

CITY OF LARKSPUR
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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CITY OF LARKSPUR
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

To the City Council
City of Larkspur, California

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

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

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

As of July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. As discussed in Note 9 to the financial statements, the provisions of this statement affect the classification of fund balances reported in the financial statements,

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2011, on our consideration of the City of Larkspur's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally 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 on it.

Our audit was made for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mage + Associates

September 13, 2011

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

The City of Larkspur is issuing its financial statements in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) and successor statements, as outlined in Note 2B to the Basic Financial Statements. GASB 34 was developed to make annual financial reports easier to understand and more useful to the people who use governmental financial information to make their decisions, including members of the City Council, members of oversight bodies, investors, creditors, and the public in general. GASB 34 has introduced many changes to the look and content of annual financial reports. One important requirement is that financial managers provide *Management's Discussion and Analysis* (MD&A), which is designed to provide readers an objective and easily readable analysis of the governmental unit's financial performance for the reported year. This MD&A should be read in conjunction with the *Basic Financial Statements* and the accompanying notes to the Basic Financial Statements. The Basic Financial Statements include the *Government-wide Statements* and the *Fund Financial Statements*, along with the accompanying Notes.

Reporting the City as a Whole: Government-wide Statements

The Government-wide Statements present the financial position of the City with a longer-term view of the City's activities as a whole, and consist of the *Statement of Net Assets* and the *Statement of Activities*. The Statement of Net Assets presents all information about the City's assets and liabilities, both current and long-term, on the full accrual basis of accounting, which is similar to the accounting used by most private sector businesses. 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 liability is incurred. Highlighting net assets, or the difference between assets and liabilities, are one way to measure the City's financial health and financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The Statement of Net Assets includes the information previously reported in the City's fixed assets and long-term debt account groups. The City has chosen, within the parameters of GASB 34, not to retrospectively include the historic costs and accumulated depreciation of infrastructure in place, including but not limited to the City's roadway system.

The Statement of Activities provides information about all of the City's revenues and expenses, also on the full accrual basis, and emphasizes the measurement of the net revenues or expenses of each of the City's functional or program areas. It also incorporates changes in Net Assets for the year. In accordance with GASB 34, certain eliminations have been made related to interfund activity, payables, and receivables.

Both the Statement of Net Assets and the Statement of Activities present information about the City's *governmental activities*. Most of the City's basic services fall into the category of governmental activities, including administration, finance, public works, planning and community development, recreation, contractual police and fire services, and library services. Sales, property and gas taxes, user fees, interest income, and state and federal grants finance these activities.

Reporting the City's Major Funds: Fund Financial Statements

The Fund Financial Statements include *governmental*, *proprietary* and *fiduciary* funds and report the City's operations in more detail and with a shorter-term focus than the Government-wide Statements. A reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach under GASB 34.

The Fund Financial Statements provide detailed information about the City's most significant funds, called *Major Funds*. The concept of Major Funds, and the determination of which funds are Major Funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, and all of the Non-major Funds are combined in a single column. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds designated as Major Funds may change from year-to-year, based upon their specific pattern of activities. The Major Funds reported for 2010-11 are the General Fund, the Gas Tax Fund, the Housing In Lieu Fund, the Twin Cities Childcare Center Fund, and the Capital Projects Fund, which are all governmental funds.

Governmental Funds

Most of the City's basic services are reported in governmental funds. These funds focus on reporting the flow of money into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period (by June 30th) or soon enough thereafter to be used. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds

Internal Service Funds are used for the financing of goods and services provided by one department or agency to other departments or agencies of the City, or to other departments on a cost-reimbursement basis. The City's Insurance Fund provides for the payment of worker's compensation and liability claims.

Fiduciary Funds

The City is the trustee, or fiduciary, for certain funds established to account for assets held by the City in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. These activities are excluded from the City's Government-Wide Financial Statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their specified purposes.

Financial Analysis: Government-wide Statements

As has been previously explained, the government-wide statements report Governmental Activities in the Statement of Net Assets and the Statement of Activities. Governmental Activities consist of most of the programs and functions of the City. As of June 30, 2011, the net assets of the City's Governmental Activities totaled \$23.7 million, as is highlighted in the following chart.

Statement of Assets: Governmental Activities Net Assets at June 30, 2011

	2010-11	2009-10	Inc./(Dec.)
Cash & Investments	\$ 13,626,396	\$ 6,009,971	7,616,425
Other Assets	2,655,893	9,657,322	(7,001,429)
Capital Assets	10,356,688	10,700,057	(343,369)
Total Assets	\$ 26,638,977	\$ 26,367,350	\$ 271,627
Accounts Payable	534,589	326,298	208,291
Compensated Absences	72,278	103,022	(30,744)
Other Liabilities	976,352	1,140,375	(164,023)
Deferred Revenue		50,183	(50,183)
Net OPEB Liability	869,086	582,129	286,957
Capital Lease Obligation	498,951	701,407	(202,456)
Total Liabilities	\$ 2,951,256	\$ 2,903,414	\$ 47,842
Net Assets:			
Invested in capital assets, net of debt	10,688,493	9,998,650	689,843
Restricted	2,861,336	2,653,334	208,002
Unrestricted	10,137,892	10,811,952	(674,060)
Total Net Assets	\$ 23,687,721	\$ 23,463,936	\$ 223,785

- ✓ The total net assets for the City's Governmental Activities increased by \$223,785 in 2010-11.
- ✓ The increase of Cash and Investments is largely attributable to receiving the payment of the award for Larkspur vs. Jacobs Engineering. Although the cash was actually received during FY 2010-11, it was received prior to the closing of the FY 2009-10 financial statements and deemed to be both measurable and available under the modified accrual basis of accounting and therefore included in the FY 2009-10 financial statements as a receivable item.
- ✓ Also increasing the City's net assets are amounts spent on capital projects, both finished and in-progress, including work done on the three bridges, Doherty Drive, and various pathways in the city.
- ✓ The Statement of Assets also includes an amount for Other Post Employment Benefits (OPEB). This amount represents the unpaid liability for FY 2009-10 and FY 2010-11 per the actuarial valuation done last year to comply with GASB Statement No. 45. More detailed information on this amount is found in Note 11.

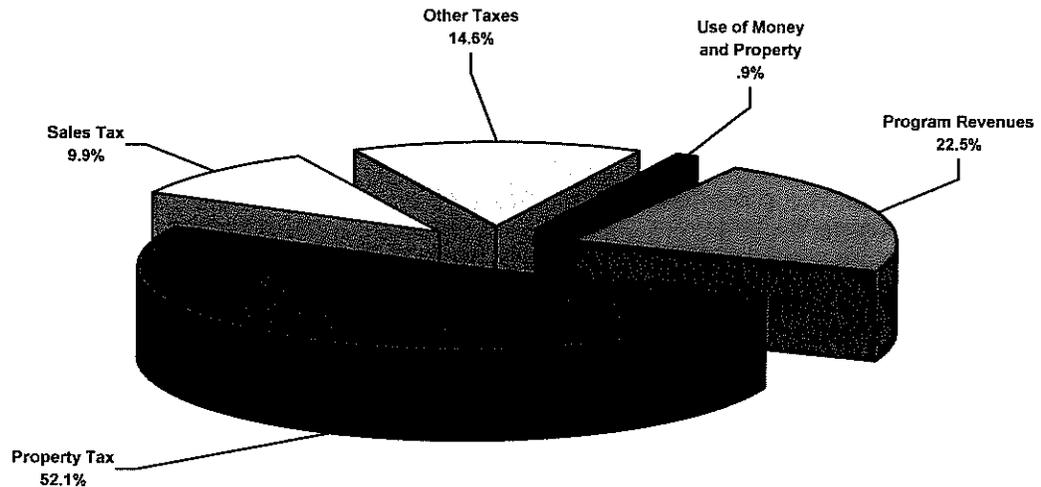
During 2010-11, the City's Governmental Activities were supported by \$15.35 million in revenues, derived from many sources, as is summarized in the next chart.

**Statement of Activities: Governmental Activities
2010-11 Revenues by Source**

Source	2010-11	2009-10	% of Total
Program Revenues:			
Charges for services	\$ 2,111,673	\$ 2,194,444	13.8%
Operating contributions & grants	512,505	592,438	3.3%
Capital contributions & grants	822,846	1,382,968	5.4%
Total Program Revenues	\$ 3,447,024	\$ 4,169,850	22.5%
General Revenues:			
Property tax	7,998,894	8,127,759	52.1%
Sales tax	1,512,190	1,458,308	9.9%
Other taxes	2,238,628	2,246,286	14.6%
Use of Money and Property	154,130	143,265	1.0%
Total General Revenues	\$ 11,903,842	\$ 11,975,618	77.5%
Total Revenues	\$ 15,350,866	\$ 16,145,468	100.0%

The following provides a graphic depiction of the composition of the various revenue sources reported in the Statement of Activities for the Governmental Activities. As is depicted, Program Revenues, which are directly assigned to program or functional areas of the City's activities, comprised 22.5% of total revenue sources for the year. Property tax continues to be our greatest source of revenue at 52.1% and Use of Money and Property (primarily interest earned) has become almost non-existent at less than 1%.

Sources of Revenue - Governmental Activities



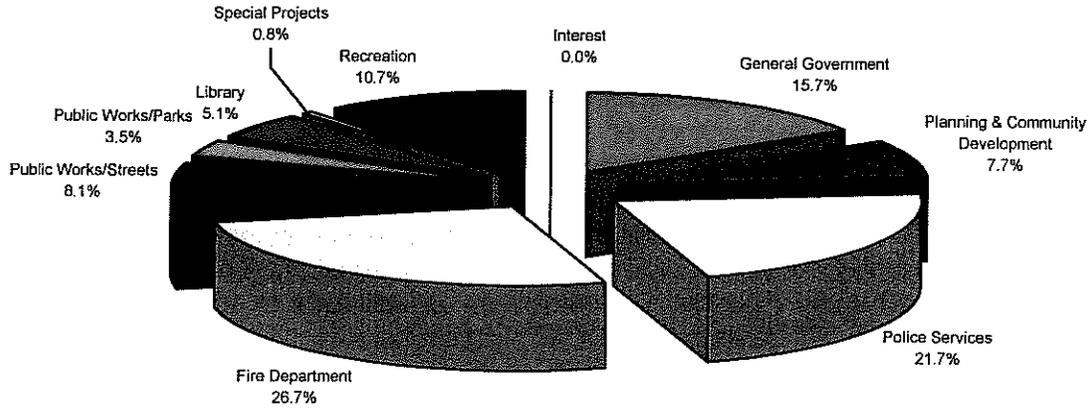
The programs reported as Governmental Activities include all the basic areas of City government, including general government, planning and community development, police services, the fire department, public works, library services, recreation and the interest expense component of debt service. Because changes in net assets are incorporated into the Statement of Activities, the expenses reported in this statement have been adjusted to reflect such things as annual depreciation of capital assets such as buildings and equipment, increases or decreases in the balance of compensated absences, and the principal payment component of debt service. For example, in the Fund Financial Statements for the Governmental Funds, the General Administration Program reflects an expenditure of \$1,894,482 for 2010-11. This same program reflects total expenses of \$2,374,904 in the next chart. The \$480,422 difference is annual depreciation and acquisition of capital assets. These items, treated in the Fund Financial Statements as adjustments to balance sheet accounts, are incorporated into the total activity for this program area in the Statement of Activities. A full reconciliation of these statements is included in the Basic Financial Statements. A discussion of program expenditures for the year is included later in this MD&A.

**Statement of Activities: Governmental Activities
2010-11 Expenses by Program**

Program	Total Expense	% of Total
General Government	\$ 2,374,904	15.7%
Planning & Community Development	1,158,475	7.7%
Police Services	3,289,196	21.7%
Fire Department	4,034,924	26.7%
Public Works/Streets	1,227,487	8.1%
Public Works/Parks	523,978	3.5%
Recreation	1,618,245	10.7%
Library	774,569	5.1%
Special Projects	120,473	0.8%
Interest on long-term debt	4,830	0.0%
Total	\$ 15,127,081	100.0%

The total expenses of \$15,127,081 are graphically depicted by program area in the next chart.

Expenses by Program - Governmental Activities



The net change in assets from 2009-10 to 2010-2011 of \$223,785 reported and discussed earlier is equal to the difference between the total revenues of \$15,350,866 minus total expenses of \$15,127,081 that are reflected in the Statement of Activities for Governmental Activities.

FUND FINANCIAL STATEMENTS

Performance of Governmental Funds

The Net Assets of the City's Governmental Funds at June 30, 2011, were about \$13.485 million, which is the total of ending fund balances, plus capital assets, and less long-term debt. The following chart provides an overview of these Net Assets.

Governmental Funds	Total Assets	Total Liabilities	Fund Balance/ Net Assets
General	\$ 5,219,873	\$ 700,798	\$ 4,519,075
Gas Tax	284,230	162,510	121,720
Housing in Lieu	361,194	263,731	97,463
Twin Cities Childrens' Center	64,413	34,319	30,094
Capital Projects	6,392,651	287,134	6,105,517
Other Governmental Funds	2,680,498	68,439	2,612,059
Total Net Assets	\$ 15,002,859	\$ 1,516,931	\$ 13,485,928

The combined fund balances of \$13,485,928 from the various Governmental Funds comprise about 57% of Total Net Assets at June 30, 2011. These fund balances increased by about \$6.9 million, or 51%, during 2010-11. This increase is almost entirely due to the receipt of the lawsuit net proceeds. The following summary of the Statement of Revenues, Expenditures, and Changes in Fund Balance for the Governmental Funds illustrates the details of this net increase.

Governmental Funds	Total Revenues	Total Expenditures	Excess/(Def.) of Revenues	Other Financing Sources/(Uses)	Net Change in Fund Balance
General	\$ 12,716,298	\$ 13,103,140	\$ (386,842)	\$ 160,653	\$ (226,189)
Gas Tax	562,392	604,062	(41,670)	124,585	82,915
Housing in Lieu	18,653	-	18,653		18,653
Twin Cities Childrens' Center	635,520	622,293	13,227		13,227
Capital Projects	10,286,483	2,618,279	7,668,204	(766,811)	6,901,393
Other Governmental Funds	1,084,986	569,566	515,420	(422,213)	93,207
Subtotal	\$ 25,304,332	\$ 17,517,340	\$ 7,786,992	\$ (903,786)	\$ 6,883,206
Beginning Fund Balances					6,602,722
Ending Fund Balances					\$ 13,485,928

The following discussion provides a focused analysis of the performance of the City's Governmental Funds by examining the various Major Funds.

▫ **General Fund**

The General Fund accounts for financial resources traditionally associated with government activities that are not legally required to be accounted for in another fund. The General Fund ended the 2010-11 fiscal year with a fund balance of \$4,519,075, a decrease of \$226,189 from the previous year. This decrease results from the net impact of the fund's financial performance for the fiscal year, as summarized in the following chart.

Revenues	\$ 12,716,298
Expenditures	13,103,140
Excess of Expenditures	\$ (386,842)
Other Financing Sources (Uses)	
Transfers In	324,108
Transfers Out	(163,455)
Net Other Uses	\$ 160,653
Net change to Fund Balance	(226,189)
Beginning Fund Balance	4,745,264
Ending Fund Balance	\$ 4,519,075

The overall economic downturn produced an overall decline in revenues during 2010-11. Total revenues of \$12,716,928 were received in 2010-11, as compared with \$12,854,618 in 2009-10. The 1.08% or \$138,320, decrease is depicted in the following chart that compares revenue performance for the two years.

	2010-11	2009-10	Inc. (Dec.)	% Inc. (Dec.)
Property Taxes	\$ 7,998,894	\$ 8,127,759	\$ (128,865)	-1.59%
Sales Tax	1,512,190	1,458,308	53,882	3.69%
Other Taxes	1,667,105	1,586,956	80,149	5.05%
Licenses & Permits	426,605	392,003	34,602	8.83%
Penalties & Fines	51,062	64,835	(13,773)	-21.24%
Use of Money and Property	136,101	94,040	42,061	44.73%
Other Agencies	83,051	192,099	(109,048)	-56.77%
Charges for Services	772,340	740,009	32,331	4.37%
Other Revenue	68,950	198,609	(129,659)	-65.28%
Total	\$ 12,716,298	\$ 12,854,618	\$ (138,320)	-1.08%

Property taxes showed a decline of \$128,865. The decline was primarily due to the Assessors office reassessing properties to reflect the current housing market. **Sales taxes** reported increased from \$1,458,308 in 2009-10 to \$1,512,190 in 2010-11. This small increase in sales taxes reflects the continuing effect of current economic conditions. The economy will continue to affect this source of revenue. **Other Taxes** increased by approximately 5%. Revenues included in this category are business license fees, franchise fees and transient occupancy taxes. All revenues in this category increased from FY 2009-10 but are still lagging behind the amounts received prior to the economic downturn. **Penalties and Fines**

decreased due to the State of California increasing the amount of fees they keep out of every traffic ticket processed. Use of Money and Property includes a portion of the interest received on the lawsuit settlement. Other Agencies decreased by \$109,048 as there were no calls from the state for fire responses this fiscal year and revenue received from the State for library services was cut back this year. Charges for service increased by 4.37%, mostly due to an adjustment in the amount charged to other agencies for financial services. Other Revenue accounts for any payments received during the year that do not fit into any other category. Because of that, it fluctuates from year to year. This year Other Revenue declined by \$129,659.

General Fund expenditures totaled \$13,103,140 in 2010-11, an increase of .4%, or \$50,695 from 2009-10. The following chart highlights the difference between the two fiscal years by program area. In general, increased expenses in retirement costs, health benefits, vehicle fuel and maintenance costs, and the program to reduce accrued leave and associated liability implemented this fiscal year contributed to the overall expenditure increase.

Program Area	2010-11	2009-10	Inc. (Dec.)	Percent
General Administration	\$ 1,894,482	\$ 1,884,957	\$9,525	0.5%
Planning & Community Development	1,077,431	1,047,266	30,165	2.9%
Police Services	3,289,196	3,349,800	(60,604)	-1.8%
Fire Department	3,952,991	3,897,919	55,072	1.4%
Public Works/Streets	857,342	871,663	(14,321)	-1.6%
Public Works/Parks	474,611	452,295	22,316	4.9%
Recreation	588,603	565,932	22,671	4.0%
Library	761,198	770,117	(8,919)	-1.2%
Debt Service	207,286	212,496	(5,210)	-2.5%
Total	\$ 13,103,140	\$ 13,052,445	\$ 50,695	0.4%

The General Fund remained stable throughout 2010-11. The ending fund balance at June 30, 2011 of \$4,519,075 represents 35.5% of General Fund revenues and 34.5% of General Fund expenditures for the fiscal year. The General Fund balance is not reserved for any program activity and provides a buffer against unexpected financial events.

▫ **Gas Tax Fund**

The Gas Tax Fund is a special revenue fund that is used to account for the City's share of the gas tax raised under Street and Highway Code Sections 2105, 2106, 2107, and 2107.5. The City primarily utilizes its share to maintain the City's roadway system. During 2010-11, the Gas Tax Fund experienced an increase in fund balance of \$82,915 and currently has a fund balance of \$121,720, which is highlighted in the following chart.

2010-11 Gas Tax Fund Performance

Revenues	\$	562,392
Expenditures		604,062
Excess of Revenues	\$	(41,670)
Other Financing Sources (Uses)		
Transfers In/(Out)	\$	124,585
Net Other Uses	\$	124,585
Net change to Fund Balance		82,915
Beginning Fund Balance		38,805
Ending Fund Balance	\$	121,720

Total revenues for 2010-11 were \$562,392, as compared to \$554,341 in 2009-10. Expenditures in 2010-11 were \$604,062, as compared with \$379,339 in 2009-10. The majority of gas tax funds were used this year on preparation of the three major bridge projects.

▫ **Capital Projects**

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major facilities. The Capital Projects fund balance increased by \$6,901,393 during 2010-11 as the lawsuit award money received now resides in this fund. Projects included the Boardwalk Lift Station Pump Replacement, completion of the Housing Element, and work begun on the 101 Elm Stairs and Pathway project, the Post Street Stairs and Pathway project, and Citywide Striping. Expenses related to the Housing Element and the General Plan Update are also accounted for in this fund. The ending fund balance includes dollars being set aside for the completion of the Bon Air Bridge Replacement project and a negative amount of approximately \$750,000 representing expenditures made in previous years on the CLASP project and is expected to be funded when projects related to that begin.

2010-11 Capital Projects Fund Performance

Revenues	\$	10,286,483
Expenditures		2,618,279
Excess of Revenues	\$	7,668,204
Other Financing Sources (Uses)		
Transfers In/(Out)	\$	(766,811)
Net Other Uses	\$	(766,811)
Net change to Fund Balance		6,901,393
Beginning Fund Balance		(795,876)
Ending Fund Balance	\$	6,105,517

▫ **Other Governmental Funds**

Included in this category are the Special Revenue Funds (Park Development, Property Development, Transit Mitigation, Business Enhancement, Heritage Preservation, Ross Valley Summer School, Tidal Waves Swim Team, Storm Drain Run Off, Road Impact, Measure A) and the King Mountain Improvement, Greenbrae Marina and East Sir Francis Drake Capital Projects Funds.

Taken as a whole, the following chart reflects the performance of these funds during 2010-11.

2010-11 Performance of Other Governmental Funds	
Revenues	\$ 1,084,986
Expenditures	569,566
Excess of Revenues	\$ 515,420
Other Financing Sources (Uses)	
Transfers In/Out	\$ (422,213)
Net Other Uses	\$ (422,213)
Net change to Fund Balance	93,207
Beginning Fund Balance	2,518,852
Ending Fund Balance	\$ 2,612,059

Debt Administration

The City's debt consists of the Capital Lease Obligations that were used to finance the Multi-Use Field and a seven-year lease for a Pierce Fire truck. The City participates in partnership with the Larkspur School District in the Multi-Use Field lease. As the lead Agency, Larkspur recognizes the full amount of the lease, as per the written agreement. The Multi-Use Field had an outstanding balance of \$221,163 at June 30, 2011, with an interest rate of 3.75%. The lease will retire in 2012. The Pierce Fire Truck had an outstanding balance of \$277,788 at June 30, 2011 with an interest rate of 4.78%.

Budgeting

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all other Major Funds. These statements compare the original adopted budget, the budget as amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. Budgets are prepared on the modified accrual basis of accounting, consistent with generally accepted accounting practices (GAAP). Operating appropriations lapse at year-end. The City Council generally reauthorizes appropriations for continuing projects and activities. Project-length financial plans are adopted for capital projects. The City Council has the legal authority to amend the budget of any fund at any time during the fiscal year. The budgetary legal level of control (the level on which expenditures may not legally exceed appropriations) is generally at the fund level. For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds (special revenue funds included) are considered a single department. Budgeted expenditures may be reallocated between departments within the same fund without City Council approval.

Conclusion

Management's Discussion and Analysis is designed to provide the City's residents, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability. Questions about this document or requests for additional information may be directed to the Finance Director, located in the City Hall at 400 Magnolia Avenue, Larkspur, CA 94939.

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**STATEMENT OF NET ASSETS AND
STATEMENT OF ACTIVITIES**

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue and Capital Projects Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental program. The City's general revenues are then listed in the Governmental Activities column, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

CITY OF LARKSPUR
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Cash and investments (Note 3):	
Available for operations	\$13,626,396
Receivables:	
Accounts	1,142,288
Interest	8,982
Loans	358,788
Due from other governmental units	284,230
Deposit with risk pool (Note 12)	18,371
Prepaid items	12,478
Land (Note 5)	830,756
Capital assets, net of depreciation (Note 5)	<u>10,356,688</u>
Total Assets	<u>26,638,977</u>

LIABILITIES

Accounts payable	534,589
Accrued payroll	155,042
Accrued liabilities	180,699
Claims payable (Note 12)	388,720
Deposits	251,891
Compensated absences payable (Note 2I)	72,278
Net OPEB obligation (Note 11)	869,086
Long-Term Debt (Note 7):	
Due within one year	210,731
Due in more than one year	<u>288,220</u>
Total Liabilities	<u>2,951,256</u>

NET ASSETS (Note 9)

Invested in capital assets, net of related debt	<u>10,688,493</u>
Restricted for:	
Capital projects	116,804
Special revenue projects	<u>2,744,532</u>
Total Restricted Net Assets	<u>2,861,336</u>
Unrestricted	<u>10,137,892</u>
Total Net Assets	<u><u>\$23,687,721</u></u>

See accompanying notes to financial statements

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$2,374,904	\$194,767	\$1,500		(\$2,178,637)
Planning and community development	1,158,475	191,216	440,027		(527,232)
Police services	3,289,196		26,031		(3,263,165)
Fire	4,034,924	63,507			(3,971,417)
Public works / streets	1,227,487	246,988		\$811,492	(169,007)
Public works / parks	523,978				(523,978)
Recreation	1,618,245	1,415,195		11,354	(191,696)
Library	774,569		44,947		(729,622)
Special projects	120,473				(120,473)
Interest on long-term debt	4,830				(4,830)
Total Governmental Activities	\$15,127,081	\$2,111,673	\$512,505	\$822,846	(11,680,057)
General revenues:					
Taxes:					
Sales tax					1,512,190
Property taxes					7,998,894
Other taxes					2,238,628
Use of money and property					154,130
Total general revenues					11,903,842
Change in Net Assets					223,785
Net Assets-Beginning					23,463,936
Net Assets-Ending					\$23,687,721

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2011. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. This fund accounts for all financial transactions not accounted for in the other funds.

GAS TAX FUND

To account for taxes raised under Street and Highway Code Sections 2105, 2106, 2107 and 2107.5 and expenditures used for the maintenance and construction of City Streets.

HOUSING IN LIEU FUND

To account for revenue received from developers to be used for future affordable housing.

TWIN CITIES CHILD CARE FUND

To account for revenue received from participants and expenditures used for the Day Care Center.

CAPITAL PROJECTS FUND

To account for the City's major capital improvements not provided for in one of the other capital projects funds.

CITY OF LARKSPUR
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	<u>General</u>	<u>Gas Tax</u>	<u>Housing in Lieu</u>	<u>Twin Cities Child Care</u>
ASSETS				
Cash and investments (Note 3):				
Available for operations	\$4,697,022		\$97,399	\$64,019
Accounts receivable	408,539			
Interest receivable	7,077		64	94
Loans receivable	95,057		263,731	
Due from other governments		\$284,230		
Due from other funds (Note 4)				
Prepaid items	12,178			300
	<u>12,178</u>			<u>300</u>
Total Assets	<u>\$5,219,873</u>	<u>\$284,230</u>	<u>\$361,194</u>	<u>\$64,413</u>
LIABILITIES				
Accounts payable	\$144,946	\$126,228		\$3,182
Accrued payroll	132,371			17,133
Accrued liabilities	170,711			
Due to other funds (Note 4)		36,282		
Deposits	168,506			4
Deferred revenue	84,264		\$263,731	14,000
	<u>700,798</u>	<u>162,510</u>	<u>263,731</u>	<u>34,319</u>
Total Liabilities	<u>700,798</u>	<u>162,510</u>	<u>263,731</u>	<u>34,319</u>
FUND BALANCES				
Fund balances (Note 9)				
Nonspendable	22,971			300
Restricted		121,720		
Committed	321,614			
Assigned			97,463	29,794
Unassigned	4,174,490			
	<u>4,519,075</u>	<u>121,720</u>	<u>97,463</u>	<u>30,094</u>
Total Fund Balances	<u>4,519,075</u>	<u>121,720</u>	<u>97,463</u>	<u>30,094</u>
Total Liabilities and Fund Balances	<u>\$5,219,873</u>	<u>\$284,230</u>	<u>\$361,194</u>	<u>\$64,413</u>

See accompanying notes to financial statements

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$5,961,340	\$2,400,238	\$13,220,018
431,311	242,438	1,082,288
	1,540	8,775
		358,788
		284,230
	36,282	36,282
		12,478
<u>\$6,392,651</u>	<u>\$2,680,498</u>	<u>\$15,002,859</u>
\$193,765	\$62,901	\$531,022
	5,538	155,042
9,988		180,699
		36,282
83,381		251,891
		361,995
<u>287,134</u>	<u>68,439</u>	<u>1,516,931</u>
		23,271
	917,799	1,039,519
6,105,517	822,874	7,250,005
	871,386	998,643
		4,174,490
<u>6,105,517</u>	<u>2,612,059</u>	<u>13,485,928</u>
<u>\$6,392,651</u>	<u>\$2,680,498</u>	<u>\$15,002,859</u>

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CITY OF LARKSPUR
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances reported on the governmental funds balance sheet \$13,485,928

Amounts reported for Governmental Activities in the Statement of Net Assets
 are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and
 therefore are not reported in the Governmental Funds. 11,187,444

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to
 charge the costs of certain activities, such as insurance to individual governmental funds.
 The net current assets of the Internal Service Funds are therefore included in
 Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments available for operations	406,378
Accounts receivable	60,000
Interest receivable	207
Deposit with risk pool	18,371
Accounts payable	(3,567)
Claims payable	(388,720)

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available
 currently are taken into revenue in the Statement of Activities. 361,995

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not
 reported in the Funds:

Long-term debt	(498,951)
Non-current portion of compensated absences	(72,278)
Net OPEB obligation	(869,086)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$23,687,721

See accompanying notes to financial statements

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

	General	Gas Tax	Housing in Lieu	Twin Cities Child Care
REVENUES				
Taxes	\$11,178,189	\$203,471		
Licenses and permits	426,605			
Penalties and fines	51,062			
Use of money and property	136,101		\$615	\$454
Other agencies	83,051	268,401		
Charges for services	772,340			635,066
Other revenue	68,950	90,520	18,038	
Total Revenues	12,716,298	562,392	18,653	635,520
EXPENDITURES				
Current:				
General administration	1,894,482			
Planning and community development	1,077,431			
Police services	3,289,196			
Fire	3,952,991			
Public works / streets	857,342			
Public works / parks	474,611			
Recreation	588,603			622,293
Library	761,198			
Special projects				
Capital outlay		604,062		
Debt service:				
Principal retirement	202,456			
Interest and fiscal charges	4,830			
Total Expenditures	13,103,140	604,062		622,293
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(386,842)	(41,670)	18,653	13,227
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4)	324,108	302,237		
Transfers (out) (Note 4)	(163,455)	(177,652)		
Total Other Financing Sources (Uses)	160,653	124,585		
NET CHANGE IN FUND BALANCES	(226,189)	82,915	18,653	13,227
BEGINNING FUND BALANCES (DEFICITS)	4,745,264	38,805	78,810	16,867
ENDING FUND BALANCES	\$4,519,075	\$121,720	\$97,463	\$30,094

See accompanying notes to financial statements

Capital Projects	Other Governmental Funds	Total Governmental Funds
	\$368,052	\$11,749,712
	182,590	609,195
		51,062
	16,958	154,128
\$268,216	184,355	804,023
	309,498	1,716,904
10,018,267	23,533	10,219,308
<u>10,286,483</u>	<u>1,084,986</u>	<u>25,304,332</u>
		1,894,482
11,978		1,089,409
		3,289,196
		3,952,991
		857,342
	32,460	507,071
	371,697	1,582,593
		761,198
	84,402	84,402
2,606,301	81,007	3,291,370
		202,456
		4,830
<u>2,618,279</u>	<u>569,566</u>	<u>17,517,340</u>
<u>7,668,204</u>	<u>515,420</u>	<u>7,786,992</u>
323,320		949,665
(1,090,131)	(422,213)	(1,853,451)
(766,811)	(422,213)	(903,786)
6,901,393	93,207	6,883,206
(795,876)	2,518,852	6,602,722
<u>\$6,105,517</u>	<u>\$2,612,059</u>	<u>\$13,485,928</u>

CITY OF LARKSPUR
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2011

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$6,883,206

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

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

The capital outlay expenditures are therefore added back to fund balance	954,613
Net retirements are deducted from fund balance	(3,600)
Depreciation expense is deducted from the fund balance	(463,626)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Repayment of capital lease principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	202,456
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Deferred revenue	(56,987)
Compensated absences	120,744
Net OPEB obligation	(286,957)
Settlement	(7,937,711)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Assets - Internal Service Fund	<u>811,647</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$223,785</u></u>
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See accompanying notes to financial statements

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$11,375,000	\$11,375,000	\$11,178,189	(\$196,811)
Licenses and permits	403,000	403,000	426,605	23,605
Penalties and fines	74,000	74,000	51,062	(22,938)
Use of money and property	25,050	25,050	136,101	111,051
Other agencies	80,000	80,000	83,051	3,051
Charges for services	828,700	828,700	772,340	(56,360)
Other revenue	206,500	206,500	68,950	(137,550)
Total Revenues	12,992,250	12,992,250	12,716,298	(275,952)
EXPENDITURES:				
Current:				
General administration	2,095,137	2,112,237	1,894,482	217,755
Planning and community development	1,111,096	1,121,096	1,077,431	43,665
Police services	3,298,687	3,298,687	3,289,196	9,491
Fire	3,983,114	4,036,614	3,952,991	83,623
Public works / streets	872,885	882,885	857,342	25,543
Public works / parks	466,606	488,606	474,611	13,995
Recreation	621,816	621,816	588,603	33,213
Library	779,694	779,694	761,198	18,496
Debt service:				
Principal retirement	212,720	212,720	202,456	10,264
Interest and fiscal charges			4,830	(4,830)
Total Expenditures	13,441,755	13,554,355	13,103,140	451,215
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(449,505)	(562,105)	(386,842)	175,263
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4)	275,500	275,500	324,108	48,608
Transfers (out) (Note 4)	(285,629)	(285,629)	(163,455)	122,174
Total other financing sources (uses)	(10,129)	(10,129)	160,653	170,782
NET CHANGE IN FUND BALANCE	(\$459,634)	(\$572,234)	(226,189)	\$346,045
BEGINNING FUND BALANCE			4,745,264	
ENDING FUND BALANCE			\$4,519,075	

See accompanying notes to financial statements

CITY OF LARKSPUR
GAS TAX FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$211,000	\$211,000	\$203,471	(\$7,529)
Use of money and property	5,000	5,000		(5,000)
Other agencies	240,000	240,000	268,401	28,401
Other revenue	720,000	720,000	90,520	(629,480)
Total Revenues	<u>1,176,000</u>	<u>1,176,000</u>	<u>562,392</u>	<u>(613,608)</u>
EXPENDITURES:				
Current:				
Capital Outlay	1,455,000	1,475,000	604,062	870,938
Total Expenditures	<u>1,455,000</u>	<u>1,475,000</u>	<u>604,062</u>	<u>870,938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(279,000)</u>	<u>(299,000)</u>	<u>(41,670)</u>	<u>257,330</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4)			302,237	302,237
Transfers (out) (Note 4)	(182,856)	(178,190)	(177,652)	538
Total Other Financing Sources (Uses)	<u>(182,856)</u>	<u>(178,190)</u>	<u>124,585</u>	<u>538</u>
NET CHANGE IN FUND BALANCE	<u>(\$461,856)</u>	<u>(\$477,190)</u>	82,915	<u>\$257,868</u>
BEGINNING FUND BALANCE			<u>38,805</u>	
ENDING FUND BALANCE			<u>\$121,720</u>	

See accompanying notes to financial statements

CITY OF LARKSPUR
TWIN CITIES CHILD CARE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property			\$454	\$454
Program fees	\$663,000	\$663,000	635,066	(27,934)
Total Revenues	<u>663,000</u>	<u>663,000</u>	<u>635,520</u>	<u>(27,480)</u>
EXPENDITURES:				
Current:				
Childcare/preschool	649,293	649,293	622,293	27,000
Total Expenditures	<u>649,293</u>	<u>649,293</u>	<u>622,293</u>	<u>27,000</u>
NET CHANGE IN FUND BALANCE	<u>\$13,707</u>	<u>\$13,707</u>	13,227	<u>(\$480)</u>
BEGINNING FUND BALANCE			<u>16,867</u>	
ENDING FUND BALANCE			<u>\$30,094</u>	

See accompanying notes to financial statements

CITY OF LARKSPUR
HOUSING IN LIEU SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Use of money and property			\$615	\$615
Other revenue			18,038	18,038
Total Revenues			<u>18,653</u>	<u>18,653</u>
EXPENDITURES:				
Current:				
Capital outlay	\$120,000	\$120,000		120,000
Total Expenditures	<u>120,000</u>	<u>120,000</u>		<u>120,000</u>
NET CHANGE IN FUND BALANCE	<u>(\$120,000)</u>	<u>(\$120,000)</u>	18,653	<u>\$138,653</u>
BEGINNING FUND BALANCE			<u>78,810</u>	
ENDING FUND BALANCE			<u>\$97,463</u>	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUND

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

INTERNAL SERVICE FUND

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City's Insurance Fund provides for the payment of the worker's compensation and liability claims.

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

	Governmental Activities- Insurance Internal Service Fund
	Fund
ASSETS	
Cash and investments (Note 3):	\$406,378
Deposit - pay as you go	60,000
Interest receivable	207
Deposit with risk pool (Note 12)	18,371
Total Assets	484,956
LIABILITIES	
Accounts payable	3,567
Claims payable (Note 12)	388,720
Total Liabilities	392,287
NET ASSETS	
Unrestricted	92,669
Total Net Assets	\$92,669

See accompanying notes to financial statements

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

	Governmental Activities- Insurance Internal Service Fund
OPERATING EXPENSES	
Claims and administrative expense	<u>\$94,371</u>
Operating Income (Loss)	<u>(94,371)</u>
NON-OPERATING INCOME	
Interest income	<u>2,232</u>
OTHER FINANCING SOURCES (USES)	
Operating transfers in (Note 4)	<u>903,786</u>
Change in net assets	811,647
BEGINNING NET ASSETS (DEFICIT)	<u>(718,978)</u>
ENDING NET ASSETS	<u><u>\$92,669</u></u>

See accompanying notes to financial statements

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

	Governmental Activities- Insurance Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Claims paid	<u>(\$87,802)</u>
Net Cash Provided (Used) from Operating Activities	<u>(87,802)</u>
CASH FLOWS FROM NONCAPITAL ACTIVITIES	
Receipts from other funds	(411,631)
Transfers in	<u>903,786</u>
Net Cash Flow from NonCapital Activities	<u>492,155</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,025</u>
Net Cash Flows	406,378
Cash and investments at beginning of period	<u> </u>
Cash and investments at end of period	<u><u>\$406,378</u></u>
Reconciliation of Operating Income (Loss) to Cash Flows	
from Operating Activities:	
Operating income (loss)	(\$94,371)
Change in assets and liabilities:	
Deposit with risk pool	42,412
Accounts payable	700
Claims payable	<u>(36,543)</u>
Cash Flows from Operating Activities	<u><u>(\$87,802)</u></u>

See accompanying notes to financial statements

FIDUCIARY FUND

Fiduciary funds are used to account for assets held by the City as an agent or in trust for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF LARKSPUR
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2011

	Agency Funds
ASSETS	
Restricted cash and investments (Note 3)	\$3,042,793
Accounts receivable	338,455
Interest receivable	2,131
Deposit with risk manager	50,000
Prepaid items	14,056
	<u>\$3,447,435</u>
Total Assets	<u>\$3,447,435</u>
 LIABILITIES	
Accounts payable	\$124,060
Accrued payroll	230,133
Deposits	26,668
Claims payable	461,890
Due to property owners & bondholders	1,109,671
Due to Ross Valley Paramedic Authority	1,159,111
Due to Twin Cities Police Authority	296,064
Compensated absences payable	39,838
	<u>\$3,447,435</u>
Total Liabilities	<u>\$3,447,435</u>

See accompanying notes to financial statements

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 1 - GENERAL

The City of Larkspur is a residential community located in Marin County approximately fifteen miles north of San Francisco, California. The City was incorporated as a municipal corporation in 1908; population at June 30, 2011 was approximately 12,150.

The City operates under the Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. At June 30, 2011, the City's staff comprised 55.3 budgeted positions. The City provides services to residents primarily by contracting with other governmental agencies and private contractors. City services are provided as follow:

Public Safety - The City provides fire protection services with 18 employees. The City contracts for its Code Enforcement/Building Inspection Services. The City is a member of the Twin Cities Police Authority with the Town of Corte Madera; the Authority provides police services to the City. Paramedic services are provided by Ross Valley Paramedic Authority of which the City is a member. Both of these authorities are described in Note 13.

Public Works and Engineering - The City has 8.8 employees who maintain its streets, curbs, gutters and related public property. The City contracts major construction projects, and some engineering services.

Recreation, Library and Day Care services are provided by a total of 18.5 employees.

Planning, Administration - and other services are provided by a total of 10 employees.

In addition, the City employs seasonal recreation personnel and part time hourly Library employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Larkspur conform with generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies:

A. *Reporting Entity*

The financial statements of the City of Larkspur include the financial activities of the City. There are no component units.

B. *Basis of Presentation*

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

The financial statements described below are presented.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City). These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

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

General Fund - To account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. This fund accounts for all financial transactions not accounted for in the other funds.

Gas Tax Fund – To account for taxes raised under Street and Highway Code Sections 2105, 2106, 2107 and 2107.5 and expenditures used for the maintenance and construction of city streets.

Housing in Lieu Fund – To account for revenue received from developers to be used for future affordable housing.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Twin Cities Child Care Fund – To account for revenue received from participants and expenditures used for the Day Care Center.

Capital Projects Fund- To account for the City's major capital improvements not provided for in one of the other capital projects funds.

The City also reports the following fund types:

Internal Service Fund – Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City's Insurance Fund provides for the payment of the worker's compensation and liability claims.

Fiduciary Funds – These Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds, in accordance with the conditions of the agreements. Agency Funds are purely custodial and do not involve measurement of results of operations.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those 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 since they are remitted shortly after year end. Fines collected by the City, licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

Expenditures are also generally recognized under the modified accrual basis of accounting. Exceptions to this rule is principal and interest on long-term debt, which is not recognized by governmental funds until it is due, and the current portion of compensated absences payable.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City follows Financial Accounting Standards Board Statements issued before November 30, 1989 which did not conflict with Governmental Accounting Standards Board Statements.

Non-exchange transactions, in which the City gives or receives value without directly, receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

E. *Budgets and Budgetary Accounting*

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30 the City Manager submits to the City Council a proposed operating budget for the following fiscal year. This budget includes proposed expenditures by fund and departments and the revenues expected to finance them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution before July 1.
4. The City Manager is authorized to transfer budgeted amounts between line items within any department; however, any revisions which alter total expenditures of the City must be approved by City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, all Special Revenue Funds, except the Park Development, Transportation Congestion, Business Enhancement, Road Impact Fees, Heritage Preservation, Property Development Special Revenue Funds, and the Capital Projects Fund.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that proprietary funds do not budget depreciation, but budget for capital outlay. Budget/actual comparisons in this report use this budgetary basis. These budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to original appropriations.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Expenditures in Excess of Appropriations

The funds below incurred expenditures in excess of appropriations in the amounts below. These funds had sufficient fund balances or revenues to finance these expenditures.

Fund	Excess of Expenditures Over Appropriations
Summer School	\$74,884
Tidal Waves Swim Team	312

G. Cash Flows

Proprietary fund cash and investments are grouped in the preparation of statements of cash flows as they are considered cash and cash equivalents. Proprietary fund cash and investments represent allocations of pooled cash and investments composed of cash or investments with a maturity less than three months.

H. Property Tax

Property tax revenue is recognized in the fiscal year for which the tax is levied. The County of Marin levies, bills, and collects property taxes and special assessments for the City. The County remits the entire amount levied and collects all delinquencies, retaining all interest and penalties.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

I. Compensated Absences Payable

The City accounts for the current portion of its governmental funds’ liability for accrued vacation payable as part of its accrued payroll in the general fund and a special revenue fund, as it is expected to be repaid from available expendable resources. The long-term portion of this liability is recorded in the Statement of Net Assets. Sick leave and other such absences do not vest and are not accrued.

Changes in the long-term portion of compensated absences were as follows:

	2011	2010
Beginning balance	\$193,022	\$175,514
Net change	(120,744)	17,508
Ending Balance	\$72,278	\$193,022

Compensated absences are liquidated by the fund that has recorded the liability as they become due.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. *Deferred Compensation Plans*

Employees of the City and the Twin Cities Police Authority may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal revenue Code 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The City signed Deferred Compensation Plan administration agreements which require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

NOTE 3 - CASH AND INVESTMENTS

The City's dependence on property tax receipts, which are received semi-annually, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The City pools cash from all sources and all funds so that it can be safely invested at maximum yields, consistent with safety and liquidity, while individual funds can make expenditures at any time. Investment income is allocated among funds on the basis of average quarter-end cash and investment balances in these funds.

A. *Policies*

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its special assessment debt issues; the City normally invests only in the California Local Agency Investment Fund pool administered by the State.

The City's investments are carried at fair value instead of cost, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agency agreements.

Cash and investments available for City operations	\$13,626,396
Cash and investments in Fiduciary Funds (separate statement)	<u>3,042,793</u>
 Total City Cash and Investments	 <u><u>\$16,669,189</u></u>

C. Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the City's Investment Policy where the City's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	No Limit	No Limit
U.S. Agency Securities	5 years	N/A	50%	No Limit
Bankers' Acceptances	180 days	A-1	30%	10%
Commercial Paper	180 days	A	15%	10%
Repurchase Agreements	30 days	N/A	10%	No Limit
Certificates of Deposit	5 years	FDIC	30%	\$99,000
California Local Agency Investment Fund (LAIF)	N/A	N/A	No Limit	\$20,000,000
Money Market Mutual Funds	N/A	Top rating category	20%	No Limit
Investment Trust in California (CalTrust)	N/A	N/A	No Limit	\$20,000,000

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2011, these investments matured in an average of 237 days.

The City is a participant in the Short-Term Fund of the Investment Trust of California (CalTrust), a joint powers authority and public agency established by its members under the provisions of Section 6509.7 of the California Government Code. Members and participants are limited to California public agencies. CalTrust is governed by a Board of Trustees of seven Trustees, at least seventy-five percent of whom are from the participating agencies. The City reports its investment in CalTrust at the fair value amount provided by CalTrust, which is the same as the value of the pool shares. The balance is available for withdrawal on demand, and is based on the accounting records maintained by CalTrust. Included in CalTrust's investment portfolio are: United States Treasury Notes, Bills, Bonds or Certificates of Indebtedness; registered state warrants or treasury notes or bonds; California local agency bonds, notes, warrants or other indebtedness; federal agency or United States government-sponsored enterprise obligations; bankers acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term notes; money market mutual funds; notes, bonds or other obligation secured by a first priority security interest in securities authorized under Government Code Section 53651; and mortgage passthrough securities, collateralized mortgage obligations, and other asset – backed securities. CalTrust's Medium-Term Fund has a target portfolio duration of 0 to 4 years. At June 30, 2011, these investments matured in an average of 650 days.

Money Market funds are available for withdrawal and at June 30, 2011, have an average maturity of 32 days.

NOTE 4 - INTERFUND TRANSFERS

A. Current Interfund Balances

Current interfund balances are amounts due from one fund to another, all of which are expected to be repaid in the normal course of business. As of June 30, 2011, interfund balances were as follows:

Due from other funds	Due to other Funds	Amount
Road Impact Fees	Gas Tax	\$36,282
	Total Due to other Funds	\$36,282

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 4 - INTERFUND TRANSFERS (Continued)

B. Interfund Transfers

With Council approval, resources may be transferred from one City fund to another. Interfund transfers for the year ended June 30, 2011 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Gas Tax	\$150,000
	Capital Projects	134,108
	Non-Major Governmental Funds	40,000
Gas Tax	Capital Projects	152,237
	Non-Major Governmental Funds	150,000
Capital Projects	General Fund	63,455
	Gas Tax	27,652
	Non-major Governmental Funds	232,213
Internal Service Fund	General Fund	100,000
	Capital Projects	803,786
	Total Interfund Transfers	<u>\$1,853,451</u>

NOTE 5 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation 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:

Land Improvements	40 years
Street, Curbs, & Gutters	40 years
Machinery & Equipment	10 years
Buildings	40 years
Vehicles	10 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 5 – CAPITAL ASSETS (Continued)

Changes in capital assets were as follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$830,756			\$830,756
Total capital assets not being depreciated	830,756			830,756
Capital assets being depreciated:				
Land Improvements	4,664,915	\$27,612		4,692,527
Streets, Curbs, & Gutters	3,225,534	865,908		4,091,442
Machinery & Equipment	1,384,820	50,775	(\$17,263)	1,418,332
Buildings	3,229,986	10,318		3,240,304
Vehicles	2,171,839		(12,000)	2,159,839
Total capital assets being depreciated	14,677,094	954,613	(29,263)	15,602,444
Less accumulated depreciation for:				
Land Improvements	(643,142)	(117,388)		(760,530)
Streets, Curbs, & Gutters	(171,324)	(102,286)		(273,610)
Machinery & Equipment	(1,259,764)	(62,685)	17,263	(1,305,186)
Buildings	(1,224,474)	(75,881)		(1,300,355)
Vehicles	(1,509,089)	(105,386)	8,400	(1,606,075)
Total accumulated depreciation	(4,807,793)	(463,626)	25,663	(5,245,756)
Net capital assets being depreciated	9,869,301	490,987	(3,600)	10,356,688
Governmental activity capital assets, net	\$10,700,057	\$490,987	(\$3,600)	\$11,187,444

A. Capital Asset Contributions

Some capital assets may be acquired using Federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 5 – CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

	Depreciation Expense
General government	\$235,758
Fire	143,316
Public works/streets	8,597
Public works/parks	5,731
Recreation	29,254
Library	4,899
Special projects	36,071
Total Governmental Activities	\$463,626

NOTE 6 – LOAN RECEIVABLE

On August 11, 2004, the City entered into a \$1,050,000 loan agreement with WestAmerica Bank as described in Note 7 below. The City then loaned \$400,000 of the proceeds to the Larkspur School District. The City and the School District used the proceeds for the construction of a multi-use playfield at the Hall Middle School campus. The balance of the loan with Larkspur School District as of June 30, 2011 is \$84,264.

NOTE 7 – LONG-TERM DEBT

The City's long-term debt is summarized below:

Type of Obligation	Authorized and Issued	Balance June 30, 2010	Retirements	Balance June 30, 2011	Current Portion
West America Bank	\$1,050,000	\$361,907	\$140,744	\$221,163	\$146,070
Fire Engine Lease	440,000	339,500	61,712	277,788	64,661
Total Governmental Activity Debt	\$1,490,000	\$701,407	\$202,456	\$498,951	\$210,731

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 7 – LONG-TERM DEBT (Continued)

A. *West America Bank*

On August 11, 2004, City entered into a \$1,050,000 loan agreement with West America Bank. The City then turned around and loaned \$400,000 of the proceeds to the Larkspur School District. The City and the School District used the proceeds for the construction of a multi-use playfield at the Hall Middle School Campus. The loan with West America Bank bears interest at 3.75 percent and is payable in semi-annual principal and interest payments of \$47,359, commencing September 1, 2004 through August 1, 2012.

B. *Fire Engine Lease*

In December 2006, the City entered into a \$440,000 lease agreement with Oshkosh Capital, for the purpose of financing the purchase of a fire engine. The lease bears interest at a rate of 4.78 percent and is payable annually with interest and principal payments commencing July 10, 2008 through July 10, 2014.

C. *Debt Service Requirements*

At June 30, 2011, the fire engine annual lease along with the West America Bank loan payments to maturity, including interest payments, were as follows:

Year ending June30,	Principal	Interest	Total
2012	\$210,731	\$20,215	\$230,946
2013	142,845	11,595	154,440
2014	70,991	6,949	77,940
2015	74,384	3,556	77,940
Total	<u>\$498,951</u>	<u>\$42,315</u>	<u>\$541,266</u>

NOTE 8 - SPECIAL ASSESSMENT DISTRICT DEBT WITH NO CITY COMMITMENT

The City is the collecting and paying agent for the debt of the special assessment districts below, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, the debt is not included in the City's financial statements. The outstanding balance of each of these debt issues as of June 30, 2011 is as follows:

Drake's Landing Residential Community	\$655,000
LMFA Dredging and Maintenance project	920,000
North Magnolia Avenue Assessment District	155,000

At June 30, 2011, fiscal agents for these debt issues held funds, which are pledged for the payment of these debt issues. The California Government Code requires these monies be invested in accordance with the City ordinance, resolution or indenture, unless there are specific state statutes regarding the investment.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 9 – NET ASSETS AND FUND BALANCE

A. Net Assets

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

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, and debt service requirements.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balance

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact and assets not expected to be converted to cash, such as prepaids, are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose.

Committed fund balances have constraints imposed by formal action of the Council which may be altered only by formal action of the Council. Nonspendable amounts subject to Council commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Council or its designee and may be changed at the discretion of the Council or its designee. This category includes Nonspendables, when it is the Council's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, which have not been restricted or committed.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 9 – NET ASSETS AND FUND BALANCE (Continued)

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

Detailed classifications of the City's Fund Balances, as of June 30, 2011, are below:

Fund Balance Classifications	General Fund	Gas Tax	Housing in Lieu	Twin Cities Child Care	Capital Projects	Other Governmental Funds	Total
Nonspendable:							
Items not in spendable form:							
Prepaid Items	\$22,971			\$300			\$23,271
Total Nonspendable Fund Balances	22,971			300			23,271
Restricted for:							
Transportation Congestion						\$453,070	453,070
Gas Tax		\$121,720					121,720
Storm Drain Run Off						6,210	6,210
Measure A						458,519	458,519
Total Restricted Fund Balances		121,720				917,799	1,039,519
Committed to:							
State Bail Out	321,614						321,614
Business Enhancement						46,848	46,848
Road Impact Fees						659,222	659,222
King Mountain Improvement						42,706	42,706
Greenbrae Marina Improvement						9,218	9,218
East Sir Francis Drake						64,880	64,880
Capital Projects					\$6,105,517		6,105,517
Total Committed Fund Balances	321,614				6,105,517	822,874	7,250,005
Assigned to:							
Housing in Lieu			\$97,463				97,463
Twin Cities Child Care				29,794			29,794
Park and Property Development						85,498	85,498
Transit Mitigation						434,627	434,627
Heritage Preservation						143,395	143,395
Summer School						191,561	191,561
Tidal Waves Swim Team						16,304	16,304
Total Assigned Fund Balances			97,463	29,794		871,385	998,642
Unassigned:							
General Fund	4,174,490						4,174,490
Total Unassigned Fund Balances	4,174,490						4,174,490
Total Fund Balances	\$4,519,075	\$121,720	\$97,463	\$30,094	\$6,105,517	\$2,612,058	\$13,485,927

C. Minimum Fund Balance Policy

On June 15, 2011 the City Council adopted resolution #41-11 establishing the General Fund reserve policy.

Reserve Levels

The City will set aside funds into three designated reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, and key infrastructure and capital projects. These include the Catastrophic Reserve, Budget Stabilization Reserve, and Capital and Special Projects Reserve.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 9 – NET ASSETS AND FUND BALANCE (Continued)

The City commits to maintaining these reserves at a minimum of 25% of General Fund annual operating expenditures (minus one-time expenditures), equally divided between the Catastrophic Reserve (15%) and Budget Stabilization Reserve (10%), excluding the Capital and Special Projects Reserve. The General Fund Reserve Policy is reviewed by the City Council as part of the annual operating budget review and adoption process. Appropriations of any General Fund reserves require formal Council authorization.

Should a catastrophic disaster or loss of a significant source of the City's sales tax revenue occur, the required reserve level should be adequate to meet the City's immediate financial needs. For example, in the event of natural disaster, the Catastrophic Reserve would provide necessary coverage for basic operating expenses for approximately ninety days, including salary and benefits for safety and non-safety City employees, while still meeting debt service obligations. This time frame would enable the City to explore other available cash alternatives, including the use of internal service funds. Likewise, should the City experience a loss of a primary sales tax contributor, the reserve level in the Budget Stabilization Fund would provide for a two year transition period, giving the City adequate time to realign its operating costs with available resources, while minimizing service impacts.

D. *Budget Stabilization*

Funds reserved under this category shall be used to mitigate, should they occur, annual budget revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time expenditures that will result in future efficiencies and/or budgetary savings. Examples of "economic triggers" and one-time uses include, but are not limited to:

- Significant decrease in property or sales tax, or other economically sensitive revenues;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in revenue due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 10 - PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts.

The Plans' provisions and benefits in effect at June 30, 2011, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.4% - 3.0%	2.0% - 2.5%
Required employee contribution rates	9%	8%
Required employer contribution rates	35.617%	15.123%

The City's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 10 - PENSION PLAN (Continued)

The Plans' actuarial value (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2007	\$1,648,159,522	\$1,422,143,105	\$226,016,417	86.3%	\$200,537,256	112.7%
2008	1,755,559,311	1,517,609,609	237,949,702	86.4%	210,590,567	113.0%
2009	1,802,882,330	1,520,081,328	282,801,002	84.3%	221,600,192	127.6%

Miscellaneous Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2007	\$1,315,454,361	\$1,149,247,298	\$166,207,063	87.4%	\$289,090,187	57.5%
2008	1,537,909,933	1,337,707,835	200,202,098	87.0%	333,307,600	60.1%
2009	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%

As required by State law, effective July 1, 2005, the City's Safety Plan was terminated, and the employees in the plan were required by CALPERS to join a new State-wide pool. One of the conditions of entry was that the City true-up any unfunded liabilities or overfunded assets in the former Plan, either by paying cash or by increasing or decreasing its future contribution rates through a Side Fund offered by CALPERS. The City satisfied its Miscellaneous Plan's unfunded liability of \$1,304,765 agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 11 years. It satisfied its Safety Plan's liability of \$2,449,527 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 6 years.

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Annual required contributions for fiscal years 2011, 2010, and 2009 amounted to \$1,499,275, \$1,536,681, \$994,034, and respectively. The City made these contributions as required by CALPERS.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 10 - PENSION PLAN (Continued)

B. Social Security

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under Social Security, which requires these employees to contribute 4.2% of their pay and the City to contribute 6.2% of the employees pay. Total contributions to Social Security during the year ended June 30, 2011 amounted to \$45,073.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

During fiscal year 2009-2010, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. The City has elected to use the alternative measurement method as prescribed by GASB 45. Required disclosures are presented below.

A. Plan Description and Funding Policy

The City provides postretirement health care benefits to all employees who retire on or after attaining a minimum of 10 years of public service. For Safety employees hired prior to 9/1/08, the City will pay for the cost of medical coverage for the employee. In addition, for an employee who retires from the City and has completed 15 or more years of public service, the City will pay for the cost of medical coverage for the employee and their spouse. For Safety employees hired after 9/1/08, the City will pay for medical coverage for the employee only. Current Miscellaneous employees hired prior to 7/1/07 who have completed 10 or 15 years of public service receive the same benefits as the Safety employees. For Miscellaneous employees hired after 7/1/07 the City will pay for medical coverage for the employee only. All eligible retirees can continue medical coverage with the Plan provided for active employees. The cost of the benefits provided by the Plan is currently being paid by the City on a pay-as-you-go basis. The long-term strategy for funding the benefits provided under the Plan is currently being evaluated. Currently, 41 retirees meet the eligibility requirements and receive reimbursements.

B. Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2009 actuarial valuation using the GASB 45 Alternative Measurement Method. This is a projected unit credit method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 5.0% investment rate of return, (b) 5.0% ultimate trend rate, and (c) health care cost trend rates from 4.0% to 7.0% for medical benefits. Actuarially determined amounts are subject to revision at least tri-annually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (Continued)

C. Funding Progress and Funded Status

The City's Net OPEB Obligation (NOO) is recorded in the Statement of Net Assets and is calculated as follows:

Annual required contribution	\$582,129
Interest on net OPEB obligation	29,106
Amortization of OPEB obligation	<u>(37,868)</u>
Annual OPEB cost	<u>573,367</u>
Contributions made:	
Current year premiums paid	<u>286,410</u>
(Decrease) increase in net OPEB obligations	<u>286,957</u>
Net OPEB obligation (asset) June 30, 2010	<u>582,129</u>
Net OPEB obligation (asset) June 30, 2011	<u><u>\$869,086</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2009, amounted to \$7,493,551.

The Plan's annual required contributions and actual contributions for fiscal year ended June 30, 2011 is set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2010	\$833,138	\$251,009	30%	\$582,129
June 30, 2011	573,367	286,410	50%	869,086

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the July 1, 2009 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
7/1/2009	\$0	\$7,493,551	\$7,493,551	0.00%	\$4,733,338	158.31%

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 12 - WORKER'S COMPENSATION AND GENERAL LIABILITY PROGRAMS

The City participates in a joint powers agreement with the Bay Cities Powers Insurance Authority, which are workers' compensation and general liability risk pools. The City reports all of its risk management activities in its Insurance Internal Service Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

A. Coverage and Deposits

Bay Cities Joint Powers Insurance Authority Workers Compensation:

Bay Cities Joint Powers Insurance Authority was created in 1986 by an agreement between certain public agencies in Northern California to provide certain insurance coverage. It is governed by a Board of Directors which is comprised of officials appointed by each member Agency.

The Authority provides coverage from its own resources for the first \$1,000,000 of loss per accident. Excess coverage is provided by an outside insurance carrier up to statutory limits (\$300,000,000).

As defined by Government Accounting Standards Board (GASB) Statement 10, the Bay Cities Joint Powers Insurance Authority is "a claims servicing or account pool." The Authority manages separate accounts for each pool member from which losses and expenses of that member are paid, up to the retention limit. The Authority purchases commercial excess insurance. The annual assessment of each member includes allocation for loss payments, expenses, and excess insurance premiums.

Annually, the Authority evaluates the assets of each pool member in comparison with expected future liabilities. The "financial risk position" of each member is determined by subtracting case reserves, claims incurred but not reported amounts and claim development from members' deposit balances. If a negative risk position is found, a supplemental amount is added to the member's annual assessment.

<i>Deposit with risk pool:</i>	<u>2011</u>	<u>2010</u>
Beginning balance	\$60,783	\$142,987
Interest earned	354	619
Expenses	<u>(42,766)</u>	<u>(82,823)</u>
Ending balance	<u>\$18,371</u>	<u>\$60,783</u>
 <i>Claims Payable:</i>		
Outstanding claims	\$282,686	\$343,209
Claims incurred but not reported	160,158	151,567
Claims paid	<u>(183,934)</u>	<u>(212,090)</u>
Total liability for unpaid claims	<u>\$258,910</u>	<u>\$282,686</u>

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 12 - WORKER'S COMPENSATION AND GENERAL LIABILITY PROGRAMS (Continued)

Bay Cities Joint Powers Insurance Authority - Liability Coverage:

Bay Cities Joint Powers Insurance Authority (BCJPIA) covers general liability claims in an amount up to \$1,000,000. The City is self insured up to \$100,000 per claim. Once the City's deductible is met, BCJPIA becomes responsible for payment of all claims up to the limit.

Bay Cities Joint Powers Insurance Authority does not purchase excess insurance above the self-insured retention limit. Instead, it provides a risk sharing pool for its members from \$1,000,000 up to \$28,000,000 for each occurrence through the California Affiliated Risk Management Authorities.

The City's contributions with BCJPIA 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.

Financial statements for BCJPIA may be obtained from Bickmoore Risk Services, 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

	2011	2010
Outstanding claims	\$142,577	\$285,872
Claims incurred but not reported	73,635	72,243
Claims paid	(86,402)	(215,538)
Total liability for unpaid claims	\$129,810	\$142,577

Settlements have not exceeded insurance coverage in the past three fiscal years.

NOTE 13 - JOINT POWERS AGENCIES

A. General

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, 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. Obligations and liabilities of the JPAs are not those of the City and the other participating agencies.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influences by member agencies beyond their representation on the Board.

The JPAs are discussed in this note and in Note 12.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 13 - JOINT POWERS AGENCIES (Continued)

B. *Twin Cities Police Authority*

The Twin Cities Police Authority was created on January 30, 1980 by an agreement between the City of Larkspur and the Town of Corte Madera. The agreement provides for the operation and management of the Twin Cities Police Department, which renders police services to both these communities. The Authority is controlled by a four member Council consisting of two Council Members from each community. Neither community exercises specific control over the Authority's activities.

Twin Cities Police Authority is financed equally by its two parent communities, except for patrol expenditures which are shared on a pro rata basis and certain specific expenditures which are paid for by the benefiting community.

The City of Larkspur maintains the books and records of the Twin Cities Policy Authority. Audited financial statements may be obtained by mailing a request to the Twin Cities Police Authority at 400 Magnolia Avenue, Larkspur, CA 94939.

C. *Ross Valley Paramedic Authority*

The Ross Valley Paramedic Authority was created on December 14, 1982 by the Town of Corte Madera, Town of Fairfax, Kentfield Fire Protection District, City of Larkspur, County of Marin, Town of Ross, Town of San Anselmo and Sleepy Hollow Fire Protection District to provide paramedic services to these eight public entities. The Authority is controlled by an eight member board consisting of one member from each of the participating entities. None of the entities exercises specific control over the budgeting and financing of the Authority's activities. The County of Marin Fire Department assigns seven full-time County employees as well as supervision by County fire department superior officers to render the paramedic service.

Ross Valley Paramedic Authority's operations are financed by its members, through a tax on each residential unit and an equivalent tax for commercial property. During the fiscal year ended June 30, 2011, the tax was \$42 unit, which includes a collection fee of \$0.50 levied by the County of Marin.

The City of Larkspur maintains the books and records of the Ross Valley Paramedic Authority. Audited financial statements may be obtained by mailing a request to the Ross Valley Paramedic Authority at 777 San Anselmo Avenue, San Anselmo, CA 94960.

D. *Marin Telecommunications Authority*

The Marin Telecommunications Authority was created on January 19, 1997, by an agreement between the County of Marin, Cities of Belvedere, Larkspur, Mill Valley, Sausalito, San Rafael, and Towns of Corte Madera, Ross, San Anselmo, Fairfax and Tiburon. The agreement provides for the regulation of rates for certain cable television services and equipment pursuant to the Cable Television Consumer Protection and Competition Act of 1992. The financial responsibility of each member is based on its number of cable television subscribers. Audited financial statements may be obtained by mailing a request to the Authority at Marin County Auditor-Controller, County of Marin, Room 209, San Rafael, CA 94903.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2011

NOTE 13 - JOINT POWERS AGENCIES (Continued)

E. *Marin General Services Authority*

The Marin General Services Authority (MGSA) was created in 2005 by the cities, towns, and County of Marin and two Community Service Districts to offer various public services effectively and efficiently throughout the county in a uniform manner with minimal expense. These services now include Streetlight Maintenance, Abandoned Vehicle Abatement, and Taxicab Regulation. The City has been a member of the MGSA since the Authority's inception.

F. *Marin Emergency Radio Authority*

The City is a member of Marin Emergency Radio Authority (MERA), a joint powers agency which operates under a joint powers agreement among the County of Marin and twenty-five local agencies within the County. The Authority's purpose is to plan, finance, implement, manage, own and operate a multi-jurisdictional and County-wide public safety and emergency radio system. Each agency member has agreed to fund a pro-rata share of the debt service of the Marin Public Safety and Emergency Radio System, which is a wireless radio communications system. Audited financial statements may be obtained by mailing a request to the Authority at Marin County Auditor Controller, County of Marin, Room 209, San Rafael, CA 94903.

G. *Major Crime Task Force*

The Major Crime Task Force was created between the County of Marin, cities and towns of Belvedere, Corte Madera, Fairfax, Larkspur, Mill Valley, Novato, Ross, San Anselmo, Sausalito and Tiburon. The purpose of the force is perform law enforcement functions for their respective communities and the desire to help each other in the detection, apprehension and prosecution of major crimes including highly mobile criminal narcotic trafficking, thus reducing major narcotic activity and combating its influence throughout the County.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The City participates in several Federal and State grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the federal Single Audit Act of 1984 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examinations by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

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CITY OF LARKSPUR

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Park Development - revenue received from developer fees which is used for future park development.

Property Development - revenue received from developers which is used for certain capital outlays.

Transportation Congestion – revenue received from the State of California to be used for street maintenance, rehabilitation, reconstruction, or storm damage.

Transit Mitigation - revenue received from new project developments is used for improvements to the City traffic system.

Business Enhancement - one percent of the transient occupancy tax received by the City is used to enhance the business community.

Heritage Preservation - funds projects which enhance the City of Larkspur's heritage.

Summer School - revenue received from participants is used for the summer school sessions.

Tidal Waves Swim Team - revenue received from participants is used for the swim team.

Storm Drain Run Off - fees to cover mandated program costs required by the Federal and State Clean Water Acts.

Road Impact Fees - accounts for fees paid by developers to provide for the design and construction of street and road improvements.

Measure A – revenue from the County of Marin Transportation ½ cent sales tax. Used for projects that reduce traffic congestion and improve transportation in Marin County.

Capital Projects Funds

King Mountain Improvement - accounts for the cost of acquisition of King Mountain public open space.

Greenbrae Marina Improvement - accounts for the maintenance of the improvements in Greenbrae Marina.

East Sir Francis Drake - accounts for surplus assessment district funds to be spent in the Larkspur Landing Area.

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

SPECIAL REVENUE FUNDS						
	Park Development	Property Development	Transportation Congestion	Transit Mitigation	Business Enhancement	Heritage Preservation
ASSETS						
Cash and investments:						
Available for operations	\$51,628	\$34,303	\$452,751	\$434,333	\$42,174	\$146,455
Accounts receivable					4,674	445
Interest receivable			319	294		
Due from other funds						
Total Assets	<u>\$51,628</u>	<u>\$34,303</u>	<u>\$453,070</u>	<u>\$434,627</u>	<u>\$46,848</u>	<u>\$146,900</u>
LIABILITIES						
Accounts payable	\$432					\$3,505
Accrued payroll						
Total Liabilities	<u>432</u>					<u>3,505</u>
FUND EQUITY						
Fund balances						
Restricted			\$453,070			
Committed					\$46,848	
Assigned	\$51,196	\$34,303		\$434,627		143,395
Total Fund Balances	<u>51,196</u>	<u>34,303</u>	<u>453,070</u>	<u>434,627</u>	<u>46,848</u>	<u>143,395</u>
Total Liabilities and Fund Balances	<u>\$51,628</u>	<u>\$34,303</u>	<u>\$453,070</u>	<u>\$434,627</u>	<u>\$46,848</u>	<u>\$146,900</u>

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Summer School	Tidal Waves Swim Team	Storm Drain Run Off	Road Impact Fee	Measure A	King Mountain Improvement	Greenbrae Marina Improvement	East Sir Francis Drake	
\$227,696	\$32,981	\$5,933	\$622,466	\$223,139	\$42,678	\$18,864	\$64,837	\$2,400,238
97		1,950	474	235,114		255		242,438
			36,282	266	28	19	43	1,540
								36,282
<u>\$227,793</u>	<u>\$32,981</u>	<u>\$7,883</u>	<u>\$659,222</u>	<u>\$458,519</u>	<u>\$42,706</u>	<u>\$19,138</u>	<u>\$64,880</u>	<u>\$2,680,498</u>
\$30,694	\$16,677	\$1,673				\$9,920		\$62,901
5,538								5,538
36,232	16,677	1,673				9,920		68,439
		6,210	\$659,222	\$458,519	\$42,706	9,218	\$64,880	917,799
191,561	16,304							822,874
								871,386
191,561	16,304	6,210	659,222	458,519	42,706	9,218	64,880	2,612,059
<u>\$227,793</u>	<u>\$32,981</u>	<u>\$7,883</u>	<u>\$659,222</u>	<u>\$458,519</u>	<u>\$42,706</u>	<u>\$19,138</u>	<u>\$64,880</u>	<u>\$2,680,498</u>

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

	SPECIAL REVENUE FUNDS					
	Park Development	Property Development	Transportation Congestion	Transit Mitigation	Business Enhancement	Heritage Preservation
REVENUES						
Taxes					\$50,315	
License and permits						
Use of money and property			\$3,353	\$3,288		\$721
Charges for services						
Other agencies			149,949			
Other revenue	\$11,355	\$400				11,778
Total Revenues	11,355	400	153,302	3,288	50,315	12,499
EXPENDITURES						
Current:						
Recreation					53,127	
Special projects						
Public works / parks	32,460					
Capital outlay				1,744		50,013
Total Expenditures	32,460			1,744	53,127	50,013
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,105)	400	153,302	1,544	(2,812)	(37,514)
OTHER FINANCING SOURCES (USES)						
Transfers (out)			(50,893)	(20,000)		
Total Other Financing Sources (Uses)			(50,893)	(20,000)		
NET CHANGE IN FUND BALANCES	(21,105)	400	102,409	(18,456)	(2,812)	(37,514)
BEGINNING FUND BALANCES	72,301	33,903	350,661	453,083	49,660	180,909
ENDING FUND BALANCES	\$51,196	\$34,303	\$453,070	\$434,627	\$46,848	\$143,395

SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Summer School	Tidal Waves Swim Team	Storm Drain Run Off	Road Impact Fee	Measure A	King Mountain Improvement	Greenbrae Marina Improvement	East Sir Francis Drake	
		\$93,830		\$211,488		\$12,419		\$368,052
\$481	\$87		\$182,590					182,590
236,528	72,970		4,319	3,730	\$309	200	\$470	16,958
				34,406				309,498
								184,355
								23,533
237,009	73,057	93,830	186,909	249,624	309	12,619	470	1,084,986
238,728	79,842							371,697
		84,402						84,402
						29,250		32,460
								81,007
238,728	79,842	84,402				29,250		569,566
(1,719)	(6,785)	9,428	186,909	249,624	309	(16,631)	470	515,420
		(20,000)	(150,000)	(181,320)				(422,213)
		(20,000)	(150,000)	(181,320)				(422,213)
(1,719)	(6,785)	(10,572)	36,909	68,304	309	(16,631)	470	93,207
193,280	23,089	16,782	622,313	390,215	42,397	25,849	64,410	2,518,852
\$191,561	\$16,304	\$6,210	\$659,222	\$458,519	\$42,706	\$9,218	\$64,880	\$2,612,059

CITY OF LARKSPUR
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING SCHEDULES OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2011

	TRANSIT MITIGATION			SUMMER SCHOOL		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Use of money and property	\$3,000	\$3,288	\$288		\$481	\$481
Charges for services				\$165,000	236,528	71,528
Total Revenues	<u>3,000</u>	<u>3,288</u>	<u>288</u>	<u>165,000</u>	<u>237,009</u>	<u>72,009</u>
EXPENDITURES						
Current:						
Recreation				163,844	238,728	(74,884)
Special projects						
Capital outlay	46,000	1,744	44,256			
Total Expenditures	<u>46,000</u>	<u>1,744</u>	<u>44,256</u>	<u>163,844</u>	<u>238,728</u>	<u>(74,884)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(43,000)</u>	<u>1,544</u>	<u>44,544</u>	<u>1,156</u>	<u>(1,719)</u>	<u>(2,875)</u>
OTHER FINANCING SOURCES (USES)						
Transfers (out)	(20,000)	(20,000)				
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(20,000)</u>				
NET CHANGE IN FUND BALANCES	<u><u>(\$63,000)</u></u>	<u><u>(18,456)</u></u>	<u><u>\$44,544</u></u>	<u><u>\$1,156</u></u>	<u><u>(1,719)</u></u>	<u><u>(\$2,875)</u></u>
BEGINNING FUND BALANCES		453,083			193,280	
ENDING FUND BALANCES		<u><u>\$434,627</u></u>			<u><u>\$191,561</u></u>	

TIDAL WAVES SWIM TEAM			STORM DRAIN RUN OFF			TOTALS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
	\$87	\$87	\$94,000	\$93,830	(\$170)	\$97,000	\$97,686	\$686
\$80,000	72,970	(7,030)				245,000	309,498	64,498
80,000	73,057	(6,943)	94,000	93,830	(170)	342,000	407,184	65,184
79,530	79,842	(312)				243,374	318,570	(75,196)
			88,000	84,402	3,598	88,000	84,402	3,598
						46,000	1,744	44,256
79,530	79,842	(312)	88,000	84,402	3,598	377,374	404,716	(27,342)
470	(6,785)	(7,255)	6,000	9,428	3,428	(\$35,374)	2,468	\$37,842
			(20,000)	(20,000)		(40,000)	(40,000)	
			(20,000)	(20,000)		(40,000)	(40,000)	
\$470	(6,785)	(\$7,255)	(\$14,000)	(10,572)	\$3,428	(\$75,374)	(37,532)	\$37,842
	23,089			16,782			686,234	
	\$16,304			\$6,210			\$648,702	

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CITY OF LARKSPUR

AGENCY FUNDS

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. The City's Agency Funds are as follows:

East Sir Francis Drake Redemption Fund - accounts for East Sir Francis Drake Assessment District transactions.

Larkspur Marina Community the Facilities District (LMCFD) - accounts for monies held for Marina Dredging and Maintenance and Refunding of LMFA Bonds.

King Mountain Assessment District Fund - accounts for the King Mountain Assessment District transactions.

Ross Valley Paramedic Authority Fund - accounts for assets belonging to the Ross Valley Paramedic Authority held in trust by the City.

Drake's Landing Community Facilities District Fund - accounts for monies held for the refunding of the Drake's Landing Assessment District Bonds.

North Magnolia Agency Fund - accounts for the Magnolia sidewalk assessment district transactions.

Twin Cities Police Authority - accounts for assets belonging to the Twin Cities Police Authority held in trust by the City.

CITY OF LARKSPUR
 AGENCY FUNDS
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2011

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
<u>East Sir Francis Drake Redemption Fund</u>				
Restricted cash and investments	\$88,318	\$873		\$89,191
Interest receivable	286	59	\$286	59
Total Assets	\$88,604	\$932	\$286	\$89,250
Due to property owners & bondholders	\$88,604	\$932	\$286	\$89,250
Total Liabilities	\$88,604	\$932	\$286	\$89,250
<u>Larkspur Marina Community Facilities District</u>				
Restricted cash and investments	\$760,883	\$222,752	\$352,430	\$631,205
Accounts receivable	3,206	4,360	3,206	4,360
Interest receivable	2,393	398	2,393	398
Total Assets	\$766,482	\$227,510	\$358,029	\$635,963
Accounts payable	\$4,718	\$918	\$4,718	\$918
Due to property owners & bondholders	761,764	226,592	353,311	635,045
Total Liabilities	\$766,482	\$227,510	\$358,029	\$635,963
<u>King Mountain Assessment District Fund</u>				
Restricted cash and investments	\$27,596	\$266	\$4,781	\$23,081
Interest receivable	90	15	90	15
Total Assets	\$27,686	\$281	\$4,871	\$23,096
Due to property owners & bondholders	\$27,686	\$281	\$4,871	\$23,096
Total Liabilities	\$27,686	\$281	\$4,871	\$23,096

CITY OF LARKSPUR
 AGENCY FUNDS
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2011

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
<u>Ross Valley Paramedic Authority Fund</u>				
Restricted cash and investments	\$1,073,478	\$1,693,506	\$1,853,675	\$913,309
Accounts receivable	213,224	47,919		261,143
Interest receivable	3,397	569	3,397	569
Prepaid items	1,375	1,125		2,500
Total Assets	<u>\$1,291,474</u>	<u>\$1,743,119</u>	<u>\$1,857,072</u>	<u>\$1,177,521</u>
Accounts payable	\$20,798		\$6,423	\$14,375
Deposits payable	4,035			4,035
Due to members	1,266,641	\$1,743,119	1,850,649	1,159,111
Total Liabilities	<u>\$1,291,474</u>	<u>\$1,743,119</u>	<u>\$1,857,072</u>	<u>\$1,177,521</u>
<u>Drake's Landing Community Facilities District Fund</u>				
Restricted cash and investments	\$281,292	\$229,629	\$243,426	\$267,495
Accounts receivable	3,713	4,502	3,713	4,502
Interest receivable	838	161	838	161
Total Assets	<u>\$285,843</u>	<u>\$234,292</u>	<u>\$247,977</u>	<u>\$272,158</u>
Accounts payable	\$1,200	\$4,109	\$1,200	\$4,109
Due to property owners & bondholders	284,643	230,183	246,777	268,049
Total Liabilities	<u>\$285,843</u>	<u>\$234,292</u>	<u>\$247,977</u>	<u>\$272,158</u>

(Continued)

CITY OF LARKSPUR
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
<u>North Magnolia Agency Fund</u>				
Restricted cash and investments	\$102,057	\$45,553	\$56,112	\$91,498
Accounts receivable	709	899	709	899
Interest receivable	329	60	329	60
Total Assets	\$103,095	\$46,512	\$57,150	\$92,457
Due to property owners & bondholders	\$103,095	\$46,512	\$57,150	\$92,457
Total Liabilities	\$103,095	\$46,512	\$57,150	\$92,457
<u>Twin Cities Police Authority</u>				
Restricted cash and investments	\$1,212,271		\$185,257	\$1,027,014
Accounts receivable	39,093	\$27,776		66,869
Interest receivable	3,590	583	3,590	583
Deposit with risk manager	50,595		595	50,000
Prepaid items	9,431	2,125		11,556
Total Assets	\$1,314,980	\$30,484	\$189,442	\$1,156,022
Accounts payable	\$55,734	\$105,464	\$55,734	\$105,464
Accrued payroll	225,671	230,133	225,671	230,133
Deposits payable	5,318	17,315		22,633
Claims payable	517,760		55,870	461,890
Due to members	320,773		24,709	296,064
Compensated absences payable	189,724		149,886	39,838
Total Liabilities	\$1,314,980	\$352,912	\$511,870	\$1,156,022
<u>Total Agency Funds</u>				
Restricted cash and investments	\$3,545,895	\$2,192,579	\$2,695,681	\$3,042,793
Accounts receivable	260,913	85,456	7,914	338,455
Interest receivable	10,923	1,845	10,637	2,131
Deposit with risk manager	50,595		595	50,000
Prepaid items	10,806	3,250		14,056
Total Assets	\$3,879,132	\$2,283,130	\$2,714,827	\$3,447,435
Accounts payable	\$81,644	\$110,491	\$68,075	\$124,060
Accrued payroll	225,671	230,133	225,671	230,133
Deposits	9,353	17,315		26,668
Claims payable	517,760		55,870	461,890
Due to property owners & bond holders	1,267,566	504,500	662,395	1,109,671
Due to members (Ross Valley)	1,266,641	1,743,119	1,850,649	1,159,111
Due to members (TCPA)	320,773		24,709	296,064
Compensated absences payable	189,724		149,886	39,838
Total Liabilities	\$3,879,132	\$2,605,558	\$3,037,255	\$3,447,435

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

To the Honorable Mayor and City Council
City of Larkspur, California

We have audited the financial statements of the City of Larkspur as of and for the year ended June 30, 2011, and have issued our report thereon dated September 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. .

As part of our audit, we prepared and issued our separate Memorandum on Internal Control dated September 13, 2011.

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

Maye + Associates

September 13, 2011