

Item 8.1-A

CITY OF LARKSPUR
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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CITY OF LARKSPUR
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the City Council of the
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, 2012, 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 auditing standards generally accepted 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, 2012 and the respective changes in financial position and cash flows, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2012, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the financial statements as a whole.

Mage & Associates

September 11, 2012

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

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 2011-12 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, 2012, the net assets of the City's Governmental Activities totaled \$22 million, as is highlighted in the following chart.

	2011-12	2010-11	Inc./ (Dec.)
Cash & Investments	\$ 10,867,318	\$ 13,626,396	(2,759,078)
Other Assets	2,721,252	2,655,893	65,359
Capital Assets	11,670,090	10,356,688	1,313,402
Total Assets	\$ 25,258,660	\$ 26,638,977	\$ (1,380,317)
Accounts Payable	488,397	534,589	(46,192)
Compensated Absences	79,063	72,278	6,785
Other Liabilities	827,918	976,352	(148,434)
Deferred Revenue	-	-	-
Net OPEB Liability	1,521,512	869,086	652,426
Capital Lease Obligation	288,150	498,951	(210,801)
Total Liabilities	\$ 3,205,040	\$ 2,951,256	\$ 253,784
Net Assets:			
Invested in capital assets, net of debt	12,212,696	10,688,493	1,524,203
Restricted	2,692,340	2,861,336	(168,996)
Unrestricted	7,148,584	10,137,892	(2,989,308)
Total Net Assets	\$ 22,053,620	\$ 23,687,721	\$ (1,634,101)

- ✓ The total net assets for the City's Governmental Activities decreased by \$1,634,101 in 2011-12.
- ✓ The decrease of Cash and Investments is largely attributable to paying off the CalPERS side funds in advance.
- ✓ 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 2010-11 and FY 2011-12 per the actuarial valuation done on FY 2009-10 to comply with GASB Statement No. 45. More detailed information on this amount is found in Note 11.

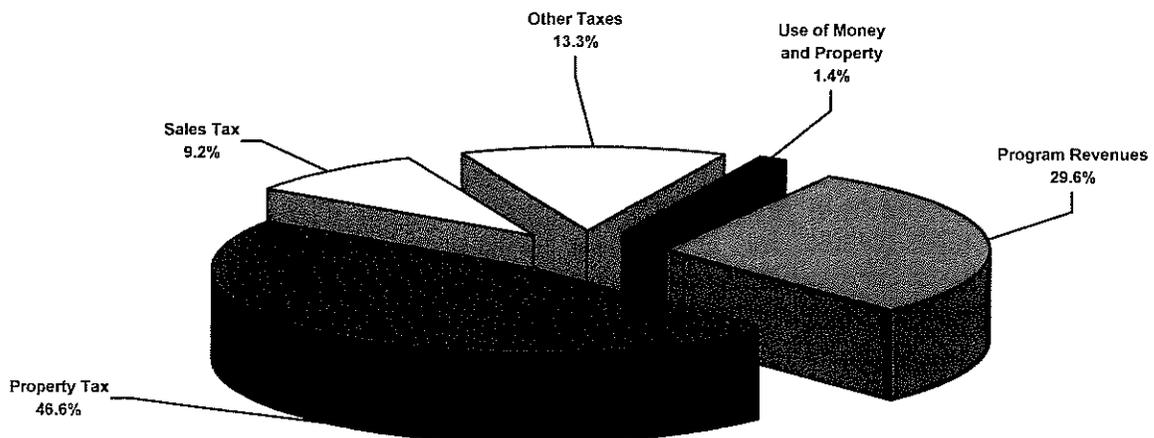
During 2011-12, the City's Governmental Activities were supported by \$17.3 million in revenues, derived from many sources, as is summarized in the next chart.

**Statement of Activities: Governmental Activities
2011-12 Revenues by Source**

Source	2011-12	2010-11	% of Total
Program Revenues:			
Charges for services	\$ 2,801,963	\$ 2,111,673	16.2%
Operating contributions & grants	560,531	512,505	3.2%
Capital contributions & grants	1,748,183	822,846	10.1%
Total Program Revenues	\$ 5,110,677	\$ 3,447,024	29.6%
General Revenues:			
Property tax	8,052,064	7,998,894	46.6%
Sales tax	1,583,273	1,512,190	9.2%
Other taxes	2,306,319	2,238,628	13.3%
Use of Money and Property	234,216	154,130	1.4%
Other income	-	-	0.0%
Total General Revenues	\$ 12,175,872	\$ 11,903,842	70.4%
Total Revenues	\$ 17,286,549	\$ 15,350,866	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 29.6% of total revenue sources for the year. Property tax continues to be our greatest source of revenue at 46.6%. Capital contributions and grants comprised over 10% of Program Revenues during the fiscal year, primarily due to many large projects being completed.

Sources of Revenue - Governmental Activities



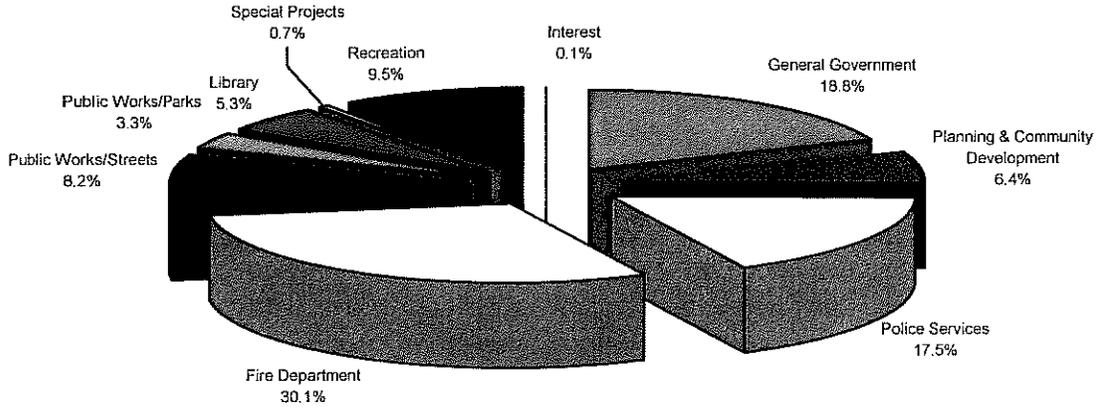
The programs reported as Governmental Activities include all the basic areas of City government, including general government, planning and community development, police services, the fire department, public works, library services, recreation and the interest expense component of debt service. Because 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 \$2,424,126 for 2011-12. This same program reflects total expenses of \$3,425,093 in the next chart. The \$1,000,967 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
2011-12 Expenses by Program**

Program	Total Expense	% of Total
General Government	\$ 3,425,093	18.1%
Planning & Community Development	1,207,925	6.4%
Police Services	3,316,198	17.5%
Fire Department	5,764,972	30.5%
Public Works/Streets	1,604,002	8.5%
Public Works/Parks	630,523	3.3%
Recreation	1,811,843	9.6%
Library	1,003,822	5.3%
Special Projects	136,057	0.7%
Interest on long-term debt	20,215	0.1%
Total	\$ 18,920,650	100.0%

The total expenses of \$18,920,650 are graphically depicted by program area in the next chart.

Expenses by Program - Governmental Activities



The net change in assets from 2010-11 to 2011-12 of (\$1,634,101) reported and discussed earlier is equal to the difference between the total revenues of \$17,286,549 minus total expenses of \$18,920,650 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, 2012, were about \$11,178,073 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	\$ 5,047,404	\$ 3,371,320	\$ 1,676,084
Gas Tax	140,814	173,133	(32,319)
Housing in Lieu	352,680	263,804	88,876
Capital Projects	7,075,126	265,477	6,809,649
Other Governmental Funds	2,889,093	253,310	2,635,783
Total Net Assets	\$ 15,505,117	\$ 4,327,044	\$ 11,178,073

The combined fund balances of \$11,178,073 from the various Governmental Funds comprise about 51% of Total Net Assets at June 30, 2012. These fund balances decreased by about \$2.3 million, or 17%, during 2011-12. Contributing to the decrease was the \$3.1 million paid to CalPERS for the side funds, partially offset by a substantial payment to the Capital Projects fund reimbursing CLASP expenses from prior years and slightly higher General Fund revenues received this year. The following summary of the Statement of Revenues, Expenditures, and Changes in Fund Balance for the Governmental Funds illustrates the details of this net decrease.

Governmental Funds	Total Revenues	Total Expenditures	Excess/(Def.) of Revenues	Other Financing Sources/(Uses)	Net Change in Fund Balance
General	\$ 13,100,164	\$ 15,985,655	\$ (2,885,491)	\$ 42,500	\$ (2,842,991)
Gas Tax	714,912	868,951	(154,039)	-	(154,039)
Housing in Lieu	14,739	23,326	(8,587)	-	(8,587)
Capital Projects	1,273,429	1,451,030	(177,601)	881,733	704,132
Other Governmental Funds	2,183,305	1,265,442	917,863	(924,233)	(6,370)
Subtotal	\$ 17,286,549	\$ 19,594,404	\$ (2,307,855)	\$ -	\$ (2,307,855)
Beginning Fund Balances					13,485,928
Ending Fund Balances					\$ 11,178,073

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 2011-12 fiscal year with a fund balance of \$1,676,084, a decrease of \$2,842,991 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	\$ 13,100,164
Expenditures	15,985,655
Excess of Expenditures	\$ (2,885,491)
Other Financing Sources (Uses)	
Transfers In	200,000
Transfers Out	(157,500)
Net Other Uses	\$ 42,500
Net change to Fund Balance	(2,842,991)
Beginning Fund Balance	4,519,075
Ending Fund Balance	\$ 1,676,084

For the first time in several years General Fund revenues show some signs of recovery. Total revenues of \$13,100,164 were received in 2011-12, as compared with \$12,716,298 in 2010-11. The 3.02% or \$383,866, increase is depicted in the following chart that compares revenue performance for the two years.

	2011-12	2010-11	Inc. (Dec.)	% Inc. (Dec.)
Property Taxes	\$ 8,052,064	\$ 7,998,894	\$ 53,170	0.66%
Sales Tax	1,583,273	1,512,190	71,083	4.70%
Other Taxes	1,782,385	1,667,105	115,280	6.91%
Licenses & Permits	445,836	426,605	19,231	4.51%
Penalties & Fines	50,684	51,062	(378)	-0.74%
Use of Money and Property	216,270	136,101	80,169	58.90%
Other Agencies	45,481	83,051	(37,570)	-45.24%
Charges for Services	689,411	772,340	(82,929)	-10.74%
Other Revenue	234,760	68,950	165,810	240.48%
Total	\$ 13,100,164	\$ 12,716,298	\$ 383,866	3.02%

Property taxes showed an increase of \$53,170. **Sales taxes** reported increased from \$1,512,190 in 2010-11 to \$1,583,273, in 2011-12. This increase in sales taxes is primarily due to increased gasoline prices. Economic conditions will continue to affect this source of revenue. **Other Taxes** increased by approximately 7%. Revenues included in this category are business license fees, franchise fees and transient occupancy taxes. Most revenues in this category increased from FY 2010-11 but are still lagging behind the amounts received prior to the economic downturn. **Penalties and Fines** are basically steady at this time. **Use of Money and Property** includes interest earned on the CLASP fees paid during the fiscal year. **Other**

Agencies decreased by \$37,570, as there were no calls from the state for fire responses this fiscal year, revenue received from the State for library services was discontinued, and Motor Vehicle In-Lieu Fees were discontinued by the State. Charges for services decreased by 10.7%, mostly due to Park and Recreation revenues being affected by the Twin Cities Police Facility construction. 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 increased by \$165,810.

General Fund expenditures totaled \$15,985,655 in 2011-12, an increase of 22%, or \$2,882,515 from 2010-11. The following chart highlights the difference between the two fiscal years by program area. In general, the increase in expenditures was due to the payment made to CalPERS for the side funds. For a more realistic comparison of fiscal years' a chart has been added showing General Fund Expenditures without the side fund payment.

**Two-year Comparison of General Fund Expenditures
Actual Fiscal Year 2011-12**

Program Area	2011-12	2010-11	Inc. (Dec.)	Percent
General Administration	\$ 2,424,126	\$ 1,894,482	\$529,644	28.0%
Planning & Community Development	1,159,668	1,077,431	82,237	7.6%
Police Services	3,316,198	3,289,196	27,002	0.8%
Fire Department	5,631,655	3,952,991	1,678,664	42.5%
Public Works/Streets	1,043,685	857,342	186,343	21.7%
Public Works/Parks	568,867	474,611	94,256	19.9%
Recreation	650,783	588,603	62,180	10.6%
Library	959,657	761,198	198,459	26.1%
Debt Service	231,016	207,286	23,730	11.4%
Total	\$ 15,985,655	\$ 13,103,140	\$ 2,882,515	22.0%

**Two-year Comparison of General Fund Expenditures
Without Side Fund Payment Fiscal Year 2011-12**

Program Area	2011-12	2010-11	Inc. (Dec.)	Percent
General Administration	\$ 2,084,758	\$ 1,894,482	\$190,276	10.0%
Planning & Community Development	994,784	1,077,431	(82,647)	-7.7%
Police Services	3,316,198	3,289,196	27,002	0.8%
Fire Department	3,871,269	3,952,991	(81,722)	-2.1%
Public Works/Streets	898,312	857,342	40,970	4.8%
Public Works/Parks	483,781	474,611	9,170	1.9%
Recreation	559,220	588,603	(29,383)	-5.0%
Library	785,486	761,198	24,288	3.2%
Debt Service	231,016	207,286	23,730	11.4%
Total	\$ 13,224,824	\$ 13,103,140	\$ 121,684	0.9%

The General Fund remained stable throughout 2011-12. The ending fund balance at June 30, 2012 of \$1,676,084 represents 12.8% of General Fund revenues and 12.7% of normal General Fund expenditures (without side fund payment) 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 2011-12, the Gas Tax Fund experienced a decrease in fund balance of \$154,039 and currently has a negative fund balance of \$32,319, which is highlighted in the following chart. The negative fund balance is covered by the Road Impact Fund and will be recovered in the normal course of business during the next fiscal year.

2011-12 Gas Tax Fund Performance		
Revenues	\$	714,912
Expenditures		868,951
Excess of Revenues	\$	(154,039)
Other Financing Sources (Uses)		
Transfers In/(Out)	\$	-
Net Other Uses	\$	-
Net change to Fund Balance		(154,039)
Beginning Fund Balance		121,720
Ending Fund Balance	\$	(32,319)

Total revenues for 2011-12 were \$714,912, as compared to \$562,392 in 2010-11. Expenditures in 2011-12 were \$868,951, as compared with \$604,062 in 2010-11. In addition to preparation of the three major bridge projects, a large portion of Gas Tax funds (\$256,654) were used on storm drain repairs in several areas of the city.

▫ **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 \$704,132. Projects included completion of the 101 Elm Stairs and Pathway project, the Post Street Stairs and Pathway project, the Sandra Marker ADA Accessible Pathway 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. The fund balance increase is largely due to the reimbursement of CLASP fees by the developer of the Rose Garden project.

2011-12 Capital Projects Fund Performance

Revenues	\$ 1,273,429
Expenditures	1,451,030
Excess of Revenues	\$ (177,601)
Other Financing Sources (Uses)	
Transfers In/(Out)	\$ 881,733
Net Other Uses	\$ 881,733
Net change to Fund Balance	704,132
Beginning Fund Balance	6,105,517
Ending Fund Balance	\$ 6,809,649

▫ 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, 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 2011-12.

Revenues	\$ 2,183,305
Expenditures	1,265,442
Excess of Revenues	\$ 917,863
Other Financing Sources (Uses)	
Transfers In/Out	\$ (924,233)
Net Other Uses	\$ (924,233)
Net change to Fund Balance	(6,370)
Beginning Fund Balance	2,642,153
Ending Fund Balance	\$ 2,635,783

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 \$75,023 at June 30, 2012, with an interest rate of 3.75%. The lease will retire in August 2012. The Pierce Fire Truck had an outstanding balance of \$213,127 at June 30, 2012 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.

**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, 2012

ASSETS

Cash and investments (Note 3):	
Available for operations	\$10,867,318
Receivables:	
Accounts	1,437,691
Interest	5,274
Loans (Note 6)	295,215
Due from other governmental units	140,814
Prepaid items	11,502
Land (Note 5)	830,756
Other capital assets, net of depreciation (Note 5)	<u>11,670,090</u>
Total Assets	<u>25,258,660</u>

LIABILITIES

Accounts payable	397,110
Accrued payroll	91,287
Accrued liabilities	128,835
Claims payable (Note 12)	427,267
Deposits	271,816
Compensated absences payable (Note 2I)	79,063
Net OPEB obligation (Note 11)	1,521,512
Long-term debt (Note 7):	
Due within one year	142,775
Due in more than one year	<u>145,375</u>
Total Liabilities	<u>3,205,040</u>

NET ASSETS (Note 9A)

Invested in capital assets, net of related debt	<u>12,212,696</u>
Restricted for:	
Capital projects	45,793
Special revenue projects	<u>2,646,547</u>
Total Restricted Net Assets	<u>2,692,340</u>
Unrestricted	<u>7,148,584</u>
Total Net Assets	<u><u>\$22,053,620</u></u>

See accompanying notes to financial statements

CITY OF LARKSPUR
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$3,425,093	\$183,733	\$2,700	(\$3,238,660)
Planning and community development	1,207,925	918,848	493,592	204,515
Police services	3,316,198		23,229	(3,292,969)
Fire	5,764,972	50,253		(5,714,719)
Public works / streets	1,604,002	347,271		483,448
Public works / parks	630,523			(622,519)
Recreation	1,811,843	1,301,858		(509,985)
Library	1,003,822		41,010	(962,812)
Special projects	136,057			(136,057)
Interest on long-term debt	20,215			(20,215)
Total Governmental Activities	\$18,920,650	\$2,801,963	\$560,531	(\$1,748,183)
General revenues:				
Taxes:				
Sales tax				1,583,273
Property taxes				8,052,064
Other taxes				2,306,319
Use of money and property				234,216
Total general revenues				12,175,872
Change in Net Assets				(1,634,101)
Net Assets-Beginning				23,687,721
Net Assets-Ending				\$22,053,620

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 2012. 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.

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, 2012

	<u>General</u>	<u>Gas Tax</u>	<u>Housing in Lieu</u>	<u>Capital Projects</u>
ASSETS				
Cash and investments (Note 3):				
Available for operations	\$4,470,895		\$88,831	\$3,469,718
Accounts receivable	383,551			640,564
Interest receivable	3,711		45	
Loans receivable	31,411		263,804	
Due from other governments		\$140,814		
Due from other funds (Note 4A)	147,234			
Prepaid items	10,602			
Advance to other funds (Note 4C)				2,964,844
	<u>\$5,047,404</u>	<u>\$140,814</u>	<u>\$352,680</u>	<u>\$7,075,126</u>
LIABILITIES				
Accounts payable	\$148,191	\$25,899		\$153,736
Accrued payroll	84,041			
Accrued liabilities	107,947			20,888
Due to other funds (Note 4A)		147,234		
Deposits payable	176,914			90,853
Advance from other funds (Note 4C)	2,823,549			
Deferred revenue	30,678		\$263,804	
	<u>3,371,320</u>	<u>173,133</u>	<u>263,804</u>	<u>265,477</u>
FUND BALANCES (DEFICIT)				
Fund balances (deficit) (Note 9B)				
Nonspendable	11,335			2,964,844
Restricted				
Committed	321,614			3,844,805
Assigned			88,876	
Unassigned	1,343,135	(32,319)		
	<u>1,676,084</u>	<u>(32,319)</u>	<u>88,876</u>	<u>6,809,649</u>
Total Fund Balances (Deficit)	<u>\$5,047,404</u>	<u>\$140,814</u>	<u>\$352,680</u>	<u>\$7,075,126</u>

See accompanying notes to financial statements

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$2,533,250	\$10,562,694
353,576	1,377,691
1,367	5,123
	295,215
	140,814
	147,234
900	11,502
	<u>2,964,844</u>
<u>\$2,889,093</u>	<u>\$15,505,117</u>

\$55,501	\$383,327
7,246	91,287
	128,835
	147,234
4,049	271,816
141,295	2,964,844
45,219	339,701
<u>253,310</u>	<u>4,327,044</u>

900	2,977,079
996,597	996,597
946,669	5,113,088
807,402	896,278
(115,785)	<u>1,195,031</u>
<u>2,635,783</u>	<u>11,178,073</u>
<u>\$2,889,093</u>	<u>\$15,505,117</u>

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CITY OF LARKSPUR
 Reconciliation of the
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 with the
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances reported on the governmental funds balance sheet \$11,178,073

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. 12,500,846

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	304,624
Deposit-pay as you go	60,000
Interest receivable	151
Accounts payable	(13,783)
Claims payable	(427,267)

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. 339,701

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	(288,150)
Non-current portion of compensated absences	(79,063)
Net OPEB obligation	<u>(1,521,512)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$22,053,620

See accompanying notes to financial statements

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, 2012

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 (\$2,307,855)

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 capitalized expenditures are therefore added back to fund balance	1,793,244
Loss on retirements are deducted from fund balance	40,206
Depreciation expense is deducted from the fund balance	(520,048)

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	210,801
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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	(22,294)
Compensated absences	(6,785)
Net OPEB obligation	(652,426)

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>(168,944)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(\$1,634,101)</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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$11,442,900	\$11,442,900	\$11,417,722	(\$25,178)
Licenses and permits	369,000	369,000	445,836	76,836
Penalties and fines	47,000	47,000	50,684	3,684
Use of money and property	35,010	35,010	216,270	181,260
Other agencies	59,000	59,000	45,481	(13,519)
Charges for services	772,700	773,700	689,411	(84,289)
Other revenue	116,000	140,000	234,760	94,760
Total Revenues	12,841,610	12,866,610	13,100,164	233,554
EXPENDITURES:				
Current:				
General administration (Note 4C)	2,063,171	2,363,171	2,424,126	(60,955)
Planning and community development	1,035,512	1,032,289	1,159,668	(127,379)
Police services	3,325,568	3,325,568	3,316,198	9,370
Fire	3,869,471	3,894,471	5,631,655	(1,737,184)
Public works / streets	864,782	902,882	1,043,685	(140,803)
Public works / parks	448,522	473,522	568,867	(95,345)
Recreation	593,080	593,080	650,783	(57,703)
Library	753,001	803,601	959,657	(156,056)
Debt service:				
Principal retirement	212,276	210,801	210,801	
Interest and fiscal charges		20,215	20,215	
Total Expenditures	13,165,383	13,619,600	15,985,655	(2,366,055)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(323,773)	(752,990)	(2,885,491)	(2,132,501)
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4B)	478,500	478,500	200,000	(278,500)
Transfers (out) (Note 4B)	(277,500)	(277,500)	(157,500)	120,000
Total other financing sources (uses)	201,000	201,000	42,500	(158,500)
NET CHANGE IN FUND BALANCE	(\$122,773)	(\$551,990)	(2,842,991)	(\$2,291,001)
BEGINNING FUND BALANCE			4,519,075	
ENDING FUND BALANCE			\$1,676,084	

See accompanying notes to financial statements

CITY OF LARKSPUR
GAS TAX FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$206,000	\$206,000	\$193,939	(\$12,061)
Use of money and property	5,000	5,000		(5,000)
Other agencies	1,200,000	1,200,000	254,289	(945,711)
Other revenue	350,000	350,000	266,684	(83,316)
Total Revenues	<u>1,761,000</u>	<u>1,761,000</u>	<u>714,912</u>	<u>(1,046,088)</u>
EXPENDITURES:				
Current:				
Capital Outlay	2,490,000	2,490,000	868,951	1,621,049
Total Expenditures	<u>2,490,000</u>	<u>2,490,000</u>	<u>868,951</u>	<u>1,621,049</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(729,000)</u>	<u>(729,000)</u>	<u>(154,039)</u>	<u>574,961</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (Note 4B)			150,000	150,000
Transfers (out) (Note 4B)	(172,500)	(172,500)	(150,000)	22,500
Total Other Financing Sources (Uses)	<u>(172,500)</u>	<u>(172,500)</u>	<u></u>	<u>172,500</u>
NET CHANGE IN FUND BALANCE	<u>(\$901,500)</u>	<u>(\$901,500)</u>	<u>(154,039)</u>	<u>\$747,461</u>
BEGINNING FUND BALANCE			<u>121,720</u>	
ENDING FUND BALANCE (DEFICIT)			<u>(\$32,319)</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, 2012

	Governmental Activities- Insurance Internal Service Fund
ASSETS	
Cash and investments (Note 3):	\$304,624
Deposit - pay as you go	60,000
Interest receivable	151
	364,775
Total Assets	364,775
LIABILITIES	
Accounts payable	13,783
Claims payable (Note 12)	427,267
	441,050
Total Liabilities	441,050
NET ASSETS (DEFICIT)	
Unrestricted	(76,275)
	(76,275)
Total Net Assets (Deficit)	(\$76,275)

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, 2012

	Governmental Activities- Insurance Internal Service Fund
OPERATING EXPENSES	
Claims and administrative expense	\$170,522
Operating Income (Loss)	(170,522)
NON-OPERATING INCOME	
Interest income	1,578
Change in net assets	(168,944)
BEGINNING NET ASSETS	92,669
ENDING NET ASSETS (DEFICIT)	(\$76,275)

See accompanying notes to financial statements

CITY OF LARKSPUR
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	Governmental Activities- Insurance Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Claims paid	(\$103,388)
Net Cash Provided (Used) from Operating Activities	(103,388)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	1,634
Net Cash Flows	(101,754)
Cash and investments at beginning of period	406,378
Cash and investments at end of period	\$304,624
 Reconciliation of Operating Income (Loss) to Cash Flows	
from Operating Activities:	
Operating income (loss)	(\$170,522)
Change in assets and liabilities:	
Deposit with risk pool	18,371
Accounts payable	10,216
Claims payable	38,547
Cash Flows from Operating Activities	(\$103,388)

See accompanying notes to financial statements

FIDUCIARY FUNDS

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.

RETIREE BENEFITS TRUST FUND

The fund is used to account for the medical benefits for retired employees of the City.

CITY OF LARKSPUR
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

	Retiree Benefits Trust Fund	Agency Funds
ASSETS		
Restricted cash and investments (Note 3)	\$82,289	\$2,665,604
Accounts receivable		487,391
Interest receivable		1,672
Deposit with risk manager		50,000
Prepaid items	20,494	5,000
	<u>\$102,783</u>	<u>\$3,209,667</u>
Total Assets	<u>\$102,783</u>	<u>\$3,209,667</u>
 LIABILITIES		
Accounts payable		\$93,486
Accrued payroll		153,573
Deposits		29,913
Due to property owners & bondholders		1,234,155
Due to Ross Valley Paramedic Authority		1,093,012
Due to Twin Cities Police Authority		605,528
		<u>605,528</u>
Total Liabilities		<u>\$3,209,667</u>
 NET ASSETS		
Held in trust for OPEB benefits	<u>\$102,783</u>	

See accompanying notes to financial statements

CITY OF LARKSPUR
 RETIREE BENEFITS TRUST FUND
 STATEMENT OF CHANGES FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012

	Retiree Benefits Trust Fund
ADDITIONS	
Employer contributions (Note 11)	\$123,000
Net investment income	277
Total additions	123,277
DEDUCTIONS	
Premiums paid	20,494
Total deductions	20,494
Net change in net assets	102,783
NET ASSETS HELD IN TRUST FOR OPEB BENEFITS	
Beginning of year	
End of year	\$102,783

See accompanying notes to financial statements

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CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

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, 2012 was approximately 12,058.

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, 2012, the City's staff comprised 54.3 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 17 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, 2012

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

The City also reports the following fiduciary fund types:

Trust Fund – This fund accounts for assets held by the City as an agent for various functions. The Retiree Benefits Trust Fund accounts for the accumulation of resources to be used for retiree benefit payments at appropriate amounts and times in the future. The financial activities of the fund are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary Fund financial statements.

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*.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Housing in Lieu, Park Development, Transportation Congestion, Business Enhancement, Road Impact Fees, Heritage Preservation, Property Development, Tidal Waves Swim Team and Measure A Special Revenue Funds, and the Capital Projects Fund.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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
General Fund*	\$233,554
Summer School	92,517
Twin Cities Childcare	52,924

*General Fund and Twin Cities Childcare expenditures are in excess of appropriations due to the City paying off the California Public Employees Retirement System (CALPERS) Side Fund. See explanation of Side Fund in Note 10.

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

	2012	2011
Beginning balance	\$72,278	\$193,022
Net change	6,785	(120,744)
Ending Balance	\$79,063	\$72,278

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

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.

K. *Closed Funds*

The Tidal Waves Swim Team Special Revenue Fund was closed at the end of the fiscal year.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

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.

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	\$10,867,318
Restricted cash and investments	
in Fiduciary Funds (separate statement):	
Retiree Benefits Trust Fund	82,289
Agency Funds	2,665,604
	2,747,893
Total City Cash and Investments	\$13,615,211

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (Continued)

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 and Credit 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.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	12 Months or less
<i>City of Larkspur:</i>	
California Local Agency Investment Fund	\$3,801,155
Investment Trust of California (CalTrust)	9,629,274
Money Market Funds	39,851
Total City Investments	13,470,280
<i>City of Larkspur:</i>	
Cash in banks and on hand	62,633
<i>Retiree Benefits Trust Fund:</i>	
Annuity	82,298
Total Cash and Investments	\$13,615,211

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

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, 2012, these investments matured in an average of 268 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, 2012, these investments matured in an average of 647 days.

Money Market funds are available for withdrawal and at June 30, 2012, have an average maturity of 45 days.

NOTE 4 - INTERFUND TRANSACTIONS

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, 2012, interfund balances were as follows:

<u>Due from other funds</u>	<u>Due to other Funds</u>	<u>Amount</u>
Gas Tax	General Fund	<u>\$147,234</u>
	Total Due to other Funds	<u><u>\$147,234</u></u>

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. Interfund transfers for the year ended June 30, 2012, were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Gas Tax	\$150,000
	Capital Projects	20,000
	Non-Major Governmental Funds	30,000
Gas Tax	Non-Major Governmental Funds	150,000
Capital Projects	General Fund	157,500
	Non-major Governmental Funds	744,233
	Total Interfund Transfers	<u>\$1,251,733</u>

C. Interfund Advance

During the fiscal year ending June 30, 2012, the Council approved an interfund advance of \$3,127,846 from the Capital Projects to the General Fund in the amount of \$2,979,309 and to the Twin Cities Child Care Fund in the amount of \$148,537 for the purpose of paying off the debt with California Public Employees Retirement System (CalPERS) know as a side fund. This advance will be paid in equal monthly payments of \$27,167 plus interest calculated at the rate of the Local Agency Investment Fund (LAIF). The total balance outstanding as of June 30, 2012, is \$2,964,844.

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

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 5 – CAPITAL ASSETS (continued)

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.

Changes in capital assets were as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u> <u>and Adjustments</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$830,756			\$830,756
Total capital assets not being depreciated	<u>830,756</u>			<u>830,756</u>
Capital assets being depreciated:				
Land Improvements	4,692,527	\$5,372		4,697,899
Streets, Curbs, & Gutters	4,091,442	1,571,669		5,663,111
Machinery & Equipment	1,418,332	180,212	(\$31,528)	1,567,016
Buildings	3,240,304	35,991		3,276,295
Vehicles	2,159,839		(77,455)	2,082,384
Total capital assets being depreciated	<u>15,602,444</u>	<u>1,793,244</u>	<u>(108,983)</u>	<u>17,286,705</u>
Less accumulated depreciation for:				
Land Improvements	(760,530)	(134,711)	121,906	(773,335)
Streets, Curbs, & Gutters	(273,610)	(141,578)	(9,080)	(424,268)
Machinery & Equipment	(1,305,186)	(69,393)	114,488	(1,260,091)
Buildings	(1,300,355)	(76,780)	(41,022)	(1,418,157)
Vehicles	(1,606,075)	(97,586)	(37,103)	(1,740,764)
Total accumulated depreciation	<u>(5,245,756)</u>	<u>(520,048)</u>	<u>149,189</u>	<u>(5,616,615)</u>
Net capital assets being depreciated	<u>10,356,688</u>	<u>1,273,196</u>	<u>40,206</u>	<u>11,670,090</u>
Governmental activity capital assets, net	<u><u>\$11,187,444</u></u>	<u><u>\$1,273,196</u></u>	<u><u>\$40,206</u></u>	<u><u>\$12,500,846</u></u>

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, 2012

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	\$291,293
Fire	141,559
Public works/streets	13,472
Public works/parks	8,981
Recreation	24,405
Library	4,679
Special projects	35,659
Total Governmental Activities	\$520,048

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, 2012 is \$28,608.

NOTE 7 – LONG-TERM DEBT

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

Type of Obligation	Authorized and Issued	Balance June 30, 2011	Retirements	Balance June 30, 2012	Current Portion
West America Bank	\$1,050,000	\$221,163	\$146,140	\$75,023	\$75,023
Fire Engine Lease	440,000	277,788	64,661	213,127	67,752
Total Governmental Activity Debt	\$1,490,000	\$498,951	\$210,801	\$288,150	\$142,775

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

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, 2012, the fire engine annual lease along with the West America Bank loan payments to maturity, including interest payments, were as follows:

Year ending June 30,	Principal	Interest	Total
2013	\$142,775	\$11,595	\$154,370
2014	70,991	6,949	77,940
2015	74,384	3,556	77,940
Total	<u>\$288,150</u>	<u>\$22,100</u>	<u>\$310,250</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, 2012 is as follows:

Drake's Landing Residential Community	\$445,000
LMFA Dredging and Maintenance project	875,000
North Magnolia Avenue Assessment District	120,000

At June 30, 2012, 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, 2012

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, 2012

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, 2012, are below:

Fund Balance Classifications	General Fund	Gas Tax	Housing in Licu	Capital Projects	Other Governmental Funds	Total
Nonspendable:						
Items not in spendable form:						
Loans receivable	\$733					\$733
Prepaid Items	10,602				\$300	10,902
Advance to other funds				\$2,964,844		2,964,844
Total Nonspendable Fund Balances	11,335			2,964,844	300	2,976,479
Restricted for:						
Transportation Congestion					620,736	620,736
Storm Drain Run Off					22,960	22,960
Measure A					352,901	352,901
Total Restricted Fund Balances					996,597	996,597
Committed to:						
State Bail Out	321,614					321,614
Business Enhancement					87,915	87,915
Road Impact Fees					812,961	812,961
King Mountain Improvement					36,262	36,262
Greenbrae Marina Improvement					4,997	4,997
East Sir Francis Drake					4,534	4,534
Capital Projects				3,844,805		3,844,805
Total Committed Fund Balances	321,614			3,844,805	946,669	5,113,088
Assigned to:						
Housing in Licu			\$88,876			88,876
Park Development					31,585	31,585
Property Development					34,853	34,853
Transit Mitigation					426,659	426,659
Heritage Preservation					136,509	136,509
Summer School					177,796	177,796
Total Assigned Fund Balances			88,876		807,402	896,278
Unassigned:						
General Fund	1,343,135					1,343,135
Gas Tax		(\$32,319)				(32,319)
Twin Cities Child Care					(115,785)	(115,785)
Total Unassigned Fund Balances	1,343,135	(32,319)			(115,785)	1,195,031
Total Fund Balances (Deficit)	\$1,676,084	(\$32,319)	\$88,876	\$6,809,649	\$2,635,183	\$11,177,473

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 9 – NET ASSETS AND FUND BALANCE (Continued)

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.

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, 2012

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, 2012, 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	23.006%	13.353%

The City's labor contracts require it to pay 9% of the Safety employee contribution and 7% of the Miscellaneous employee contribution.

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 uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<i>Safety Plan</i>			
June 30, 2010	\$944,005	100%	0
June 30, 2011	911,043	100%	0
June 30, 2012	686,605	100%	0
<i>Miscellaneous Plan</i>			
June 30, 2010	\$593,513	100%	0
June 30, 2011	583,221	100%	0
June 30, 2012	529,806	100%	0

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 10 - PENSION PLAN (Continued)

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.

As required by State law, effective July 1, 2005, the City's Safety and Miscellaneous Plans were terminated, and the employees in the plans were required by CALPERS to join new State-wide pools. One of the conditions of entry was that the City true-up any unfunded liabilities or overfunded assets in the former Plans, 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 \$1,267,956 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 10 years. It satisfied its Safety Plan's liability of \$2,258,140 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 5 years. As of June 30, 2012, the City paid in full the Miscellaneous Plan's Side Fund and the Safety Plan's Side Fund in the amounts of \$1,200,278 and \$1,927,568 respectively.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. CALPERS' latest actuarial value (which differs from market value) and funding progress for the State-wide pools are shown below:

Safety Plan:

Valuation Date	Actuarial		Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	Entry Age Accrued Liability	Value of Assets				
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%
2010	1,915,095,826	1,628,915,283	286,180,543	85.1%	224,562,008	127.4%

The City's Safety Plan represents approximately 0.96%, 0.84% and 0.91%, of the State-wide pool for the years ended June 30, 2010, 2009 and 2008, respectively, based on covered payroll of \$2,162,569, \$1,851,736 and \$1,915,371 for those years.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 10 - PENSION PLAN (Continued)

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
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%
2010	1,972,910,641	1,603,482,152	369,428,489	81.3%	352,637,380	104.8%

The City's Miscellaneous Plan represents approximately 0.67%, 0.73% and 0.77%, of the State-wide pool for the years ended June 30, 2010, 2009 and 2008, respectively, based on covered payroll of \$2,347,041, \$2,584,022 and \$2,575,442 for those years.

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

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, 2012, amounted to \$39,696.

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (Continued)

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, 43 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.

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	\$1,084,147
Interest on net OPEB obligation	56,005
Amortization of OPEB obligation	<u>(72,864)</u>
Annual OPEB cost	<u>1,067,288</u>
Contributions made:	
Current year premiums paid	291,862
Current year contributions to Retiree Benefits trust	<u>123,000</u>
(Decrease) increase in net OPEB obligations	<u>652,426</u>
Net OPEB obligation June 30, 2011	<u>869,086</u>
Net OPEB obligation June 30, 2012	<u><u>\$1,521,512</u></u>

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (Continued)

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, 2012 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
June 30, 2012	1,067,288	414,862	39%	1,521,512

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 Liability (B)	Unfunded (Overfunded) Actuarial 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%

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

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

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>	2012	2011
Beginning balance	\$18,371	\$60,783
Interest earned		354
Expenses	(18,371)	(42,766)
Ending balance	\$0	\$18,371
 <i>Claims Payable:</i>		
Outstanding claims	\$258,910	\$282,686
Claims incurred but not reported	203,897	160,158
Claims paid	(155,873)	(183,934)
Total liability for unpaid claims	\$306,934	\$258,910

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

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

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

	2012	2011
Outstanding claims	\$129,810	\$142,577
Claims incurred but not reported	77,587	73,635
Claims paid	(87,064)	(86,402)
Total liability for unpaid claims	\$120,333	\$129,810

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.

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 13 - JOINT POWERS AGENCIES (Continued)

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, 2012, 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.

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.

CITY OF LARKSPUR
Notes to Basic Financial Statements
June 30, 2012

NOTE 13 - JOINT POWERS AGENCIES (Continued)

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. This fund was closed effective June 30, 2012.

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

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

Local Road Funds – revenue from local and regional funds, including Measure A, TAM Measure B, and Regional Measure 2. Used for projects that reduce traffic congestion and improve transportation in Larkspur and Marin County.

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

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, 2012

	SPECIAL REVENUE FUNDS				
	Park Development	Property Development	Transportation Congestion	Transit Mitigation	Business Enhancement
ASSETS					
Cash and investments:					
Available for operations	\$35,634	\$34,853	\$620,440	\$426,447	\$79,506
Accounts receivable					8,409
Interest receivable			296	212	
Prepaid items					
Total Assets	\$35,634	\$34,853	\$620,736	\$426,659	\$87,915
LIABILITIES					
Accounts payable					
Accrued payroll					
Deposits payable	\$4,049				
Deferred revenue					
Advance from other funds					
Total Liabilities	4,049				
FUND EQUITY					
Fund balances					
Nonspendable					
Restricted			\$620,736		
Committed					\$87,915
Assigned	31,585	\$34,853		\$426,659	
Unassigned					
Total Fund Balances (Deficit)	31,585	34,853	620,736	426,659	87,915
Total Liabilities and Fund Balances (Deficit)	\$35,634	\$34,853	\$620,736	\$426,659	\$87,915

SPECIAL REVENUE FUNDS

Heritage Preservation	Summer School	Tidal Waves Swim Team	Storm Drain Run Off	Vehicle/Road Impact Fees	Local Road Funds	Twin Cities Child Care
\$139,393 49	\$220,537 69		\$22,769 1,691	\$780,239 32,417 305	\$41,778 310,787 336	\$85,875 101 900
<u>\$139,442</u>	<u>\$220,606</u>		<u>\$24,460</u>	<u>\$812,961</u>	<u>\$352,901</u>	<u>\$86,876</u>
\$2,933	\$42,810		\$1,500			\$8,001 7,246
						45,219 141,295
<u>2,933</u>	<u>42,810</u>		<u>1,500</u>			<u>201,761</u>
			22,960	\$812,961	\$352,901	900
136,509	177,796					(115,785)
<u>136,509</u>	<u>177,796</u>		<u>22,960</u>	<u>812,961</u>	<u>352,901</u>	<u>(114,885)</u>
<u>\$139,442</u>	<u>\$220,606</u>		<u>\$24,460</u>	<u>\$812,961</u>	<u>\$352,901</u>	<u>\$86,876</u>

(Continued)

CITY OF LARKSPUR
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2012

	CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
	King Mountain Improvement	Greenbrae Marina Improvement	East Sir Francis Drake	
ASSETS				
Cash and investments:				
Available for operations	\$36,243	\$5,024	\$4,512	\$2,533,250
Accounts receivable		223		353,576
Interest receivable	19	7	22	1,367
Prepaid items				900
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$36,262</u>	<u>\$5,254</u>	<u>\$4,534</u>	<u>\$2,889,093</u>
LIABILITIES				
Accounts payable		\$257		\$55,501
Accrued payroll				7,246
Deposits payable				4,049
Deferred revenue				45,219
Advance from other funds				141,295
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities		<u>257</u>		<u>253,310</u>
FUND EQUITY				
Fund balances				
Nonspendable				900
Restricted				996,597
Committed	\$36,262	4,997	\$4,534	946,669
Assigned				807,402
Unassigned				(115,785)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances (Deficit)	<u>36,262</u>	<u>4,997</u>	<u>4,534</u>	<u>2,635,783</u>
Total Liabilities and Fund Balances (Deficit)	<u>\$36,262</u>	<u>\$5,254</u>	<u>\$4,534</u>	<u>\$2,889,093</u>

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CITY OF LARKSPUR
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS				
	Park Development	Property Development	Transportation Congestion	Transit Mitigation	Business Enhancement
REVENUES					
Taxes					\$58,577
License and permits					
Use of money and property			\$2,489	\$2,032	
Charges for services					
Other agencies			165,177		
Other revenue	\$8,004	\$550			
Total Revenues	<u>8,004</u>	<u>550</u>	<u>167,666</u>	<u>2,032</u>	<u>58,577</u>
EXPENDITURES					
Current:					
Recreation					17,510
Special projects					
Public works / parks	27,615				
Capital outlay					
Total Expenditures	<u>27,615</u>				<u>17,510</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(19,611)</u>	<u>550</u>	<u>167,666</u>	<u>2,032</u>	<u>41,067</u>
OTHER FINANCING SOURCES (USES)					
Transfers (out)				(10,000)	
Total Other Financing Sources (Uses)				<u>(10,000)</u>	
NET CHANGE IN FUND BALANCES	(19,611)	550	167,666	(7,968)	41,067
BEGINNING FUND BALANCES	51,196	34,303	453,070	434,627	46,848
ENDING FUND BALANCES (DEFICIT)	<u>\$31,585</u>	<u>\$34,853</u>	<u>\$620,736</u>	<u>\$426,659</u>	<u>\$87,915</u>

SPECIAL REVENUE FUNDS

Heritage Preservation	Summer School	Tidal Waves Swim Team	Storm Drain Run Off	Vehicle/Road Impact Fees	Local Road Funds	Twin Cities Child Care
			\$93,822		\$356,361	
\$467	\$217 245,656	\$395		\$126,724 2,515	2,071	\$685 683,024
7,534				194,500	219,544	
8,001	245,873	395	93,822	323,739	577,976	683,709
	259,638	16,699				828,688
14,887			57,072	20,000		
14,887	259,638	16,699	57,072	20,000		828,688
(6,886)	(13,765)	(16,304)	36,750	303,739	577,976	(144,979)
			(20,000)	(150,000)	(683,594)	
			(20,000)	(150,000)	(683,594)	
(6,886)	(13,765)	(16,304)	16,750	153,739	(105,618)	(144,979)
143,395	191,561	16,304	6,210	659,222	458,519	30,094
\$136,509	\$177,796		\$22,960	\$812,961	\$352,901	(\$114,885)

(Continued)

CITY OF LARKSPUR
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR YEAR ENDED JUNE 30, 2012

	CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
	King Mountain Improvement	Greenbrae Marina Improvement	East Sir Francis Drake	
REVENUES				
Taxes		\$12,419		\$521,179
License and permits				126,724
Use of money and property	\$196	53	\$293	11,018
Charges for services				929,075
Other agencies				384,721
Other revenue				210,588
				<u>2,183,305</u>
Total Revenues	<u>196</u>	<u>12,472</u>	<u>293</u>	<u>2,183,305</u>
EXPENDITURES				
Current:				
Recreation				1,122,535
Special projects				77,072
Public works / parks				27,615
Capital outlay	6,640	16,693		38,220
				<u>1,265,442</u>
Total Expenditures	<u>6,640</u>	<u>16,693</u>		<u>1,265,442</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(6,444)</u>	<u>(4,221)</u>	<u>293</u>	<u>917,863</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)			(60,639)	(924,233)
				<u>(924,233)</u>
Total Other Financing Sources (Uses)			<u>(60,639)</u>	<u>(924,233)</u>
NET CHANGE IN FUND BALANCES	(6,444)	(4,221)	(60,346)	(6,370)
BEGINNING FUND BALANCES	<u>42,706</u>	<u>9,218</u>	<u>64,880</u>	<u>2,642,153</u>
ENDING FUND BALANCES (DEFICIT)	<u>\$36,262</u>	<u>\$4,997</u>	<u>\$4,534</u>	<u>\$2,635,783</u>

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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, 2012

	TRANSIT MITIGATION			SUMMER SCHOOL		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Use of money and property	\$3,000	\$2,032	(\$968)		\$217	\$217
Charges for services				\$168,300	245,656	77,356
Total Revenues	<u>3,000</u>	<u>2,032</u>	<u>(968)</u>	<u>168,300</u>	<u>245,873</u>	<u>77,573</u>
EXPENDITURES						
Current:						
Recreation				167,121	259,638	(92,517)
Special projects						
Capital outlay	46,000		46,000			
Total Expenditures	<u>46,000</u>		<u>46,000</u>	<u>167,121</u>	<u>259,638</u>	<u>(92,517)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(43,000)</u>	<u>2,032</u>	<u>45,032</u>	<u>1,179</u>	<u>(13,765)</u>	<u>(14,944)</u>
OTHER FINANCING SOURCES (USES)						
Transfers (out)	(10,000)	(10,000)				
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>				
NET CHANGE IN FUND BALANCES	<u>(\$53,000)</u>	<u>(7,968)</u>	<u>\$45,032</u>	<u>\$1,179</u>	<u>(13,765)</u>	<u>(\$14,944)</u>
BEGINNING FUND BALANCES		<u>434,627</u>			<u>191,561</u>	
ENDING FUND BALANCES (DEFICIT)		<u>\$426,659</u>			<u>\$177,796</u>	

STORM DRAIN RUN OFF			TWIN CITIES CHILD CARE			TOTALS		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$93,000	\$93,822	\$822		\$685	\$685	\$96,000	\$96,756	\$756
			\$643,000	683,024	40,024	811,300	928,680	117,380
93,000	93,822	822	643,000	683,709	40,709	907,300	1,025,436	118,136
			635,069	828,688	(193,619)	802,190	1,088,326	(286,136)
75,000	57,072	17,928				75,000	57,072	17,928
						46,000		46,000
75,000	57,072	17,928	635,069	828,688	(193,619)	923,190	1,145,398	(222,208)
18,000	36,750	18,750	7,931	(144,979)	(152,910)	(\$15,890)	(119,962)	(\$104,072)
(20,000)	(20,000)					(30,000)	(30,000)	
(20,000)	(20,000)					(30,000)	(30,000)	
(\$2,000)	16,750	\$18,750	\$7,931	(144,979)	(\$152,910)	(\$45,890)	(149,962)	(\$104,072)
	6,210			30,094			662,492	
	\$22,960			(\$114,885)			\$512,530	

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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
 COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
<u>East Sir Francis Drake Redemption Fund</u>				
Restricted cash and investments	\$89,191	\$433		\$89,624
Interest receivable	59	44	\$59	44
Total Assets	\$89,250	\$477	\$59	\$89,668
Due to property owners & bondholders	\$89,250	\$477	\$59	\$89,668
Total Liabilities	\$89,250	\$477	\$59	\$89,668
<u>Larkspur Marina Community Facilities District</u>				
Restricted cash and investments	\$631,205	\$224,758	\$108,457	\$747,506
Accounts receivable	4,360	3,892	4,360	3,892
Interest receivable	398	355	398	355
Total Assets	\$635,963	\$229,005	\$113,215	\$751,753
Accounts payable	\$918		\$918	
Due to property owners & bondholders	635,045	\$229,005	112,297	\$751,753
Total Liabilities	\$635,963	\$229,005	\$113,215	\$751,753
<u>King Mountain Assessment District Fund</u>				
Restricted cash and investments	\$23,081	\$112		\$23,193
Interest receivable	15	11	\$15	11
Total Assets	\$23,096	\$123	\$15	\$23,204
Due to property owners & bondholders	\$23,096	\$123	\$15	\$23,204
Total Liabilities	\$23,096	\$123	\$15	\$23,204

CITY OF LARKSPUR
 AGENCY FUNDS
 COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
<u>Ross Valley Paramedic Authority Fund</u>				
Restricted cash and investments	\$913,309	\$1,744,600	\$1,777,452	\$880,457
Accounts receivable	261,143		24,092	237,051
Interest receivable	569		157	412
Prepaid items	2,500			2,500
Total Assets	<u>\$1,177,521</u>	<u>\$1,744,600</u>	<u>\$1,801,701</u>	<u>\$1,120,420</u>
Accounts payable	\$14,375	\$8,998		\$23,373
Deposits payable	4,035			4,035
Due to members	1,159,111	1,735,602	\$1,801,701	1,093,012
Total Liabilities	<u>\$1,177,521</u>	<u>\$1,744,600</u>	<u>\$1,801,701</u>	<u>\$1,120,420</u>
<u>Drake's Landing Community Facilities District Fund</u>				
Restricted cash and investments	\$267,495	\$243,441	\$235,930	\$275,006
Accounts receivable	4,502	4,249	4,502	4,249
Interest receivable	161	124	161	124
Total Assets	<u>\$272,158</u>	<u>\$247,814</u>	<u>\$240,593</u>	<u>\$279,379</u>
Accounts payable	\$4,109			\$4,109
Due to property owners & bondholders	268,049	\$247,814	\$240,593	275,270
Total Liabilities	<u>\$272,158</u>	<u>\$247,814</u>	<u>\$240,593</u>	<u>\$279,379</u>

(Continued)

CITY OF LARKSPUR
AGENCY FUNDS
COMBINING STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
<u>North Magnolia Agency Fund</u>				
Restricted cash and investments	\$91,498	\$47,881	\$47,770	\$91,609
Accounts receivable	899	832	899	832
Interest receivable	60	45	60	45
Total Assets	<u>\$92,457</u>	<u>\$48,758</u>	<u>\$48,729</u>	<u>\$92,486</u>
Due to property owners & bondholders	<u>\$92,457</u>	<u>\$48,758</u>	<u>\$48,729</u>	<u>\$92,486</u>
Total Liabilities	<u>\$92,457</u>	<u>\$48,758</u>	<u>\$48,729</u>	<u>\$92,486</u>
<u>Twin Cities Police Authority</u>				
Restricted cash and investments	\$1,027,014		\$468,805	\$558,209
Accounts receivable	66,869	\$173,875		240,744
Interest receivable	583		247	336
Deposit with risk manager	50,000			50,000
Prepaid items	11,556		9,056	2,500
Total Assets	<u>\$1,156,022</u>	<u>\$173,875</u>	<u>\$478,108</u>	<u>\$851,789</u>
Accounts payable	\$105,464		\$38,654	\$66,810
Accrued payroll	230,133		76,560	153,573
Deposits payable	22,633	\$3,245		25,878
Claims payable	461,890		461,890	
Due to members	296,064	309,464		605,528
Compensated absences payable	39,838		39,838	
Total Liabilities	<u>\$1,156,022</u>	<u>\$312,709</u>	<u>\$616,942</u>	<u>\$851,789</u>
<u>Total Agency Funds</u>				
Restricted cash and investments	\$3,042,793	\$2,261,225	\$2,638,414	\$2,665,604
Accounts receivable	338,455	182,848	33,912	487,391
Interest receivable	2,131	579	1,038	1,672
Deposit with risk manager	50,000			50,000
Prepaid items	14,056		9,056	5,000
Total Assets	<u>\$3,447,435</u>	<u>\$2,444,652</u>	<u>\$2,682,420</u>	<u>\$3,209,667</u>
Accounts payable	\$124,060	\$8,998	\$39,572	\$93,486
Accrued payroll	230,133		76,560	153,573
Deposits	26,668	3,245		29,913
Claims payable	461,890		461,890	
Due to property owners & bond holders	1,109,671	526,177	401,693	1,234,155
Due to members (Ross Valley)	1,159,111	1,735,602	1,801,701	1,093,012
Due to members (TCPA)	296,064	309,464		605,528
Compensated absences payable	39,838		39,838	
Total Liabilities	<u>\$3,447,435</u>	<u>\$2,583,486</u>	<u>\$2,821,254</u>	<u>\$3,209,667</u>

**INDEPENDENT AUDITOR'S 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 of the
City of Larkspur, California

We have audited the financial statements of the City of Larkspur as of and for the year ended June 30, 2012, and have issued our report thereon dated September 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control over Financial Reporting

Management of the City of Larkspur is responsible for establishing and maintaining effective 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 11, 2012.

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.

Maze + Associates

September 11, 2012