
**CITY OF NOVATO
SINGLE AUDIT AND RELATED REPORTS
FOR THE YEAR ENDED
JUNE 30, 2025**

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**CITY OF NOVATO
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FOR THE YEAR ENDED JUNE 30, 2025**

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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 City Council
City of Novato, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Novato, California, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Novato's basic financial statements, and have issued our report thereon dated January 20, 2026.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Novato's financial statements are free from 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 financial statements. 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*.

City of Novato's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Novato's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Novato's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MUN CPAs, LLP

Sacramento, California
January 20, 2026



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council
City of Novato, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Novato's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2025. City of Novato's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Novato complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Novato and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2025-002. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Novato, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Novato's basic financial statements. We issued our report thereon dated January 20, 2026, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

MUN CPAs, LLP

Sacramento, California
January 20, 2026

**CITY OF NOVATO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025**

<u>Federal Grantor/Pass-Through Grantor Program</u>	<u>Federal AL Number</u>	<u>Pass-Through Entity Identifying Number/ Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice			
Direct Awards:			
Bulletproof Vest Partnership Program	16.607	-	\$ 17,343
Public Safety Partnership and Community Policing Grants	16.710	-	213,923
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2A09010210	<u>171,077</u>
Total U.S. Department of Justice			<u>402,343</u>
U.S. Department of Transportation			
Direct Awards:			
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614	HSIPL 5361(031)	22,814
Highway Planning and Construction	20.205	BHLS 5361(023)	2,401,348
Passed-Through State of California Department of Transportation:			
State and Community Highway Safety	20.600	PT22043	<u>109,034</u>
Total U.S. Department of Transportation			<u>2,533,196</u>
U.S. Department of the Treasury			
Direct Awards:			
Coronavirus Relief Fund	21.019	004948063	<u>1,371,464</u>
Total U.S. Department of the Treasury			<u>1,371,464</u>
Total Expenditures of Federal Awards			<u>\$ 4,307,003</u>

CITY OF NOVATO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

NOTE 1: REPORTING ENTITY

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

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on accounting principles generally accepted in the United States of America. The information in this schedule is presented on the accrual basis of accounting and in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

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

NOTE 4: CLAIMS

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

NOTE 5: INDIRECT COSTS

The City elected not to use the 10% de minimis indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2025.

**CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance	Yes
Identification of Major Programs: Highway Planning and Construction, 20.205	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2025**

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings relating to the financial statements which are required to be reported in accordance with Generally Accepted *Government Auditing Standards*.

Finding 2025-001: Cash and Investments (Significant Deficiency)

Criteria

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

Conditions

The City has improved their process for the completion of bank reconciliations; however, adjustments resulting from bank reconciliations were not being posted to the general ledger timely. Additionally, a difference on one bank reconciliation was incorrectly identified as a deposit in transit rather than an adjustment related to investment activity.

Cause

Due to personnel turnover in prior years, the overall process for cash reconciliations was still experiencing delays in completion and there were inconsistencies in accurately reconciling transactions for investments.

Effect

Untimely completion of bank reconciliations and adjustments to the general ledger increases the risk that errors could go undetected.

Recommendation

We recommend the City review their cash reconciliation procedures to ensure timely completion. Cash reconciliation review should include tests of mechanical accuracy and tracing of items on the reconciliation to relevant source documents. In addition, the City should review its process of proper recording and allocation of investment activity within their general ledger system.

View of Responsible Officials

Management agrees that turnover in key positions from 2017-2020, along with the COVID-19 pandemic and a difficult labor market in finance had a significant impact on the City's financial processes and procedures. The City has overcome being behind on audits and is now current, but processes are still being rebuilt.

While bank reconciliations were being performed variances need to be researched and adjustments made timely. Without the workload of catching up staff will be able to use FY 2025/26 to normalize this process and make adjustments timely.

Investment reconciliations and adjustments are performed timely, but the reconciliation process had become outdated. City staff has instituted a new reconciliation process for FY 2025/26.

**CITY OF NOVATO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2025**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for Federal Awards, which includes audit findings defined in section 200.516 of the Uniform Guidance.

Finding 2025-002: Certified Payroll Reports

Federal Award

U.S. Department of Transportation; Highway Planning and Construction; Assistance Listing Number 20.205

Criteria

In accordance with Title 2 of the *Code of Federal Regulations* (2 CFR) section 200.303, the City must establish and maintain effective internal controls over federal awards that provide reasonable assurance of compliance with federal statutes, regulations, and the terms and conditions of the award.

Condition

During our testing of five certified payroll reports, we noted the reports maintained by the City did not include certification of the payroll by the contractor.

Context

The agreement with the contractor requires a copy of the payroll and statement of compliance be submitted to the City weekly. We selected five weeks for testing and found that all five weeks did not have a signed statement of compliance.

Cause

The City did not maintain the signed statement of compliance submitted by the contractor.

Effect

The absence of the signed statement of compliance with the certified payroll reports increases the risk that errors or irregularities in compliance with federal program requirements may not be detected and corrected in a timely manner.

Questioned Costs

No costs are questioned.

Identification as Repeat Finding

This is not a repeat finding from the prior year.

Recommendation

We recommend the City strengthen procedures to ensure proper documentation is maintained to demonstrate compliance with the Uniform Guidance requirements.

View of Responsible Officials

Management agrees with the comment and will ensure a process is in place for the receipt of signed certified payrolls.

**CITY OF NOVATO
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2025**

Finding 2024-001: Deposits (Repeat Material Weakness)

Condition

Deposits held in Trust (Fund 120) - Of the \$450,000 of deposits outstanding, approximately \$164,000 or 36% is comprised of items from 2011 and prior. We noted one item from 1996 totaling \$75,000 or 17% of the total deposit balance.

Restricted Revenue Fund (Fund 240) - Of the \$1.4 million of deposits outstanding, approximately \$1.2 million or 87% is comprised of items from 2012 and prior. Of the \$1.2 million aged items, \$422,000 or 34% is comprised of items from 1973-2001. In addition, the internal schedule maintained to support the balance contains an unidentified difference of approximately \$34,000.

Customer Deposits - Cost Recovery (Fund 101) - Of the \$474,000 of net outstanding deposits/receivables, approximately 37% of customer deposit recovery costs are from 2019 and prior.

Recommendation

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

Status

Partially implemented. See separately issued management letter.

Finding 2024-002: Cash and Investments (Significant Deficiency)

Condition

There was a failure to timely perform monthly bank reconciliations for the June 30, 2024 fiscal year. Bank reconciliations for the year ended June 30, 2024 were performed throughout fiscal year 2025.

Recommendation

We recommend the City review their cash and investment reconciliation procedures to ensure timely completion. Cash and investment reconciliations review should include tests of mechanical accuracy and tracing of items on the reconciliation to relevant source documents. In addition, the City should review its process of proper recording and allocation of investment activity within their general ledger system.

Status

Partially implemented. See 2025-001.

**CITY OF NOVATO
SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)
JUNE 30, 2025**

Finding 2024-003: SB 341 Successor Agency Compliance (Repeat Compliance)

Condition

The City did not post the required annual report for the fiscal year ended June 30, 2024 by the deadline of December 31, 2024.

Recommendation

We recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

Status

In process.

Finding 2024-004: Federal Grants Procedures (Repeat - Uniform Guidance Compliance)

Condition

The City had not updated the Federal Grant procedures for compliance with the Uniform Guidance as required for the fiscal year.

Recommendation

We recommend the City review the Uniform Guidance procurement requirements and update the Federal Grant policies and procedures for compliance with the Uniform Guidance.

Status

Implemented.

Finding 2024-005: Financial Reporting Timeliness (Repeat - Uniform Guidance Compliance)

Condition

The 2024 Single Audit reporting package and data collection form have not been submitted to the Federal Audit Clearinghouse by the deadline of March 31, 2025.

Recommendation

We recommend the City strive to close the year-end with properly prepared reconciliations within 3 - 4 months after year-end in order to complete the annual financial audit timely.

Status

Implemented.