860,923	7,444,558
Charges for services	3,048,881	3,033,781	2,741,439	(292,342)
Other revenues	<u>130,650</u>	<u>169,943</u>	<u>335,766</u>	<u>165,823</u>
Total Revenues	<u>27,188,779</u>	<u>27,453,428</u>	<u>35,766,512</u>	<u>8,313,084</u>
EXPENDITURES				
Current:				
General Government				
Central Administration				
City council	58,566	58,566	70,330	(11,764)
City manager	553,436	553,436	547,502	5,934
City clerk	266,854	266,854	277,208	(10,354)
City attorney	<u>638,250</u>	<u>638,250</u>	<u>592,474</u>	<u>45,776</u>
Total Central Administration	<u>1,517,106</u>	<u>1,517,106</u>	<u>1,487,514</u>	<u>29,592</u>
Administrative Services				
Administration	143,594	143,994	149,382	(5,388)
Personnel	507,183	507,833	502,633	5,200
Finance	681,599	682,249	659,142	23,107
Computer services	501,740	680,040	519,892	160,148
Reprographics	6,386	(285)	(25,524)	25,239
City-wide programs	<u>2,936,078</u>	<u>1,939,551</u>	<u>1,890,517</u>	<u>49,034</u>
Total Administrative Services	<u>4,776,580</u>	<u>3,953,382</u>	<u>3,696,042</u>	<u>257,340</u>
Total General Government	<u>6,293,686</u>	<u>5,470,488</u>	<u>5,183,556</u>	<u>286,932</u>
Public Safety				
Administrative Services				
City-wide programs	<u>-</u>	<u>612,152</u>	<u>585,265</u>	<u>26,887</u>
Police				
Administration	1,042,081	1,036,140	961,190	74,950
Technical services	1,672,076	1,667,896	1,571,347	96,549
Personnel & training	529,432	524,432	501,483	22,949
Crime prevention	3,400	3,400	3,493	(93)
Investigations	1,048,083	922,360	845,419	76,941
Patrol	6,624,818	6,473,953	6,349,241	124,712
Traffic	614,290	612,849	589,910	22,939
Special services	303,684	303,684	293,281	10,403
Youth services	<u>-</u>	<u>124,438</u>	<u>73,586</u>	<u>50,852</u>
Total Police	<u>11,837,864</u>	<u>11,669,152</u>	<u>11,188,950</u>	<u>480,202</u>

CITY OF NOVATO
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2010 - 2011			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Public Works				
Traffic & engineering	408,524	88,427	76,604	11,823
Streetlighting	368,219	367,944	341,370	26,574
Traffic operations	<u>482,716</u>	<u>489,426</u>	<u>484,068</u>	<u>5,358</u>
Total Public Works	<u>1,259,459</u>	<u>945,797</u>	<u>902,042</u>	<u>43,755</u>
Total Public Safety	<u>13,097,323</u>	<u>13,227,101</u>	<u>12,676,257</u>	<u>550,844</u>
Public Works				
Community Development				
Administration	204,348	200,597	172,011	28,586
Code Enforcement	295,711	298,241	287,051	11,190
Planning	578,914	578,269	587,375	(9,106)
Clerical support services	132,766	132,716	127,722	4,994
Building inspections	<u>561,257</u>	<u>554,382</u>	<u>540,874</u>	<u>13,508</u>
Total Community Development	<u>1,772,996</u>	<u>1,764,205</u>	<u>1,715,033</u>	<u>49,172</u>
Public Works				
Traffic & engineering	-	318,510	317,564	946
Engineering-project development	356,458	356,458	358,317	(1,859)
Engineering-construction management	973,381	25,859	212,816	(186,957)
Basemapping	227,937	227,937	220,540	7,397
Maintenance administration	263,233	272,039	320,287	(48,248)
Street maintenance	1,215,513	1,181,439	1,094,192	87,247
Street tree/parkway maintenance	381,424	343,075	387,828	(44,753)
Building maintenance	<u>882,997</u>	<u>517,491</u>	<u>518,920</u>	<u>(1,429)</u>
Total Public Works	<u>4,300,943</u>	<u>3,242,808</u>	<u>3,430,464</u>	<u>(187,656)</u>
Total Public Works	<u>6,073,939</u>	<u>5,007,013</u>	<u>5,145,497</u>	<u>(138,484)</u>
Culture and Recreation				
Public Works				
Parks maintenance	\$ 1,342,964	\$ 1,381,456	\$ 1,375,120	\$ 6,336
Building maintenance	<u>-</u>	<u>366,487</u>	<u>375,370</u>	<u>(8,883)</u>
Total Public Works	<u>1,342,964</u>	<u>1,747,943</u>	<u>1,750,490</u>	<u>(2,547)</u>
Parks, Recreation, & Community Service				
Administration	587,958	588,979	614,681	(25,702)
Child care & enrichment programs	507,227	507,547	480,521	27,026
Cultural programs	151,623	151,943	100,937	51,006
Senior citizens	381,633	381,633	384,264	(2,631)
Athletics	<u>1,456,304</u>	<u>1,445,389</u>	<u>1,288,002</u>	<u>157,387</u>
Total Parks, Recreation & Community Services	<u>3,084,745</u>	<u>3,075,491</u>	<u>2,868,405</u>	<u>207,086</u>
Total Cultural and Recreation	<u>4,427,709</u>	<u>4,823,434</u>	<u>4,618,895</u>	<u>204,539</u>

CITY OF NOVATO
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2010 - 2011		Actual	Variance
	Budgeted Amounts			
	Original	Final	Amounts	with Final
				Budget
				Positive
				(Negative)
Community Development				
Administrative Services				
City-wide programs	-	98,546	104,878	(6,332)
Total Community Development	-	98,546	104,878	(6,332)
Capital Outlay				
Administrative Services				
City-wide programs	-	4,000	27,000	(23,000)
Police				
Technical services	-	-	7,049	(7,049)
Public Works				
Building maintenance	-	5,403	10,681	(5,278)
Total Capital Outlay	143,594	149,397	44,730	104,667
Debt Service				
Principal	-	241,190	294,156	(52,966)
Interest	-	4,819	11,186	(6,367)
Total Debt Service	-	246,009	305,342	(59,333)
Total Expenditures	30,036,251	29,021,988	28,079,155	942,833
Excess (deficiency) of revenues over expenditures	(2,847,472)	(1,568,560)	7,687,357	9,255,917
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	2,593,061	2,188,619	2,005,818	(182,801)
Transfers out	(2,004,783)	(2,880,428)	(2,031,347)	849,081
Total Other Financing Sources (Uses)	588,278	(691,809)	(25,529)	666,280
Net change in fund balance	(2,259,194)	(2,260,369)	7,661,828	9,922,197
Fund balance - July 1, 2010			18,263,701	
Prior period adjustment			1,268,871	
Fund balance - July 1, 2010, restated			19,532,572	
Fund balance - June 30, 2011			\$ 27,194,400	

CITY OF NOVATO
REDEVELOPMENT HOUSING - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2010 - 2011			Variance with Final Budget Positive (Negative)
	Budgeted Amounts			
	Original	Final	Actual Amounts	
<u>REVENUES</u>				
Taxes and assessments	\$ 1,466,605	\$ 1,466,605	\$ 1,424,509	\$ (42,096)
Intergovernmental	105,667	-	-	-
Use of money and property	1,500	1,500	-	(1,500)
Charges for services	22,000	32,000	28,815	(3,185)
Other revenues	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>1,605,772</u>	<u>1,500,105</u>	<u>1,453,324</u>	<u>(46,781)</u>
<u>EXPENDITURES</u>				
Current:				
Community Development				
Program	<u>883,636</u>	<u>383,636</u>	<u>384,398</u>	<u>(762)</u>
Total Development	<u>883,636</u>	<u>383,636</u>	<u>384,398</u>	<u>(762)</u>
Debt service:				
Principal	200,000	200,000	200,000	-
Interest and fiscal charges	<u>385,160</u>	<u>385,160</u>	<u>486,110</u>	<u>(100,950)</u>
Total Expenditures	<u>1,468,796</u>	<u>968,796</u>	<u>1,070,508</u>	<u>(101,712)</u>
Excess (deficiency) of revenues over expenditures	<u>136,976</u>	<u>531,309</u>	<u>382,816</u>	<u>(148,493)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers out	<u>(136,976)</u>	<u>(136,976)</u>	<u>(136,998)</u>	<u>(22)</u>
Total Other Financing Sources (Uses)	<u>(136,976)</u>	<u>(136,976)</u>	<u>(136,998)</u>	<u>(22)</u>
Net change in fund balance	<u>-</u>	<u>394,333</u>	<u>245,818</u>	<u>(148,515)</u>
Fund balance (deficit) - July 1, 2010			<u>(21,150,640)</u>	
Fund balance (deficit) - June 30, 2011			<u>\$ (20,904,822)</u>	

CITY OF NOVATO
REDEVELOPMENT - OTHER MAJOR FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2010 - 2011		Actual	Variance
	Budgeted Amounts			
	Original	Final	Actual	Positive
			Amounts	(Negative)
<u>REVENUES</u>				
Taxes and assessments	\$ 4,599,810	\$ 4,599,810	\$ 4,315,619	\$ (284,191)
Use of money and property	<u>97,546</u>	<u>97,546</u>	<u>152,847</u>	<u>55,301</u>
Total Revenues	<u>4,697,356</u>	<u>4,697,356</u>	<u>4,468,466</u>	<u>(228,890)</u>
<u>EXPENDITURES</u>				
Current:				
Community Development				
Program	<u>3,007,393</u>	<u>2,207,393</u>	<u>1,346,475</u>	<u>860,918</u>
Total Development	<u>3,007,393</u>	<u>2,207,393</u>	<u>1,346,475</u>	<u>860,918</u>
Debt service:				
Principal	1,228,052	1,228,052	1,228,043	9
Interest and fiscal charges	<u>1,405,549</u>	<u>1,244,282</u>	<u>9,829,435</u>	<u>(8,585,153)</u>
Total Expenditures	<u>5,640,994</u>	<u>4,679,727</u>	<u>12,403,953</u>	<u>(7,724,226)</u>
Excess (deficiency) of revenues over expenditures	<u>(943,638)</u>	<u>17,629</u>	<u>(7,935,487)</u>	<u>(7,953,116)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Issuance of debt	-	-	17,000,000	17,000,000
Bond issuance discount	-	-	(495,064)	(495,064)
Transfers out	<u>(484,655)</u>	<u>(482,821)</u>	<u>(274,945)</u>	<u>207,876</u>
Total Other Financing Sources (Uses)	<u>(484,655)</u>	<u>(482,821)</u>	<u>16,229,991</u>	<u>16,712,812</u>
Net change in fund balance	<u>(1,428,293)</u>	<u>(465,192)</u>	<u>8,294,504</u>	<u>8,759,696</u>
Fund balance - July 1, 2010			<u>16,442,130</u>	
Fund balance - June 30, 2011			<u>\$ 24,736,634</u>	

CITY OF NOVATO
HAMILTON TRUST FUND - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	2010 - 2011		Actual	Variance
	Budgeted Amounts			
	Original	Final	Amounts	with Final
				Positive
				(Negative)
<u>REVENUES</u>				
Use of money and property	852,555	852,555	610,420	(242,135)
Charges for services	<u>-</u>	<u>-</u>	<u>47,747</u>	<u>47,747</u>
Total Revenues	<u>852,555</u>	<u>852,555</u>	<u>658,167</u>	<u>(194,388)</u>
<u>EXPENDITURES</u>				
Current:				
Development				
Program	<u>32,000</u>	<u>32,000</u>	<u>32,726</u>	<u>(726)</u>
Total Expenditures	<u>32,000</u>	<u>32,000</u>	<u>32,726</u>	<u>(726)</u>
Excess (deficiency) of revenues over expenditures	<u>820,555</u>	<u>820,555</u>	<u>625,441</u>	<u>(195,114)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	65,000	-	-	-
Transfers out	<u>(659,082)</u>	<u>(595,582)</u>	<u>(902,724)</u>	<u>(307,142)</u>
Total Other Financing Sources (Uses)	<u>(594,082)</u>	<u>(595,582)</u>	<u>(902,724)</u>	<u>(307,142)</u>
Net change in fund balance	<u>226,473</u>	<u>224,973</u>	<u>(277,283)</u>	<u>(502,256)</u>
Fund balance - July 1, 2010			<u>33,154,847</u>	
Fund balance - June 30, 2011			<u>\$ 32,877,564</u>	

**CITY OF NOVATO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY ACCOUNTING AND CONTROL
FOR THE YEAR ENDED JUNE 30, 2011**

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.

**CITY OF NOVATO
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

<u>Actuarial Valuation Date</u>	<u>Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2008	\$ 1,168,000	\$ -	\$ 1,168,000	0%	\$ 17,020,000	7 %
2010	\$ 1,803,000	\$ -	\$ 1,803,000	0%	\$ 15,730,000	11 %

COMBINING FINANCIAL SCHEDULES AND OTHER SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

The following funds are reported in total on the Governmental Fund Financial Statements under the column Other Governmental Funds.

SPECIAL REVENUE FUNDS

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 Fund - accounts for resources to be utilized for underground 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 Fund - accounts for in-lieu fees from residential subdivision developers to be used for parks and recreation areas for residents of the subdivision.

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.

Hamilton Arts Center - accounts for revenues received and the administration and maintenance expenditures incurred for the Hamilton Arts Center.

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) - accounts for the collection of assessments which are used for median island landscaping and maintenance in that district.

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

State Proposition Park Bond - 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.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (continued)

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).

Justice Assistance Grants - accounts for revenues and expenditures associated with the 2005 grant.

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

COPS Grant - account for the revenues and expenditures associated with the grant.

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.

CAPITAL PROJECT FUNDS

Capital Improvements Projects - accounts for capital project expenditures financed by grants, reimbursements, and transfers from other funds.

Measure B Street Bond 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 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.

Proposition 1B Streets & Roads Fund - accounts for proceeds received from state Proposition 1B for local streets and roads. The funds are required to be expended within three fiscal years following the year of receipt. Any unexpended funds will be returned to the state.

Clean Renewable Energy Bonds (CREBS) - accounts for proceeds received from the issuance of bonds that were used to purchase and install solar panels on some City buildings.

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

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.

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 Maintenance Fund - 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.

NON-MAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

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

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

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

Special Revenue Funds

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement
ASSETS					
Cash and investments	\$ 550,405	\$ 554,208	\$ 146	\$ 973,882	\$ 93,626
Cash with fiscal agent	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	7,134	-	-
Loans receivable	1,570,511	65,000	-	-	-
Advances to other funds	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Deferred costs	-	-	-	-	-
Total Assets	<u>\$ 2,120,916</u>	<u>\$ 619,208</u>	<u>\$ 7,280</u>	<u>\$ 973,882</u>	<u>\$ 93,626</u>
 LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 59
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits/ other payables	-	-	-	-	-
Deferred revenue	70,511	-	-	-	-
Advances from other funds	-	-	-	-	-
Total Liabilities	<u>70,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59</u>
 FUND BALANCES (DEFICITS):					
Nonspendable	-	-	-	-	-
Restricted	2,050,405	619,208	7,280	973,882	93,567
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances (Deficits)	<u>2,050,405</u>	<u>619,208</u>	<u>7,280</u>	<u>973,882</u>	<u>93,567</u>
 Total Liabilities and Fund Balances (Deficits)	<u>\$ 2,120,916</u>	<u>\$ 619,208</u>	<u>\$ 7,280</u>	<u>\$ 973,882</u>	<u>\$ 93,626</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

Special Revenue Funds					
	Subdivision Park	Art in Public Places	General Plan Surcharge	Automation Surcharge	Hamilton Community Facilities
ASSETS					
Cash and investments	\$ 2,451,030	\$ 69,425	\$ 397,090	\$ 343,209	\$ 5,935
Cash with fiscal agent	312,500	-	-	-	-
Accounts receivable	-	-	-	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Prepaid expenses	-	-	-	6,125	-
Deferred costs	-	-	-	-	-
Total Assets	<u>\$ 2,763,530</u>	<u>\$ 69,425</u>	<u>\$ 397,090</u>	<u>\$ 349,334</u>	<u>\$ 5,935</u>
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ 36,005	\$ -	\$ 37,056
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits/ other payables	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Advances from other funds	-	-	-	-	432,627
Total Liabilities	<u>-</u>	<u>-</u>	<u>36,005</u>	<u>-</u>	<u>469,683</u>
FUND BALANCES (DEFICITS):					
Nonspendable	-	-	-	6,125	-
Restricted	2,763,530	69,425	361,085	-	-
Assigned	-	-	-	343,209	-
Unassigned	-	-	-	-	(463,748)
Total Fund Balances (Deficits)	<u>2,763,530</u>	<u>69,425</u>	<u>361,085</u>	<u>349,334</u>	<u>(463,748)</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 2,763,530</u>	<u>\$ 69,425</u>	<u>\$ 397,090</u>	<u>\$ 349,334</u>	<u>\$ 5,935</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

Special Revenue Funds					
	Hamilton Arts Center	Pointe Marin CFD	Chapter 27 Assessment	Assessment District - San Marin	Assessment District - Country Club
ASSETS					
Cash and investments	\$ 713,342	\$ 554,665	\$ 236,355	\$ 32,957	\$ 67,648
Cash with fiscal agent	170,353	-	-	-	-
Accounts receivable	-	-	9,020	330	-
Interest receivable	-	-	699	-	-
Taxes receivable	-	-	1,179	985	-
Loans receivable	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Prepaid expenses	-	-	-	300	-
Deferred costs	-	-	-	-	-
Total Assets	\$ 883,695	\$ 554,665	\$ 247,253	\$ 34,572	\$ 67,648
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ -	\$ 4,399	\$ -	\$ 1,287	\$ -
Accrued liabilities	-	-	7,770	-	-
Due to other funds	-	-	-	-	-
Deposits/ other payables	-	-	-	-	-
Deferred revenue	-	-	1,948	-	-
Advances from other funds	-	-	-	-	-
Total Liabilities	-	4,399	9,718	1,287	-
FUND BALANCES (DEFICITS):					
Nonspendable	-	-	-	300	-
Restricted	883,695	550,266	237,535	32,985	67,648
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances (Deficits)	883,695	550,266	237,535	33,285	67,648
Total Liabilities and Fund Balances (Deficits)	\$ 883,695	\$ 554,665	\$ 247,253	\$ 34,572	\$ 67,648

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

	Special Revenue Funds				
	Assessment District - Wildwood Glen	Assessment District - Hillsdale	Downtown Lighting & Landscaping	San Pablo Lighting & Landscaping	Eucalyptus Assessment District
ASSETS					
Cash and investments	\$ 978	\$ 50,811	\$ 86,096	\$ 48,481	\$ -
Cash with fiscal agent	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	165	408	106	235	284
Loans receivable	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Deferred costs	-	-	-	-	-
Total Assets	\$ 1,143	\$ 51,219	\$ 86,202	\$ 48,716	\$ 284
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ 631	\$ 1,376	\$ 282	\$ 157	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	265
Deposits/ other payables	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total Liabilities	631	1,376	282	157	265
FUND BALANCES (DEFICITS):					
Nonspendable	-	-	-	-	-
Restricted	512	49,843	85,920	48,559	19
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances (Deficits)	512	49,843	85,920	48,559	19
Total Liabilities and Fund Balances (Deficits)	\$ 1,143	\$ 51,219	\$ 86,202	\$ 48,716	\$ 284

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

Special Revenue Funds					
	Scottsdale Assessment District	State Gas Tax	State Proposition Park Bond	Traffic Congestion Relief	Justice Assistance Grants
ASSETS					
Cash and investments	\$ 15,157	\$ 669,778	\$ -	\$ 147,938	\$ -
Cash with fiscal agent	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Deferred costs	-	-	-	-	-
Total Assets	\$ 15,157	\$ 669,778	\$ -	\$ 147,938	\$ -
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	21,470
Deposits/ other payables	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total Liabilities	-	-	-	-	21,470
FUND BALANCES (DEFICITS):					
Nonspendable	-	-	-	-	-
Restricted	15,157	669,778	-	147,938	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	(21,470)
Total Fund Balances (Deficits)	15,157	669,778	-	147,938	(21,470)
Total Liabilities and Fund Balances (Deficits)	\$ 15,157	\$ 669,778	\$ -	\$ 147,938	\$ -

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

Special Revenue Funds					
	Special Projects Police	COPS Grant	State Grant Fund	Federal Grant Fund	Private Grant Fund
ASSETS					
Cash and investments	\$ 90,368	\$ 202,173	\$ -	\$ -	\$ 47,212
Cash with fiscal agent	-	-	-	-	-
Accounts receivable	25,308	25,000	2,109	350,715	-
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Prepaid expenses	604	-	-	-	-
Deferred costs	-	-	-	-	-
Total Assets	\$ 116,280	\$ 227,173	\$ 2,109	\$ 350,715	\$ 47,212
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ 875	\$ -	\$ -	\$ 2,490	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	3,323	385,716	-
Deposits/ other payables	-	-	-	-	-
Deferred revenue	2,320	-	-	-	26,991
Advances from other funds	-	-	-	-	-
Total Liabilities	\$ 3,195	\$ -	\$ 3,323	\$ 388,206	\$ 26,991
FUND BALANCES (DEFICITS):					
Nonspendable	604	-	-	-	-
Restricted	112,481	227,173	-	-	20,221
Assigned	-	-	-	-	-
Unassigned	-	-	(1,214)	(37,491)	-
Total Fund Balances (Deficits)	\$ 113,085	\$ 227,173	\$ (1,214)	\$ (37,491)	\$ 20,221
Total Liabilities and Fund Balances (Deficits)	\$ 116,280	\$ 227,173	\$ 2,109	\$ 350,715	\$ 47,212

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

	Capital Project Funds				
	Capital Improvement Projects	Measure B Street Bonds 2007	Measure A Street Bonds	Proposition 1B Streets & Roads	Clean Renewable Energy Bonds (CREBS)
ASSETS					
Cash and investments	\$ -	\$ 2,041,415	\$ 394,859	\$ 783,237	\$ -
Cash with fiscal agent	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Deferred costs	-	-	-	-	-
Total Assets	\$ -	\$ 2,041,415	\$ 394,859	\$ 783,237	\$ -
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ 462,243	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	27,971	-	-	-	-
Deposits/ other payables	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total Liabilities	490,214	-	-	-	-
FUND BALANCES (DEFICITS):					
Nonspendable	-	-	-	-	-
Restricted	-	2,041,415	394,859	783,237	-
Assigned	-	-	-	-	-
Unassigned	(490,214)	-	-	-	-
Total Fund Balances (Deficits)	(490,214)	2,041,415	394,859	783,237	-
Total Liabilities and Fund Balances (Deficits)	\$ -	\$ 2,041,415	\$ 394,859	\$ 783,237	\$ -

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

	Capital Project Funds				
	Clean Stormwater CIP	Street and Storm Drain Maintenance	Restricted Revenue	Development Impact Fee	RDA Community Center Maintenance
ASSETS					
Cash and investments	\$ 217,629	\$ 323,885	\$ 944,464	\$ 12,201,809	\$ 959,992
Cash with fiscal agent	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Loans receivable	-	-	-	-	-
Advances to other funds	-	-	-	116,468	-
Prepaid expenses	-	-	-	-	-
Deferred costs	-	-	-	-	-
Total Assets	\$ 217,629	\$ 323,885	\$ 944,464	\$ 12,318,277	\$ 959,992
LIABILITIES AND FUND BALANCES (DEFICITS)					
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits/ other payables	-	-	944,464	-	-
Deferred revenue	-	-	-	5	-
Advances from other funds	-	-	-	-	-
Total Liabilities	-	-	944,464	5	-
FUND BALANCES (DEFICITS):					
Nonspendable	-	-	-	116,468	-
Restricted	217,629	323,885	-	12,201,804	959,992
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances (Deficits)	217,629	323,885	-	12,318,272	959,992
Total Liabilities and Fund Balances (Deficits)	\$ 217,629	\$ 323,885	\$ 944,464	\$ 12,318,277	\$ 959,992

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2011

	Capital Projects	Debt Service Funds		Total Non-major Governmental Funds
	Novato Public Financing Authority	General Obligation Bonds	Pension Obligations Bond Fund	
ASSETS				
Cash and investments	\$ 934,830	\$ 2,832,742	\$ -	\$ 30,037,777
Cash with fiscal agent	126,613	-	-	609,466
Accounts receivable	-	-	-	412,482
Interest receivable	-	-	-	699
Taxes receivable	-	-	-	10,496
Loans receivable	-	-	-	1,635,511
Advances to other funds	-	-	-	116,468
Prepaid expenses	-	-	2,500	9,529
Deferred costs	104,045	-	-	104,045
Total Assets	\$ 1,165,488	\$ 2,832,742	\$ 2,500	\$ 32,936,473
LIABILITIES AND FUND BALANCES (DEFICITS)				
LIABILITIES:				
Accounts payable	\$ 941	\$ 28,635	\$ -	\$ 576,436
Accrued liabilities	-	-	-	7,770
Due to other funds	-	-	2,500	441,245
Deposits/ other payables	-	-	-	944,464
Deferred revenue	-	-	-	101,775
Advances from other funds	1,734,045	-	-	2,166,672
Total Liabilities	1,734,986	28,635	2,500	4,238,362
FUND BALANCES (DEFICITS):				
Nonspendable	104,045	-	-	227,542
Restricted	-	2,804,107	-	29,815,040
Assigned	-	-	-	343,209
Unassigned	(673,543)	-	-	(1,687,680)
Total Fund Balances (Deficits)	(569,498)	2,804,107	-	28,698,111
Total Liabilities and Fund Balances (Deficits)	\$ 1,165,488	\$ 2,832,742	\$ 2,500	\$ 32,936,473

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	<u>Housing Opportunity</u>	<u>Affordable Housing Trust</u>	<u>Clean Stormwater</u>	<u>Underground Utilities</u>	<u>Parking Improvement</u>
<u>REVENUES</u>					
Taxes	\$ -	\$ -	\$ 357,587	\$ -	\$ -
Intergovernmental	-	-	-	-	-
Use of money and property	7,860	7,347	256	12,699	1,652
Charges for services	-	-	-	-	-
Other revenue	-	-	-	-	-
Total Revenues	<u>7,860</u>	<u>7,347</u>	<u>357,843</u>	<u>12,699</u>	<u>1,652</u>
<u>EXPENDITURES</u>					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	441
Public works	-	-	132,998	-	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>132,998</u>	<u>-</u>	<u>441</u>
Excess (Deficiency) of Revenues over Expenditures	<u>7,860</u>	<u>7,347</u>	<u>224,845</u>	<u>12,699</u>	<u>1,211</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	466,841	-	-	-	-
Transfers out	-	-	(222,500)	-	(36,054)
Total Other Financing Sources (Uses)	<u>466,841</u>	<u>-</u>	<u>(222,500)</u>	<u>-</u>	<u>(36,054)</u>
Net change in fund balances	474,701	7,347	2,345	12,699	(34,843)
Fund balances (deficits) - July 1, 2010	1,575,704	611,861	4,935	961,183	128,410
Prior period adjustment (Note 15)	-	-	-	-	-
Fund balances - July 1, 2010, restated	<u>1,575,704</u>	<u>611,861</u>	<u>4,935</u>	<u>961,183</u>	<u>128,410</u>
Fund balances (deficits) - June 30, 2011	<u>\$ 2,050,405</u>	<u>\$ 619,208</u>	<u>\$ 7,280</u>	<u>\$ 973,882</u>	<u>\$ 93,567</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	<u>Subdivision Park</u>	<u>Art in Public Places</u>	<u>General Plan Surcharge</u>	<u>Automation Surcharge</u>	<u>Hamilton Community Facilities</u>
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 490,459
Intergovernmental	-	-	-	-	-
Use of money and property	212,942	905	6,100	4,484	229
Charges for services	29,667	-	59,882	63,972	-
Other revenue	-	-	-	-	-
Total Revenues	<u>242,609</u>	<u>905</u>	<u>65,982</u>	<u>68,456</u>	<u>490,688</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	256,917
Public works	-	-	208,181	65,666	276,104
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>208,181</u>	<u>65,666</u>	<u>533,021</u>
Excess (Deficiency) of Revenues over Expenditures	<u>242,609</u>	<u>905</u>	<u>(142,199)</u>	<u>2,790</u>	<u>(42,333)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	200	-	-	-
Transfers out	(8,250)	-	(4,718)	(1,208)	(8,060)
Total Other Financing Sources (Uses)	<u>(8,250)</u>	<u>200</u>	<u>(4,718)</u>	<u>(1,208)</u>	<u>(8,060)</u>
Net change in fund balances	234,359	1,105	(146,917)	1,582	(50,393)
Fund balances (deficits) - July 1, 2010	2,529,171	68,320	508,002	347,752	(560,675)
Prior period adjustment (Note 15)	-	-	-	-	147,320
Fund balances - July 1, 2010, restated	<u>2,529,171</u>	<u>68,320</u>	<u>508,002</u>	<u>347,752</u>	<u>(413,355)</u>
Fund balances (deficits) - June 30, 2011	<u>\$ 2,763,530</u>	<u>\$ 69,425</u>	<u>\$ 361,085</u>	<u>\$ 349,334</u>	<u>\$ (463,748)</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	<u>Hamilton Arts Center</u>	<u>Pointe Marin CFD</u>	<u>Chapter 27 Assessment</u>	<u>Assessment District - San Marin</u>	<u>Assessment District - Country Club</u>
<u>REVENUES</u>					
Taxes	\$ -	\$ 165,111	\$ -	\$ 46,071	\$ -
Intergovernmental	-	-	-	-	-
Use of money and property	307,203	7,232	2,270	493	896
Charges for services	-	-	1,623	-	-
Other revenue	-	-	-	-	-
Total Revenues	<u>307,203</u>	<u>172,343</u>	<u>3,893</u>	<u>46,564</u>	<u>896</u>
<u>EXPENDITURES</u>					
Current:					
General government	171,630	-	-	500	-
Public safety	-	-	-	-	-
Public works	-	-	3,090	54,013	-
Culture and recreation	-	181,976	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>171,630</u>	<u>181,976</u>	<u>3,090</u>	<u>54,513</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>135,573</u>	<u>(9,633)</u>	<u>803</u>	<u>(7,949)</u>	<u>896</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	713,342	-	65,747	-	-
Transfers out	<u>(70,879)</u>	<u>(5,208)</u>	<u>(8,274)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>642,463</u>	<u>(5,208)</u>	<u>57,473</u>	<u>-</u>	<u>-</u>
Net change in fund balances	778,036	(14,841)	58,276	(7,949)	896
Fund balances (deficits) - July 1, 2010	-	565,107	179,259	41,234	66,752
Prior period adjustment (Note 15)	<u>105,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - July 1, 2010, restated	<u>105,659</u>	<u>565,107</u>	<u>179,259</u>	<u>41,234</u>	<u>66,752</u>
Fund balances (deficits) - June 30, 2011	<u>\$ 883,695</u>	<u>\$ 550,266</u>	<u>\$ 237,535</u>	<u>\$ 33,285</u>	<u>\$ 67,648</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	Assessment District - Wildwood Glen	Assessment District - Hillsdale	Downtown Lighting & Landscaping	San Pablo Lighting & Landscaping	Eucalyptus Assessment District
REVENUES					
Taxes	\$ 8,142	\$ 20,264	\$ 5,216	\$ 11,723	\$ 14,211
Intergovernmental	-	-	-	-	-
Use of money and property	66	675	1,900	591	-
Charges for services	-	-	-	-	-
Other revenue	-	-	-	-	-
Total Revenues	<u>8,208</u>	<u>20,939</u>	<u>7,116</u>	<u>12,314</u>	<u>14,211</u>
EXPENDITURES					
Current:					
General government	500	500	-	500	10,873
Public safety	-	-	-	-	-
Public works	12,325	20,232	1,977	1,739	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	3,338
Total Expenditures	<u>12,825</u>	<u>20,732</u>	<u>1,977</u>	<u>2,239</u>	<u>14,211</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(4,617)</u>	<u>207</u>	<u>5,139</u>	<u>10,075</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	(62,126)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(62,126)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(4,617)	207	(56,987)	10,075	-
Fund balances (deficits) - July 1, 2010	5,129	49,636	142,907	38,484	19
Prior period adjustment (Note 15)	-	-	-	-	-
Fund balances - July 1, 2010, restated	<u>5,129</u>	<u>49,636</u>	<u>142,907</u>	<u>38,484</u>	<u>19</u>
Fund balances (deficits) - June 30, 2011	<u>\$ 512</u>	<u>\$ 49,843</u>	<u>\$ 85,920</u>	<u>\$ 48,559</u>	<u>\$ 19</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	Scottsdale Assessment District	State Gas Tax	State Proposition Park Bond	Traffic Congestion Relief	Justice Assistance Grants
REVENUES					
Taxes	\$ -	\$ 1,281,052	\$ -	\$ -	\$ -
Intergovernmental	-	-	312,008	-	-
Use of money and property	198	3,638	-	4,023	28
Charges for services	-	-	-	-	-
Other revenue	-	-	-	-	-
Total Revenues	<u>198</u>	<u>1,284,690</u>	<u>312,008</u>	<u>4,023</u>	<u>28</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	16,866
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,866</u>
Excess (Deficiency) of Revenues over Expenditures	<u>198</u>	<u>1,284,690</u>	<u>312,008</u>	<u>4,023</u>	<u>(16,838)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	(849,458)	(312,008)	(214,895)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(849,458)</u>	<u>(312,008)</u>	<u>(214,895)</u>	<u>-</u>
Net change in fund balances	198	435,232	-	(210,872)	(16,838)
Fund balances (deficits) - July 1, 2010	14,959	234,546	-	358,810	(4,632)
Prior period adjustment (Note 15)	-	-	-	-	-
Fund balances - July 1, 2010, restated	<u>14,959</u>	<u>234,546</u>	<u>-</u>	<u>358,810</u>	<u>(4,632)</u>
Fund balances (deficits) - June 30, 2011	<u>\$ 15,157</u>	<u>\$ 669,778</u>	<u>\$ -</u>	<u>\$ 147,938</u>	<u>\$ (21,470)</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	Special Projects Police	COPS Grant	State Grant Fund	Federal Grant Fund	Private Grant Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	135,160	100,000	-	816,968	-
Use of money and property	899	-	-	-	1,621
Charges for services	-	-	-	-	-
Other revenue	10,212	-	-	-	-
Total Revenues	<u>146,271</u>	<u>100,000</u>	<u>-</u>	<u>816,968</u>	<u>1,621</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	128,890	157,733	-	-	-
Public works	-	-	-	2,490	-
Culture and recreation	-	-	-	-	-
Capital outlay	21,721	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>150,611</u>	<u>157,733</u>	<u>-</u>	<u>2,490</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(4,340)</u>	<u>(57,733)</u>	<u>-</u>	<u>814,478</u>	<u>1,621</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	12,000	-	-	-	-
Transfers out	-	-	-	(854,468)	-
Total Other Financing Sources (Uses)	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>(854,468)</u>	<u>-</u>
Net change in fund balances	7,660	(57,733)	-	(39,990)	1,621
Fund balances (deficits) - July 1, 2010	105,425	-	(1,214)	2,499	18,600
Prior period adjustment (Note 15)	-	284,906	-	-	-
Fund balances - July 1, 2010, restated	<u>105,425</u>	<u>284,906</u>	<u>(1,214)</u>	<u>2,499</u>	<u>18,600</u>
Fund balances (deficits) - June 30, 2011	<u>\$ 113,085</u>	<u>\$ 227,173</u>	<u>\$ (1,214)</u>	<u>\$ (37,491)</u>	<u>\$ 20,221</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Project Funds				
	Capital Improvement Projects	Measure B Street Bonds 2007	Measure A Street Bonds	Proposition 1B Streets & Roads	Clean Renewable Energy Bonds (CREBS)
REVENUES					
Taxes	\$ -	\$ -	\$ 494,755	\$ -	\$ -
Intergovernmental	-	-	30,050	779,383	-
Use of money and property	-	27,836	5,877	5,135	4
Charges for services	-	-	-	-	-
Other revenue	29,747	-	-	-	-
Total Revenues	<u>29,747</u>	<u>27,836</u>	<u>530,682</u>	<u>784,518</u>	<u>4</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Capital outlay	3,183,187	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>3,183,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(3,153,440)</u>	<u>27,836</u>	<u>530,682</u>	<u>784,518</u>	<u>4</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	3,047,712	-	-	-	-
Transfers out	(200)	(119,021)	(332,990)	(240,730)	(306)
Total Other Financing Sources (Uses)	<u>3,047,512</u>	<u>(119,021)</u>	<u>(332,990)</u>	<u>(240,730)</u>	<u>(306)</u>
Net change in fund balances	(105,928)	(91,185)	197,692	543,788	(302)
Fund balances (deficits) - July 1, 2010	(384,286)	2,132,600	197,167	239,449	302
Prior period adjustment (Note 15)	-	-	-	-	-
Fund balances - July 1, 2010, restated	<u>(384,286)</u>	<u>2,132,600</u>	<u>197,167</u>	<u>239,449</u>	<u>302</u>
Fund balances (deficits) - June 30, 2011	<u>\$ (490,214)</u>	<u>\$ 2,041,415</u>	<u>\$ 394,859</u>	<u>\$ 783,237</u>	<u>\$ -</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Project Funds				
	Clean Stormwater CIP	Street and Storm Drain Maintenance	Restricted Revenue	Development Impact Fee	RDA Community Center Maintenance
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-
Use of money and property	2,537	4,460	-	422,473	111,002
Charges for services	-	-	-	656,366	-
Other revenue	-	-	-	-	-
Total Revenues	<u>2,537</u>	<u>4,460</u>	<u>-</u>	<u>1,078,839</u>	<u>111,002</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>2,537</u>	<u>4,460</u>	<u>-</u>	<u>1,078,839</u>	<u>111,002</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	45,000	-	-	-	-
Transfers out	-	(29,138)	-	(289,088)	(70,339)
Total Other Financing Sources (Uses)	<u>45,000</u>	<u>(29,138)</u>	<u>-</u>	<u>(289,088)</u>	<u>(70,339)</u>
Net change in fund balances	47,537	(24,678)	-	789,751	40,663
Fund balances (deficits) - July 1, 2010	170,092	348,563	-	11,528,521	919,329
Prior period adjustment (Note 15)	-	-	-	-	-
Fund balances - July 1, 2010, restated	<u>170,092</u>	<u>348,563</u>	<u>-</u>	<u>11,528,521</u>	<u>919,329</u>
Fund balances (deficits) - June 30, 2011	<u>\$ 217,629</u>	<u>\$ 323,885</u>	<u>\$ -</u>	<u>\$ 12,318,272</u>	<u>\$ 959,992</u>

CITY OF NOVATO
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Projects	Debt Service Funds		Total Non-major Governmental Funds
	Novato Public Financing Authority	General Obligation	Pension Obligations Bond Fund	
REVENUES				
Taxes	\$ -	\$ 3,145,695	\$ -	\$ 6,040,286
Intergovernmental	-	-	-	2,173,569
Use of money and property	362,016	19,898	-	1,547,445
Charges for services	-	-	-	811,510
Other revenue	-	-	-	39,959
Total Revenues	<u>362,016</u>	<u>3,165,593</u>	<u>-</u>	<u>10,612,769</u>
EXPENDITURES				
Current:				
General government	134,009	60,138	2,500	381,150
Public safety	-	-	-	560,847
Public works	-	-	-	778,815
Culture and recreation	12,353	-	-	194,329
Capital outlay	-	-	-	3,204,908
Debt service:				
Principal	-	1,720,000	110,000	1,830,000
Interest and fiscal charges	-	1,025,421	914,766	1,943,525
Total Expenditures	<u>146,362</u>	<u>2,805,559</u>	<u>1,027,266</u>	<u>8,893,574</u>
Excess (Deficiency) of Revenues over Expenditures	<u>215,654</u>	<u>360,034</u>	<u>(1,027,266)</u>	<u>1,719,195</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	70,879	-	1,027,266	5,448,987
Transfers out	(766,320)	-	-	(4,506,238)
Total Other Financing Sources (Uses)	<u>(695,441)</u>	<u>-</u>	<u>1,027,266</u>	<u>942,749</u>
Net change in fund balances	(479,787)	360,034	-	2,661,944
Fund balances (deficits) - July 1, 2010	(111,739)	2,444,073	-	25,476,254
Prior period adjustment (Note 15)	22,028	-	-	559,913
Fund balances - July 1, 2010, restated	<u>(89,711)</u>	<u>2,444,073</u>	<u>-</u>	<u>26,036,167</u>
Fund balances (deficits) - June 30, 2011	<u>\$ (569,498)</u>	<u>\$ 2,804,107</u>	<u>\$ -</u>	<u>\$ 28,698,111</u>

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of good 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. The internal service funds used by the City are shown below:

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
COMBINING SCHEDULE OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

Governmental Activities - Internal Service Funds

	<u>Equipment Maintenance</u>	<u>Equipment Replacement</u>	<u>Furnishings, Fixtures, & Equipment Replacement</u>	<u>Insurance Reserve</u>	<u>Total Internal Service Funds</u>
ASSETS					
Current Assets					
Cash and investments	\$ -	\$ 3,299,624	\$ 788	\$ -	\$ 3,300,412
Accounts receivable, net	10,134	-	-	-	10,134
Prepaid expenses	408	-	-	-	408
Advances to other funds	-	1,422,215	-	-	1,422,215
Total Current Assets	<u>10,542</u>	<u>4,721,839</u>	<u>788</u>	<u>-</u>	<u>4,733,169</u>
Non Current Assets					
Capital assets, net	-	1,656,488	-	-	1,656,488
Total Non-Current Assets	<u>-</u>	<u>1,656,488</u>	<u>-</u>	<u>-</u>	<u>1,656,488</u>
Total Assets	<u>\$ 10,542</u>	<u>\$ 6,378,327</u>	<u>\$ 788</u>	<u>\$ -</u>	<u>\$ 6,389,657</u>
LIABILITIES					
Current Liabilities					
Accounts payable	\$ 10,285	\$ 56,984	\$ -	\$ -	\$ 67,269
Due to other funds	308,014	-	-	-	308,014
Deferred revenue	-	185,815	-	-	185,815
Claims payable - current	-	-	-	456,508	456,508
Total Current Liabilities	<u>318,299</u>	<u>242,799</u>	<u>-</u>	<u>456,508</u>	<u>1,017,606</u>
Non-Current Liabilities					
Claims payable	-	-	-	1,110,118	1,110,118
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,110,118</u>	<u>1,110,118</u>
Total Liabilities	<u>318,299</u>	<u>242,799</u>	<u>-</u>	<u>1,566,626</u>	<u>2,127,724</u>
NET ASSETS:					
Invested in capital assets, net of related debt	-	1,656,488	-	-	1,656,488
Unrestricted	(307,757)	4,479,040	788	(1,566,626)	2,605,445
Total Net Assets	<u>(307,757)</u>	<u>6,135,528</u>	<u>788</u>	<u>(1,566,626)</u>	<u>4,261,933</u>
Total Liabilities and Net Assets	<u>\$ 10,542</u>	<u>\$ 6,378,327</u>	<u>\$ 788</u>	<u>\$ -</u>	<u>\$ 6,389,657</u>

CITY OF NOVATO
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

Governmental Activities - Internal Service Funds

	<u>Equipment Maintenance</u>	<u>Equipment Replacement</u>	<u>Furnishings, Fixtures, & Equipment Replacement</u>	<u>Insurance Reserve</u>	<u>Total Internal Service Funds</u>
<u>OPERATING REVENUES</u>					
Charges for services	\$ 658,118	\$ 487,167	\$ -	\$ -	\$ 1,145,285
Intergovernmental	-	-	-	-	-
Other revenue	-	97,445	-	-	97,445
Total Operating Revenue	<u>658,118</u>	<u>584,612</u>	<u>-</u>	<u>-</u>	<u>1,242,730</u>
<u>OPERATING EXPENSES</u>					
Cost of services	753,588	387,243	-	329,598	1,470,429
Depreciation	-	426,815	-	-	426,815
Total Operating Expenses	<u>753,588</u>	<u>814,058</u>	<u>-</u>	<u>329,598</u>	<u>1,897,244</u>
Operating Income (Loss)	<u>(95,470)</u>	<u>(229,446)</u>	<u>-</u>	<u>(329,598)</u>	<u>(654,514)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>					
Interest income	-	36,506	10	-	36,516
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>36,506</u>	<u>10</u>	<u>-</u>	<u>36,516</u>
Income (Loss) Before Transfers	<u>(95,470)</u>	<u>(192,940)</u>	<u>10</u>	<u>(329,598)</u>	<u>(617,998)</u>
<u>TRANSFERS</u>					
Transfers in	-	420,000	-	-	420,000
Transfers out	(10,441)	(12,112)	-	-	(22,553)
Total Transfers	<u>(10,441)</u>	<u>407,888</u>	<u>-</u>	<u>-</u>	<u>397,447</u>
Change in net assets	(105,911)	214,948	10	(329,598)	(220,551)
Net Assets - July 1, 2010	(201,846)	5,920,580	778	(1,237,028)	4,482,484
Net Assets - June 30, 2011	<u>\$ (307,757)</u>	<u>\$ 6,135,528</u>	<u>\$ 788</u>	<u>\$ (1,566,626)</u>	<u>\$ 4,261,933</u>

AGENCY FUNDS

Agency funds are fiduciary funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. None of the trust and agency funds are subject to the budgeting of revenues and expenditures by the City.

CITY OF NOVATO
COMBINING SCHEDULE OF NET ASSETS
AGENCY FUNDS
JUNE 30, 2011

	<u>Unclaimed Property Fund</u>	<u>Buck Center</u>	<u>Pacheco Refunding Redemption</u>	<u>Pacheco Investment Earnings</u>	<u>Pacheco Reserve</u>	<u>Vintage Oaks Special Tax</u>	<u>Golden Gate Redemption</u>	<u>Hamilton Bond Admin.</u>	<u>Pointe Marin CFD-2002-1</u>	<u>Totals</u>
<u>ASSETS</u>										
Cash and investments	\$ 5,809	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ 1,514,755	\$ 142,539	\$ 1,169,392	\$ 567,384	\$ 4,474,071
Cash with fiscal agent	-	-	-	-	-	1,870,685	239,684	1,643,742	801,829	4,555,940
Other assets, net	-	-	-	-	-	36,872	4,194	45,490	19,809	106,365
Total Assets	\$ 5,809	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ 3,422,312	\$ 386,417	\$ 2,858,624	\$ 1,389,022	\$ 9,136,376
<u>LIABILITIES</u>										
Deposits held in trust	\$ 5,809	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ 3,422,312	\$ 386,417	\$ 2,858,624	\$ 1,389,022	\$ 9,136,376
Total Liabilities	\$ 5,809	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ 3,422,312	\$ 386,417	\$ 2,858,624	\$ 1,389,022	\$ 9,136,376

GENERAL FUNDS

The General Fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. For the City, the general funds used by the City are shown below:

General Fund - accounts for all financial resources except those required to be accounted for in a separate fund.

Measure F Sales Tax - accounts for revenues from a five year 1/2 cent local sales tax measure passed by Novato voters in November 2010, as well as expenditures utilized to maintain vital general city services.

Pension Reserve Fund - established to help stabilize pension expense by consistently charging the General Fund the normal cost, as determined by CalPERS. Funds will be deposited into the fund in years when the required contribution is less than the normal cost, and utilized in years when the required contribution is greater than the normal cost.

Insurance Reserve Fund - accounts for set aside monies to meet uninsured losses to City facilities and other property, as well as workers' compensation claims. 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 & Disaster Response Fund - accounts for funds that will provide a buffer during significant economic downturns affecting revenues, or for severe emergency reasons. To meet minimum levels of safety and security, a balance equal to 15% of operating budget is maintained in this reserve.

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

Long-Term Maintenance Fund - established in FY 2005/06 using a portion of year-end general fund balance, with the intent that the funds will be made available for long-term maintenance and emergency needs for the Civic Center buildings. Periodic additions to the fund will be made from general fund and other sources when available.

Deposits Held in Trust - accounts for refundable deposits received from developers of private property that may impact City property during construction. Once the project is completed and accepted by the City, each deposit, plus accrued interest, is returned to the developer.

**CITY OF NOVATO
GENERAL FUND
COMBINING BALANCE SHEETS
JUNE 30, 2011**

	General Fund	Measure F Sales Tax	Pension Reserve	Insurance Reserve	Emergency & Disaster Response	Civic Center	Long-Term Maintenance	Deposits Held in Trust	Total General Fund
ASSETS									
Cash and investments	\$ 4,003,222	\$ 207,473	\$ 1,350	\$ 1,256,991	\$ 5,650,265	\$ 231,676	\$ 470,135	\$ -	\$ 11,821,112
Cash with fiscal agent	14,187,500	-	-	-	-	-	-	-	14,187,500
Restricted cash and investments	-	-	-	-	-	-	-	584,787	584,787
Accounts receivable	247,167	-	-	-	-	-	17,826	-	264,993
Notes Receivable	992,756	-	-	-	-	-	-	-	992,756
Interest receivable	119,210	-	-	-	-	-	-	-	119,210
Taxes receivable	1,007,027	482,000	-	-	-	-	-	-	1,489,027
Due from other funds	853,659	-	-	-	-	-	-	-	853,659
Advances to other funds	432,627	-	-	-	-	-	-	-	432,627
Prepaid expenses	437,407	-	-	-	-	-	-	-	437,407
Deferred costs	81,770	-	-	-	-	-	-	-	81,770
Total Assets	\$ 22,362,345	\$ 689,473	\$ 1,350	\$ 1,256,991	\$ 5,650,265	\$ 231,676	\$ 487,961	\$ 584,787	\$ 31,264,848
LIABILITIES AND FUND BALANCES									
LIABILITIES:									
Accounts payable	\$ 553,757	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 553,757
Accrued payroll and benefits	1,162,518	-	-	-	-	-	-	-	1,162,518
Deferred revenue	393,721	-	-	-	-	-	-	-	393,721
Deposits payable	327,495	-	-	-	-	-	-	584,787	912,282
Advances from other funds	1,048,170	-	-	-	-	-	-	-	1,048,170
Total Liabilities	3,485,661	-	-	-	-	-	-	584,787	4,070,448
FUND BALANCES:									
Nonspendable	951,804	-	-	-	-	-	-	-	951,804
Restricted	-	-	-	1,256,991	-	-	-	-	1,256,991
Assigned	16,850,799	-	1,350	-	5,650,265	231,676	487,961	-	23,222,051
Unassigned	1,074,081	689,473	-	-	-	-	-	-	1,763,554
Total Fund Balances	18,876,684	689,473	1,350	1,256,991	5,650,265	231,676	487,961	-	27,194,400
Total Liabilities and Fund Balances	\$ 22,362,345	\$ 689,473	\$ 1,350	\$ 1,256,991	\$ 5,650,265	\$ 231,676	\$ 487,961	\$ 584,787	\$ 31,264,848

CITY OF NOVATO
GENERAL FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
JUNE 30, 2011

	<u>General Fund</u>	<u>Measure F Sales Tax</u>	<u>Pension Reserve</u>	<u>Insurance Reserve</u>	<u>Emergency & Disaster Response</u>	<u>Civic Center</u>	<u>Long-term Maintenance</u>	<u>Deposits Held in Trust</u>	<u>Total General Fund</u>
REVENUES									
Taxes and assessments	\$ 22,354,225	\$ 689,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,043,351
Licence, permits, and fees	895,765	-	-	-	-	-	-	-	895,765
Intergovernmental	330,129	-	-	-	-	-	-	-	330,129
Fines and forfeitures	559,139	-	-	-	-	-	-	-	559,139
Use of money and property	7,427,776	347	18	92,446	328,537	3,289	8,510	-	7,860,923
Charges for services	2,741,439	-	-	-	-	-	-	-	2,741,439
Other revenues	282,687	-	-	-	-	-	53,079	-	335,766
Total Revenues	34,591,160	689,473	18	92,446	328,537	3,289	61,589	-	35,766,512
EXPENDITURES									
General government	5,182,556	-	-	1,000	-	-	-	-	5,183,556
Public safety	12,676,257	-	-	-	-	-	-	-	12,676,257
Public works	5,122,548	-	-	-	-	-	22,949	-	5,145,497
Cultural and recreation	4,618,895	-	-	-	-	-	-	-	4,618,895
Community development	104,878	-	-	-	-	-	-	-	104,878
Capital outlay	44,730	-	-	-	-	-	-	-	44,730
Debt service:									
Principal	294,156	-	-	-	-	-	-	-	294,156
Interest and fiscal charges	11,186	-	-	-	-	-	-	-	11,186
Total Expenditures	28,055,206	-	-	1,000	-	-	22,949	-	28,079,155
Excess (deficiency) of revenues over expenditures	6,535,954	689,473	18	91,446	328,537	3,289	38,640	-	7,687,357
OTHER FINANCING SOURCES (USES)									
Transfers in	2,005,512	-	-	-	-	-	306	-	2,005,818
Transfers out	(1,762,519)	-	-	-	-	(29,244)	(239,584)	-	(2,031,347)
Total Other Financing Sources (Uses)	242,993	-	-	-	-	(29,244)	(239,278)	-	(25,529)
Net Change in Fund Balance	6,778,947	689,473	18	91,446	328,537	(25,955)	(200,638)	-	7,661,828
Fund Balances - July 1, 2010	10,828,866	-	1,332	1,165,545	5,321,728	257,631	688,599	-	18,263,701
Prior Period Adjustment - Note 15	1,268,871	-	-	-	-	-	-	-	1,268,871
Fund Balances - July 1, 2010 - restated	12,097,737	-	1,332	1,165,545	5,321,728	257,631	688,599	-	19,532,572
Fund Balances - June 30, 2011	\$ 18,876,684	\$ 689,473	\$ 1,350	\$ 1,256,991	\$ 5,650,265	\$ 231,676	\$ 487,961	\$ -	\$ 27,194,400

OTHER REPORTS



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

To the City Council of
 the City of Novato
 Novato, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Novato (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City of Novato's basic financial statements and have issued our report thereon dated January 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2011-1, 2011-2, and 2011-3.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies: 2011-4, 2011-5, and 2011-6.

PRINCIPALS

Chris A. Mann, CPA , CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA
 Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-7 and 2011-8.

We noted certain matters that we reported to management of the City of Novato, in a separate letter dated January 20, 2012.

The City of Novato's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Novato's responses and, accordingly we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, others within the entity, and pass-through entities and is not to be and should not be used by anyone other than these specified parties.



Sacramento, California
January 20, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS
 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
 AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council of
 the City of Novato
 Novato, California

Compliance

We have audited the City of Novato's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Novato's major federal programs for the year ended June 30, 2011. The City of Novato's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Novato's management. Our responsibility is to express an opinion on the City of Novato's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Novato's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Novato's compliance with those requirements.

In our opinion, the City of Novato complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Novato, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Novato's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Novato's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

PRINCIPALS

Chris A. Mann, CPA , CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA
 Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

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

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mark Untch, CPA". The signature is written in a cursive style with a large, stylized initial "M".

Sacramento, California
January 20, 2012

**CITY OF NOVATO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number/Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice			
Direct Programs:			
Collaborative Opportunities for Positive Experiences	16.738	ZA09010210	\$ 125,000
Bulletproof Vest Program	16.607	BA-3A005-SM01	<u>7,055</u>
Total U.S. Department of Justice			<u>132,055</u>
U.S Department of Transportation			
Pass-Through State of California Department of Transportation:			
Highway Planning and Construction	20.205	BHLS-5361(023)	3,832
Highway Planning and Construction	20.205	09-NSP1-6299	253,680
ARRA: Highway Planning and Construction	20.205	ESPL-5047(015)	<u>341,253</u>
Total Highway Planning and Construction			<u>598,765</u>
State and Community Highway Safety	20.600	PS1103	<u>14,253</u>
Total U.S. Department of Transportation			<u>613,018</u>
U.S Department of Energy			
Direct Programs:			
ARRA: Energy Efficiency and Conservation Block Grant	81.128	DE-SC0001297	<u>218,203</u>
Total U.S. Department of Energy			<u>218,203</u>
Total Expenditures of Federal Awards			\$ <u>963,276</u>

**CITY OF NOVATO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Novato (the City). The City of Novato reporting entity is defined in Note 1 of the City's Annual Financial Report. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's basic financial statements. Federal award revenues are reported principally in the City's financial statements as intergovernmental revenues in the governmental funds.

NOTE 4: CLAIMS

The City of Novato has received federal grants for specific purposes that are subject to review and audit by the Federal Government pass-through entity. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material which have not already been recorded.

**CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of Major Programs: U.S. Department of Transportation, Highway Planning and Construction, CFDA 20.205, ARRA and non-ARRA awards	
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements which are required to be reported in accordance with <i>Generally Accepted Government Auditing Standards</i>	Yes
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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for Federal Awards, which includes audit findings and defined in section 510(a)	No
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CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Finding 2011-1: Marin Valley Mobile Country Club (Material Weakness)

Criteria

1. GASB 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
2. Generally Accepted Accounting Principles (GAAP)
3. Certain deficiencies in internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

1. In the prior year financial statements, the City had maintained an expendable trust fund for the Novato Financing Authority. In accordance with GASB 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which was effective for the City in fiscal year 2004, expendable trust funds were eliminated and no longer exist. The fund was classified incorrectly in the prior year financial report.
2. Currently, a third party property management company maintains the operations of the mobile home park. Monthly reports are provided to the City for review. However, the property management company maintains their records on a cash basis and several adjustments are needed for accrual basis.
3. As part of the above process, we discovered that there were cash deposits that had already been deposited into the bank, however, were not recorded in the general ledger as of year-end.

Cause

1. City management was unaware that expendable trust funds were eliminated with the implementation of GASB 34.
2. Per discussion with the property management company, they record transactions on a cash basis to also coincide with the "rental period."
3. As the property management records transactions on a cash basis, the deposit represented rental payments for the subsequent month, so the property management company included the item as a reconciliation item as opposed to recording the deposit as cash and a prepaid asset.

Recommendation

1. Based on the sources and uses of the fund, we recommend that the City include this fund as a proprietary fund as the fund accounts for activity related to the operation and maintenance of a mobile home park.
2. In order to covert the financial information into accrual, we recommend the City include the activity of the mobile home park in their general ledger to ensure that financial records are in accordance with generally accepted accounting principles. A month-end or year-end reconciliation and review should be performed and the fund should be included in the City's overall financial analysis.
3. We recommend that the City review the bank reconciliations performed by the property management company and ensure they are reconciled as of the fiscal year-end date.

CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Finding 2011-1: Marin Valley Mobile Country Club (Material Weakness) (Continued)

Management's Response

1. Management agrees with the recommendation and has created a new proprietary fund to record the activity of the mobile home park.
2. Management agrees with the recommendation and has begun recording the financial activity in the City's general ledger for fiscal year 2011/12.
3. Management agrees with the recommendation and will review the bank reconciliations performed by the management company periodically, especially to ensure that items are properly reconciled by fiscal-year end.

Finding 2011-2: Fund 701 Deposits in Trust (Material Weakness)

Criteria

In accordance with GASB 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, which was effective for the City in fiscal year 2004, non-expendable trust funds were eliminated and no longer exist.

Condition

In the prior year financial statements, the City had maintained a non-expendable trust fund for the purposes of holding developer deposits. However, this type of fund no longer exists. Further, per review of the fund's activity, it was noted that 60% of the \$585,000 in deposits included in the liability account are over 10 years old.

Cause

The City was unaware of the fund type changes in accordance with GASB 34. In regards to the developer deposits, management noted that when projects were completed in prior years, the planning department personnel did not initiate refund procedures and the deposits stayed with the City.

Recommendation

Based on the sources and uses of the fund, we recommend that the City include this as a sub-fund of the General Fund. We also recommend that management research the projects to determine if any deposit amounts need to be refunded.

Management's Response

Management agreed and has included the fund as a sub-fund of the general fund. Management is in process of identifying the projects for which the deposits are associated with and attempting to refund the money. Should the project be unidentifiable, the City will turn the funds over to the State for the rightful owner to the claim.

CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Finding 2011-3: Fund 325 Deposits in Trust (Material Weakness)

Criteria

Certain deficiencies in internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

The City's fund 325 is used to account for restricted revenues. Included in this fund is \$944,000 in deposits. During our audit of this account, we discovered that 66% of the total deposits are over 10 years old, and that the Engineering Department was unable to identify the current status of approximately 74% of the deposits.

Cause

Management noted that when projects were completed in prior years, the engineering department personnel did not initiate refund procedures and the deposits stayed with the City.

Recommendation

We recommend that the City perform a thorough review and reconciliation of these deposit accounts to determine if monies are owed to developers, or if these deposits were provided to the City as a non-refundable contribution in which case the City should have recorded the amount into revenue.

Management's Response

Management will work with engineering department personnel to review and reconcile the accounts, as well as to determine the disposition of the deposits.

Finding 2011-4: Interfund Interest (Significant Deficiency)

Criteria

Generally Accepted Accounting Principles (GAAP)

Condition

During the current year, a resolution was passed for the Redevelopment Agency to pay-off certain promissory notes it had with other funds. Included in this pay-off was over \$6,000,000 in interest to the City's General Fund. Upon review of the general ledger, we noted that the City recorded this interest revenue as a miscellaneous holding liability account. Recording this amount as a liability misstates the financial statements.

Cause

The City wanted to set-aside these funds for a specific project and recorded the amount as a holding liability.

Recommendation

We proposed an entry to reclass the amount to interest revenue. Further, if it is management's intent to set-aside funds for a project, we recommend they do so by committing or assigning fund balance in accordance with GASB 54, *Fund Balance Reporting and Fund Type Definitions*.

Management's Response

Management posted the proposed adjustment and included these funds in the assigned fund balance category of the general fund.

CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Finding 2011-5: Miscellaneous Holding Accounts (Significant Deficiency)

Criteria

Generally Accepted Accounting Principles (GAAP)

Condition

We discovered that the City had approximately \$200,000 in liability (“holding”) accounts that did not represent true liabilities or unearned revenue at year-end. We were informed that these funds were recorded into a liability account as a set-aside. The original sources of these funds were unrestricted revenues. Generally accepted accounting principles (GAAP) direct that governmental funds recognize revenues “in the accounting period in which they become susceptible to accrual – that is when they become both measurable and available to finance expenditures of the fiscal period.”

Cause

The City was unaware that this practice was not in accordance with GAAP.

Recommendation

If it is the City's intent to “set-aside” funds, we recommend they do so by committing or assigning a portion of fund balance, in accordance with GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Management's Response

Management agreed and removed the liability set-aside accounts.

CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Finding 2011-6: Year-End Closing Procedures (Significant Deficiency)

Criteria

Certain deficiencies in internal control system over financial reporting could adversely affect an entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Condition

During the audit, there were over 25 journal entries proposed and recorded. Also, the auditors had to provide assistance beyond the scope of their services to assist in reconciling accounts and preparing journal entries.

In addition, it was noted that there were several full-accrual adjustments needed in order to bring the governmental fund financial statements from modified accrual to full accrual.

Cause

This year's closing process was delayed due to staffing changes in the City as well as some important procedures were not performed on time while others were performed too early in the process. The results were delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors.

Recommendation

We believe that the year-end closing could proceed more quickly and smoothly by developing a logical order for closing procedures and assigning responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information.

The City already had a long-term debt and a general capital asset fund set-up to record such full-accrual transactions; however we recommend that all full-accrual adjustments be recorded in a "GASB 34-like" fund. Items that were not recorded in the long-term debt group or general capital assets include: prepaid PERS contribution, interest payable, bond issuance costs/discounts/premiums and related amortization/accretion, OPEB liability, and the Redevelopment Agency's prepaid lease. Having this activity recorded in a fund of the general ledger will serve as a tracking device for the City and also provide the auditors with balances to audit.

Management's Response

Management concurs and will create a checklist with timelines and personnel responsible for each year-end closing procedure. Additionally, the City will begin recording all full accrual transactions in a fund for tracking purposes.

CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Finding 2011-07: Redevelopment Agency Housing Fund Expenditures (Compliance)

Criteria

Health and Safety code 33334.3(d) requires the Redevelopment Agency of the City of Novato to prepare a written determination showing that planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing. This determination must be made annually in writing.

Condition

The Redevelopment Agency of the City does not have a written determination showing that planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing.

Cause

The Agency was unaware of this compliance requirement.

Recommendation

We recommend the Agency prepare a written determination showing that planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing to be included in the annual budget for Board approval.

Management Response

The Agency agrees with the finding and will prepare a written determination showing that planning and administrative expenditures were necessary for the production, improvement, or preservation of low and moderate income housing to be approved by the Agency Board as part of the FY 12/13 adopting budget resolution.

CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Finding 2011-8: Redevelopment Agency - Implementation Plan (Compliance)

Criteria

Redevelopment agencies must produce Implementation Plans, in accordance with Health and Safety Code sections 33490 and 33413(b), for each project area every five years and have the first plan adopted by December 31, 1994, or within five years following the adoption of the redevelopment plan in cases under which the redevelopment plans were adopted on or after January 1, 1994. Each plan must contain certain items.

Condition

The Redevelopment Agency's Vintage Oaks project area's Five-Year Implementation Plan expired December 31, 2009.

Cause

The Agency halted the preparation of a new Five-Year Implementation Plan due to the Governor's proposal for the elimination of redevelopment through the state budget process.

Recommendation

We recommend the Agency complete their five-year implementation plan as soon as possible and provide it to their governing board for adoption.

Management Response

The Agency has decided to Opt-In and will prepare the Five-Year Implementation Plan to be implemented in June 2012.

CITY OF NOVATO
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
JUNE 30, 2011

There were no findings reported, and therefore, no corrective action necessary for the year ended June 30, 2010.