

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

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JUNE 30, 2010

CITY OF NOVATO
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2010
TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
 <i>BASIC FINANCIAL STATEMENTS</i>	
Government-Wide Financial Statements	
Statement of Net Assets	15
Statement of Activities and Changes in Net Assets	16
 Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets.....	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – RDA Housing Fund	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – RDA	24
 Proprietary Funds	
Statement of Net Assets	25
Statement of Activities and Changes in Net Assets	26
Statement of Cash Flows.....	27
 Fiduciary Funds	
Statement of Fiduciary Net Assets.....	28
Statement of Changes in Fiduciary Net Assets.....	29
Notes to Basic Financial Statements	30

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

January 14, 2011

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Novato, California, (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Novato as of June 30, 2010, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the PERS schedule of funding progress are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

This is management's discussion and analysis of the City of Novato's financial activities and performance for the fiscal year ended June 30, 2010. This section of the financial report presents a narrative overview and analysis of the financial activities.

Odeberg Ullakko Murawski & Co LLP

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30, 2010 by \$259 million (net assets). Of this amount, \$218 million is invested in capital assets, net of related debt; \$33.2 million is restricted for the Hamilton Trust Fund and \$2.4 million is restricted for Debt Service. The remaining balance of \$5.8 million is unrestricted.
- The City's total net assets increased by \$.5 million, or .19%, during the fiscal year ended June 30, 2010. Capital assets increased by \$5.0 million, or 2.05% and net long-term debt decreased by \$3.5 million, or 4.41%, which is due to normal scheduled debt payments.
- At June 30, 2010, unreserved-designated fund balance for the General Fund was \$0.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

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

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

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

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

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

Fund Financial Statements

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

Governmental funds

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

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

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

The reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities and Changes in Net Assets

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

highlights the exclusion of capital expenditures, depreciation and amortization, and cash flows related to long-term debt from the governmental funds statements.

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

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

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

Proprietary funds

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

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

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

Fiduciary funds

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

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

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets
June 30, 2010 and 2009

	Governmental Activities		
	<u>2010</u>	<u>2009</u>	<u>% change</u>
Assets:			
Current and other assets	\$ 100,083,338	\$ 109,567,412	(8.66%)
Capital assets	<u>247,357,246</u>	<u>242,382,207</u>	<u>2.05%</u>
Total assets	<u>347,440,584</u>	<u>351,949,619</u>	<u>(1.28%)</u>
Liabilities:			
Current and other liabilities	11,127,311	12,577,283	(11.53%)
Long-term liabilities	<u>76,857,165</u>	<u>80,399,943</u>	<u>(4.41%)</u>
Total liabilities	<u>87,984,476</u>	<u>92,977,226</u>	<u>(5.37%)</u>
Net Assets:			
Invested in capital assets			
net of related debt	218,027,582	210,664,758	3.50%
Restricted	35,598,920	35,511,332	0.25%
Unrestricted	<u>5,829,605</u>	<u>12,796,299</u>	<u>(54.44%)</u>
Total net assets	<u>\$ 259,456,107</u>	<u>\$ 258,972,389</u>	<u>0.19%</u>

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

Analysis of Net Assets

Net assets are a measure of a government's financial position and over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Novato's net assets exceeded liabilities by \$259 million at June 30, 2010.

The net assets of \$259 million at June 30, 2010 were comprised of the following elements:

- Unrestricted cash and investments of \$44.8 million, cash with fiscal agents of \$2.4 million, and restricted cash and investments of \$31.6 million;
- Receivables of \$3.7 million;
- Non-current assets consist of bond issuance costs, prepaid PERS obligations and capital assets. Bond issuance costs are \$2.2 million and are amortized over the life of the debt. Prepaid PERS obligations of \$16 million 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 \$247.4 million, net of accumulated depreciation charges of \$102.9 million, includes \$121.2 million of land, \$5.9 million of construction in progress, \$25.9 million of buildings, \$1.6 million of furniture and equipment, \$191.4 million of infrastructure, and \$4.3 million of vehicles;
- Current liabilities total \$11.1 million and include \$806,943 of accounts payable, \$1.2 million of salaries and benefits payable, \$1 million of accrued liabilities, \$2 million of deposits and other payables, \$1 million of deferred revenue, \$1.2 million of compensated absence payables, \$332,620 of current claims payable, and \$3.6 million of the current portion of long-term debt;
- Non-current liabilities of \$76.9 million include \$904,408 of non-current claims payable; \$279,239 of Other Post Employment Benefits (OPEB) and \$75.7 million of long-term debt which is due in the fiscal years subsequent to fiscal 2011;
- Net assets invested in capital asset (e.g., land, buildings, equipment and infrastructure) of \$218 million represent the cost of capital assets, less any outstanding debt used to acquire the assets. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from sources other than the related assets, because the capital assets themselves cannot be used to repay these debts;
- Restricted net assets of \$2.4 million are restricted for future debt service payments and \$33.2 million is restricted for the Hamilton Trust Fund, whose corpus amount is perpetual. The remaining balance of \$5.8 million represents unrestricted net assets.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

Analysis of Changes in Net Assets

The City's total net assets increased by \$483,718, or 0.19%, during the fiscal year ended June 30, 2010. The increase is largely attributable to investments in city infrastructure and buildings. These increases were offset by the State SERAF shift of \$2.7 million from redevelopment, the sale of homes held for resale and the use of cash reserves to pay operating expenditures. Activities and changes in net assets relating to the \$483,718 million increase are presented in the table below:

Changes in Governmental Net Assets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>% change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 6,560,504	\$ 6,634,104	(1.11%)
Operating grants and contributions	672,164	151,996	342.22%
Capital grants and contributions	774,008	106,733	625.18%
General revenues:			
Taxes	32,466,827	33,722,149	(3.72%)
Use of money and property	1,824,682	3,506,995	(47.97%)
Revenues from other agencies	1,567,560	1,703,827	(8.00%)
Other revenue	824,469	1,599,512	(48.45%)
Transfers, net	-	(18,584)	(100.00%)
Total revenues	<u>44,690,214</u>	<u>47,406,732</u>	(5.73%)
Expenses:			
General government	5,587,806	5,911,004	(5.47%)
Public safety	13,723,020	14,222,913	(3.51%)
Public works	7,109,513	8,184,285	(13.13%)
Cultural and recreation	5,045,285	5,770,022	(12.56%)
Community development	2,080,503	2,425,672	(14.23%)
SERAF Shift	2,657,292	-	N/A
Interest on long-term debt	3,273,199	3,397,093	(3.65%)
Depreciation - Infrastructure	4,729,878	4,653,111	1.65%
Total program expenses	<u>44,206,496</u>	<u>44,564,100</u>	(0.80%)
 Change in net assets	 <u>\$ 483,718</u>	 <u>\$ 2,842,632</u>	 (82.98%)

The chart above reflects a change in net assets of \$483,718, which is the result of revenues in excess of expenditures.

The decrease in revenues of \$2.7 million is mainly due to decreases in use of money and property of \$1.7 million; property tax revenue of \$1.3 million; charges for services of \$73,600; revenues from other agencies of \$136,267; and other revenue of \$775,043 offset by increases in grant revenues of \$1.2 million.

The \$357,604 decrease in expenditures is largely related to continued deficit reduction measures within the general fund necessitating a reduction in the number and scope of programs and projects being accomplished.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

Governmental Activities

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

Revenues by Source - Governmental Activities

	Percent
Taxes	72%
Charges for services	15%
Grants and contributions	3%
Use of money & property	4%
Revenues from other agencies	4%
Other revenue	2%
	100%

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

Expenses by Function - Governmental Activities

	Percent
General government	13%
Public safety	31%
Public works	16%
Cultural and recreation	11%
Community development	11%
Interest on long-term debt	7%
Depreciation - Infrastructure	11%
	100%

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Revenues, Expenditures and Other Changes in Fund Balances
For the Fiscal Year Ended June 30, 2010
(in millions)

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues	\$ 27.8	\$ 7.2	\$ 10.3	\$ 45.3
Current expenditures	28.4	4.6	1.5	34.5
Capital outlay	-	10.7	-	10.7
Debt service	0.2	3.1	3.7	7.0
	<u>28.6</u>	<u>18.4</u>	<u>5.2</u>	<u>52.2</u>
Debt proceeds	-	-	-	-
Issuance costs	-	-	-	-
Net transfers	1.1	9.6	(11.1)	(0.4)
	<u>1.1</u>	<u>9.6</u>	<u>(11.1)</u>	<u>(0.4)</u>
Net changes in fund balance	0.3	(1.6)	(6.0)	(7.3)
Fund balances, beg. of year	10.5	29.6	39.4	79.5
Prior period adjustments	-	-	-	-
Fund balance, end of year	<u><u>\$ 10.8</u></u>	<u><u>\$ 28.0</u></u>	<u><u>\$ 33.4</u></u>	<u><u>\$ 72.2</u></u>

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$72.2 million, compared to \$79.5 million at June 30, 2009. The unreserved amount of \$23.6 million at June 30, 2010 is available for future spending.

The remainder of the fund balance, \$48.6 million, is reserved to indicate that it is not available because it has been committed for multi-year capital projects, debt service payments, special revenue funds and permanent funds.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

For this fiscal year, revenues were \$45.3 million, and current expenditures and debt service was \$52.2 million, yielding a net decrease in fund balance from operations of \$7.3 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was \$10.8 million, of which \$10.8 million is reserved and represents reserves for long-term receivables.

The fund balance in the City's General Fund increased by \$312,225 for the fiscal year ended June 30, 2010. The increase in fund balance is primarily due to an increase in reserved fund balance for new interfund loan obligations. The unreserved/undesignated fund balance remains at zero.

Proprietary Funds

The net assets for proprietary funds, which are comprised of the City's internal service funds, at June 30, 2010, were \$4.5 million. Net assets increased by \$139,369 during fiscal 2010. Assets decreased by \$74,229. This was off-set by an increase in liabilities of \$213,598.

Fiduciary Funds

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

General Fund Budget Modifications

The original fiscal year 2009-10 budget was adopted in June 2009. 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 \$251,113 and decrease estimated expenditures by \$137,449. The net impact of the budget changes was an increase to the deficiency of revenues and other financing sources over expenditures by \$113,664.

General Fund Operating Variances

The revised budget projected a net decrease in fund balance of \$413,664 and the actual results were a net increase of \$312,225, which equates to a positive variance of \$725,889.

The variance is partly attributable to revenues being lower than the revised budget by \$677,159. This is primarily due to revenue declines greater than expected in taxes of \$196,320; licenses and permits of \$130,048; charges for services of \$598,979; revenues from other agencies of \$6,387; and transfers in of \$660,299 which were offset by increases in revenues from fines and forfeitures of \$233,034; use of money property of \$143,059 and other revenue of \$538,781.

Expenditures were \$1,403,048 lower than projected primarily due to unfilled positions and deliberate under spending within each department.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

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, 2010 totaled \$247.4 million (net of accumulated depreciation). The investment in capital assets includes land and land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, highways, drainage systems, and construction in progress.

Governmental Activities Long-term Debt

At June 30, 2010, the City's governmental activities had total long-term debts and obligations as scheduled below.

1993A general obligation bonds	\$ 1,465,000
1997A general obligation bonds	7,575,000
2000A general obligation bonds	3,490,000
2004 general obligation bonds	4,395,000
2004 general obligation bonds - premium	195,183
2007 general obligation bonds	4,725,000
2007 general obligation bonds - premium	221,962
Pension Obligation Bonds, Series A-1 & A-2	18,166,066
Pension Obligation Bonds - Discount	(149,533)
CIEDB loan	3,169,116
OPA note	2,673,718
Hamilton Field Tax Allocation bonds-2005	22,350,000
Hamilton Field 2005 Tax Allocation	
Housing bonds - Series A	8,770,000
Due to the County of Marin	182,632
Clean Renewable Energy Bonds	1,419,685
Long-term lease - Dell	146,590
Compensated absences - noncurrent	448,325
	<u>\$ 79,243,744</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

During fiscal year 2009-10, the economic recession continued the downward pressure on revenues. All indicators continue to point toward a sustained period of reduced consumer spending exacerbated by a weak real estate market and high unemployment. The foreclosure rate increased again and homes were sold for minimal profits or in some instances losses. 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 2.68%. Supplemental property taxes and property transfer

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

taxes continued to decline as a result of fewer sales and decreased values. Sales taxes also continue to decline due to the lack of consumer confidence and reduced spending particularly in larger costing items such as vehicles. These significant revenue sources are not expected to rebound in the coming fiscal year.

Fiscal Year 2010-11 Budget

The City spent many months holding public meetings and informational work sessions with the Council in order to accomplish a balanced budget for FY 10/11. During this process, the City Council approved reductions in all areas of operations. The reductions were approved for two budget cycles. For FY 10/11, the operating budget was reduced by \$2.4 million which included the reduction of 20 employee positions and furlough time for all remaining employees. 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 \$404,442 for FY 10/11 is funded from reserves. The reserve fund will remain above 15% as required by policy. The reductions approved for the FY 11/12 budget include an additional reduction of \$1.6 million which includes an additional reduction in personnel of 14 positions.

Expenditures were decrease as a result of another term of negotiated employee furloughs outlined in the employee contracts and memorandums of understanding. In addition, expenditures are increased for on-going contracts, such as animal control, based on the negotiated terms of the contracts.

In November 2010, the City's voters approved a ½ cent sales tax increase, which will sunset in five years. The additional tax is expected to generate approximately \$3 million per year. The increase becomes effective April 1, 2011.

The City is expecting to end FY 10/11 with neither a surplus nor a deficit.

City's Stability Outlook

The City's General Fund major revenue sources are Taxes and Charges for Services. Taxes represent 72% of General Fund revenues and will remain a primary source of revenue for the future. The tax category includes Real Estate Property Taxes, Real Property Transfer Tax, Sales and Use Tax, Hotel Tax, Business License Taxes, and Franchise Fees.

Charges for services represent 15% of General Fund revenues and comprise various fees charged by Parks & Recreation, Community Development, Public Works and Police, for City services. These revenues are highly dependent upon community participation in the City's programs and the amount of development and construction activity within the City. The level of activity in FY 09/10 reflected a decrease when compared to FY 08/09 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.

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2010

REQUESTS FOR INFORMATION

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

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

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

CITY OF NOVATO**Statement of Net Assets****June 30, 2010**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Operating cash and investments	\$ 44,836,105	\$ -	\$ 44,836,105
Cash with fiscal agents	2,354,005	-	2,354,005
Restricted cash and investments	31,608,344	-	31,608,344
Receivables (net of allowance where applicable):			
Interest	273,214	-	273,214
Accounts	1,433,930	-	1,433,930
Taxes	28,837	-	28,837
Loans	1,974,004	-	1,974,004
Prepaid expenses	475	-	475
Prepaid PERS contribution	593,863	-	593,863
Total current assets	<u>83,102,777</u>	<u>-</u>	<u>83,102,777</u>
Noncurrent assets:			
Bond issuance costs, net	2,133,992	-	2,133,992
Prepaid PERS contribution-noncurrent	14,846,569	-	14,846,569
Capital assets, net	<u>247,357,246</u>	<u>-</u>	<u>247,357,246</u>
Total noncurrent assets	<u>264,337,807</u>	<u>-</u>	<u>264,337,807</u>
 Total assets	 <u>347,440,584</u>	 <u>-</u>	 <u>347,440,584</u>
LIABILITIES			
Current liabilities:			
Accounts payable	806,959	-	806,959
Accrued salaries and benefits	1,211,671	-	1,211,671
Accrued liabilities	1,037,725	-	1,037,725
Deposits and other payables	1,836,491	-	1,836,491
Deferred revenue	957,848	-	957,848
Compensated absences	1,243,771	-	1,243,771
Claims payable	332,620	-	332,620
Due to Novato Financing Authority	130,000	-	130,000
Current portion of long-term debt	<u>3,570,226</u>	<u>-</u>	<u>3,570,226</u>
	11,127,311	-	11,127,311
Noncurrent liabilities:			
Claims payable - noncurrent	904,408	-	904,408
OPEB liability	279,239	-	279,239
Long-term debt, net	<u>75,673,518</u>	<u>-</u>	<u>75,673,518</u>
 Total liabilities	 <u>87,984,476</u>	 <u>-</u>	 <u>87,984,476</u>
NET ASSETS			
Invested in capital assets, net of related debt	218,027,582	-	218,027,582
Restricted for:			
Debt service	2,444,073	-	2,444,073
Hamilton Trust Fund	33,154,847	-	33,154,847
Unrestricted	<u>5,829,605</u>	<u>-</u>	<u>5,829,605</u>
 Total net assets	 <u>\$ 259,456,107</u>	 <u>\$ -</u>	 <u>\$ 259,456,107</u>

CITY OF NOVATO

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue
					Governmental Activities
PRIMARY GOVERNMENT					
Governmental activities:					
General government	\$ 5,587,806	\$ 403,331	\$ 39,804	\$ -	\$ (5,144,671)
Public safety	13,723,020	562,198	559,933	-	(12,600,889)
Public works	7,109,513	1,985,593	-	774,008	(4,349,912)
Cultural and recreation	5,045,285	1,911,337	33,904	-	(3,100,044)
Community development/SERAF shift	4,737,795	1,698,045	38,523	-	(3,001,227)
Interest on long-term debt	3,273,199	-	-	-	(3,273,199)
Depreciation - Infrastructure	4,729,878	-	-	-	(4,729,878)
Total governmental activities	<u>44,206,496</u>	<u>6,560,504</u>	<u>672,164</u>	<u>774,008</u>	<u>(36,199,820)</u>
Business-type activities:					
	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets:					
Net (expense) revenue	<u>\$ 44,206,496</u>	<u>\$ 6,560,504</u>	<u>\$ 672,164</u>	<u>\$ 774,008</u>	<u>\$ (36,199,820)</u>

**Continued
on next page**

CITY OF NOVATO

Statement of Activities and Changes in Net Assets (Continued)

For the Fiscal Year Ended June 30, 2010

Functions/Programs	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Change in net assets:			
Net (expense) revenue	\$ (36,199,820)	\$ -	\$ (36,199,820)
General revenues:			
Taxes	32,466,827	-	32,466,827
Revenues from other agencies	1,567,560	-	1,567,560
Use of money and property	1,824,682	-	1,824,682
Other revenue	824,469	-	824,469
Transfers, net	-	-	-
Total general revenues and transfers	<u>36,683,538</u>	<u>-</u>	<u>36,683,538</u>
Change in net assets	483,718	-	483,718
Net assets, beginning of year	258,972,389	-	258,972,389
Net assets, end of year	<u>\$ 259,456,107</u>	<u>\$ -</u>	<u>\$ 259,456,107</u>

CITY OF NOVATO
Governmental Funds
Balance Sheet
June 30, 2010

	Major Funds						Total Governmental Funds
	General Fund	RDA Housing	RDA	Capital Projects Fund	Permanent Fund	Other Governmental Funds	
					Hamilton Trust Fund		
ASSETS							
Cash and investments	\$ 3,682,995	\$ -	\$ 6,893,687	\$ (32,998)	\$ -	\$ 31,910,065	\$ 42,453,749
Cash with fiscal agent	-	646,120	1,553,449	-	-	154,436	2,354,005
Cash and investments-restricted	-	-	-	-	31,608,344	-	31,608,344
Receivables (net of allowance where applicable):							
Taxes		5,237	16,393			7,207	28,837
Interest	150,449	-	-	-	121,503	1,262	273,214
Accounts and due from other governments	1,062,225	-	-	-	-	365,545	1,427,770
Loans	987,934	-	-	-	-	986,070	1,974,004
Prepaid expenses	475	-	-	-	-	-	475
Due from other funds	16,093,045	1,104	25,274,409	-	1,425,000	4,398,846	47,192,404
Deferred costs	67,571	3,473,507	7,425,707	-	-	102,091	11,068,876
Total assets	\$ 22,044,694	\$ 4,125,968	\$ 41,163,645	\$ (32,998)	\$ 33,154,847	\$ 37,925,522	\$ 138,381,678
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 101,461	\$ 2,199	\$ 200,428	\$ 351,288	\$ -	\$ 58,586	\$ 713,962
Accrued salaries & benefits	1,211,671	-	-	-	-	-	1,211,671
Accrued liabilities	-	-	-	-	-	8,326	8,326
Due to other funds	1,033,971	25,274,409	20,707,176	-	-	2,255,259	49,270,815
Due to Novato Financing Authority	-	-	130,000	-	-	-	130,000
Deposits/other payables	547,304	-	210,404	-	-	1,078,783	1,836,491
Deferred revenue	7,077,650	-	3,473,507	-	-	1,229,193	11,780,350
Compensated absences	1,243,771	-	-	-	-	-	1,243,771
Total liabilities	11,215,828	25,276,608	24,721,515	351,288	-	4,630,147	66,195,386
Fund balances (deficits)							
Reserved, reported in general fund	10,828,866	-	-	-	-	-	10,828,866
Reserved, reported in special revenue funds	-	-	210,404	-	-	1,957,570	2,167,974
Reserved for capital projects	-	-	-	-	-	-	-
Reserved for debt service	-	-	-	-	-	2,444,073	2,444,073
Reserved for Hamilton Trust Fund	-	-	-	-	33,154,847	-	33,154,847
Unreserved:							
Designated - General Fund	-	-	-	-	-	-	-
Designated - Special Revenue Funds	-	-	-	-	-	944,350	944,350
Designated - Capital Projects Funds	-	-	-	-	-	16,370,514	16,370,514
Undesignated - General Fund	-	-	-	-	-	-	-
Undesignated (deficit) - Special Revenue Funds	-	(21,150,640)	-	-	-	11,578,868	(9,571,772)
Undesignated (deficit) - Capital Project Funds	-	-	16,231,726	(384,286)	-	-	15,847,440
Undesignated (deficit) - Debt Service Funds	-	-	-	-	-	-	-
Total fund balances (deficits)	10,828,866	(21,150,640)	16,442,130	(384,286)	33,154,847	33,295,376	72,186,292
Total liabilities and fund balances	\$ 22,044,694	\$ 4,125,968	\$ 41,163,645	\$ (32,998)	\$ 33,154,847	\$ 37,925,522	\$ 138,381,678

CITY OF NOVATO

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

June 30, 2010

Total Fund Balances - Total Governmental Funds **\$ 72,186,292**

Amounts reported for governmental activities in the statement of net assets are different because:

Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds:

General obligation bonds 1993 A	\$ 75,202	
General obligation bonds 1997 A	137,625	
General obligation bonds 2000 A	120,706	
Lease Anticipation Note, 1999 A	30,000	
Hamilton Tax Allocation Bonds, Series 2005	1,325,028	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	391,237	
Measure B Street General Obligation Bond - 2004	141,054	
General obligation bonds 2007	162,295	
Pension Obligation Bonds	299,663	
Clean Renewable Energy Bonds	76,663	
Accumulated amortization	<u>(625,481)</u>	2,133,992

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 on the general fund's balance sheet and as cash on the Eucalyptus Assessment District's balance sheet in the governmental fund financial statements

(60,687)

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

15,440,432

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

Nondepreciable	127,040,482	
Depreciable	218,903,120	
Less accumulated depreciation	<u>(100,117,625)</u>	245,825,977

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.

(1,029,399)

Long-term liabilities are not due and payable in the current period and, therefore, were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

General obligation bonds	(22,067,145)	
Accrued compensated absences	(448,325)	
OPEB liability	(279,239)	
OPA notes payable	(2,673,718)	
CIEDB loan	(3,169,116)	
Hamilton Tax Allocation Bonds, Series 2005	(22,350,000)	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	(8,770,000)	
Pension Obligation Bonds	(18,016,533)	
Due to County of Marin	(182,632)	
Clean Renewable Energy Bonds	(1,419,685)	
Capital Lease - Dell	<u>(146,590)</u>	(79,522,983)

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

4,482,484

Net Assets of Governmental Activities

\$ 259,456,107

CITY OF NOVATO

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2010

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	RDA Housing	RDA	Capital Projects	Permanent Fund Hamilton Trust Fund		
REVENUES							
Taxes	\$ 21,588,902	\$ 1,447,764	\$ 4,325,980	\$ -	\$ -	\$ 5,104,181	\$ 32,466,827
Licenses and permits	885,043	-	-	-	-	-	885,043
Revenues from other agencies	381,430	-	-	17,617	-	2,614,685	3,013,732
Fines and forfeitures	693,534	-	-	-	-	-	693,534
Use of money and property	628,286	3,849	591,929	-	712,008	511,106	2,447,178
Current service charges	2,926,521	36,814	-	-	45,698	1,972,895	4,981,928
Other revenue	703,651	-	-	36,929	-	83,889	824,469
Total revenues	27,807,367	1,488,427	4,917,909	54,546	757,706	10,286,756	45,312,711
EXPENDITURES							
Current:							
General government	4,913,589	-	-	-	-	218,285	5,131,874
Public safety	12,879,228	-	-	-	-	247,585	13,126,813
Public works	5,472,356	-	-	-	-	1,034,943	6,507,299
Cultural and recreation	5,003,083	-	-	-	-	-	5,003,083
Community development	94,600	929,072	942,133	-	30,891	278	1,996,974
SERAF shift (Note 14)	-	-	2,657,292	-	-	-	2,657,292
Capital outlay	64,170	-	-	10,714,459	-	-	10,778,629
Debt service:							
Principal	173,314	195,000	1,163,539	-	-	1,690,307	3,222,160
Interest and fiscal agent fees	18,712	392,798	1,311,103	-	-	2,044,400	3,767,013
Total expenditures	28,619,052	1,516,870	6,074,067	10,714,459	30,891	5,235,798	52,191,137
REVENUES OVER (UNDER) EXPENDITURES	(811,685)	(28,443)	(1,156,158)	(10,659,913)	726,815	5,050,958	(6,878,426)
OTHER FINANCING SOURCES (USES)							
Transfers in	2,494,783	-	-	10,811,804	-	1,173,963	14,480,550
Transfers out	(1,370,873)	(162,458)	(376,941)	-	(659,156)	(12,330,521)	(14,899,949)
Total other financing sources (uses)	1,123,910	(162,458)	(376,941)	10,811,804	(659,156)	(11,156,558)	(419,399)
Net change in fund balances	312,225	(190,901)	(1,533,099)	151,891	67,659	(6,105,600)	(7,297,825)
Fund balances, beginning of year	10,516,641	(20,959,739)	17,975,229	(536,177)	33,087,188	39,400,975	79,484,117
Fund balances, end of year	\$ 10,828,866	\$ (21,150,640)	\$ 16,442,130	\$ (384,286)	\$ 33,154,847	\$ 33,295,375	\$ 72,186,292

CITY OF NOVATO

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Government-Wide Statement of
Activities and Changes in Net Assets**

For the Fiscal Year Ended June 30, 2010

Net Changes in Fund Balances - Total Governmental Funds **\$ (7,297,825)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 10,493,593	
Depreciation expense	<u>(5,408,189)</u>	5,085,404
(Depreciation expense is net of Internal Service Fund depreciation of \$465,148 which has already been allocated to serviced funds.)		

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

Principal repayments on long-term debt (net of intra-city debt repayments of \$10,246 paid by the Eucalyptus Assessment District to the City's general fund, which had purchased the Eucalyptus Assessment District's bonds in the prior year- see below).	3,325,229	
Debt proceeds	<u>-</u>	3,325,229

To eliminate the doubling-up effect related to the repayment to the general fund of the Eucalyptus Assessment District's bonds, reflected as an investment on the general fund's balance sheet		10,246
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding.

Amortization of bond issuance costs	(104,864)	
Amortization of General Obligation Bond premiums	18,027	
Change in compensated absences	(17,002)	
Change in OPEB liability	(135,682)	
Amortization of prepaid PERS contribution	(593,863)	
Change in accrued interest payable	<u>54,680</u>	(778,704)

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>139,369</u>
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Total Changes in Net Assets of Governmental Activities **\$ 483,718**

CITY OF NOVATO

General Fund

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

For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 21,985,222	\$ 21,785,222	\$ 21,588,902	\$ (196,320)
Licenses and permits	1,026,091	1,015,091	885,043	(130,048)
Fines and forfeitures	460,500	460,500	693,534	233,034
Use of money and property	489,772	485,227	628,286	143,059
Revenues from other agencies	346,150	387,817	381,430	(6,387)
Current services charges	3,525,500	3,525,500	2,926,521	(598,979)
Other revenue	146,650	164,870	703,651	538,781
Total revenues	<u>27,979,885</u>	<u>27,824,227</u>	<u>27,807,367</u>	<u>(16,860)</u>
EXPENDITURES				
Current:				
General government	5,022,238	4,837,376	4,913,589	(76,213)
Public safety	13,399,504	13,428,935	12,879,228	549,707
Public works	6,042,080	6,017,688	5,472,356	545,332
Cultural and recreation	5,375,284	5,404,296	5,003,083	401,213
Community development	99,030	98,810	94,600	4,210
Capital outlay	27,000	36,928	64,170	(27,242)
Debt service:			-	
Principal	123,024	123,024	173,314	(50,290)
Interest and fiscal agent fees	9,669	9,669	18,712	(9,043)
Total expenditures	<u>30,097,829</u>	<u>29,956,726</u>	<u>28,619,052</u>	<u>1,337,674</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,117,944)</u>	<u>(2,132,499)</u>	<u>(811,685)</u>	<u>1,320,814</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	3,150,537	3,155,082	2,494,783	(660,299)
Transfers out	<u>(1,432,593)</u>	<u>(1,436,247)</u>	<u>(1,370,873)</u>	<u>65,374</u>
Total other financing sources (uses)	<u>1,717,944</u>	<u>1,718,835</u>	<u>1,123,910</u>	<u>(594,925)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (400,000)</u>	<u>\$ (413,664)</u>	312,225	<u>\$ 725,889</u>
Fund balances, beginning of year			10,516,641	
Fund balances, end of year			<u>\$ 10,828,866</u>	

CITY OF NOVATO

RDA Housing Fund

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

For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,437,474	\$ 1,437,474	\$ 1,447,764	\$ 10,290
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	901,500	1,500	3,849	2,349
Revenues from other agencies	-	-	-	-
Current services charges	-	-	36,814	36,814
Other revenue	22,000	22,000	-	(22,000)
Total revenues	2,360,974	1,460,974	1,488,427	27,453
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Cultural and recreation	-	-	-	-
Community development	964,835	963,733	929,072	34,661
Capital outlay	25,000	25,000	-	25,000
Debt service:				
Principal	195,000	195,000	195,000	-
Interest and fiscal agent fees	392,798	392,798	392,798	-
Total expenditures	1,577,633	1,576,531	1,516,870	59,661
REVENUES OVER (UNDER) EXPENDITURES	783,341	(115,557)	(28,443)	87,114
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(162,454)	(162,454)	(162,458)	(4)
Total other financing sources (uses)	(162,454)	(162,454)	(162,458)	(4)
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	\$ 620,887	\$ (278,011)	(190,901)	\$ 87,110
Fund balances, beginning of year			(20,959,739)	
Fund balances, end of year			\$ (21,150,640)	

CITY OF NOVATO

RDA

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

For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,512,422	\$ 4,512,422	\$ 4,325,980	\$ (186,442)
Use of money and property	164,184	164,184	591,929	427,745
Other revenue	-	-	-	-
Total revenues	<u>4,676,606</u>	<u>4,676,606</u>	<u>4,917,909</u>	<u>241,303</u>
EXPENDITURES				
Community development	1,751,228	1,747,922	942,133	805,789
State Budget Support SERAF Shift	-	-	2,657,292	(2,657,292)
Capital outlay	-	-	-	-
Debt service:				
Principal	1,163,539	1,163,539	1,163,539	-
Interest and fiscal agent fees	1,311,103	1,311,103	1,311,103	-
Total expenditures	<u>4,225,870</u>	<u>4,222,564</u>	<u>6,074,067</u>	<u>(1,851,503)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>450,736</u>	<u>454,042</u>	<u>(1,156,158)</u>	<u>(1,610,200)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				-
Transfers out	<u>(437,480)</u>	<u>(437,480)</u>	<u>(376,941)</u>	<u>60,539</u>
Total other financing sources (uses)	<u>(437,480)</u>	<u>(437,480)</u>	<u>(376,941)</u>	<u>60,539</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ 13,256</u>	<u>\$ 16,562</u>	<u>(1,533,099)</u>	<u>\$ (1,549,661)</u>
Fund balances, beginning of year			<u>17,975,229</u>	
Fund balances, end of year			<u>\$ 16,442,130</u>	

CITY OF NOVATO
Proprietary Funds
Statement of Net Assets
June 30, 2010

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current assets:		
Cash and investments	\$ -	\$ 2,443,043
Cash with fiscal agents	-	-
Accounts receivables	-	6,160
Loans receivable	-	-
Due from other funds	-	2,078,411
Deposits	-	-
Prepays and other assets	-	-
Total current assets	<u>-</u>	<u>4,527,614</u>
Noncurrent assets:		
Capital assets, net	-	1,531,269
Total assets	<u>-</u>	<u>6,058,883</u>
LIABILITIES		
Current liabilities:		
Accounts payable	-	92,997
Deferred revenue	-	246,374
Claims payable	-	332,620
Total current liabilities	<u>-</u>	<u>671,991</u>
Claims payable, noncurrent	-	904,408
Total liabilities	<u>-</u>	<u>1,576,399</u>
NET ASSETS		
Invested in capital assets, net of related debt	-	1,531,269
Unrestricted	-	2,951,215
Total net assets	<u>\$ -</u>	<u>\$ 4,482,484</u>

CITY OF NOVATO

Proprietary Funds

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2010

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
REVENUES		
Service charges	\$ -	\$ 1,290,781
Revenues from other agencies	-	10
Other revenue	-	257,419
Total operating revenue	<u>-</u>	<u>1,548,210</u>
OPERATING EXPENSES		
Cost of services	-	1,393,521
Depreciation	-	465,148
Total operating expenses	<u>-</u>	<u>1,858,669</u>
Operating income (loss)	<u>-</u>	<u>(310,459)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	-	30,429
Net nonoperating revenues (expenses)	<u>-</u>	<u>30,429</u>
Income (loss) before transfers	-	(280,030)
Transfers in	-	430,870
Transfers out	-	(11,471)
Net transfers	<u>-</u>	<u>419,399</u>
Changes in net assets	-	139,369
Net assets, beginning of year	-	4,343,115
Net assets, end of year	<u>\$ -</u>	<u>\$ 4,482,484</u>

CITY OF NOVATO

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2010

	Business-Type Activities-	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interfund services provided	\$ -	\$ 1,291,106
Cash received from other operating activities		257,419
Cash paid to suppliers		(1,620,879)
Net cash used by operating activities	<u>-</u>	<u>(72,354)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds	-	430,870
Transfers out to other funds	-	(11,471)
Net cash provided by noncapital financing activities	<u>-</u>	<u>419,399</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds		-
Interest paid		-
Capital expenditures		(354,797)
Net cash used by capital and related financing activities	<u>-</u>	<u>(354,797)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	-	30,429
Repayment of loans receivable		-
Net cash provided by investing activities	<u>-</u>	<u>30,429</u>
Net change in cash and cash equivalents	-	22,677
Cash and cash equivalents at beginning of year	<u>-</u>	<u>2,420,366</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 2,443,043</u>
Reconciliation of operating income to net cash provided (used)		
by operating activities:		
Operating income (loss)	\$ -	\$ (310,459)
Adjustments to reconcile operating income to net cash provided (used)		
by operating activities:		
Depreciation and amortization expense	-	465,148
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	-	315
Decrease (increase) in due from other funds	-	(13,760)
Increase (decrease) in deferred revenue	-	13,760
Increase (decrease) in accounts payable	-	(27,386)
Increase (decrease) in claims payable	-	(199,972)
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ (72,354)</u>

CITY OF NOVATO

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2010

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ 706,465	\$ 4,479,063
Cash with fiscal agent	3,172,173	4,514,154
Receivables	6,565	-
Due from the City of Novato RDA	130,000	-
Capital assets, net	15,099,837	-
Other assets, net	642,231	4,900
Total assets	<u>19,757,271</u>	<u>8,998,117</u>
LIABILITIES		
Accounts payable	30,828	-
Deposits held in trust	637,321	8,998,117
Deferred revenue	15,374	-
Due to other funds	7,490	-
Notes payable	10,760,000	-
Loans payable	-	-
Interest payable	139,732	-
Total liabilities	<u>11,590,745</u>	<u>8,998,117</u>
NET ASSETS		
Assets held in trust	<u>\$ 8,166,526</u>	<u>\$ -</u>

CITY OF NOVATO
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2010

	<u>Trust Funds</u>
ADDITIONS	
Operating revenues	\$ 2,961,682
Investment income	<u>193,083</u>
Total additions to net assets	<u>3,154,765</u>
DEDUCTIONS	
General and administrative expenses	1,195,332
Depreciation and amortization	311,359
Interest expense	<u>651,818</u>
Total deductions from net assets	<u>2,158,509</u>
Transfers in (out)	<u>-</u>
Changes in net assets	996,256
Net assets, beginning of year	7,170,270
Net assets, end of year	<u><u>\$ 8,166,526</u></u>

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

The accompanying financial statements have been prepared assuming the City will continue as a going concern. For each of the last several years, the City's General Fund has struggled to balance its revenues and expenditures. The economic downturn has had a dramatic negative impact to the City's revenues. The City has reduced certain employee positions and implemented other cost reductions for 2011, and in November 2010, the citizen's approved a ½ cent sales tax (see Note 18-Subsequent Events); however, revenues are still not expected to be sufficient to cover operational costs in 2011. The City believes that long-term success in increasing revenues and controlling costs is achievable, and that available cash and cash equivalents will provide adequate liquidity to fund the City's operations through at least June 30, 2011. The financial statements do not include any adjustments to reflect the future effects in the recoverability and classification of assets or the amounts and classification of liabilities that might result from the possible inability of the City to continue as a going concern.

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

A. Reporting Entity

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

Individual Component Unit Disclosures:

Blended Component Units

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

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

The Novato Financing Authority (“NFA” or “Authority”) is a separate government entity, which was created by a Joint Exercise of Powers Agreement between the City of Novato and the Redevelopment Agency of the City of Novato. It is reported as if it were part of the primary government because the City Council, although acting in a different capacity, is the controlling authority. All accounting and administrative functions are performed by the property management company and fiscal agents in a trustee capacity. The purpose of the NFA was to finance the acquisition, operation and maintenance of mobile home parks (the “Project”) in the City. The Authority has agreed to assign certain duties and obligations (operation of the Project) to the Park Acquisition Corporation of Marin Valley Mobile Country Club Park pursuant to a Delegation Agreement dated as of March 1, 1997. Based on the nature of operations and the fact that the Authority cannot freely dispose of the Project, the activities of the Authority are reported as a nonexpendable trust fund within the Fiduciary Funds. The Authority’s financial statements may be obtained from the City’s Finance Department.

Related organizations

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

B. Basis of accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Internal Service Fund activity is eliminated to avoid “doubling up” revenues and expenses. Fiduciary activities of the City are not included in these statements.

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

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

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

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

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

Governmental Fund Financial Statements

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

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

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

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing

sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The major governmental funds of the City are:

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

Proprietary Fund Financial Statements

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

Proprietary funds are managed using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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

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

Fiduciary Fund Financial Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary Fund Financial Statements include a Statement of Net Assets and a Statement of Changes in Net Assets. Fiduciary funds are not reflected on the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's Fiduciary funds represent Agency Funds and Trust Funds. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting as are the governmental funds explained above. The Trust funds are used to record the assets and liabilities held for the benefit of others.

C. Capital assets

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

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

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

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

D. Budgetary policies and accounting

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

E. Encumbrances

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

F. Cash and investments

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

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

G. Net Assets

Government-Wide Net Assets consist of the following:

Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that was attributed to the acquisition, construction or improvement of the assets.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

Governmental Fund Balance consists of the following: Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund balance to be segregated, or identify the portion of the fund not available for future expenditures.

H. Unearned revenues

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

I. Statement of cash flows

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

J. Compensated absences

A liability is calculated for all the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary and related payroll costs are those in effect at June 30, 2010. 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, 2010.

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

K. Property taxes and special assessment revenue

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

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

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

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

L. Statement calculations and use of estimates

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

M. Reclassifications

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

N. New governmental accounting standards

The City adopted the following GASB statements in fiscal 2010, neither of which had a material impact on the City's financial position or results of operations:

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

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

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

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

NOTE 2 - Cash and investments:

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

A. Cash deposits

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

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

B. Authorized investments

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

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

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

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

C. Cash and investment composition

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

Cash and investments at June 30, 2010 are comprised of the following:

	Carrying Value	Fair Value
Petty cash	\$ 2,285	\$ 2,285
Cash in bank	764,337	764,337
Federal agency securities	35,410,457	35,410,457
Money Market	1,646,311	1,646,311
Corporate Notes	10,408,837	10,408,837
California Local Agency Investment Fund	<u>33,392,104</u>	<u>33,446,993</u>
Subtotal	81,624,331	81,679,220
Cash with fiscal agents:		
Money Market	5,399,877	5,399,877
Guaranteed investment contracts/investment agreements	<u>4,646,099</u>	<u>4,646,099</u>
	<u>\$ 91,670,307</u>	<u>\$ 91,725,196</u>

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

Governmental funds:	
Operating cash and investments	\$ 44,836,105
Cash with fiscal agent	2,354,005
Restricted cash and investments	<u>31,608,344</u>
	<u>78,798,454</u>
Trust funds:	
Cash and investments	706,465
Cash with fiscal agent	<u>3,172,173</u>
	<u>3,878,638</u>
Agency funds:	
Cash and investments	4,479,063
Cash with fiscal agent	<u>4,514,153</u>
	<u>8,993,216</u>
Total	<u>\$ 91,670,307</u>

Cash with fiscal agent is restricted as follows:

Hamilton Tax Allocation Bonds - Series 2005	\$ 1,553,449
Hamilton 2005 Housing Bonds - Series A	646,120
Clean Renewable Energy Bonds	154,436
	<u>2,354,005</u>
Trust Funds:	
Novato Financing Authority	3,172,173
	<u>3,172,173</u>
Agency Funds:	
Hamilton Bonds A.D. - CFD 1994-1, 2004 Refunding	1,643,743
Pointe Marin Assessment District - CFD 2002-1	801,829
Golden Gate Plaza Assessment District	239,682
Vintage Oaks A.D. - CFD No. 1, 2004 Refunding	1,828,900
	<u>4,514,154</u>
Total cash with fiscal agent	<u><u>\$ 10,040,331</u></u>

Cash and investments held by the Hamilton Trust Fund of \$31,608,344 are restricted. Pursuant to the trust agreement dated January 22, 2004, payments made by the developer of the Hamilton Field project area into the Hamilton Trust Fund cannot be spent by the City and are considered corpus ("principal") of the Trust Fund. Income and a portion of the investment earnings can be spent for specified purposes that benefit the City as defined in the agreement.

The composition of cash and investments by funds at June 30, 2010 was as follows:

Major funds:	
General Fund	\$ 3,682,995
Capital Projects Fund	(32,998)
RDA Housing	0
RDA	6,893,687
Other governmental non-major funds	31,910,065
Internal service fund	2,443,044
	<u>44,766,792</u>
Elimination of Eucalyptus bonds on government-wide statements to eliminate doubling-up effect.	
See Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	(60,687)
	<u><u>\$ 44,706,105</u></u>

D. Risk Disclosures

Interest Rate Risk. This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. Investments which exceed five years in maturity require City Council's approval.

Investment Type	Fair Value	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal agency securities	\$ 35,410,457	\$ 4,663,902	\$ 9,986,381	\$ 20,760,174	\$ -
Money Market Funds	1,646,311	1,646,311	-	-	-
Corporate Notes	10,408,837	3,574,370	2,020,550	4,813,917	-
State investment pool	33,392,104	33,392,104	-	-	-
Held by bond trustee:					
Money Market	5,399,877	5,399,877	-	-	-
Investment agreements	4,646,099	-	-	-	4,646,099
Total	\$ 90,903,685	\$ 48,676,564	\$ 12,006,931	\$ 25,574,091	\$ 4,646,099

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

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End		
			AAA	AA / A-1+	Not Rated
Federal agency securities	\$ 35,410,457	\$ -	\$ 35,410,457	\$ -	\$ -
Money Market Funds	1,646,311	1,646,311	-	-	-
Corporate Notes	10,408,837	-	-	10,408,837	-
State investment pool	33,392,104	-	-	-	33,392,104
Held by bond trustee:					
Money Market	5,399,877	5,399,877	-	-	-
Investment agreements	4,646,099	-	-	-	4,646,099
Total	\$ 90,903,685	\$ 7,046,188	\$ 35,410,457	\$ 10,408,837	\$ 38,038,203

The City's general policy is to apply the prudent-investor rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. As of June 30, 2010, there are no investments in any one issuer other than government agencies that represent 5% or more of total City investments.

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a depositor will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under State law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

E. Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holding in LAIF. The City had a contractual withdrawal value of \$33,392,104 whose pro-rata share of fair value was estimated by the state Treasurer to be \$33,446,993. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

F. Marketing investments to fair value (GASB 31)

In fiscal 1997-98, the City adopted Government Accounting Standards Board Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year. The fair value change in certain investments for the year came to an amount that was not material for presentation in the financial statements.

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

NOTE 3 - Inter-fund transactions:

Inter-fund loans represent current balances owed between funds. Balances were comprised of the following at June 30, 2010:

<u>Fund</u>	<u>Due to other funds</u>	<u>Due from other funds</u>
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 1,033,971	\$ 16,093,045
RDA Housing	25,274,409	1,104
RDA Fund	20,707,176	25,274,409
Hamilton Trust Fund	-	1,425,000
Total major funds	<u>47,015,556</u>	<u>42,793,558</u>
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Subdivision Park	-	718,930
Hamilton CFD Maintenance	459,183	-
Insurance reserve	-	377,259
Emergency and Disaster Response reserve	-	1,094,686
	<u>459,183</u>	<u>2,190,875</u>
Capital Project Funds:		
Development Impact Fees	-	1,061,023
RDA Community Center and Performing Arts	-	394,209
Novato Public Financing Authority	1,796,076	752,739
	<u>1,796,076</u>	<u>2,207,971</u>
Total non-major funds	<u>2,255,259</u>	<u>4,398,846</u>
Total governmental funds	<u>49,270,815</u>	<u>47,192,404</u>
Internal Service Funds		
Equipment Replacement	-	2,078,411
F,F&E Replacement	-	-
	<u>-</u>	<u>2,078,411</u>
Total	<u>\$ 49,270,815</u>	<u>\$ 49,270,815</u>

Operating transfers - Fund	Transfers In	Transfers Out
MAJOR GOVERNMENTAL FUNDS		
General Fund	\$ 2,494,783	\$ 1,370,873
RDA Housing		162,458
RDA		376,941
Capital Projects	10,811,804	
Hamilton Trust Fund		659,156
Total major funds	13,306,587	2,569,428
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Art in Public Places	-	8,573
Automation Surcharge	-	1,566
Clean Stormwater	-	183,000
Emergency Response Fund	-	299,058
Federal Grants	-	975,287
General Plan Surcharge	-	4,029
Hamilton Community Facilities	-	497,791
Hamilton Recreation/Environmental	48,691	
Housing Opportunity	72,302	
Insurance Reserve Fund	-	34,826
Pointe Marin Community Facilities	-	4,444
State Gas Tax	-	816,321
State Grant Funds	-	501,474
Subdivision Park	-	635,861
Traffic Congestion Relief	-	372,287
Underground Utilities	21,519	49,832
Debt Service Funds:		
Pension Obligation Bonds	986,451	-
Capital Projects Funds:		
Measure A Street Improvements	-	1,001,781
Measure B Street Bond Projects	-	283,951
Civic Center	-	1,610,917
Clean Stormwater CIP	45,000	15,844
Clean Renewable Energy Bonds	-	1,360,857
Community Facilities Maintenance Fund	-	732,499
Long Term Maintenance	-	68,151
Proposition 1B Street Improvements	-	391,023
Street Drains Maintenance	-	6,707
Development Impact Fee	-	2,442,220
Novato Public Financing Authority	-	32,222
Total non-major funds	1,173,963	12,330,521
Total governmental funds	14,480,550	14,899,949
Internal Service Funds:		
Equipment Maintenance	-	11,471
Equipment Replacement	430,870	-
Total internal service funds	430,870	11,471
Total interfund transfers	\$ 14,911,420	\$ 14,911,420

Loan payable to Hamilton Trust

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

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

The scheduled loan payments are as follows at June 30, 2010:

<u>Fiscal years ending June 30</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 157,625	\$ 65,000	\$ 92,625
2012	158,400	70,000	88,400
2013	158,850	75,000	83,850
2014	158,975	80,000	78,975
2015	158,775	85,000	73,775
2016-2020	789,175	510,000	279,175
2021-2024	631,000	540,000	91,000
	<u>\$ 2,212,800</u>	<u>\$ 1,425,000</u>	<u>\$ 787,800</u>

NOTE 4 - Loans receivable:

Loans receivable of \$1,974,004 at June 30, 2010 are comprised of the following:

Computer loan program

The City has adopted an employee computer purchase program in which the City purchases personal computers for the employees and is repaid through payroll deductions the cost of the computer plus interest for a period not to exceed 36 months (interest is based on the LAIF rate plus .5%, and was 1.06% at June 30, 2010). The balance of the computer loans receivable at June 30, 2010 was \$21,534 and 21 employees were participating in the program.

Novato Theater Restoration

The City had agreed to loan the Novato Theater Restoration Committee (“Committee”) up to \$497,500, on a draw down basis at an interest rate of 10% per annum, compounded monthly which was due and payable on December 31, 2001. The City stopped accruing interest when the loan went into default in fiscal 2002. The loan was made to the Committee primarily for the acquisition of the Theater Property. In October 1986, the City entered into a contingent option to purchase the Theater Property pursuant to its rights as defined in the agreement. At June 30, 2010 the City has a loan receivable of \$448,240 in principal and \$111,829 in interest, which is in default. An allowance for doubtful accounts for the full receivable has been recorded. The City has elected to continue to make monthly payments of \$2,250 to the former owner on behalf of the Committee to fund the mortgage on the Theatre Property.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Loan receivable	\$ 448,240	\$ 111,829	\$ 560,069
Allowance for doubtful accounts	(448,240)	(111,829)	(560,069)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Promissory notes on shared appreciation loans

Certain housing units in the redevelopment area are part of an affordable housing program designed to create, preserve, maintain and protect housing for persons of low or moderate income. Qualified persons ("Buyer") are able to purchase the housing units at below fair market value, as a result of the Agency's investment in the project. The Agency has a promissory note ("Note") with the Buyer for the amount of the difference between the fair market value and the purchase price of the unit, which is considered the Agency's initial equity contribution. No payments are due under the Note, unless the Buyer re-sells the unit to a non-eligible buyer or otherwise defaults on the Note, as defined in the agreement. The Note is cancelled if the Buyer sells the unit to another eligible buyer. If the Buyer sells to a non-eligible buyer, the Agency will receive a pro-rata share (based on the Agency's and Buyer's respective equity) of the appreciation of the Unit. As of June 30, 2010, no amounts have been recorded related to these loans as any payment is contingent on sales of units to non-eligible buyers in the future.

Employee Housing Assistance Loans

In 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, 2010 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 \$1,855 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, 2010 was \$666,400 which is included as a loan receivable on the accompanying Statement of Net Assets. Interest receivable related to this loan in the amount of \$237 is not included in interest receivable.

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

In July 2008, the City loaned \$350,000 to Eden Housing, Inc. (a California nonprofit public benefit corporation and sole member of Warner Creek Senior Housing, L.P.) ("developer") to study the feasibility of developing, owning and operating 57 affordable senior housing units under a predevelopment loan agreement. The loan bears interest at 3% per annum, subject to provisions of a default rate as defined in the agreement. The agreement provides the opportunity for the developer to apply for additional loans from the City for the cost of acquisition of property, additional predevelopment expenses, and construction costs. If the additional funding was subsequently approved, the initial loan would be added to the new loan. On May 1, 2009, the additional funding was approved to provide total funding from the City for this development project of \$1,504,000, and the developer drew down an additional \$600,000 in May 2009. The loan is funded with proceeds from the City's Affordable Housing In-Lieu Fund. The City has a security interest in the property and the development. The note is to be repaid from residual receipts, as defined in the promissory note. The loan bears an interest rate of 3% per annum and the entire outstanding principal together with interest accrued thereon is payable in full on the 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, 2010 was \$986,070. Interest receivable related to this loan was \$32,072.

NOTE 5 – Homes held for resale:

In fiscal 2008-09, the Agency purchased seven housing units that are in the affordable housing project noted above in order to maintain their affordability for low and moderate income buyers. Four of these units were resold during the 2008-09 fiscal year and the remaining, three units were sold during the 2009-10 fiscal year. The total cost of these seven units was \$2,342,685. At June 30, 2009, there were three homes that were unsold. These three homes held for resale sold during fiscal 2010 for a total of \$1,016,184 and realized a loss of \$193,230. No homes were held for resale at June 30, 2010.

NOTE 6 - Capital assets:

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

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

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

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

The following is a summary of capital assets as of June 30, 2010:

	<u>Governmental Activities</u>	<u>Internal Service Activities</u>	<u>Total</u>
Capital assets not being depreciated:			
Land	\$ 121,165,277	\$ -	\$ 121,165,277
Construction in progress	5,875,205	-	5,875,205
	<u>127,040,482</u>	<u>-</u>	<u>127,040,482</u>
Depreciable capital assets:			
Buildings	25,904,640	-	25,904,640
Furniture and equipment	1,601,751	-	1,601,751
Vehicles	-	4,317,668	4,317,668
Infrastructure	191,396,729	-	191,396,729
Total	<u>218,903,120</u>	<u>4,317,668</u>	<u>223,220,788</u>
Less: accumulated depreciation	<u>100,117,625</u>	<u>2,786,399</u>	<u>102,904,024</u>
Depreciable capital assets, net	<u>118,785,495</u>	<u>1,531,269</u>	<u>120,316,764</u>
Total capital assets, net	<u>\$ 245,825,977</u>	<u>\$ 1,531,269</u>	<u>\$ 247,357,246</u>

Combined governmental capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	Balances <u>June 30, 2009</u>	Additions	Transfers/ Retirements	Balances <u>June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 121,165,277	\$ -	\$ -	\$ 121,165,277
Construction in progress	9,974,173	4,124,208	8,223,176	5,875,205
Total nondepreciable assets	<u>131,139,450</u>	<u>4,124,208</u>	<u>8,223,176</u>	<u>127,040,482</u>
Depreciable capital assets:				
Buildings	13,816,111	12,088,529	-	25,904,640
Furniture and equipment	1,597,323	83,331	78,903	1,601,751
Infrastructure	188,923,492	2,473,237	-	191,396,729
Total depreciable assets	<u>204,336,926</u>	<u>14,645,097</u>	<u>78,903</u>	<u>218,903,120</u>
Less: accumulated depreciation for:				
Buildings	4,564,708	390,329	-	4,955,037
Furniture and equipment	798,032	287,982	26,353	1,059,661
Infrastructure	89,373,049	4,729,878	-	94,102,927
Total accumulated depreciation	<u>94,735,789</u>	<u>5,408,189</u>	<u>26,353</u>	<u>100,117,625</u>
Total depreciable assets, net	<u>109,601,137</u>	<u>9,236,908</u>	<u>52,550</u>	<u>118,785,495</u>
Internal service fund fixed assets:				
Depreciable assets:				
Vehicles	4,175,506	354,797	212,635	4,317,668
Total depreciable assets	<u>4,175,506</u>	<u>354,797</u>	<u>212,635</u>	<u>4,317,668</u>
Less: accumulated depreciation	2,533,886	465,148	212,635	2,786,399
Total depreciable assets, net	<u>1,641,620</u>	<u>(110,351)</u>	<u>-</u>	<u>1,531,269</u>
Total governmental activities	<u>\$ 242,382,207</u>	<u>\$ 13,250,765</u>	<u>\$ 8,275,726</u>	<u>\$ 247,357,246</u>

Depreciation was charged to function as follows:

Government activities:	
General government	\$ 273,185
Public safety	96,994
Public works	189,710
Cultural and recreation	40,579
Community development	77,843
Infrastructure	4,729,878
Capital assets held by Internal Service Fund	465,148
Total governmental activities depreciation expense	<u>\$ 5,873,337</u>

The City has no business-type activities.

A summary of changes in the fiduciary fund (nonexpendable trust) capital assets for the fiscal year ended June 30, 2010 is as follows:

	June 30, 2009	Additions	Retirements/ Transfers	June 30, 2010
Land	\$ 11,840,000	\$ -	\$ -	\$ 11,840,000
Land improvements	3,935,137	138,425	-	4,073,562
Buildings	853,824	-	-	853,824
Equipment	26,119	-	-	26,119
Mobile homes and improvements	177,636	-	-	177,636
Construction-in-progress	-	-	-	-
Total	16,832,716	138,425	-	16,971,141
Less: accumulated depreciation	1,659,546	211,757	-	1,871,303
	<u>\$ 15,173,170</u>	<u>\$ (73,332)</u>	<u>\$ -</u>	<u>\$ 15,099,838</u>

NOTE 7 - Long-term debt:

A. Long-term debt outstanding

Governmental activities long-term debt issued and outstanding at June 30, 2010 is comprised of the following:

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding June 30, 2010
General obligation bonds:				
Series 1993A	2014	4.75-7.25%	\$ 5,000,000	\$ 1,465,000
Series 1997A	2021	5.00-8.00%	14,245,000	7,575,000
Series 2000A	2022	5.00-5.75%	5,000,000	3,490,000
Series 2004	2026	3.20-10.00%	5,000,000	4,395,000
Series 2004-Premium				195,183
Series 2007	2027	3.55-4.125%	5,000,000	4,725,000
Series 2007-Premium				221,962
Pension Obligation Bonds, A-1 & A-2	2035	5.69-6.12%	18,296,066	18,166,066
Pension Obligation Bonds-Discounts				(149,533)
CEIDB loan	2032	3.39%	3,700,000	3,169,116
OPA notes payable	2014	8.53%	9,000,000	2,673,718
Hamilton Field Tax Allocation Bonds-2005	2035	2.50-4.50%	24,835,000	22,350,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	2035	4.50-4.88%	9,520,000	8,770,000
Due to County of Marin	2011	7.75%		182,632
Compensated absences - noncurrent				448,325
Clean Renewable Energy Bonds (CREBs)	2024	0.00%	1,533,000	1,419,685
Capital Lease - Dell	2013	5.20%	222,022	146,590
				<u>\$ 79,243,744</u>

Long-term debt of the fiduciary fund (nonexpendable trust) at June 30, 2010 consisted of the following:

<u>Type of indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding, June 30, 2010</u>
Novato Financing Authority:				
Promissory note - Senior Note	2028	3.9 - 5.85%	\$ 15,485,000	\$ 10,760,000
Promissory note - Subordinate Note	2025	3.9 - 5.85%	1,585,000	-
Total notes payable				<u>10,760,000</u>
Total fiduciary fund long-term debt				<u>\$ 10,760,000</u>

During fiscal year 2009-10 the subordinate bonds were paid in full.

B. Changes in long-term debt

The City's long-term debt transactions for the fiscal year ended June 30, 2010 were as follows:

	<u>Balance, June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2010</u>	<u>Due in One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 23,260,000	\$ -	\$ 1,610,000	\$ 21,650,000	\$ 1,720,000
Premium on 2004 General Obligation Bonds	208,122	-	12,939	195,183	12,940
Premium on 2007 General Obligation Bonds	234,954	-	12,992	221,962	12,992
Pension Obligation Bonds, A-1 and A-2	18,236,066	-	70,000	18,166,066	110,000
Discount on Pension Obligation Bonds	(157,437)	-	(7,904)	(149,533)	(7,904)
Compensated absences	431,323	17,002	-	448,325	-
OPA notes payable	3,216,242	-	542,524	2,673,718	588,772
Due to County of Marin	305,655	-	123,023	182,632	127,874
CEIDB loan	3,265,131	-	96,015	3,169,116	99,270
Hamilton Field Tax Allocation Bonds-2005	22,875,000	-	525,000	22,350,000	540,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	8,965,000	-	195,000	8,770,000	200,000
Clean Renewable Energy Bonds (CREBs)	1,533,000	-	113,315	1,419,685	113,315
Capital Lease - Dell	196,881	-	50,291	146,590	52,967
	<u>\$ 82,569,937</u>	<u>\$ 17,002</u>	<u>\$ 3,343,195</u>	<u>\$ 79,243,744</u>	<u>\$ 3,570,226</u>
Fiduciary fund activities:					
Promissory note - Senior Note	\$ 11,070,000	\$ -	\$ 310,000	\$ 10,760,000	\$ 325,000
Promissory note - Subordinate Note	1,265,000	-	1,265,000	-	-
	<u>\$ 12,335,000</u>	<u>\$ -</u>	<u>\$ 1,575,000</u>	<u>\$ 10,760,000</u>	<u>\$ 325,000</u>

C. General obligation bonds

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

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

(2) On July 1, 1997, the City issued \$14,245,000 of refunding bonds (Series A) to advance refund its General Obligation Bonds, Series 1989A, General Obligation Bonds, Series 1990A, and General Obligation Bonds, Series 1992A (collectively, the "Prior Bonds"). The Prior Bonds were issued to finance the acquisition and construction of various streets, storm drains, and parks and recreational facilities throughout the City. The Prior Bonds were deposited in trust with an escrow agent to

provide debt service payments until the bonds mature. The advance refunding meets the requirements of an in-substance debt defeasance and the Prior Bonds were removed from the City's General Long-Term Debt Account Group. Interest on the 1997 Bonds is payable on February 1 and August 1 of each year, commencing February 1, 1999. Principal is payable on August 1 of each year, commencing on August 1, 1999.

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

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

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

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

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

D. Pension Obligation Bonds

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

E. Clean Renewable Energy Bonds

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

F. Capital Leases

On January 1, 2009 the City entered into a capital lease with Dell Financial in the amount of \$222,022 to lease updated desktop computers and servers for the City's network needs. The lease bears an interest rate of 5.2% and offers a \$1 buyout option at the end of the term, and the balance at June 30, 2010 is \$146,590. At June 30, 2010, the net book value of the equipment under this capital lease is \$146,590 and is included in the statement of net assets.

G. Compensated absences

At June 30, 2010, compensated absences totaled \$1,692,096 of which \$1,243,771 is recorded as a current liability. The non-current portion totaling \$448,326 is recorded in long-term debt on the government-wide financial statements.

H. Note payable

In 1994, the Agency entered into a \$9 million promissory agreement with HNH Associates for the construction and financing of certain on-site and off-site public improvements of the Vintage Oaks Retail Complex. The promissory note bears interest of 8.525% per annum and matures in the fiscal year ending June 30, 2014. Payments consist of two semi-annual installments, which are financed with property tax increments generated by the retail complex. At June 30, 2010 the note payable balance is \$2,673,718.

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

During fiscal 2004, the Agency qualified for a low interest loan of \$3.7 million from the California Infrastructure and Economic Development Bank ("CIEDB"). The loan was used to help finance a portion of the construction of the Grant Avenue improvement project, which started in April 2004, and was completed in August 2006. At June 30, 2010 the balance of the loan is \$3,169,116.

J. Hamilton Field Loans

Hamilton Field Redevelopment Project, Tax Allocation Bonds, Series 2005

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

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

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

year, commencing September 1, 2005. Principal is payable on September 1 of each year, commencing September 1, 2005.

K. Promissory notes - Senior and Subordinate

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

On October 1, 2009 the subordinate bonds were paid in full from accumulated rental proceeds generated at the Park.

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

Fiscal Year Ending June 30,	Senior Promissory Note		
	Principal	Interest	Total
2011	325,000	615,218	\$ 940,218
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
2016-2020	2,410,000	2,271,088	4,681,088
2021-2025	3,200,000	1,461,773	4,661,773
2026-2028	3,325,000	350,267	3,675,267
	<u>\$ 10,760,000</u>	<u>\$ 6,961,362</u>	<u>\$ 17,721,362</u>

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

Fiscal year ending June 30,	Deferred Annual Payments
2011	\$ 71,970
2012	69,690
2013	67,290
2014	64,755
2015	62,070
2016-2020	264,225
2021-2025	169,410
2026-2028	40,470
Total Payments	<u>\$ 809,880</u>

L. Future governmental activities debt service

Future governmental activities debt service at June 30, 2010 is as follows:

General Obligation Bonds

Fiscal year ending June 30,	Principal					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
2011	\$ 160,000	\$ 190,000	\$ 220,000	\$ 815,000	\$ 335,000	\$ 1,720,000
2012	175,000	205,000	230,000	860,000	355,000	1,825,000
2013	195,000	225,000	240,000	910,000	380,000	1,950,000
2014	220,000	230,000	250,000	505,000	395,000	1,600,000
2015	230,000	240,000	265,000	540,000	-	1,275,000
2016-2020	1,260,000	1,325,000	1,545,000	3,180,000	-	7,310,000
2021-2025	1,455,000	1,615,000	740,000	765,000	-	4,575,000
2026-2028	1,030,000	365,000	-	-	-	1,395,000
Total	<u>\$ 4,725,000</u>	<u>\$ 4,395,000</u>	<u>\$ 3,490,000</u>	<u>\$ 7,575,000</u>	<u>\$ 1,465,000</u>	<u>\$ 21,650,000</u>

Fiscal year ending June 30,	Interest					Total
	Series 2007	Series 2004	Series 2000A	Series 1997A	Series 1993A	
2011	\$ 223,139	\$ 188,043	\$ 178,558	\$ 370,806	\$ 64,875	\$ 1,025,420
2012	203,039	170,268	167,308	328,931	47,625	917,170
2013	180,839	157,443	155,558	284,113	29,250	807,201
2014	164,464	149,990	143,308	247,853	9,875	715,489
2015	155,189	142,058	130,300	220,873	-	648,419
2016-2020	628,544	567,551	421,066	638,785	-	2,255,946
2021-2025	359,444	265,945	41,250	20,081	-	686,720
2026-2028	64,427	8,213	-	-	-	72,639
Total	<u>\$ 1,979,083</u>	<u>\$ 1,649,509</u>	<u>\$ 1,237,346</u>	<u>\$ 2,111,442</u>	<u>\$ 151,625</u>	<u>\$ 7,129,005</u>

Other notes

The annual debt service for the Pension Obligation Bonds is as follows as of June 30, 2010:

Fiscal year ending June 30,	Principal	Interest	Total
2011	110,000	\$ 911,991	\$ 1,021,991
2012	160,000	905,732	1,065,732
2013	210,000	896,388	1,106,388
2014	265,000	884,124	1,149,124
2015	325,000	868,648	1,193,648
2016-2020	2,710,000	3,976,106	6,686,106
2021-2025	5,110,000	2,913,466	8,023,466
2026-2030	7,017,046	2,588,467	9,605,513
2031-2035	2,259,020	9,195,979	11,454,999
	<u>\$ 18,166,066</u>	<u>\$ 23,140,901</u>	<u>\$ 41,306,967</u>

The annual debt service for the Clean Renewable Energy Bonds is as follows as of June 30, 2010:

Fiscal year ending June 30,	CREBs		
	Principal	Interest	Total
2011	\$ 113,315	\$ -	\$ 113,315
2012	113,315	-	113,315
2013	113,315	-	113,315
2014	113,315	-	113,315
2015	113,315	-	113,315
2016-2020	566,576	-	566,576
2021-2024	286,532	-	286,532
Total	\$ 1,419,685	\$ -	\$ 1,419,685

The annual debt service on the Capital Lease with Dell is as follows as of June 30, 2010:

Fiscal year ending June 30,	Dell Lease		
	Principal	Interest	Total
2011	\$ 52,967	\$ 6,367	\$ 59,333
2012	55,785	3,548	59,333
2013	37,839	709	38,547
Total	\$ 146,590	\$ 10,624	\$ 157,214

The annual debt service for the OPA note is as follows as of June 30, 2010:

Fiscal year ending June 30,	OPA		
	Principal	Interest	Total
2011	\$ 588,772	\$ 211,228	\$ 800,000
2012	638,964	161,036	800,000
2013	693,434	106,566	800,000
2014	752,548	47,452	800,000
Total	\$ 2,673,718	\$ 526,282	\$ 3,200,000

The annual debt service for the CIEDB loan is as follows as of June 30, 2010:

Fiscal years ending June 30	Payment	Principal	Interest	Annual Fee
2011	\$ 216,211	\$ 99,270	\$ 107,433	\$ 9,507
2012	215,913	102,636	104,068	9,210
2013	215,605	106,115	100,588	8,902
2014	215,287	109,712	96,991	8,583
2015	214,957	113,432	93,272	8,254
2016-2020	1,069,446	627,512	406,005	35,930
2021-2025	1,059,374	741,336	292,182	25,857
2026-2030	1,047,474	875,805	157,712	13,957
2031-2032	415,188	393,297	20,110	1,780
	\$ 4,669,454	\$ 3,169,116	\$ 1,378,361	\$ 121,979

The annual debt service for the Hamilton Tax Allocation Bonds-Series 2005 Bonds and the Hamilton 2005 Housing Bonds, Series A are as follows as of June 30, 2010:

Fiscal Year Ending June 30,	Hamilton TAB Series 2005 Bonds			Hamilton 2005 Housing Bonds, Series A		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 540,000	\$ 925,631	\$ 1,465,631	\$ 200,000	\$ 385,160	\$ 585,160
2012	555,000	907,491	1,462,491	210,000	378,498	588,498
2013	575,000	888,063	1,463,063	215,000	371,430	586,430
2014	595,000	866,844	1,461,844	225,000	363,838	588,838
2015	615,000	845,233	1,460,233	230,000	355,731	585,731
2016-2020	3,435,000	3,866,078	7,301,078	1,310,000	1,632,385	2,942,385
2021-2025	4,205,000	3,096,663	7,301,663	1,635,000	1,320,203	2,955,203
2026-2030	5,235,000	2,085,520	7,320,520	2,080,000	901,250	2,981,250
2031-2035	6,595,000	769,613	7,364,613	2,665,000	337,903	3,002,903
	<u>\$ 22,350,000</u>	<u>\$ 14,251,134</u>	<u>\$ 36,601,134</u>	<u>\$ 8,770,000</u>	<u>\$ 6,046,398</u>	<u>\$ 14,816,398</u>

The annual debt service for the amount due to the County of Marin is as follows as of June 30, 2010:

Fiscal year ending June 30,	Principal	Interest	Total
2011	\$ 127,874	\$ 4,819	\$ 132,694
2012	54,758	531	55,289
	<u>\$ 182,632</u>	<u>\$ 5,351</u>	<u>\$ 187,982</u>

NOTE 8 - Special assessment bonds:

The City acts as an agent for the property owners by collecting the assessments, forwarding the collections to the trustee and if appropriate, beginning foreclosure on the Assessment District No. 93-1 (Golden Gate Plaza). The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond trustee. At June 30, 2010, the outstanding principal of the Assessment District No. 93-1 (Golden Gate Plaza) bond issue was \$1,495,000.

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, 2010 the outstanding principal of the City of Novato Redevelopment Agency Hamilton 2004 Refunding Special Tax bond issue was \$18,685,000.

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, 2010 the outstanding principal of the City of Novato Community Facilities District No. 2002-1 (Pointe Marin) Special Tax Refunding bond issue was \$11,365,000.

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, 2010, the outstanding principal of the City of Novato Community Facilities District No. 1 (Vintage Oaks) Special Tax Refunding bond issue was \$20,220,000.

NOTE 9 - Deficit fund balance/retained earnings:

The following funds had deficits in fund balances or retained earnings at June 30, 2010:

RDA Housing	\$ 21,150,640
Capital Project Fund	384,286

Other governmental funds:

Other Special Revenue Funds:

Hamilton Community Facilities Fund	560,675
2005 LLEBG Grant Fund	4,632
State Grant Fund	1,214

Other Capital Projects Funds:

Novato Public Financing Authority	111,739
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Internal service funds:

Equipment Maintenance	201,846
Insurance	1,237,028

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

NOTE 10 - Employees' retirement plan:

A. Plan description

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

The City prepaid its pension contributions with proceeds from the 2006 Pension Obligation Bonds (See Note 7). These prepaid contributions are reflected in the accompanying financial statements as Prepaid PERS Contribution which amounted to \$15,440,432 at June 30, 2010. During fiscal year 2009-10, the amortization of the prepayment increased the actuarially required contributions by \$593,863 to arrive at Annual Pension Costs of \$3,802,962.

B. Funding policy

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

The City is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. For the fiscal year 2009-10, the City's contribution rate was 8.538% for the miscellaneous plan and 16.217% for the safety plan.

C. Annual pension cost

For fiscal year 2009-10, the City's annual pension cost of \$3,802,962, includes the amortization of the prepaid PERS contributions of \$593,863 (See section Note 10 A) and \$3,209,099 which was equal to the City's required and actual PERS contributions. The required contribution was determined as part of the June 30, 2007 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.

D. Three-year trend information for PERS

	<u>Annual pension cost (APC)</u>	<u>Percentage APC contributed</u>	<u>Net pension obligation</u>
<u>Miscellaneous employees</u>			
Fiscal year ended:			
6/30/2008	\$ 2,091,582	100%	-
6/30/2009	2,106,387	100%	-
6/30/2010	1,952,815	100%	-
<u>Safety employees</u>			
Fiscal year ended:			
6/30/2008	\$ 1,655,274	100%	-
6/30/2009	1,753,468	100%	-
6/30/2010	1,850,147	100%	-

NOTE 11 - Deferred compensation plan:

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

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

exclusive benefit of participants and their beneficiaries and no longer holds assets in a trustee capacity. Therefore, the City discontinued its practices of accounting for and reporting the deferred compensation plan.

NOTE 12 - Other postretirement employment benefits:

Plan Description

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

Funding Policy

The City's practice is to fund these benefits on a pay-as-you-go basis, and paid \$1,229 per retiree for the fiscal year ended June 30, 2010 (a total of \$55,318) to the plan. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount which was determined as part of a July 1, 2008 actuarial valuation in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC is subject to change with each actuarial valuation date performed no less than every three years.

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

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

Annual required contributions (ARC) and annual OPEB cost	\$ 191,000
Contributions made by the City	<u>(55,318)</u>
Increase in net OPEB obligation	135,682
Net OPEB obligations, beginning of year	<u>143,557</u>
Net OPEB obligations, end of year	<u><u>\$ 279,239</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 2009 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/08	N/A	N/A	N/A
06/30/09	\$ 191,000	24.83%	\$ 143,557
06/30/10	\$ 191,000	28.96%	\$ 279,239

Note: Disclosure of annual OPEB cost, percent contributed, and net OPEB obligation, if any, is required for the current fiscal year and each of the two preceding fiscal years. The fiscal year ended June 30, 2010 is the first year of implementation of the City's post-retirement health care plan accounted for and reported in accordance with the requirements of GASB 45. Accordingly, three-year data is not available and will be shown when such data becomes available.

Actuarial Methods and Assumptions

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

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

NOTE 13 - Risk management:

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

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

A. Risk Pools

Bay Cities Joint Powers (BCJPIA) Insurance Authority covers general liability claims in an amount up to \$14,000,000. The City has a deductible or uninsured liability of up to \$250,000 per claim. Once the City's deductible is met BCJPIA becomes responsible for payments of all claims up to the limit. The City paid \$73,111 for claims and \$372,461 for insurance premiums during the fiscal year ended June 30, 2010.

Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2010 is as follows:

Total assets	\$ 23,330,841
Total liabilities	13,267,964
Net assets	<u>\$ 10,062,877</u>
Total revenues	\$ 10,546,488
Total expenditures	8,673,546
Change in net assets	<u>\$ 1,872,942</u>

The City is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool, and LAWCX in turn purchases coverage above the \$1 million coverage provided by its pool. The City has a self-insured retention of \$150,000 for claims, and the BCJPIA pool covers claims from \$150,000 to \$500,000. Claims from \$500,000 to \$50 million are covered by LAWCX.

The City's contribution with each risk pool equals the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. During the fiscal year ended June 30, 2010, the City incurred costs of \$467,591 for coverage premiums and administration of the risk pools.

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

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

B. Liability for Uninsured Claims

The City estimates its liability for the uninsured portion of claims, including a provision for claims incurred but not reported ("IBNR"), based on claims experience. Undiscounted claims liabilities were as follows at June 30, 2010:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Projected known claims	\$ 367,447	\$ 70,267	\$ 437,714
Projected IBNR	<u>642,840</u>	<u>156,474</u>	<u>799,314</u>
Claims liabilities, June 30, 2010	<u>\$ 1,010,287</u>	<u>\$ 226,741</u>	<u>\$ 1,237,028</u>

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>Total</u>
Claims liabilities - current	\$ 255,336	\$ 77,284	\$ 332,620
Claims liabilities - non-current	<u>754,951</u>	<u>149,457</u>	<u>904,408</u>
Total claims liabilities	<u>\$ 1,010,287</u>	<u>\$ 226,741</u>	<u>\$ 1,237,028</u>

NOTE 14 - Contingencies:

The City is a defendant in a number of lawsuits and claims pending at June 30, 2010. Based on correspondence with the City's legal counsel, it is the opinion of City management that the settlement of such pending cases would not materially affect the City's financial position.

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

NOTE 15 - Commitments:SERAF Shift

On July 28, 2009 the Governor of the State of California signed AB 4X 26 to address the fiscal emergency declared by the Governor on July 1, 2009. This bill amends the Health and Safety Code to require a \$1.7 billion shift in funds from redevelopment agencies to the state-mandated Supplemental Educational Revenue Augmentation Fund (SERAF) for fiscal year 2009-10, and a \$350 million SERAF shift for fiscal year 2010-11. The Agency's proportionate share of the 2009-10 SERAF shift was \$2,657,292 (reflected as an expenditure on the accompanying financial statements), and its 2010-11 proportionate share of the SERAF shift is expected to be approximately \$550,000.

NPFA Lease

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

Marin Emergency Radio Authority Obligation

The City of Novato is a member of the Marin Emergency Radio Authority (MERA), along with the County of Marin and twenty-four other local government agencies. MERA's purpose is to plan, finance, implement, own, and operate a multi-jurisdictional and county-wide public safety and emergency radio system. To finance this system, the MERA in 1999 issued approximately \$27 million in revenue bonds. In 2007 MERA borrowed an additional \$2,250,000 from Citizen's Business Bank to finance infrastructure needs. Under the joint powers agreement with MERA, the City is obligated to make payments to MERA for use of MERA's systems.

The City's minimum service payments are estimated to be as follows at June 30, 2010:

Fiscal year ending June 30,	Minimum Service Payments
2011	\$ 246,224
2012	245,885
2013	245,924
2014	246,002
2015	246,237
2016-2020	1,230,229
2021-2023	270,559
	<u>\$ 2,731,059</u>

NOTE 16 - Fund equity:

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

Fund balances reserved and unreserved/designated at June 30, 2010 are as follows:

RESERVED

Major Funds:

General Fund	\$ 10,828,866
RDA	210,404
Hamilton Trust Fund	33,154,847
	<u>44,194,117</u>

Other Governmental Funds:

Special Revenue Funds:

Housing Opportunity	1,575,704
Hamilton Community Facilities Maintenance	147,320
State Gas Tax	234,546
	<u>1,957,570</u>

Debt Service Fund:

Bond requirements	<u>2,444,073</u>
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Total reserved	<u>\$ 48,595,760</u>
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UNRESERVED, DESIGNATED

Major Funds:

Other Governmental Funds:

Special Revenue Funds:

Affordable Housing Trust	\$ 611,861
Clean Stormwater	4,935
Parking Improvement	128,410
Chapter 27 Assessment	179,259
State Grant Funds	(1,214)
Federal Grant Funds	2,499
Private Grant Funds	18,600
	<u>944,350</u>

Capital Projects Funds:

Measure B	2,132,600
Measure A	197,167
Prop 1B	239,449
Clean Renewable Energy Bonds	302
Civic Center Funds	257,631
Clean Stormwater CIP	170,092
Street & Storm Drain Maintenance	348,563
Long Term Maintenance	688,599
Development Impact Fees	11,528,521
Community Center Maintenance	919,329
Novato Public Finance Authority	(111,739)
	<u>16,370,514</u>
Total unreserved, designated	\$ 17,314,864

NOTE 17 - Excess of expenditures over appropriations:

For the fiscal year ended June 30, 2010, expenditures exceeded the budgeted expenditures in the following funds:

<u>Fund</u>	<u>Expenditures exceeded budget</u>
General Fund	
General Government	\$ 76,213
Capital Outlay	27,242
Debt Service-principal	50,290
Debt Service-interest	9,043
RDA Housing Fund:	
Transfers Out	4
RDA Fund:	
State Budget Support SERAF Shift	2,657,292

NOTE 18 – Subsequent Events:

On November 1, 2010, the City was informed that the County Assessment Appeals Board settled the property tax valuation dispute on the property owned by Fireman's Fund. The years involved in the settlement are from FY 2006-07 through FY 2009-10. As a result of the settlement, the City is expecting a reduction in property tax revenues in the amount of \$256,886 in fiscal year 2010-11 related to this property.

On November 2, 2010, the City's voters passed a 1/2 cent increase to the sales tax collected within the City. The measure passed with 57% approval for the added tax. The added tax will sunset in five years and is expected to generate approximately \$3 Million per year for the general fund. This is a general tax and it becomes effective April 1, 2011.

REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF NOVATO

Pension Plans

Schedule of Funding Progress (Unaudited)

PERS:

	Valuation Date	(b) Entry Age Actuarial Accrued Liability	(a) Actuarial Asset Value	(c) Unfunded Liability/ (Excess Assets)	(a)/(b) Funded Ratio	(d) Annual Covered Payroll	(c)/(d) UAAL as a Percentage of Payroll
Safety	6/30/2007	\$ 1,648,159,522	\$ 1,422,143,105	\$ 226,016,417	86%	\$ 200,537,256	113%
	6/30/2008	\$ 1,755,559,311	\$ 1,517,609,609	\$ 237,949,702	86%	\$ 210,590,567	113%
	6/30/2009	\$ 1,802,882,330	\$ 1,520,081,328	\$ 282,801,002	84%	\$ 221,600,192	128%
Miscellaneous	6/30/2007	\$ 54,378,556	\$ 54,428,931	\$ (50,375)	100%	\$ 10,934,961	0%
	6/30/2008	\$ 58,961,281	\$ 58,382,611	\$ 578,670	99%	\$ 12,045,416	5%
	6/30/2009	\$ 65,281,238	\$ 61,265,374	\$ 4,015,864	94%	\$ 11,954,219	34%

*The actuarial value of assets, liabilities and covered payroll for the Safety Plan are obtained from the City of Novato's annual actuarial reports received from PERS. This information covers the entire risk pool and not just the City of Novato. The information for fiscal year June 30, 2010 is not available and therefore is not included in the above analysis.

CITY OF NOVATO

Nonmajor Governmental Funds

Other Special Revenue Funds - accounts for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government.

Other Capital Projects Funds - accounts for financial resources to be used for the acquisition or construction of major capital facilities and equipment other than those financed by proprietary funds.

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

CITY OF NOVATO

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2010

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 12,356,626	\$ 17,116,573	\$ 2,436,866	\$ 31,910,065
Cash with fiscal agent	-	154,436	-	154,436
Receivables:				
Taxes		-	7,207	7,207
Interest	1,262	-	-	1,262
Accounts	323,923	41,622	-	365,545
Due from other funds	2,190,875	2,207,971	-	4,398,846
Loans	986,070			986,070
Deferred costs	1,015	101,076	-	102,091
Total assets	<u>\$ 15,859,771</u>	<u>\$ 19,621,678</u>	<u>\$ 2,444,073</u>	<u>\$ 37,925,522</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 57,532	\$ 1,054	\$ -	\$ 58,586
Accrued salaries & benefits	-	-	-	-
Accrued liabilities	8,326	-	-	8,326
Due to other funds	459,183	1,796,076	-	2,255,259
Deposits/other payables	147,320	931,463	-	1,078,783
Deferred revenue	706,622	522,571	-	1,229,193
Total liabilities	<u>1,378,983</u>	<u>3,251,164</u>	<u>-</u>	<u>4,630,147</u>
Fund balances:				
Reserved	1,957,570	-	2,444,073	4,401,643
Designated	944,350	16,370,514	-	17,314,864
Unreserved (deficit)	11,578,868	-	-	11,578,868
Total fund balances	<u>14,480,788</u>	<u>16,370,514</u>	<u>2,444,073</u>	<u>33,295,375</u>
Total liabilities and fund balances	<u>\$ 15,859,771</u>	<u>\$ 19,621,678</u>	<u>\$ 2,444,073</u>	<u>\$ 37,925,522</u>

CITY OF NOVATO

Nonmajor Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2010

	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 1,125,343	\$ 1,195,545	\$ 2,783,293	\$ 5,104,181
Use of money and property	102,026	391,430	17,650	511,106
Revenues from other agencies	2,589,583	-	25,102	2,614,685
Current service charges	204,635	1,768,260	-	1,972,895
Other revenue	250	83,639	-	83,889
Total revenues	4,021,837	3,438,874	2,826,045	10,286,756
EXPENDITURES				
Current:				
General government	25,557	120,657	72,071	218,285
Public safety	247,585	-	-	247,585
Public works	1,034,943	-	-	1,034,943
Cultural & Recreation	-	-	-	-
Community development	278	-	-	278
Capital outlay	-	-	-	-
Debt service:				
Principal	10,307	-	1,680,000	1,690,307
Interest and fiscal agent fees	3,904	-	2,040,496	2,044,400
Total expenditures	1,322,574	120,657	3,792,567	5,235,798
REVENUES OVER (UNDER) EXPENDITURES	2,699,263	3,318,217	(966,522)	5,050,958
OTHER FINANCING SOURCES (USES)				
Transfers in	142,512	45,000	986,451	1,173,963
Transfers out	(4,384,349)	(7,946,172)	-	(12,330,521)
Debt proceeds	-	-	-	-
Issuance costs	-	-	-	-
Total other financing sources (uses)	(4,241,837)	(7,901,172)	986,451	(11,156,558)
Net change in fund balances	(1,542,574)	(4,582,955)	19,929	(6,105,600)
Fund balances, beginning of year	16,023,362	20,953,469	2,424,144	39,400,975
Fund balances, end of year	\$ 14,480,788	\$ 16,370,514	\$ 2,444,073	\$ 33,295,375

CITY OF NOVATO
Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF NOVATO

Special Revenue Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF NOVATO

Other Special Revenue Funds

Combining Balance Sheet

June 30, 2010

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	Hamilton Rec/Environ Fund	Art in Public Places	General Plan Surcharge	Automation Surcharge	Hamilton Community Facilities	Pointe Marin CFD	Chapter 27 Assessment
ASSETS													
Cash and investments	\$ 625,706	\$ 611,861	\$ 1	\$ 961,183	\$ 128,471	\$ 1,991,171	\$ -	\$ 68,320	\$ 508,598	\$ 347,752	\$ 77,649	\$ 569,073	\$ 179,240
Cash with fiscal agent	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables:													
Interest	-	-	-	-	-	-	-	-	-	-	-	-	1,262
Accounts and due from other governments	-	-	4,934	-	-	-	-	-	-	-	-	-	8,734
Loans	986,070	-	-	-	-	-	-	-	-	-	-	-	-
Deferred costs	-	-	-	-	-	-	-	-	-	-	1,015	-	-
Due from other funds	-	-	-	-	-	718,930	-	-	-	-	-	-	-
Total assets	<u>\$ 1,611,776</u>	<u>\$ 611,861</u>	<u>\$ 4,935</u>	<u>\$ 961,183</u>	<u>\$ 128,471</u>	<u>\$ 2,710,101</u>	<u>\$ -</u>	<u>\$ 68,320</u>	<u>\$ 508,598</u>	<u>\$ 347,752</u>	<u>\$ 78,664</u>	<u>\$ 569,073</u>	<u>\$ 189,236</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 61	\$ -	\$ -	\$ -	\$ 596	\$ -	\$ 32,836	\$ 3,966	\$ -
Accrued salaries & benefits	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	-	-	-	-	-	-	-	-	8,326
Due to other funds	-	-	-	-	-	-	-	-	-	-	459,183	-	-
Deposits/other payables	-	-	-	-	-	-	-	-	-	-	147,320	-	-
Deferred revenue	36,072	-	-	-	-	180,930	-	-	-	-	-	-	1,651
Total liabilities	<u>36,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61</u>	<u>180,930</u>	<u>-</u>	<u>-</u>	<u>596</u>	<u>-</u>	<u>639,339</u>	<u>3,966</u>	<u>9,977</u>
Fund balances:													
Reserved	1,575,704	-	-	-	-	-	-	-	-	-	147,320	-	-
Unreserved-designated	-	611,861	4,935	-	128,410	-	-	-	-	-	-	-	179,259
Unreserved- (deficit)	-	-	-	961,183	-	2,529,171	-	68,320	508,002	347,752	(707,995)	565,107	-
Total fund balances	<u>1,575,704</u>	<u>611,861</u>	<u>4,935</u>	<u>961,183</u>	<u>128,410</u>	<u>2,529,171</u>	<u>-</u>	<u>68,320</u>	<u>508,002</u>	<u>347,752</u>	<u>(560,675)</u>	<u>565,107</u>	<u>179,259</u>
Total liabilities and fund balances	<u>\$ 1,611,776</u>	<u>\$ 611,861</u>	<u>\$ 4,935</u>	<u>\$ 961,183</u>	<u>\$ 128,471</u>	<u>\$ 2,710,101</u>	<u>\$ -</u>	<u>\$ 68,320</u>	<u>\$ 508,598</u>	<u>\$ 347,752</u>	<u>\$ 78,664</u>	<u>\$ 569,073</u>	<u>\$ 189,236</u>

CITY OF NOVATO
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2010

	Assessment District San Marin	Assessment District Country Club	Assessment District Wildwood Glen	Assessment District Hillside	Downtown Landscape/ Lighting	San Pablo Landscape/ Lighting	Eucalyptus Assessment District	Scottsdale Assessment District	State Gas tax	Traffic Congestion Relief	2005 LLEB Grant Fund	Special Police Projects	State Grant Fund
ASSETS													
Cash and investments	\$ 43,557	\$ 66,752	\$ 5,534	\$ 50,245	\$ 143,044	\$ 38,308	\$ (194)	\$ 14,959	\$ 234,546	\$ 225,187	\$ (4,552)	\$ 106,295	\$ (19,305)
Cash with fiscal agent	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables:													
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts and due from other governments	726	-	121	306	130	176	213	-	-	133,623	-	70	18,091
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 44,283</u>	<u>\$ 66,752</u>	<u>\$ 5,655</u>	<u>\$ 50,551</u>	<u>\$ 143,174</u>	<u>\$ 38,484</u>	<u>\$ 19</u>	<u>\$ 14,959</u>	<u>\$ 234,546</u>	<u>\$ 358,810</u>	<u>\$ (4,552)</u>	<u>\$ 106,365</u>	<u>\$ (1,214)</u>
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 3,049	\$ -	\$ 526	\$ 915	\$ 267	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 80	\$ -	\$ -
Accrued salaries & benefits	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits/other payables	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	940	-
Total liabilities	<u>3,049</u>	<u>-</u>	<u>526</u>	<u>915</u>	<u>267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80</u>	<u>940</u>	<u>-</u>
Fund balances:													
Reserved	-	-	-	-	-	-	-	-	234,546	-	-	-	-
Unreserved-designated	-	-	-	-	-	-	-	-	-	-	-	-	(1,214)
Unreserved- (deficit)	41,234	66,752	5,129	49,636	142,907	38,484	19	14,959	-	358,810	(4,632)	105,425	-
Total fund balances	<u>41,234</u>	<u>66,752</u>	<u>5,129</u>	<u>49,636</u>	<u>142,907</u>	<u>38,484</u>	<u>19</u>	<u>14,959</u>	<u>234,546</u>	<u>358,810</u>	<u>(4,632)</u>	<u>105,425</u>	<u>(1,214)</u>
Total liabilities and fund balances	<u>\$ 44,283</u>	<u>\$ 66,752</u>	<u>\$ 5,655</u>	<u>\$ 50,551</u>	<u>\$ 143,174</u>	<u>\$ 38,484</u>	<u>\$ 19</u>	<u>\$ 14,959</u>	<u>\$ 234,546</u>	<u>\$ 358,810</u>	<u>\$ (4,552)</u>	<u>\$ 106,365</u>	<u>\$ (1,214)</u>

CITY OF NOVATO

Other Special Revenue Funds

Combining Balance Sheet

June 30, 2010

	Fed Grant Fund	Private Grant Fund	Pension Reserve Fund	Insurance Reserve	Emergency & Disaster Response Reserve	Total Other Special Revenue Funds
ASSETS						
Cash and investments	\$ (154,300)	\$ 120,570	\$ 1,332	\$ 865,545	\$ 4,550,078	\$ 12,356,626
Cash with fiscal agent	-	-	-	-	-	-
Receivables:						
Interest	-	-	-	-	-	1,262
Accounts and due from other governments	156,799	-	-	-	-	323,923
Loans	-	-	-	-	-	986,070
Deferred costs	-	-	-	-	-	1,015
Due from other funds	-	-	-	377,259	1,094,686	2,190,875
Total assets	<u>\$ 2,499</u>	<u>\$ 120,570</u>	<u>\$ 1,332</u>	<u>\$ 1,242,804</u>	<u>\$ 5,644,764</u>	<u>\$ 15,859,771</u>

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable	\$ -	\$ 15,236	\$ -	\$ -	\$ -	\$ 57,532
Accrued salaries & benefits	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	-	8,326
Due to other funds	-	-	-	-	-	459,183
Deposits/other payables	-	-	-	-	-	147,320
Deferred revenue	-	86,734	-	77,259	323,036	706,622
Total liabilities	<u>-</u>	<u>101,970</u>	<u>-</u>	<u>77,259</u>	<u>323,036</u>	<u>1,378,983</u>
Fund balances:						
Reserved	-	-	-	-	-	1,957,570
Unreserved-designated	2,499	18,600	-	-	-	944,350
Unreserved- (deficit)	-	-	1,332	1,165,545	5,321,728	11,578,868
Total fund balances	<u>2,499</u>	<u>18,600</u>	<u>1,332</u>	<u>1,165,545</u>	<u>5,321,728</u>	<u>14,480,788</u>
Total liabilities and fund balances	<u>\$ 2,499</u>	<u>\$ 120,570</u>	<u>\$ 1,332</u>	<u>\$ 1,242,804</u>	<u>\$ 5,644,764</u>	<u>\$ 15,859,771</u>

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2010

	Housing Opportunity	Affordable Housing Trust	Clean Stormwater	Underground Utilities	Parking Improvement	Subdivision Park	Hamilton Rec/Environ Fund	Art in Public Places	General Plan Surcharge	Automated Surcharge	Hamilton Community Facilities	Pointe Marin CFD
REVENUES												
Taxes	\$ -	\$ -	\$ 355,640	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 490,459	\$ 171,265
Use of money and property	7,066	7,582	300	12,202	1,588	27,993	-	921	7,285	4,431	1,577	6,871
Revenues from other agencies	-	-	-	-	-	-	-	-	-	-	-	-
Current service charges	70,848	-	-	-	-	20,090	-	-	55,903	57,131	-	-
Other revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	77,914	7,582	355,940	12,202	1,588	48,083	-	921	63,188	61,562	492,036	178,136
EXPENDITURES												
General government	-	15,108	-	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	410	-	-	-	-	-	180,480	-
Public works	-	-	172,365	-	-	-	-	-	176,775	75,814	299,629	174,997
Parks & Recreation	-	-	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	-	-	-	-	-
Debt service:												
Principal	-	-	-	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	15,108	172,365	-	410	-	-	-	176,775	75,814	480,109	174,997
Excess of revenues over (under)	77,914	(7,526)	183,575	12,202	1,178	48,083	-	921	(113,587)	(14,252)	11,927	3,139
OTHER FINANCING SOURCES (USES)												
Debt proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-	-	-	-	-	-
Transfers in	72,302	-	-	21,519	-	-	48,691	-	-	-	-	-
Transfers out	-	-	(183,000)	(49,832)	-	(635,861)	-	(8,573)	(4,029)	(1,566)	(497,791)	(4,444)
Total other financing sources (uses)	72,302	-	(183,000)	(28,313)	-	(635,861)	48,691	(8,573)	(4,029)	(1,566)	(497,791)	(4,444)
Net change in fund balances	150,216	(7,526)	-	(16,111)	1,178	(587,778)	48,691	(7,652)	(117,616)	(15,818)	(485,864)	(1,305)
Fund balances, beginning of year	1,425,488	619,387	4,360	977,294	127,232	3,116,949	(48,691)	75,972	625,618	363,570	(74,811)	566,412
Fund balances, end of year	\$ 1,575,704	\$ 611,861	\$ 4,360	\$ 961,183	\$ 128,410	\$ 2,529,171	\$ -	\$ 68,320	\$ 508,002	\$ 347,752	\$ (560,675)	\$ 565,107

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2010

	Chapter 27 Assessment	Assessment District San Marin	Assessment District Country Club	Assessment District Wildwood Glen	Assessment District Hillside	Downtown Landscape/ Lighting	San Pablo Landscape/ Lighting	Eucalyptus Assessment District	Scottsdale Assessment District	State Gas tax	Traffic Congestion Relief
REVENUES											
Taxes	\$ -	\$ 45,234	\$ -	\$ 7,998	\$ 20,264	\$ 8,591	\$ 11,723	\$ 14,169	\$ -	\$ -	\$ -
Use of money and property	2,210	531	825	85	600	1,704	417	(79)	183	1,403	1,942
Revenues from other agencies	-	-	-	-	-	-	-	-	-	887,735	479,662
Current service charges	663	-	-	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	-	-	-	-	-
Total revenues	2,873	45,765	825	8,083	20,864	10,295	12,140	14,090	183	889,138	481,604
EXPENDITURES											
General government	-	500	-	500	500	-	500	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-	-
Public works	-	45,184	-	9,018	14,110	267	2,419	-	-	-	-
Parks & Recreation	-	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	-	-	278	-
Debt service:											
Principal	-	-	-	-	-	-	-	10,307	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	3,904	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	45,684	-	9,518	14,610	267	2,919	14,211	-	278	-
Excess of revenues over (under)	2,873	81	825	(1,435)	6,254	10,028	9,221	(121)	183	888,860	481,604
OTHER FINANCING SOURCES (USES)											
Debt proceeds	-	-	-	-	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	(816,321)	(372,287)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	(816,321)	(372,287)
Net change in fund balances	2,873	81	825	(1,435)	6,254	10,028	9,221	(121)	183	72,539	109,317
Fund balances, beginning of year	176,386	41,153	65,927	6,564	43,382	132,879	29,263	140	14,776	162,007	249,493
Fund balances, end of year	\$ 179,259	\$ 41,234	\$ 66,752	\$ 5,129	\$ 49,636	\$ 142,907	\$ 38,484	\$ 19	\$ 14,959	\$ 234,546	\$ 358,810

CITY OF NOVATO

Other Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2007

	2005 LLEB Grant Fund	Special Police Projects	State Grant Fund	Fed Grant Fund	Private Grant Fund	Pension Reserve Fund	Insurance Reserve	Emergency & Disaster Response Reserve	Total Other Special Revenue Funds
REVENUES									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,125,343
Use of money and property	(28)	1,246	-	847	1,324	17	10,983	-	102,026
Revenues from other agencies	5,422	81,310	371,849	763,605	-	-	-	-	2,589,583
Current service charges	-	-	-	-	-	-	-	-	204,635
Other revenue	-	250	-	-	-	-	-	-	250
Total revenues	5,394	82,806	371,849	764,452	1,324	17	10,983	-	4,021,837
EXPENDITURES									
General government	-	-	-	-	-	-	8,449	-	25,557
Public safety	10,026	56,669	-	-	-	-	-	-	247,585
Public works	-	-	-	64,365	-	-	-	-	1,034,943
Parks & Recreation	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	-	278
Debt service									
Principal	-	-	-	-	-	-	-	-	10,307
Interest and fiscal charges	-	-	-	-	-	-	-	-	3,904
Capital outlay	-	-	-	-	-	-	-	-	-
Total expenditures	10,026	56,669	-	64,365	-	-	8,449	-	1,322,574
Excess of revenues over (under)	(4,632)	26,137	371,849	700,087	1,324	17	2,534	-	2,699,263
OTHER FINANCING SOURCES (USES)									
Debt proceeds	-	-	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	142,512
Transfers out	-	-	(501,474)	(975,287)	-	-	(34,826)	(299,058)	(4,384,349)
	-	-	(501,474)	(975,287)	-	-	(34,826)	(299,058)	(4,241,837)
Net change in fund balances	(4,632)	26,137	(129,625)	(275,200)	1,324	17	(32,292)	(299,058)	(1,542,574)
Fund balances, beginning of year	-	79,288	128,411	277,699	17,276	1,315	1,197,837	5,620,786	16,023,362
Fund balances, end of year	\$ (4,632)	\$ 105,425	\$ (1,214)	\$ 2,499	\$ 18,600	\$ 1,332	\$ 1,165,545	\$ 5,321,728	\$ 14,480,788

CITY OF NOVATO

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment other than those financed by proprietary funds. The City's various Capital Projects Funds are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF NOVATO

Other Capital Projects Funds

Combining Balance Sheet

June 30, 2010

	Measure B St. Bond Project - 2007	Measure A St. Bond Project	Prop 1B Local Streets & Roads	Clean Renewable Energy Bonds (CREBS)	Civic Center	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance	Restricted Revenue	Development Impact Fee
ASSETS										
Cash and investments	\$ 2,132,600	\$ 174,064	\$ 239,449	\$ (154,134)	\$ 257,631	\$ 170,092	\$ 348,563	\$ 670,080	\$ 931,563	\$ 10,734,521
Cash with fiscal agent	-	-	-	154,436	-	-	-	-	-	-
Receivables:										
Property taxes	-	-	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-	-	-
Accounts	-	23,103	-	-	-	-	-	18,519	-	-
Interest	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-	-	-	-	-
Deferred costs	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	1,061,023
Total assets	<u>\$ 2,132,600</u>	<u>\$ 197,167</u>	<u>\$ 239,449</u>	<u>\$ 302</u>	<u>\$ 257,631</u>	<u>\$ 170,092</u>	<u>\$ 348,563</u>	<u>\$ 688,599</u>	<u>\$ 931,563</u>	<u>\$ 11,795,544</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ -
Accrued salaries & benefits	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	267,023
Deposits and other payables	-	-	-	-	-	-	-	-	931,463	-
Due to other funds	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>931,563</u>	<u>267,023</u>
Fund balances:										
Reserved for capital projects	-	-	-	-	-	-	-	-	-	-
Unreserved - designated	2,132,600	197,167	239,449	302	257,631	170,092	348,563	688,599	-	11,528,521
Unreserved - undesignated	-	-	-	-	-	-	-	-	-	-
Total fund balances (deficit)	<u>2,132,600</u>	<u>197,167</u>	<u>239,449</u>	<u>302</u>	<u>257,631</u>	<u>170,092</u>	<u>348,563</u>	<u>688,599</u>	<u>-</u>	<u>11,528,521</u>
Total liabilities and fund balances	<u>\$ 2,132,600</u>	<u>\$ 197,167</u>	<u>\$ 239,449</u>	<u>\$ 302</u>	<u>\$ 257,631</u>	<u>\$ 170,092</u>	<u>\$ 348,563</u>	<u>\$ 688,599</u>	<u>\$ 931,563</u>	<u>\$ 11,795,544</u>

CITY OF NOVATO

Other Capital Projects Funds

Combining Balance Sheet

June 30, 2010

	RDA Community Center Maintenance	Novato Public Financing Authority	Total Other Capital Projects Funds
ASSETS			
Cash and investments	\$ 624,329	\$ 987,815	\$ 17,116,573
Cash with fiscal agent	-	-	154,436
Receivables:			
Property taxes	-	-	-
Other taxes	-	-	-
Accounts	-	-	41,622
Interest	-	-	-
Prepaid expenses	-	-	-
Deferred costs	-	101,076	101,076
Due from other funds	394,209	752,739	2,207,971
Total assets	<u>\$ 1,018,538</u>	<u>\$ 1,841,630</u>	<u>\$ 19,621,678</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 954	\$ 1,054
Accrued salaries & benefits	-	-	-
Accrued liabilities	-	-	-
Deferred revenue	99,209	156,339	522,571
Deposits and other payables	-	-	931,463
Due to other funds	-	1,796,076	1,796,076
Total liabilities	<u>99,209</u>	<u>1,953,369</u>	<u>3,251,164</u>
Fund balances:			
Reserved for capital projects	-	-	-
Unreserved - designated	919,329	(111,739)	16,370,514
Unreserved - undesignated	-	-	-
Total fund balances (deficit)	<u>919,329</u>	<u>(111,739)</u>	<u>16,370,514</u>
Total liabilities and fund balances	<u>\$ 1,018,538</u>	<u>\$ 1,841,630</u>	<u>\$ 19,621,678</u>

CITY OF NOVATO

Other Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2010

	Measure B St. Bond Project-2007	Measure A St. Bonds	Prop 1B Local Streets & Roads	Clean Renewable Energy Bonds (CREBS)	Civic Center	Clean Stormwater CIP	Street and Storm Drain Maintenance	Long-term Maintenance	Restricted Revenue	Development Impact Fee
REVENUES										
Taxes	\$ -	\$ 1,195,545	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenues from other agencies	-	-	-	-	-	-	-	-	-	-
Use of money and property	28,491	2,244	5,003	7	15,755	1,982	4,386	8,299	-	147,434
Current service charges	-	-	-	-	-	-	-	-	-	1,768,260
Other revenue	-	-	-	-	-	-	-	83,639	-	-
Total revenues	28,491	1,197,789	5,003	7	15,755	1,982	4,386	91,938	-	1,915,694
EXPENDITURES										
Current:										
General government	-	-	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	-	-	-	-
Parks & Recreation	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-
Debt service:										
Principal	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-	-	-	-	-
Excess of revenues over (under) expenditures	28,491	1,197,789	5,003	7	15,755	1,982	4,386	91,938	-	1,915,694
OTHER FINANCING SOURCES (USES)										
Transfers in	-	-	-	-	-	45,000	-	-	-	-
Transfers out	(283,951)	(1,001,781)	(391,023)	(1,360,857)	(1,610,917)	(15,844)	(6,707)	(68,151)	-	(2,442,220)
Debt proceeds	-	-	-	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(283,951)	(1,001,781)	(391,023)	(1,360,857)	(1,610,917)	29,156	(6,707)	(68,151)	-	(2,442,220)
Net change in fund balances	(255,460)	196,008	(386,020)	(1,360,850)	(1,595,162)	31,138	(2,321)	23,787	-	(526,526)
Fund balances, beginning of year	2,388,060	1,159	625,469	1,361,152	1,852,793	138,954	350,884	664,812	-	12,055,047
Fund balances, end of year	\$ 2,132,600	\$ 197,167	\$ 239,449	\$ 302	\$ 257,631	\$ 170,092	\$ 348,563	\$ 688,599	\$ -	\$ 11,528,521

CITY OF NOVATO

Other Capital Projects Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2009

	RDA Community Center Maintenance	Novato Public Financing Authority	Total Other Capital Projects Funds
REVENUES			
Taxes	\$ -	\$ -	\$ 1,195,545
Revenues from other agencies	-	-	-
Use of money and property	11,215	166,614	391,430
Current service charges	-	-	1,768,260
Other revenue	-	-	83,639
Total revenues	11,215	166,614	3,438,874
EXPENDITURES			
Current:			
General government	-	120,657	120,657
Public works	-	-	-
Community development	-	-	-
Parks & Recreation	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total expenditures	-	120,657	120,657
Excess of revenues over (under) expenditures	11,215	45,957	3,318,217
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	45,000
Transfers out	(732,499)	(32,222)	(7,946,172)
Debt proceeds	-	-	-
Issuance costs	-	-	-
Total other financing sources (uses)	(732,499)	(32,222)	(7,901,172)
Net change in fund balances	(721,284)	13,735	(4,582,955)
Fund balances, beginning of year	1,640,613	(125,474)	20,953,469
Fund balances, end of year	\$ 919,329	\$ (111,739)	\$ 16,370,514

CITY OF NOVATO

Debt Service Fund

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

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

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

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

CITY OF NOVATO

Other Debt Service Funds

Combining Balance Sheet

June 30, 2010

	General Obligation Bonds	Pension Obligation Bond	Total Other Debt Service Funds
ASSETS			
Cash and investments	\$ 2,436,866	\$ -	\$ 2,436,866
Accounts receivable	7,207	-	7,207
Total assets	<u>\$ 2,444,073</u>	<u>\$ -</u>	<u>\$ 2,444,073</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Deposits and other liabilities	\$ -	\$ -	\$ -
Advances from other funds	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 Fund balances:			
Reserved for debt service	2,444,073	-	2,444,073
Unreserved - undesignated	-	-	-
Total fund balances	<u>2,444,073</u>	<u>-</u>	<u>2,444,073</u>
Total liabilities and fund balances	<u>\$ 2,444,073</u>	<u>\$ -</u>	<u>\$ 2,444,073</u>

CITY OF NOVATO

Other Debt Service Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2010

	General Obligation Bonds	Pension Obligation Bond	Total Other Debt Service Funds
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Taxes	2,783,293	-	2,783,293
Revenues from other agencies	25,102	-	25,102
Use of money and property	17,650	-	17,650
Other revenues	-	-	-
Total revenues	<u>2,826,045</u>	<u>-</u>	<u>2,826,045</u>
EXPENDITURES			
Current:			
General government	69,571	2,500	72,071
Debt service:			
Principal	1,610,000	70,000	1,680,000
Interest and fiscal agent fees	1,126,545	913,951	2,040,496
Total expenditures	<u>2,806,116</u>	<u>986,451</u>	<u>3,792,567</u>
Excess of revenues over (under) expenditures	<u>19,929</u>	<u>(986,451)</u>	<u>(966,522)</u>
OTHER FINANCING SOURCES (USES)			
Debt proceeds	-	-	-
Transfers in	-	986,451	986,451
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>986,451</u>	<u>986,451</u>
Net change in fund balances	19,929	-	19,929
Fund balances, beginning of year	2,424,144	-	2,424,144
Fund balances, end of year	<u>\$ 2,444,073</u>	<u>\$ -</u>	<u>\$ 2,444,073</u>

CITY OF NOVATO

Internal Service Funds

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

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

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

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

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

CITY OF NOVATO

Internal Service Funds

Combining Statement of Net Assets (Deficit)

June 30, 2010

	Equipment Maintenance	Equipment Replacement	Furnishings, Fixtures & Equipment Replacement	Insurance	Total Internal Service Funds
Assets					
ASSETS					
Current assets:					
Cash and investments	\$ (191,959)	\$ 2,634,224	\$ 778	\$ -	\$ 2,443,043
Cash with fiscal agents	-	-	-	-	-
Accounts receivable	6,160	-	-	-	6,160
Loans receivable	-	-	-	-	-
Due from other funds	-	2,078,411	-	-	2,078,411
Deposits	-	-	-	-	-
Prepays and other assets	-	-	-	-	-
Total current assets	(185,799)	4,712,635	778	-	4,527,614
Capital assets, net	-	1,531,269	-	-	1,531,269
Total assets	(185,799)	6,243,904	778	-	6,058,883
LIABILITIES					
Current liabilities:					
Accounts payable	16,047	76,950	-	-	92,997
Deferred revenue	-	246,374	-	-	246,374
Claims payable	-	-	-	332,620	332,620
Total current liabilities	16,047	323,324	-	332,620	671,991
Claims payable - noncurrent	-	-	-	904,408	904,408
Total liabilities	16,047	323,324	-	1,237,028	1,576,399
NET ASSETS					
Invested in capital assets, net of related debt	-	1,531,269	-	-	1,531,269
Unrestricted	(201,846)	4,389,311	778	(1,237,028)	2,951,215
Total net assets (deficit)	\$ (201,846)	\$ 5,920,580	\$ 778	\$ (1,237,028)	\$ 4,482,484

CITY OF NOVATO

Internal Service Funds

Combining Statement of Activities and Changes in Net Assets (Deficit)

For the Fiscal Year Ended June 30, 2010

	Equipment Maintenance	Equipment Replacement	Furnishings, Fixtures & Equipment Replacement	Insurance	Total Internal Service Funds
REVENUES					
Use of money and property	\$ -	\$ 30,429	\$ -	\$ -	\$ 30,429
Revenues from other agencies		-	10	-	10
Current service charges	737,776	553,005	-	-	1,290,781
Other revenue	1,737	20,785	-	234,897	257,419
Total revenues	739,513	604,219	10	234,897	1,578,639
EXPENSES					
Cost of services	770,921	587,675	-	34,925	1,393,521
Depreciation	-	465,148	-	-	465,148
Total expenses	770,921	1,052,823	-	34,925	1,858,669
Operating income (loss)	(31,408)	(448,604)	10	199,972	(280,030)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	430,870	-	-	430,870
Transfers out	(11,471)		-	-	(11,471)
	(11,471)	430,870	-	-	419,399
Change in net assets	(42,879)	(17,734)	10	199,972	139,369
Net assets (deficit), beginning of year	(158,967)	5,938,314	768	(1,437,000)	4,343,115
Net assets (deficit), end of year	\$ (201,846)	\$ 5,920,580	\$ 778	\$ (1,237,028)	\$ 4,482,484

CITY OF NOVATO

Trust and Agency Funds

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

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

CITY OF NOVATO

Agency Funds

Combining Statement of Fiduciary Assets and Liabilities

June 30, 2010

	+ 841 Trust Funds		Agency Funds						
	Expendable Trust Fund	Non-expendable Trust Fund							
	Deposits Held in Trust	NFA Mobile Home	Total Trust Funds	Unclaimed Property Fund	Buck Center	Pacheco Refunding Redemption	Pacheco Investment Earnings	Pacheco Reserve	Vintage Oaks Special Tax
ASSETS									
Cash and investments	\$ 643,755	62,710	\$ 706,465	\$ 5,200	\$ 1,000,000	\$ 176	\$ 23,956	\$ 50,060	\$ 1,529,696
Cash with fiscal agent	-	3,172,173	3,172,173	-	-	-	-	-	1,828,900
Receivables	-	6,565	6,565	-	-	-	-	-	-
Due from City of Novato RDA	-	130,000	130,000	-	-	-	-	-	-
Fixed assets, net	-	15,099,837	15,099,837	-	-	-	-	-	-
Other assets, net	-	642,231	642,231	-	-	-	-	-	1,300
Total assets	<u>\$ 643,755</u>	<u>\$ 19,113,516</u>	<u>\$ 19,757,271</u>	<u>\$ 5,200</u>	<u>\$ 1,000,000</u>	<u>\$ 176</u>	<u>\$ 23,956</u>	<u>\$ 50,060</u>	<u>\$ 3,359,896</u>
LIABILITIES AND FUND BALANCES									
Accounts payable	6,534	24,294	30,828	-	-	-	-	-	-
Due to bondholders	-	10,760,000	10,760,000	-	-	-	-	-	-
Deposits held in trust	637,221	100	637,321	5,200	1,000,000	176	23,956	50,060	3,359,896
Deferred revenue	-	15,374	15,374	-	-	-	-	-	-
Due to other funds	-	7,490	7,490	-	-	-	-	-	-
Loans payable	-	-	-	-	-	-	-	-	-
Interest payable	-	139,732	139,732	-	-	-	-	-	-
Total liabilities	<u>643,755</u>	<u>10,946,990</u>	<u>11,590,745</u>	<u>5,200</u>	<u>1,000,000</u>	<u>176</u>	<u>23,956</u>	<u>50,060</u>	<u>3,359,896</u>
Fund balances:									
Reserved	-	8,166,526	8,166,526	-	-	-	-	-	-
Total liabilities and fund balances	<u>\$ 643,755</u>	<u>\$ 19,113,516</u>	<u>\$ 19,757,271</u>	<u>\$ 5,200</u>	<u>\$ 1,000,000</u>	<u>\$ 176</u>	<u>\$ 23,956</u>	<u>\$ 50,060</u>	<u>\$ 3,359,896</u>

CITY OF NOVATO

Agency Funds

Combining Statement of Fiduciary Assets and Liabilities

June 30, 2005

	Agency Funds				Total Trust and Agency Funds
	Golden Gate Redemption	Hamilton Bond Admin.	Pointe Marin CFD-2002-1	Total Agency Funds	
ASSETS					
Cash and investments	\$ 136,746	\$ 1,175,122	\$ 558,107	\$ 4,479,063	\$ 5,185,528
Cash with fiscal agent	239,682	1,643,743	801,829	4,514,154	7,686,327
Receivables	-	-	-	-	6,565
Due from City of Novato RDA	-	-	-	-	130,000
Fixed assets, net	-	-	-	-	15,099,837
Other assets, net	-	1,900	1,700	4,900	647,131
Total assets	<u>\$ 376,428</u>	<u>\$ 2,820,765</u>	<u>\$ 1,361,636</u>	<u>\$ 8,998,117</u>	<u>\$ 28,755,388</u>
LIABILITIES AND FUND BALANCES					
Accounts payable	-	-	-	-	30,828
Due to bondholders	-	-	-	-	10,760,000
Deposits held in trust	376,428	2,820,765	1,361,636	8,998,117	9,635,438
Deferred revenue	-	-	-	-	15,374
Notes payable	-	-	-	-	7,490
Loans payable	-	-	-	-	-
Interest payable	-	-	-	-	139,732
Total liabilities	<u>376,428</u>	<u>2,820,765</u>	<u>1,361,636</u>	<u>8,998,117</u>	<u>20,588,862</u>
Fund balances:					
Reserved	-	-	-	-	8,166,526
Total liabilities and fund balances	<u>\$ 376,428</u>	<u>\$ 2,820,765</u>	<u>\$ 1,361,636</u>	<u>\$ 8,998,117</u>	<u>\$ 28,755,388</u>

CITY OF NOVATO

Fiduciary Funds

Combining Statement of Changes in Fiduciary Net Assets

June 30, 2010

	<u>Expendable Trust Fund</u>	<u>Non-expendable Trust Fund</u>	
	<u>Deposits Held in Trust</u>	<u>NFA Mobile Home</u>	<u>Total</u>
ADDITIONS			
Operating revenues	\$ -	\$ 2,961,682	\$ 2,961,682
Investment income		193,083	193,083
Total additions to net assets	<u>-</u>	<u>3,154,765</u>	<u>3,154,765</u>
DEDUCTIONS			
General and administrative expenses	-	1,195,332	1,195,332
Depreciation and amortization	-	311,359	311,359
Interest expense	-	651,818	651,818
Total deductions from net assets	<u>-</u>	<u>2,158,509</u>	<u>2,158,509</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	-	996,256	996,256
Net assets, beginning of year	-	7,170,270	7,170,270
Net assets, end of year	<u>\$ -</u>	<u>\$ 8,166,526</u>	<u>\$ 8,166,526</u>