

NOVATO SANITARY DISTRICT

December 6, 2012

The Finance Committee of Novato Sanitary District will hold a meeting at 10:30 AM, Thursday, December 6, 2012, at the District offices, 500 Davidson Street, Novato.

AGENDA

1. **AGENDA APPROVAL:**

2. **PUBLIC COMMENT (PLEASE OBSERVE A THREE-MINUTE TIME LIMIT):**

This item is to allow anyone present to comment on any subject not on the agenda, or to request consideration to place an item on a future agenda. Individuals will be limited to a three-minute presentation. No action will be taken by the Board at this time as a result of any public comments made.

3. **MINUTES**

- a. Consider approval of the minutes of the November 5, 2012 meeting.

4. **FINANCIAL POLICIES:**

- a. Consider adding Marin County Investment Pool to the preferred investments list.
- b. Review and make recommendations on the draft revisions to the Investment Policy.

5. **2011-12 AUDIT:**

- a. Review Draft 2011-12 Audit and make recommendation to the Board on acceptance of the audit.

6. **ADJOURNMENT:**

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District at (415) 892-1694 at least 24 hours prior to the meeting. Notification prior to the meeting will enable the District to make reasonable accommodation to help ensure accessibility to this meeting.

Materials that are public records and that relate to an open session agenda item will be made available for public inspection at the District office, 500 Davidson Street, Novato, during normal business hours.

November 5, 2012

The Finance Committee of the Novato Sanitary District held a meeting at 2:35 p.m., Monday, November 5, 2012, at the District offices, 500 Davidson Street, Novato.

COMMITTEE MEMBERS PRESENT: Members William C. Long and Jean Mariani.

STAFF PRESENT: Manager-Engineer-Secretary Beverly James, Deputy Manager-Engineer Sandeep Karkal, Finance Officer Laura Creamer and Administrative Secretary Julie Swoboda.

No members of the public were present.

AGENDA APPROVAL: The agenda was approved as presented.

PUBLIC COMMENT: None.

FINANCIAL POLICIES:

- Review and make recommendations on the Investment Policy. The Manager stated that the District's Investment Policy was most recently reviewed and approved at the October 22, 2012 Board meeting. She stated that Member Mariani suggested the District consider including the Marin County Investment Pool as an approved investment option. The Manager noted that she included in the Committee packet a presentation by the California Special Districts Association (CSDA) titled "Local Investing for Special Districts through County Treasurer-Tax Collectors: What are the Options & Benefits?" The Committee discussed the Marin County Investment Pool option and Mr. Long asked if the County of Marin could make a presentation to the full Board of Directors. The Manager stated she would arrange for such a presentation.

- Staff report on financial operating procedures. The Manager outlined the District's financial procedures including cash disbursements and accounts payable, cash receipts and accounts receivable, and electronic transfers.

Ms. Mariani commended Finance Officer Laura Creamer on her completion of the financial procedures stating they were clear and well done.

2011-12 AUDIT:

- Progress report on 2011-12 Audit. Finance Officer Laura Creamer stated that the Auditors, Maze and Associates, completed the District fieldwork in September, 2012. She stated that the first draft of the audit report has been received and that the report is being reviewed. Ms. Creamer stated that she will have the final Audit

Report ready for review by the Board of Directors at their regular meeting on December 10th.

The Manager stated that the District may be required to provide a Single Audit for the American Reinvestment Recovery Act (ARRA) fund grant although she was not certain of the time frame. She noted that the Sonoma County Water Agency did perform quarterly pre-audits for the ARRA fund grant.

The Manager stated that in December the District will submit its financial statements to the Government Finance Officers Association (GFOA) for consideration of the Certificate of Achievement for Excellence in Financial Reporting award.

ADJOURNMENT: The Manager reported that the next Finance Committee meeting would be held in December, 2012. The meeting was adjourned at 3:30 p.m.

Respectfully submitted,



Beverly B. James
Secretary

Julie Swoboda, Recording

Marin County Investment Pool

Full Rating Report

Ratings

Security Class	Current Ratings
Marin County Investment Pool	AAA/V1

Key Rating Drivers

High-Quality Credit Portfolio: The Marin County Investment Pool invests primarily in U.S. government obligations and registered money market funds rated 'AAAmmf' by Fitch Ratings or equivalent. The pool also currently invests a small amount in the Local Agency Investment Fund (LAIF), a local government investment pool (LGIP) managed by California's Pooled Money Investment Board.

Active Liquidity Management: The maturity profile of the pool is managed to meet anticipated cash flow needs of the pool's participants. By its investment policy, the pool seeks to maintain adequate cash on hand to meet cash disbursements and payroll through maturing investments. Cash flow projections are an integral part of the overall cash management responsibilities of the pool administrator.

Predictable Cash Flows: The pool employs a cash flow-matching investment strategy to structure investment maturities to coincide with conservative expectations of draws on the portfolio. Marin County Investment Pool has historically benefited from highly predictable cash outflow needs of the pool's participants. The pool's anticipated redemptions include payroll and benefit payments, accounts payable, debt services, and other planned expenditures.

Appropriate Management and Oversight: Portfolio oversight and operational controls are consistent with the assigned ratings. The pool is organized and invested in accordance with the state of California Government Code Section 53600 and Section 53639 and is not registered under federal law.

What Could Trigger a Rating Action

Changes in Portfolio Composition: The ratings may be sensitive to material changes in the composition, credit quality, or liquidity profile of the portfolio. A materially adverse deviation from Fitch Ratings' guidelines for any key rating driver could cause ratings to be lowered. For example, a material decrease in portfolio credit quality could result in the fund credit ratings being lowered, while a material increase in portfolio duration could result in fund volatility ratings being lowered.

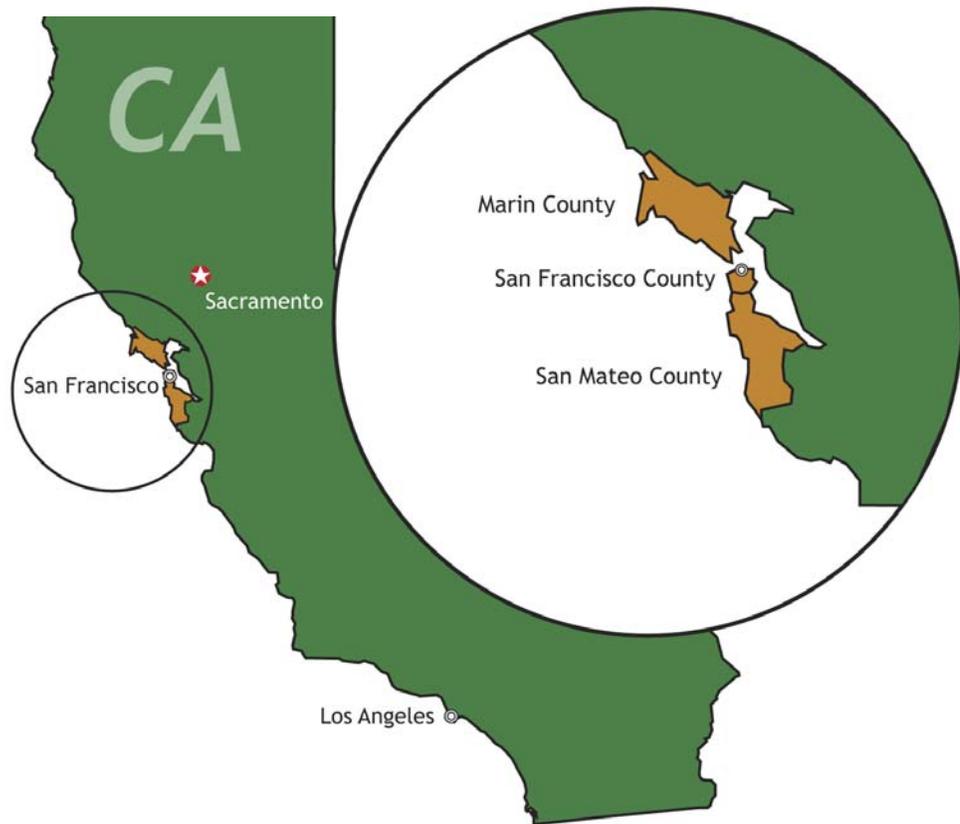
Changes in U.S. Financial Condition: Given the fund's investment mandate of investing primarily in U.S. government agency securities, the ratings may also be sensitive to materially adverse changes in the U.S. government's financial condition and that of the broader U.S. economy.

Analysts

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Marin County Investment Pool



Rating Rationale

Marin County Investment Pool is rated 'AAA/V1' by Fitch, reflecting the high credit quality of portfolio assets and the low sensitivity to market risk.

Pools with 'AAA' fund credit ratings meet specific credit quality standards for portfolio assets while maintaining appropriate portfolio diversification and demonstrating appropriate investment management and operational capabilities. The 'AAA' fund credit rating reflects investment portfolio's lowest vulnerability to losses as a result of defaults in its bond holdings and is based on the actual and prospective average credit quality of the portfolio's investments.

The 'V1' fund volatility rating reflects the lowest relative sensitivity of the investment portfolio's net asset value to assumed changes in credit spreads and interest rates, as well as certain other market risk parameters.

Fitch's evaluation of the pool's investment portfolio also considers the management and operational capabilities of Marin County director of finance and the legal and regulatory framework under which the pool operates. Portfolio valuation reports are submitted to Fitch on a monthly basis. As of July 31, 2012, the pool had approximately \$775 million in assets under management.

Related Criteria

[Global Bond Fund Rating Criteria \(August 2012\)](#)

Organizational Overview

The county of Marin is located in Northern California. The Marin County Investment Pool is managed by the Marin County director of finance on behalf of the pool participants. Participants

are defined as: Marin County; Marin public school agencies; Marin Community College; the Marin County office of education; districts under the control of the county board of supervisors; autonomous/independent districts, whose treasurer is the Marin County Director of Finance; and any other districts or agencies approved by the board of supervisors and the county treasurer, using Marin County as their fiscal agent.

Roy Given, Marin County’s director of finance, has overall responsibility for overseeing the pool’s investments and operations. The pool’s investment policies are reviewed periodically by the treasury oversight committee, consisting of representatives from Marin County, the superintendent of schools’ office, and school and special districts.

The pool is subject to quarterly external audits by the County of Sonoma’s auditor’s office. In addition, the pool is also subject to an annual external financial audit performed by an independent certified public accounting firm. Wells Fargo Institutional Trust Services, a unit of Wells Fargo Bank, N.A. (AA-/F1+), acts as the safekeeping agent for the pool’s assets.

Pool’s Objectives and Investment Practices

The pool’s primary investment objective is preservation of capital. The secondary objective is to maintain sufficient liquidity to enable participants to meet their operating requirements. The tertiary objective of the pool is to obtain a rate of return consistent with the first two objectives.

The pool seeks to pursue its investment objectives by investing in a diversified portfolio of high-quality debt securities rated at least ‘A/F1’ by Fitch or equivalent. Permitted investments include U.S. Treasury and government agency securities and state of California bonds, as well as registered warrants, bankers’ acceptances, commercial paper, negotiable certificates of deposit, time deposits, medium-term notes, shares of money market funds, repurchase agreements, and LAIF. Under the pool’s investment policies, the use of reverse repurchase agreements or securities lending programs is not permitted.

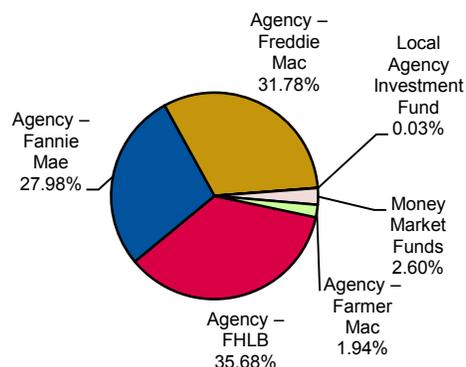
Asset Credit Quality

As of July 31, 2012, approximately 95.4% of the portfolio was invested in U.S. government agency securities, 2.6% in money market funds, and 0.03% in LAIF. According to the pool’s investment policy, eligible money market instruments must be rated at least ‘A/F1’ by Fitch or equivalent, except for LAIF, which is not rated.

The pool restricts concentrations in any one issuer (other than the U.S. government and its agencies) to a maximum of 5% of total assets to minimize single-issuer exposure. Repurchase agreements are entered into only with counterparties rated at least ‘A/F1’ by Fitch or equivalent and are 102% collateralized by U.S. government securities.

As of July 31, 2012, the pool did not have any investments in repurchase agreements.

Portfolio Composition
(As of July 31, 2012)



Note: Numbers may not add to 100% due to rounding.
Source: Marin County Treasurer.

LAIF is a LGIP with assets under management of \$21 billion as of July 31, 2012. LAIF's assets are not comingled with the state's moneys or in any way available for state use. Fitch does not rate LAIF; however, Fitch views it as being managed in a manner generally consistent with other Fitch-rated LGIPs operating in the state of California in terms of asset credit quality, issuer diversification, investor diversification, and liquidity management. As of July 31, 2012, Marin County Investment Pool had a total of \$235,100, or 0.03% of its assets, in LAIF.

Fitch generally views investments in LAIF by other rated entities of less than or equal to 15% as consistent with 'AAA/V1' ratings, particularly if such investments serve as the sole or primary source of overnight liquidity. Higher levels of exposure to LAIF may be viewed as consistent with 'AAA/V1' ratings, provided such additional investment does not serve as the sole or primary source of the portfolio's overnight liquidity.

Weighted Average Rating Factor

Based on the portfolio credit quality and maturity profile as of July 31, 2012, Fitch calculated the WA rating factor of the pool to be consistent with an 'AAA' fund credit rating. This analysis includes a reduction of the credit factors for securities in the portfolio maturing within 13 months in recognition of the lower default probability of such securities relative to longer dated securities. As of July 31, 2012, securities maturing in 13 months or less of their stated maturities represented approximately 78.0% of the portfolio.

Rating Distribution and Minimum Ratings

In evaluating LGIPs, Fitch also considers the portfolio's minimum asset ratings, as well as the extent to which the portfolio may undertake a bar-belled investment strategy. As of July 31, 2012, the portfolio consisted of long-term assets rated 'AAA', short-term assets rated at least 'F1' by Fitch or equivalent, and the minimal investments in LAIF. The high credit quality and absence of a bar-belled investment strategy are viewed as consistent with the 'AAA' fund credit rating assigned to the portfolio.

Diversification

The pool is mainly invested in U.S. government agency securities, which are viewed the highest credit quality and liquid holdings. As of July 31, 2012, the portfolio held 31.8% of its total assets in securities issued by Freddie Mac, 28.0% in securities issued by Fannie Mae, and 35.7% in securities issued by the Federal Home Loan Bank (FHLB).

Liquidity Management

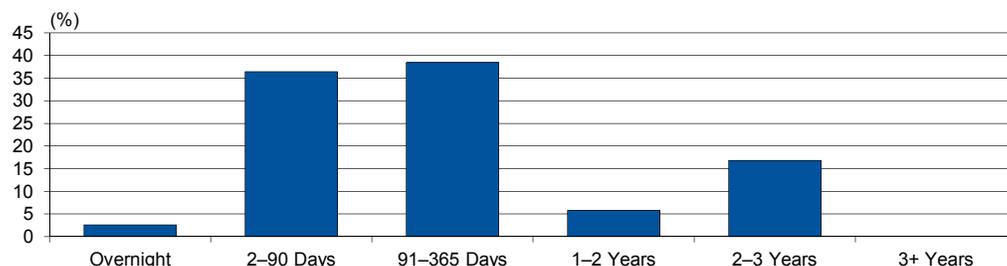
The pool has daily access to its investments in money market funds and LAIF to meet daily withdrawal requirements and cash outflows, amounting to 2.6% of the portfolios assets. As of July 31, 2012, approximately 15.9% of the portfolio's assets had a maturity of 30 days or less. In addition, the pool maintains a significant position in U.S. government agency securities, which are expected to demonstrate secondary market liquidity even during periods of market stress.

To meet liquidity targets and minimize exposure to interest rate changes, the pool uses a laddered investment strategy across a short maturity spectrum. The pool also employs a cash flow-matching investment strategy to structure investment maturities to coincide with conservative expectations of draws on the portfolio. Marin County Investment Pool has historically benefited from highly predictable cash outflow needs of the pool's participants. The

stability of cash flow projections is based on the pool's composition, as approximately 87% of participants are captive in nature and thereby required to maintain funds in the county pool. The pool's anticipated redemptions include payroll and benefit payments, accounts payable, debt services, and other planned expenditures.

Portfolio Maturity Profile^a

(As of July 31, 2012)



^aRepresents final maturity. Source: Marin County Treasurer.

Furthermore, no withdrawals from the pool can be made for the purposes of investing those funds outside the pool without prior approval of the Marin County director of finance. An approval can be given as long as such a withdrawal does not negatively affect the interests of other participants. A notice of withdrawal is required to be made in writing at least 10 days prior to the proposed withdrawal date.

The weighted average maturity to reset date (WAMr) of securities held in the portfolio was approximately 247 days as of July 31, 2012. WAMr is a measure of a portfolio's sensitivity to changing interest rates. As of the same date, approximately 78% of the pool's total assets were invested in securities with maturities of one year or less.

By investment policy, the pool must maintain an average maturity of less than 18 months and is not allowed to purchase securities with maturities greater than two years. However, the treasurer may authorize the purchase of U.S. government agency obligations with final maturities of five years or less.

Portfolio Weighted Average Maturity

(As of July 31, 2012)



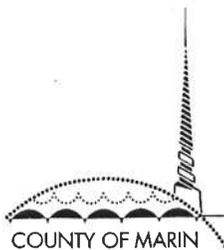
Source: Marin County Treasurer.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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TREASURER

Excellent and responsive fiscal leadership.

Roy Given, CPA
DIRECTOR

Karen Shaw
INVESTMENT OFFICER

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October 23, 2012

Steve Kinsey, President
Board of Supervisors
County of Marin
3501 Civic Center Dr. #329
San Rafael, CA 94903

Mary Jane Burke
Superintendent of Schools
Marin County Office of Education MCERA
P. O. Box 4925
San Rafael, CA 94913

Marin County Schools,
Special Districts, and
MCERA

RE: MONTHLY REPORT OF COUNTY, SCHOOLS AND DISTRICT INVESTMENTS
as of September 30, 2012.

Dear Investment Fund Participants:

The attached Monthly Report of County, Schools and District investments is provided for your review.

* The investments were made pursuant to Government Code Sections 53601, 53635 and comply with the County Treasurer's Statement of Investment Policy. The investment policy provides for:

- Preservation of capital through high quality investments;
- Maintenance of sufficient liquidity to meet participant operating needs; and
- A rate of return consistent with the above objectives.

* Maturities are scheduled to meet participant expenditure requirements for the next six months.

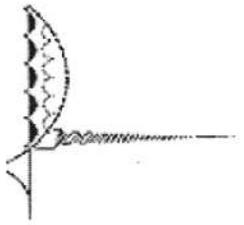
* Attached spreadsheets identify investment type, issuer, maturity date, amount invested and fair market value for each security held. Fair market values were determined by Wells Fargo Institutional Trust Services on all securities except for investments in the Local Agency Investment Fund which was valued at face value by us. Adjustments have been made for premiums, discounts and accrued interest on discount securities to make the book value and fair market value more comparable.

I trust you find this report informative. Should you have any questions do not hesitate to call me.

Respectfully submitted,

Roy Given
Director of Finance

cc: Matthew Hymel, County Administrator
Marin County Treasury Oversight Committee



TREASURER DIVISION - DEPARTMENT OF FINANCE
REPORT OF INVESTMENTS - OPERATING FUNDS
COUNTY OF MARIN, SCHOOLS & SPECIAL DISTRICTS
September 30, 2012

INVESTMENT #	TYPE	FACE VALUE	STATED RATE	MATURITY DATE	PURCHASE DATE	BOOK VALUE	YTM 360 DAYS	YTM 365 DAYS	DESCRIPTION	MARKET VALUE
142	LA1	235,100.35	2.967	/ /	/ /	235,100.35	0.343	0.348	Local Agency Investment Fund	235,100.35
3490	LA2	0.00	5.170	/ /	/ /	0.00	0.000	0.001	MM-DREYFUS	0.00
9149	LA2	10,001,459.15	0.040	/ /	/ /	10,001,459.15	0.009	0.010	MM-FIDELITY Institutional Gov	10,001,459.15
4366	LA2	0.00	4.930	/ /	/ /	0.00	0.009	0.010	NATIONS Treasury Reserves	0.00
2246	LA2	9,998,031.08	4.760	/ /	/ /	9,998,031.08	0.009	0.010	MM-WELLS FARGO Institutional G	9,998,031.08
10071	FAD	2,500,000.00	0.110	10/01/2012	06/12/2012	2,499,152.08	0.110	0.111	Federal Home Loan Discount	2,500,000.00
10072	FAD	4,100,000.00	0.110	10/02/2012	06/13/2012	4,098,609.42	0.110	0.111	Fed Natl Mtg Assoc Disc	4,100,000.00
10024	FAD	3,600,000.00	0.110	10/03/2012	04/24/2012	3,598,218.00	0.110	0.111	Fed Home Ln Mtg Corp Disc	3,600,000.00
10046	FAD	3,700,000.00	0.130	10/04/2012	05/18/2012	3,698,142.81	0.130	0.131	Fed Home Ln Mtg Corp Disc	3,700,000.00
10011	FAD	10,000,000.00	0.110	10/05/2012	04/16/2012	9,994,744.44	0.110	0.111	Federal Home Loan Discount	10,000,000.00
10019	FAD	6,400,000.00	0.100	10/09/2012	04/19/2012	6,396,924.44	0.100	0.101	Federal Home Loan Discount	6,400,000.00
10057	FAD	5,000,000.00	0.130	10/10/2012	05/30/2012	4,997,598.60	0.130	0.131	Fed Home Ln Mtg Corp Disc	4,999,950.00
10068	FAD	5,300,000.00	0.130	10/11/2012	05/30/2012	5,297,435.38	0.130	0.131	Fed Home Ln Mtg Corp Disc	5,299,947.00
10051	FAD	3,900,000.00	0.000	10/12/2012	05/24/2012	3,898,167.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	3,899,961.00
10063	FAD	1,500,000.00	0.120	10/15/2012	06/06/2012	1,499,345.00	0.120	0.121	Fed Natl Mtg Assoc Disc	1,499,985.00
10064	FAD	4,000,000.00	0.090	10/15/2012	06/06/2012	3,998,690.00	0.090	0.091	Fed Natl Mtg Assoc Disc	3,999,960.00
10020	FAD	6,000,000.00	0.135	10/16/2012	04/20/2012	5,995,972.50	0.135	0.136	Fed Natl Mtg Assoc Disc	5,999,940.00
10091	FAD	3,400,000.00	0.130	10/17/2012	07/18/2012	3,398,882.72	0.130	0.131	Federal Home Loan Discount	3,399,966.00
10060	FAD	4,000,000.00	0.100	10/18/2012	06/01/2012	3,998,455.56	0.100	0.101	Fed Home Ln Mtg Corp Disc	3,999,960.00
10066	FAD	3,200,000.00	0.110	10/18/2012	06/08/2012	3,198,709.33	0.110	0.111	Fed Home Ln Mtg Corp Disc	3,199,968.00
10023	FAD	8,500,000.00	0.000	10/19/2012	04/23/2012	8,494,505.69	0.130	0.131	Federal Home Loan Discount	8,499,915.00
10032	FAD	4,000,000.00	0.150	10/22/2012	04/30/2012	3,997,083.33	0.150	0.152	Fed Home Ln Mtg Corp Disc	3,999,960.00

INVESTMENT #	TYPE	FACE VALUE	STATED RATE	MATURITY DATE	PURCHASE DATE	BOOK VALUE	YTM 360 DAYS	YTM 365 DAYS	DESCRIPTION	MARKET VALUE
10069	FAD	3,500,000.00	0.120	10/26/2012	06/11/2012	3,498,401.67	0.120	0.121	Fed Home Ln Mtg Corp Disc	3,499,965.00
10074	FAD	4,000,000.00	0.120	10/29/2012	06/15/2012	3,998,186.67	0.120	0.121	Fed Natl Mtg Assoc Disc	3,999,920.00
10068	FAD	2,900,000.00	0.110	10/30/2012	06/11/2012	2,898,750.58	0.110	0.111	Federal Home Loan Discount	2,899,942.00
10092	FAD	3,000,000.00	0.100	10/30/2012	07/18/2012	2,999,133.33	0.100	0.101	Fed Home Ln Mtg Corp Disc	2,999,940.00
10017	FAD	15,000,000.00	0.130	10/31/2012	04/19/2012	14,989,437.50	0.132	0.134	Fed Home Ln Mtg Corp Disc	14,999,700.00
10021	FAD	3,000,000.00	0.120	10/31/2012	04/20/2012	2,998,059.99	0.122	0.123	Fed Home Ln Mtg Corp Disc	2,999,940.00
10062	FAD	2,200,000.00	0.100	11/01/2012	06/05/2012	2,199,089.44	0.100	0.101	Federal Home Loan Discount	2,199,934.00
10083	FAD	3,600,000.00	0.139	11/01/2012	07/02/2012	3,598,292.02	0.140	0.142	Fed Home Ln Mtg Corp Disc	3,599,892.00
10093	FAD	8,100,000.00	0.110	11/02/2012	07/19/2012	8,097,376.50	0.110	0.111	Federal Home Loan Discount	8,099,757.00
10076	FAD	6,500,000.00	0.120	11/05/2012	06/20/2012	6,497,010.00	0.120	0.121	Fed Natl Mtg Assoc Disc	6,499,805.00
10084	FAD	3,400,000.00	0.110	11/06/2012	07/03/2012	3,398,691.00	0.110	0.111	Fed Home Ln Mtg Corp Disc	3,399,898.00
10103	FAD	3,500,000.00	0.110	11/07/2012	08/01/2012	3,498,951.94	0.110	0.111	Fed Home Ln Mtg Corp Disc	3,499,895.00
10104	FAD	3,500,000.00	0.110	11/08/2012	08/01/2012	3,498,941.25	0.110	0.111	Fed Home Ln Mtg Corp Disc	3,499,895.00
10081	FAD	5,300,000.00	0.120	11/09/2012	06/27/2012	5,297,615.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	5,299,841.00
10099	FAD	3,000,000.00	0.100	11/13/2012	07/27/2012	2,999,091.67	0.100	0.101	Fed Natl Mtg Assoc Disc	2,999,880.00
10100	FAD	3,600,000.00	0.100	11/14/2012	07/27/2012	3,598,900.00	0.100	0.101	Fed Natl Mtg Assoc Disc	3,599,856.00
10129	FAD	2,000,000.00	0.100	11/15/2012	08/30/2012	1,999,572.22	0.100	0.101	Fed Natl Mtg Assoc Disc	1,999,920.00
10094	FAD	8,200,000.00	0.100	11/16/2012	07/20/2012	8,197,289.44	0.100	0.101	Fed Natl Mtg Assoc Disc	8,199,672.00
10107	FAD	7,800,000.00	0.100	11/19/2012	08/03/2012	7,797,660.00	0.100	0.101	Fed Natl Mtg Assoc Disc	7,799,688.00
10109	FAD	4,000,000.00	0.120	11/20/2012	08/08/2012	3,998,613.33	0.120	0.121	Fed Natl Mtg Assoc Disc	3,999,840.00
10110	FAD	4,700,000.00	0.120	11/26/2012	08/09/2012	4,698,292.33	0.120	0.121	Fed Natl Mtg Assoc Disc	4,699,765.00
10102	FAD	5,800,000.00	0.130	11/27/2012	07/31/2012	5,797,507.61	0.130	0.131	Fed Home Ln Mtg Corp Disc	5,799,710.00
10105	FAD	4,800,000.00	0.120	11/27/2012	08/02/2012	4,798,128.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	4,799,760.00
10082	FAD	6,500,000.00	0.140	11/28/2012	06/28/2012	6,498,132.50	0.140	0.142	Federal Home Loan Discount	6,499,675.00
10138	FAD	7,300,000.00	0.130	11/30/2012	09/11/2012	7,297,891.11	0.130	0.131	Federal Home Loan Discount	7,299,635.00
10098	FAD	19,500,000.00	0.120	11/30/2012	07/26/2012	19,491,745.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	19,499,025.00
10106	FAD	2,000,000.00	0.120	11/30/2012	08/02/2012	1,999,200.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	1,999,900.00

INVESTMENT #	TYPE	FACE VALUE	STATED RATE	MATURITY DATE	PURCHASE DATE	BOOK VALUE	YTM 360 DAYS	YTM 365 DAYS	DESCRIPTION	MARKET VALUE
10018	FAD	15,400,000.00	0.000	12/14/2012	04/19/2012	15,386,708.26	0.132	0.133	Federal Home Loan Discount	15,398,768.00
9928	FAD	10,150,000.00	0.000	12/14/2012	02/24/2012	10,139,224.08	0.132	0.133	Federal Home Loan Discount	10,149,188.00
9952	FAD	10,400,000.00	0.000	12/14/2012	03/16/2012	10,389,747.33	0.132	0.134	Federal Home Loan Discount	10,399,168.00
9970	FAD	10,000,000.00	0.000	12/14/2012	03/28/2012	9,989,850.00	0.142	0.144	Federal Home Loan Discount	9,999,200.00
9929	FAD	20,000,000.00	0.110	12/14/2012	02/24/2012	19,982,033.33	0.111	0.113	Fed Natl Mtg Assoc Disc	19,998,400.00
9971	FAD	10,000,000.00	0.120	12/14/2012	03/28/2012	9,991,300.00	0.122	0.123	Fed Natl Mtg Assoc Disc	9,999,200.00
10141	MC1	1,700,000.00	3.500	12/14/2012	09/14/2012	1,700,000.00	3.490	3.538	Town of San Anselmo	1,700,000.00
10156	MC1	550,000.00	3.500	12/15/2012	09/26/2012	550,000.00	3.490	3.538	Tamalpais CSD	550,000.00
10111	FAD	3,000,000.00	0.145	12/17/2012	08/10/2012	2,998,441.25	0.145	0.147	Fed Home Ln Mtg Corp Disc	2,999,730.00
10115	FAD	3,000,000.00	0.130	12/17/2012	08/17/2012	2,998,678.33	0.130	0.131	Fed Natl Mtg Assoc Disc	2,999,730.00
10114	FAD	4,500,000.00	0.130	12/18/2012	08/16/2012	4,497,985.00	0.130	0.131	Fed Home Ln Mtg Corp Disc	4,499,595.00
10116	FAD	4,500,000.00	0.130	12/20/2012	08/17/2012	4,497,968.75	0.130	0.131	Fed Natl Mtg Assoc Disc	4,499,595.00
10112	FAD	19,000,000.00	0.130	12/21/2012	08/15/2012	18,991,217.78	0.130	0.131	Fed Home Ln Mtg Corp Disc	18,998,290.00
10124	FAD	4,600,000.00	0.110	12/24/2012	08/24/2012	4,598,285.22	0.110	0.111	Fed Natl Mtg Assoc Disc	4,599,586.00
10119	FAD	4,000,000.00	0.130	12/27/2012	08/21/2012	3,998,151.11	0.130	0.131	Fed Home Ln Mtg Corp Disc	3,999,600.00
10120	FAD	9,600,000.00	0.140	12/28/2012	08/22/2012	9,595,221.33	0.140	0.142	Fed Home Ln Mtg Corp Disc	9,599,040.00
10123	FAD	5,000,000.00	0.130	12/31/2012	08/24/2012	4,997,670.83	0.130	0.131	Fed Home Ln Mtg Corp Disc	4,999,500.00
10125	FAD	7,000,000.00	0.100	01/02/2013	08/27/2012	6,997,511.11	0.100	0.101	Federal Home Loan Discount	6,999,090.00
10113	FAD	5,000,000.00	0.155	01/03/2013	08/15/2012	4,996,964.58	0.155	0.157	Fed Agric Mtg Corp Discount	4,999,350.00
10142	FAD	5,000,000.00	0.100	01/04/2013	09/14/2012	4,998,444.44	0.100	0.101	Federal Home Loan Discount	4,999,350.00
10143	FAD	5,000,000.00	0.100	01/07/2013	09/14/2012	4,998,402.78	0.100	0.101	Federal Home Loan Discount	4,999,300.00
10144	FAD	5,000,000.00	0.100	01/08/2013	09/14/2012	4,998,388.89	0.100	0.101	Federal Home Loan Discount	4,999,300.00
10131	FAD	2,900,000.00	0.140	01/09/2013	09/04/2012	2,898,567.72	0.140	0.142	Federal Home Loan Discount	2,899,594.00
10145	FAD	3,500,000.00	0.100	01/09/2013	09/14/2012	3,498,862.50	0.100	0.101	Federal Home Loan Discount	3,499,510.00
10151	FAD	3,900,000.00	0.090	01/10/2013	09/21/2012	3,898,917.75	0.090	0.091	Federal Home Loan Discount	3,899,454.00
10122	FAD	12,000,000.00	0.120	01/11/2013	08/23/2012	11,994,360.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	11,998,320.00
10121	FAD	4,400,000.00	0.120	01/14/2013	08/23/2012	4,397,888.00	0.120	0.121	Fed Natl Mtg Assoc Disc	4,399,340.00

INVESTMENT #	TYPE	FACE VALUE	STATED RATE	MATURITY DATE	PURCHASE DATE	BOOK VALUE	YTM 360 DAYS	YTM 365 DAYS	DESCRIPTION	MARKET VALUE
10132	FAD	1,500,000.00	0.110	01/14/2013	09/04/2012	1,499,395.00	0.110	0.111	Fed Natl Mtg Assoc Disc	1,499,775.00
10133	FAD	4,000,000.00	0.110	01/15/2013	09/05/2012	3,998,386.67	0.110	0.111	Fed Natl Mtg Assoc Disc	3,999,400.00
10134	FAD	3,000,000.00	0.110	01/16/2013	09/05/2012	2,998,780.83	0.110	0.111	Fed Natl Mtg Assoc Disc	2,999,550.00
10147	FAD	5,200,000.00	0.110	01/17/2013	09/19/2012	5,198,093.33	0.110	0.111	Federal Home Loan Discount	5,199,220.00
10148	FAD	6,100,000.00	0.110	01/18/2013	09/20/2012	6,097,763.33	0.110	0.111	Federal Home Loan Discount	6,099,085.00
10127	FAD	3,300,000.00	0.145	01/22/2013	08/28/2012	3,298,046.13	0.145	0.147	Fed Home Ln Mtg Corp Disc	3,299,472.00
10152	FAD	5,000,000.00	0.110	01/24/2013	09/21/2012	4,998,090.28	0.110	0.111	Federal Home Loan Discount	4,999,200.00
10146	FAD	7,600,000.00	0.100	01/25/2013	09/17/2012	7,597,255.56	0.100	0.101	Federal Home Loan Discount	7,598,784.00
10130	FAD	6,700,000.00	0.120	01/28/2013	08/31/2012	6,696,650.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	6,698,861.00
10135	FAD	2,400,000.00	0.120	01/29/2013	09/06/2012	2,398,840.00	0.120	0.121	Fed Home Ln Mtg Corp Disc	2,399,592.00
10128	FAD	6,500,000.00	0.120	01/31/2013	08/29/2012	6,496,641.67	0.120	0.121	Fed Home Ln Mtg Corp Disc	6,498,895.00
10136	FAD	11,900,000.00	0.120	01/31/2013	09/07/2012	11,894,208.67	0.120	0.121	Fed Home Ln Mtg Corp Disc	11,897,977.00
10149	FAD	5,000,000.00	0.110	02/01/2013	09/21/2012	4,997,968.06	0.110	0.111	Federal Home Loan Discount	4,998,800.00
10150	FAD	5,000,000.00	0.110	02/04/2013	09/21/2012	4,997,922.22	0.110	0.111	Federal Home Loan Discount	4,998,750.00
10154	FAD	1,200,000.00	0.110	02/06/2013	09/24/2012	1,199,505.00	0.110	0.111	Federal Home Loan Discount	1,199,700.00
10153	FAD	2,100,000.00	0.140	02/06/2013	09/24/2012	2,098,897.50	0.140	0.142	Fed Natl Mtg Assoc Disc	2,099,475.00
10140	FAD	7,500,000.00	0.120	02/08/2013	09/13/2012	7,498,300.00	0.120	0.121	Fed Natl Mtg Assoc Disc	7,498,125.00
10157	FAD	2,710,000.00	0.140	02/12/2013	09/26/2012	2,708,535.09	0.140	0.142	Fed Home Ln Mtg Corp Disc	2,709,295.40
10158	FAD	1,000,000.00	0.135	02/12/2013	09/26/2012	999,478.75	0.135	0.136	Fed Home Ln Mtg Corp Disc	999,740.00
9898	FAC	5,000,000.00	0.200	02/20/2013	01/24/2012	5,000,000.00	0.197	0.200	Federal Home Loan Bank	5,000,100.00
10159	FAD	2,240,000.00	0.145	02/27/2013	09/27/2012	2,238,619.60	0.145	0.147	Fed Natl Mtg Assoc Disc	2,239,350.40
10160	FAD	13,650,000.00	0.110	02/28/2013	09/27/2012	13,643,576.92	0.110	0.111	Federal Home Loan Discount	13,646,041.50
10155	FAD	30,000,000.00	0.130	04/12/2013	09/26/2012	29,978,550.00	0.130	0.132	Fed Home Ln Mtg Corp Disc	29,982,300.00
9909	FAC	5,000,000.00	0.200	04/30/2013	02/01/2012	5,000,000.00	0.197	0.200	Federal Home Loan Bank	5,000,000.00
10048	FAC	5,000,000.00	0.250	05/22/2013	05/22/2012	5,000,000.00	0.246	0.250	Federal Home Loan Bank	5,001,400.00
10037	FAC	5,000,000.00	0.250	05/24/2013	05/07/2012	5,000,000.00	0.246	0.250	Federal Home Loan Bank	5,000,450.00
9299	FAC	5,000,000.00	1.125	09/17/2013	09/17/2010	4,997,500.00	1.126	1.142	Fed Natl Mtg Assoc	5,040,050.00

INVESTMENT #	TYPE	FACE VALUE	STATED RATE	MATURITY DATE	PURCHASE DATE	BOOK VALUE	YTM 360 DAYS	YTM 365 DAYS	DESCRIPTION	MARKET VALUE
10029	FAC	5,000,000.00	0.280	10/25/2013	04/27/2012	5,000,000.00	0.276	0.280	Federal Home Loan Bank	5,003,400.00
9808	FAC	5,000,000.00	0.550	11/15/2013	11/15/2011	4,996,450.00	0.577	0.585	Fed Natl Mtg Assoc	5,001,300.00
10101	FAC	5,000,000.00	0.300	01/30/2014	07/30/2012	4,999,250.00	0.305	0.310	Federal Home Loan Bank	5,001,900.00
10126	FAC	5,000,000.00	0.400	08/28/2014	08/28/2012	5,000,000.00	0.394	0.400	Federal Home Loan Bank	5,002,650.00
10031	FAC	5,000,000.00	0.500	10/30/2014	04/30/2012	5,000,000.00	0.493	0.500	Fed Natl Mtg Assoc	5,002,800.00
9815	FAC	5,000,000.00	0.550	11/21/2014	11/21/2011	5,000,000.00	0.542	0.550	Fed Natl Mtg Assoc	5,001,950.00
9845	FAC	20,000,000.00	1.000	12/12/2014	12/12/2011	20,000,000.00	0.986	1.000	Fed Natl Mtg Assoc	20,017,000.00
9862	FAC	5,000,000.00	0.625	12/19/2014	12/19/2011	5,000,000.00	1.023	1.037	Fed Home Ln Mtg Corp	5,003,450.00
10085	FAC	5,000,000.00	0.500	01/09/2015	07/09/2012	4,999,250.00	0.499	0.506	Fed Natl Mtg Assoc	5,006,000.00
9896	FAC	5,000,000.00	0.500	01/23/2015	01/23/2012	4,998,750.00	0.860	0.872	Fed Natl Mtg Assoc	5,002,850.00
9917	FAC	5,000,000.00	0.300	02/13/2015	02/13/2012	5,000,000.00	0.754	0.764	Fed Natl Mtg Assoc	5,001,850.00
9966	FAC	5,000,000.00	0.700	03/26/2015	03/26/2012	5,000,000.00	0.690	0.700	Fed Natl Mtg Assoc	5,014,550.00
10005	FAC	15,000,000.00	0.710	04/15/2015	04/13/2012	15,000,000.00	0.700	0.709	Fed Natl Mtg Assoc	15,031,200.00
10013	FAC	5,000,000.00	0.750	04/17/2015	04/17/2012	5,000,000.00	0.739	0.750	Fed Natl Mtg Assoc	5,011,550.00
10014	FAC	5,000,000.00	0.500	04/17/2015	04/17/2012	4,998,750.00	0.828	0.840	Fed Natl Mtg Assoc	5,000,450.00
10022	FAC	5,000,000.00	0.760	04/23/2015	04/23/2012	5,000,000.00	0.749	0.760	Fed Natl Mtg Assoc	5,001,450.00
10047	FAC	5,000,000.00	0.350	05/12/2015	05/12/2012	5,000,000.00	0.729	0.739	Fed Natl Mtg Assoc	5,000,550.00
10055	FAC	5,000,000.00	0.700	05/29/2015	05/29/2012	5,000,000.00	0.690	0.700	Fed Natl Mtg Assoc	5,002,500.00
10070	FAC	5,000,000.00	0.500	06/12/2015	06/12/2012	5,000,000.00	0.982	0.995	Fed Natl Mtg Assoc	5,004,000.00
10080	FAC	5,000,000.00	0.700	06/26/2015	06/26/2012	5,000,000.00	0.690	0.700	Fed Natl Mtg Assoc	5,005,250.00
		718,734,590.58				718,435,431.96				718,829,988.88

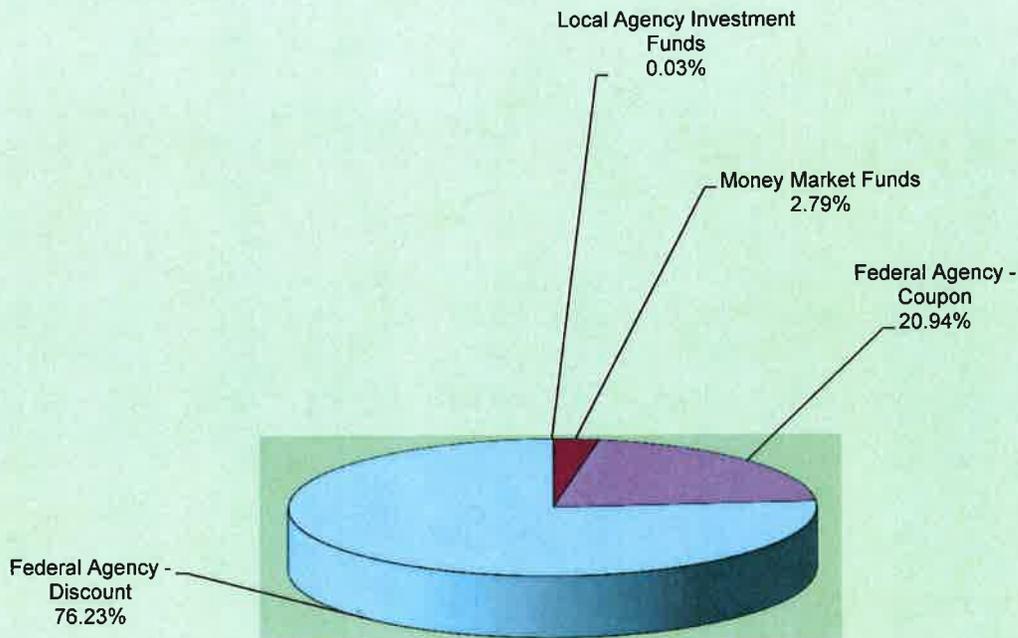
AMORTIZATION & ACCRETION OF PREMIUMS & DISCOUNTS 375.46 ACCRUED INTEREST DISCOUNT INVESTMENTS

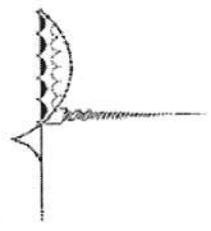
718,734,590.58 718,435,807.42 718,829,988.88

**Treasurer Division - Department of Finance
 Portfolio Yield Report - Operating Funds
 County of Marin, Schools & Special Districts
 September 30, 2012**

INVESTMENT HOLDINGS	BOOK VALUE	Portfolio Yields as 09/30/2012
Local Agency Investment Funds	\$235,100.35	0.348%
Money Market Funds	\$19,999,490.23	0.010%
Federal Agency - Coupon	\$149,989,950.00	0.672%
Federal Agency - Discount	\$545,960,891.38	0.122%
Misc.- Coupon - San Anselmo, TAM	\$2,250,000.00	3.539%
TOTAL	\$718,435,431.96	0.245%

PORTFOLIO ALLOCATION





POOLED INVESTMENTS
Portfolio Management
Portfolio Summary
September 30, 2012

Marin County
 3501 Civic Center Dr.
 San Rafael, San Rafael, CA
 (415)499-6144

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	360 Equiv. YTM	365 Equiv. YTM
Local Agency Investment Funds	235,100.35	235,100.35	235,100.35	0.03	1	1	0.343	0.348
Money Market Funds	19,999,490.23	19,999,490.23	19,999,490.23	2.78	1	1	0.010	0.010
Federal Agency Issues - Coupon	150,000,000.00	150,158,650.00	149,989,950.00	20.88	930	721	0.663	0.672
Federal Agency Issues - Discount	546,250,000.00	546,186,748.30	545,960,891.38	75.99	157	76	0.121	0.122
Miscellaneous Securities - Coupon	2,250,000.00	2,250,000.00	2,250,000.00	0.31	88	74	3.490	3.539
Investments	718,734,590.58	718,829,988.88	718,435,431.96	100.00%	314	209	0.241	0.245

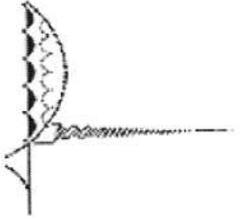
Total Earnings	September 30 Month Ending
Current Year	144,043.21
Average Daily Balance	747,781,281.31
Effective Rate of Return	0.23%

TREASURER'S DIVISION, DEPARTMENT OF FINANCE

Reporting period 09/01/2012-09/30/2012

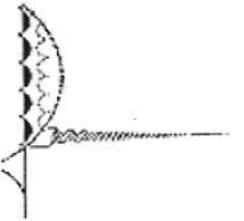
Run Date: 10/10/2012 - 13:39

No fiscal year history available



TREASURER DIVISION - DEPARTMENT OF FINANCE
REPORT OF INVESTMENTS - NON-OPERATING FUNDS
CHILDREN & FAMILIES COMMISSION
September 30, 2012

INVESTMENT #	TYPE	FACE VALUE	MATURITY DATE	PURCHASE DATE	BOOK VALUE	YTM 360 DAYS	YTM 365 DAYS	DESCRIPTION	MARKET VALUE
101	LA2	97,649.77	/ /	/ /	97,649.77	0.343	0.348	LOCAL AGENCY INVESTMENT FUND	97,649.77
					97,649.77				97,649.77



TREASURER DIVISION - DEPARTMENT OF FINANCE
 REPORT OF INVESTMENTS - NON-OPERATING FUNDS

SAN RAFAEL SCHOOLS
 September 30, 2012

Page 1

INVESTMENT #	TYPE	FACE VALUE	MATURITY DATE	PURCHASE DATE	BOOK VALUE	YTM 360 DAYS	YTM 365 DAYS	DESCRIPTION	MARKET VALUE
687	LA1	0.00	/ /	/ /	0.00	5.181	5.253	LOCAL AGENCY INVESTMENT FUND	0.00
746	LA1	422,986.68	/ /	/ /	422,986.68	0.343	0.348	LOCAL AGENCY INVESTMENT FUND	422,986.68
		422,986.68			422,986.68				422,986.68
AMORTIZATION & ACCRETION OF PREMIUMS & DISCOUNTS					-0-				
		422,986.68			422,986.68				422,986.68

Novato Sanitary District

POLICY HANDBOOK

POLICY TITLE: Investment of District Funds

POLICY NUMBER: 3120

Novato Sanitary District

STATEMENT OF INVESTMENT POLICY

Adopted October 22, 2012

3120.1 PREMISE

The legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) 53600.6 and 53630.1)

CGC Sections 5921 and 53601, et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,

The fiscal officer of a local agency is required to annually prepare and submit a statement of investment policy and such policy, and any changes thereto, is to be considered by the local agency's legislative body at a public meeting (CGC 53646(a))

For these reasons, and to ensure prudent and responsible management of the public's funds, it is the policy of the Novato Sanitary District (District) to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of District funds.

The Statement of Investment Policy for Novato Sanitary District includes the revised California Government Code Section 53600 effective January 1, 1996.

Funds Management 3121.2 SCOPE

This investment policy applies to all financial assets of Novato Sanitary District, including Operating Funds, Capital Improvement Funds and Bond Funds.

Regular Warrants Account: As cash is received, it is deposited in the District's Money Market Checking Account with Westamerica Bank. Cash on hand is reviewed daily and all inactive or reserve funds above the minimum balance are wire transferred periodically to the State Local Agency Investment Fund (LAIF), or invested locally in certificates of deposit. When the District writes checks, for whatever purpose, funds are withdrawn from LAIF to cover the checks written.

Payroll Account: The District's payroll is prepared in-house. All pay checks and pay vouchers (for direct deposit) are processed through the District's Payroll Account with Westamerica Bank. After the checks and vouchers are reconciled, funds to cover payroll are transferred from the Operating Account to the Payroll Account.

Petty Cash Account: The District maintains a Petty Cash account with a balance not to exceed \$1,000.00.

Statement of Investment Policy

~~Adopted October 22, 2012~~ Draft Revision 11/30/12

Page 2 of 5

This account is for small purchases.

SRF Project Account Capital Projects Account: This account is used to track capital project expenditures throughout the year. Any excess balance above the minimum balance is wire transferred to LAIF. When the District writes checks for project expenses funds are withdrawn from LAIF to cover the checks written. Funds are transferred from the regular warrants account after this account has been funded by LAIF, for operating and project expenses.

ARRA Grant Project Account: This account is established to receive grant funds under the American Reinvestment and Recovery Act for partial financing of the District's Recycled Water Project. The project is part of the regional recycled water project administered by the North Bay Water Reuse Authority.

Local Agency Investment Account

Certificates of Participation Bond Fund

Funds not included in the policy include deferred compensation funds since the assets of the plan are held for the exclusive benefit of plan participants and their beneficiaries and the individual plan participants are responsible for the investment of these accounts.

3120.2 PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard as stated in California

~~Government Code (CGC)~~ Section 53600.3 and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

3120.4 OBJECTIVES Objectives

As specified in CGC Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

3120.4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

3120.4.2 Liquidity: The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

3120.4.3 Return on Investments: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

3120.5 DELEGATION OF AUTHORITY Delegation of Authority

Authority to manage the investment program is derived from CGC Sections 53600, et seq. Management responsibility for the investment program is hereby delegated to the Treasurer, Beverly B. James, who shall

Statement of Investment Policy

~~Adopted October 22, 2012~~ Draft Revision 11/30/12

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establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The following employees are authorized to telephone instructions for deposits and withdrawals from the District bank account to the State Treasurer and vice versa:

Beverly B. James, Manager-Engineer, Treasurer
Laura M. Creamer, Finance Officer

~~Transfers between the District's five Westamerica Bank accounts may be made electronically by Beverly James, Manager-Engineer and Laura Creamer, Finance Officer.~~

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of CGC 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard. ~~In addition, the District maintains a public officials' surety bond in the amount of \$200,000.~~

3120.6 ETHICS AND CONFLICTS OF INTEREST ~~Ethics and Conflicts of Interest~~

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

3120.8 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS ~~Authorized Financial Institutions and Dealers~~

The Treasurer will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Treasurer shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the District's account with that firm has reviewed the District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the District that are appropriate under the terms and conditions of the Investment Policy.

~~Designated depositories for the deposit of inactive funds are:~~

~~Local Banks: Bank of America, Wells Fargo Bank and Westamerica Bank.~~

~~Local Savings and Loan Associations: Citbank and Chase Bank.~~

Statement of Investment Policy

~~Adopted October 22, 2012~~ Draft Revision 11/30/12

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~~State Treasurer's Local Agency Investment Fund (LAIF). The LAIF is made up of pooled funds from California local agencies which are invested by the State Treasurer. The maximum deposit allowed per agency is \$50,000,000 (effective 11/15/09). There is no minimum investment period and interest is earned daily. Money can be withdrawn within 24 hours.~~

3120.8 AUTHORIZED AND SUITABLE INVESTMENTS Authorized and Suitable Investments

It is the practice of the District to invest inactive operating and capital improvement funds only with the State Treasurer's Local Agency Investment Fund and/or with local banks and savings and loans.

Prohibited Investments. Under the provisions of CGC Section 53601.6 and 53631.5, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

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State Revolving Fund Loan

~~The following describes the state revolving fund loan with the State of California through the State Water Resources Control Board. This loan is specifically for the Wastewater Treatment Project Upgrade. Project expenses are reimbursed by this loan shortly after the District pays the contractor for the work performed on the Wastewater Treatment Project Upgrade. The first payment on this loan was made in December of 2011 and these payments will continue until January of 2031.~~

Certificates of Participation Bond Fund

~~The District issued \$21,750,000 Certificates of Participation in October of 2011 to fund the construction program. The construction program consists of projects to improve the treatment plant, collection system, pump stations, and reclamation system, including associated planning, engineering and administrative costs as outlined in the District's five-year capital improvement program. These funds are held in a separate LAIF account and administered through the Bank of New York Mellon N.A. The District requests reimbursement for capital project expenditures from this account on a monthly basis. Payments on this loan began in February of 2012, and will continue for a time period of twenty years. The interest rate ranges from 3% - 4.75%.~~

3120.9 COLLATERALIZATION Collateralization

All certificates of deposit must be collateralized by U.S. Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC Section 53601(i)(2).

3120.10 SAFEKEEPING AND CUSTODY Safekeeping and Custody

All security transactions entered into by the District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the District by book entry, physical delivery or by third party custodial agreement as required by CGC Section 53601.

Statement of Investment Policy

~~Adopted October 22, 2012~~ Draft Revision 11/30/12

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3120.11 DIVERSIFICATION Diversification

The District will diversify its investments by security type and institution. It is the policy of the District to remit money not required for immediate needs to LAIF for purposes of investment. Assets in the pooled money account are diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

3120.12 REPORTING Reporting

In accordance with CGC Section 53646(b)(1), Treasurer shall submit to each member of the Board of Directors a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the District by third party contracted managers. The report will also include the source of the portfolio valuation. As specified in CGC Section 53646(e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions.

The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the District will meet its expenditure obligations for the next six months as required by CGC Section 53646(b)(2) and (3) respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

3120.13 INVESTMENT POLICY REVIEW Investment Policy Adoption

The Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors.

Novato Sanitary District
Novato, California
Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2012 and 2011



**NOVATO SANITARY DISTRICT, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOVATO SANITARY DISTRICT
500 Davidson Street
Novato, California 94945
(415) 892-1694 – www.novatosan.com**

Prepared by:

*Beverly James, Manager-Engineer
Laura Creamer, Finance Officer*

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NOVATO SANITARY DISTRICT
Comprehensive Annual Financial Report
For the Years Ended June 30, 2012 and 2011

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Introductory Section

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November 5, 2012

To the Honorable President and Members of the Board of Directors and Customers of the Novato Sanitary District:

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Novato Sanitary District (District) for fiscal year ended June 30, 2012 is hereby submitted as required. Maze & Associates, a firm of licensed certified public accountants, has audited the Novato Sanitary District's financial statements.

This report is organized into four sections: (1) Introductory (2) Financial (3) Supplemental Information and (4) Statistical. The introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statement, and the District's audited basic financial statements with accompanying notes. The Supplemental Information section includes schedules for the purposes of additional analysis. The Statistical section presents un-audited ten-year historical financial, demographic, and statistical information pertinent to the District's operations.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the Novato Sanitary District for the fiscal year ended June 30, 2012 are free of

material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Novato Sanitary District's financial statements for the fiscal year ended June 30, 2012 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

PROFILE OF THE DISTRICT

The Novato Sanitary District was formed in October 1925 pursuant to the Sanitary District Act of 1923 (California Health and Safety Code, Sections 6400 et seq). Established as an Independent Enterprise Special District, the District is authorized to provide wastewater collection and treatment services, to levy rates and fees to support those services, and to regulate collection of garbage and refuse. The District is located in northern Marin County and is approximately 25 miles north of the city and county of San Francisco.

The District has an upgraded and expanded treatment plant designed for average dry weather flow of 7.1 million gallons per day, providing wastewater service to the sewered areas of the City of Novato as well as developed areas outside the city limits. The District encompasses 24.66 square miles and serves approximately 51,000 residents. Wastewater from the District's service area is transported to the Novato Wastewater Treatment Plant where it is treated to federally mandated standards to protect the public health.

The District also operates a Wastewater Reclamation Facility consisting of some 820 acres of farmland in three separate sites adjacent to Highway 37. This acreage is irrigated with treated wastewater during the summer months for grazing cattle during 5-6 months of the year. Another unique feature of the reclamation facility is a 10-acre wildlife pond utilizing treated wastewater. The pond supports a variety of freshwater aquatic life and grasses, and is a preserve for birds and other forms of wildlife. A third feature of the reclamation facility is the 6 acres of treated sludge storage ponds and 15 acres of dedicated disposal site.

In cooperation with the North Marin Water District, 1.7 million gallons per day of Title 22 recycled water is produced for use for landscape irrigation in Northern and Eastern Novato.

Governance

The affairs of the District are directed by a five member Board of Directors elected at large by the registered voters residing in the District. The directors are residents of the District and have the same concerns as their constituents. The board members, who serve four-year staggered terms, are responsible for establishing policy and ordinances, adopting the annual budget, and hiring the District's Manager-Engineer. The Manager-Engineer is responsible for carrying out the policies and ordinances of the District board and for overseeing the day-to-day operations of the District.

Mission and Vision

The mission of the Novato Sanitary District is as follows:

Novato Sanitary District provides safe and reliable wastewater and solid waste services to its customers in an environmentally and economically sustainable manner. The District communicates openly and works collaboratively for the betterment of the community.

The District's long-term vision is as follows:

Novato Sanitary District is a representative local government; its Board and staff are closely aligned with the community through excellent communication and customer services.

We strive to attain an ever improving record of environmental protection, safe and efficient operation, and prudent financial management.

We deliver regulatory compliant, quality, reliable, and cost-effective services.

Our staff is well trained, positively motivated, and has opportunities for self-improvement.

Our capital facilities are in excellent condition and cost-effectively maintained.

The Board and staff partner seamlessly with other public and private entities to provide high quality and cost-effective wastewater and solid waste services.

We innovate and change as opportunities and needs arise.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Novato Sanitary District operates.

Local Economy

The District has a predominantly residential ratepayer base, with residential users accounting for 75% of equivalent dwelling units. The local economy also includes some 2,500 commercial businesses. No major industrial wastewater producers exist within the District's service area. In general, the District's service area is significantly built out with densification anticipated in the downtown area and commercial corridors. Future growth areas are areas zoned very low density residential.

As an independent enterprise special district having the ability to adjust service rates as required, the District's operating revenues are somewhat insulated from the local economy. The District's operating revenues tend to increase with growth periods and stabilize during non-growth periods. Conceivably, the greatest threat to operating revenues would be from a significant reduction in the service area population. As the District reaches build-out, it is anticipated that growth in District revenues will remain stable.

Capacity fees are collected as new units are connected to the District. During the housing boom of the early 2000's the District experienced very strong revenues from capacity fees. It is anticipated that capacity fee revenues will slow dramatically as the District approaches build-out.

Property taxes accounted for approximately 11.3% and 9.8% of the District's total revenue for FYE 2011 and 2012, respectively. Due to the current conditions in the housing market, property tax revenues are not expected to increase at prior year historical rates and may remain flat or decrease in the near future due to reduction in values and reassessments.

Long-Term Financial Planning

The District's Board of Directors is aware of the need to ensure the District's financial stability. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The cornerstone of these policies is the District's 2011 Comprehensive Financial Plan that forecasts the District's expenditures and revenue needs for the next four years. The District utilizes this information to anticipate future expense obligations and to develop programs to ensure these expense obligations are fully funded.

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Fund Policy to anticipate and prepare for future funding requirements as well as for unforeseen events. The Reserve Fund Policy establishes a Rate Stabilization Fund, Emergency Repair Reserve, and Self-Insurance Fund to meet the insurance deductible limit for sewer system overflows.

Investment Policy

The Investment Policy establishes guidelines for the investment of available funds. The Investment Policy incorporates the "prudent investor" standard as stated in California Government Code (CGC) Section 53600.3. The primary objectives, in priority order, of the District's investment activities are the following: 1) safety, 2) liquidity, and 3) yield. The District's funds are invested in the State Local Agency Investment Fund, in accordance with California Government Code, as described in Footnote 2 of the Basic Financial Statements.

INTERNAL CONTROLS

The District is responsible for establishing and maintaining an internal control structure designed to ensure that the District's assets are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled for the preparation of financial statements in conformity with GAAP. The internal structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that; 1) the cost of control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

MAJOR INITIATIVES

The District has initiated several major projects to upgrade infrastructure and ensure the adequacy of facilities.

- 1) The District recently completed a major upgrade to its wastewater treatment facilities. Financed by a California State Revolving Fund loan the District upgraded and expanded its Novato Treatment Plant to treat the combined flow of two wastewater treatment plants. The new treatment plant replaces two aging facilities with a single new modernized plant. One aging and obsolete plant was replaced by a major new pump station, and its wastewater flow is carried by a new pipeline to the new plant. Improvements include efficient treatment processes that comply with all current standards, re-use of the portions of the plant built since the 1980's that are still usable, and addition of backup facilities in case of equipment failure or emergencies. Debt service payments are paid semi-annually through 2031 at an interest rate of 2.40%.
- 2) A Collection System Improvement and Pump Station Rehabilitation Program is underway to replace aging sewer lines that are reaching the end of their useful lives. The program is designed to meet the District's needs for the next 25 to 50 years. Construction is ongoing and is expected to require work for several more years.
- 3) The District developed a Sewer System Plan more than a decade ago. Since then much progress has been made. With about 220 miles of sewer pipelines, 6,000 manholes, plus other critical facilities, many of which are 50 or 60 years old, there is more work to do. The District has been investing up to \$5 million each year in sewer upgrades to repair the wear and tear from past decades.
- 4) The District's 2011 Comprehensive Financial Plan Update which projects the likely future financial condition of the District and provides guidance in the decision making process.
- 5) Due to the success of the District's Lateral Replacement Program over the past year, the program will continue to provide incentives for ratepayers to repair their private laterals. The program reimburses ratepayers up to \$1,500 for lateral replacement installation. During the fiscal year 2012 the District contributed \$38,321 for the replacement and repair of twenty-six damaged private laterals which is an increase of approximately \$25k in contributions and sixteen private laterals from the prior year.
- 6) The District completed construction of a 1.7 million gallons per day Recycled Water Treatment Facility in September 2012. The project is part of a regional recycled water program – North Bay Water Reuse Authority. Twenty-five percent of the cost is covered by a grant from the U.S. Bureau of Reclamation. Five percent is covered by a grant from the California Department of Water Resources. The recycled water will be distributed by North Marin Water District to irrigate landscaping, cemeteries, and playing fields in Northern and Eastern Novato. The Facility was operational in September of 2012.

COLLABORATIVE PARTNERSHIPS

The District 's success in providing low-cost, high-quality service is due in part to the successful strategy of forming collaborative partnerships with a number of different entities.

Zero Waste Program. In addition to franchising garbage collection and disposal with Novato Disposal Service, the District is responsible for meeting mandates of AB 939, the California Integrated Waste Management Act of 1989. A Zero Waste Program with Novato Disposal Service will take recycling to the next level by dramatically reducing what goes to the landfill, without a rate increase beyond inflation.

Specialized Staff Sharing. The District shares a single full-time safety officer with four other Marin County sanitary agencies. The District and North Marin Water District also have a Mutual Aid Agreement to share highly skilled laboratory staff.

Cost-Saving Management of Treatment Plant. The District contracts with Veolia Water to operate its newly upgraded treatment facilities, resulting in millions of dollars in savings while obtaining excellent performance from the new treatment plant using local employees.

Millions in Funding from Collaborative Recycled Water Program. By working collaboratively with North Marin Water District and other neighboring agencies, the District has helped obtain over \$2.6 million in federal grant funding to expand recycled water use in Novato.

RISK MANAGEMENT

The District is a member of the California Sanitation Risk Management Authority (CSRMA). CSRMA is a public joint powers authority that provides a full service risk management program for public sanitation agencies. The day-to-day operations of CSRMA are governed by its bylaws and other executive policies adopted by its Board of Directors. CSRMA provides comprehensive property, liability and workers' compensation protection to the District.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The District is a member of the California Public Employees' Retirement System (CalPERS) and participates in a two tiered defined benefit pension plan. The two tiers are as follows: 2% @ 55 and 2% @ 60 defined benefit pension plans. For more information, please refer to Footnote 12 of the Basic Financial Statements.

The District provides post-employment healthcare benefits to eligible retirees based on a vesting formula adopted by the District Board in July 2008. Depending on years of service and age at retirement, the benefits range from full coverage for retiree and one dependent to 1.5% of base salary to a Medical After Retirement Account for employees hired after July 2008. Employees who retired prior to the adoption of the vesting formula in 2008 receive full coverage for retiree and eligible dependents. Twenty-three individuals are currently participating in the District's post-employment health care program.

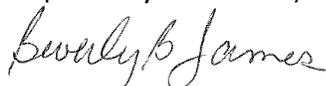
INDEPENDENT AUDIT

The Government Code requires an annual audit of the District's financial records by a Certified Public Accountant. The District selected, through a competitive process, the firm of Maze & Associates to conduct the audit. The auditor report on the financial statements and schedules are included in the financial section of this report.

ACKNOWLEDGEMENTS

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. A special note of appreciation goes to Laura Creamer, CPA, the District's Finance Officer, for her assistance with developing this report. We would also like to recognize the members of the Board of Directors' Finance Committee, Jean Mariani and William Long. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Novato Sanitary District's fiscal policies.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beverly B. James".

Beverly B. James
Manager-Engineer

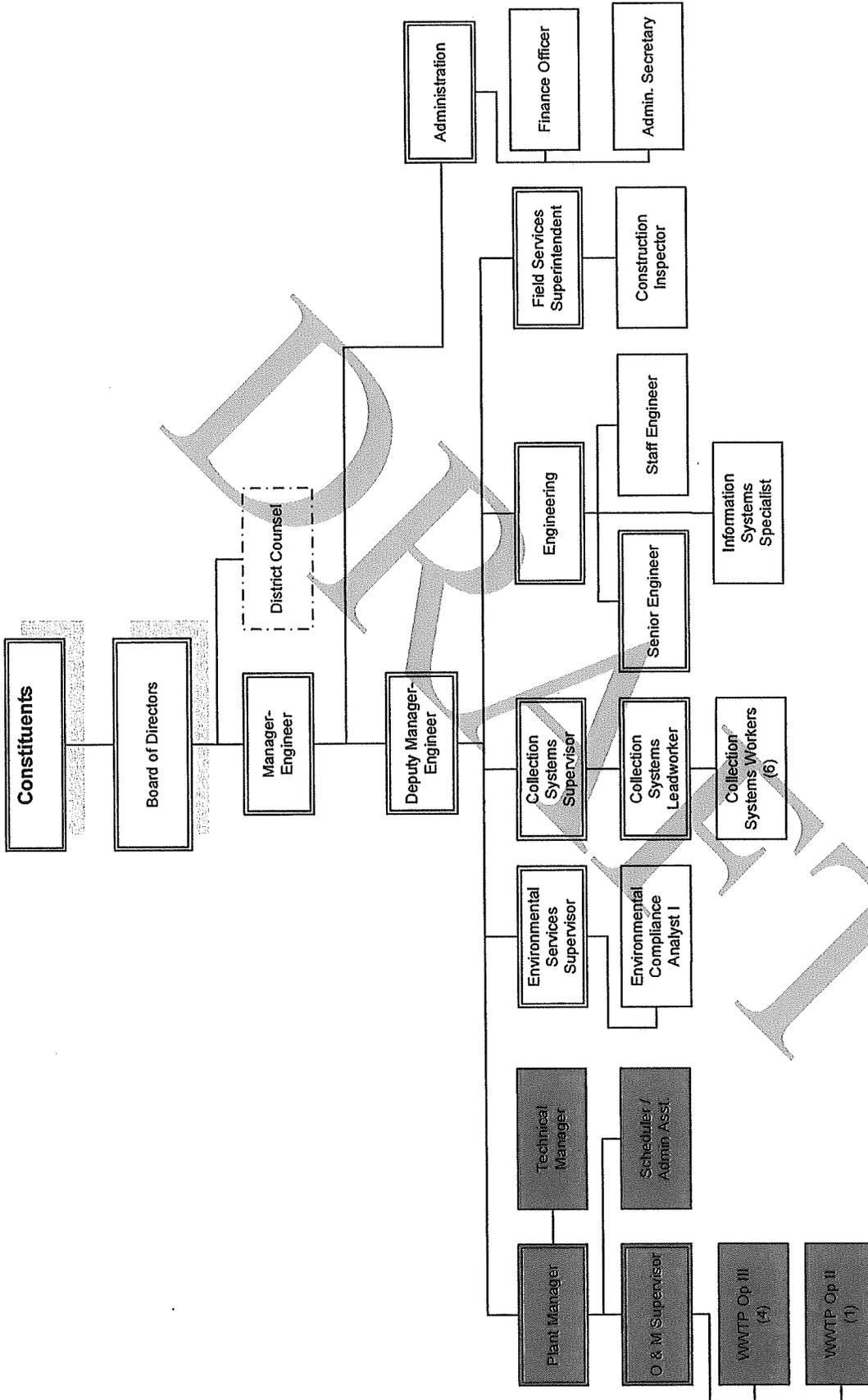
Leaders in Protecting the Environment

Novato Sanitary District provides wastewater collection, treatment, recycling and disposal services for the community of Novato, California. In addition, the District is responsible for refuse disposal, recycling, and greenwaste collection through its franchise collector, Novato Disposal Service.

Novato Sanitary District Board of Directors as of June 30, 2012

Name	Title	Elected/ Appointed	First Seated on Board	Current Term
Michael Di Giorgio	President	Elected	12/2005	12/09-12/13
William C. Long	Director	Elected	12/2001	12/09-12/13
Jean Mariani	Director	Appointed	5/2011	12/11-12/15
Dennis J. Welsh	Director	Elected	12/2009	12/09-12/13
Gerald Peters	Director	Elected	12/2011	12/11-12/15

**Novato Sanitary District
Beverly James, Manager-Engineer
500 Davidson Street
Novato, California 94945
(415) 892-1694 – www.novatosan.com**



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Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Davison

President

Jeffrey R. Enos

Executive Director

Financial Section

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Novato Sanitary District
Novato, California

We have audited the accompanying financial statements of the Novato Sanitary District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative financial statements were audited by other auditors, who in their report dated September 30, 2011, issued an unqualified opinion.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for the 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 financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial statements referred to above present fairly in all material respects, the respective financial position of the Novato Sanitary District at June 30, 2012 and the respective changes in financial position and cash flows, thereof 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 DATE 2012 on our consideration of the Novato Sanitary District'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 the Management's Discussion and Analysis and the required supplementary information 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 an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The Introductory Section and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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Novato Sanitary District
Management's Discussion and Analysis
For the Year Ended June 30, 2012 and 2011

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Novato Sanitary District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2012, the District's assets increased 11.2% or \$22,138,328 to \$220,256,345 due to the issuance of the Certificates of Participation and the ongoing construction of the Recycled Water Facility. In 2011, the District's assets increased .3% or \$725,394.
- In 2012, the District's net assets increased 2.3% or \$2,580,735 to \$113,052,255. In 2011, the District's net assets decreased 0.8% or \$874,777 to \$110,471,520.
- In 2012, the District's capital contributions increased 365% or \$1,821,696 due to the receipt of grant funding from the American Reinvestment and Recovery Act (ARRA) and the Prop 84 Grant.
- In 2012, the District's operating expenses before depreciation increased 15.3% or \$1,294,222 due primarily to the payoff of the CalPERS side fund of approximately \$1.2 million. In 2011, the District's operating expenses before depreciation decreased 12.3% or \$1,190,409 due to the EPA concluding its investigation in fiscal year 2010 and a decrease of \$535,980 in treatment plant operating costs due to the Veolia contract.
- In 2012, the District's interest expense increased \$2,459,890 due to the first payment on the SRF loan and the interest payments on the newly issued Certificates of Participation.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period?

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question.

Novato Sanitary District
Management's Discussion and Analysis
 For the Year Ended June 30, 2012 and 2011

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State wastewater standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 17 through 37.

Statement of Net Assets

Condensed Statements of Net Assets					
	2012	2011	Change	2010	Change
Assets:					
Current assets	\$ 26,303,224	10,291,808	16,011,416	14,729,450	(4,437,642)
Non-current assets	64,004	-	64,004	16,744	(16,744)
Capital assets, net	193,889,117	187,826,209	6,062,908	182,646,429	5,179,780
Total assets	220,256,345	198,118,017	22,138,328	197,392,623	725,394
Liabilities:					
Current liabilities	7,515,697	5,690,488	1,825,209	10,287,583	(4,597,095)
Non-current liabilities	99,688,393	81,956,009	17,732,384	75,758,743	6,197,266
Total liabilities	107,204,090	87,646,497	19,557,593	86,046,326	1,600,171
Net assets:					
Net investment in capital assets	105,262,788	106,497,126	(1,234,338)	102,065,015	4,432,111
Unrestricted	7,789,467	3,974,394	3,815,073	9,281,282	(5,306,888)
Total net assets	113,052,255	110,471,520	2,580,735	111,346,297	(874,777)
Total liabilities and net assets	\$ 220,256,345	198,118,017	22,138,328	197,392,623	725,394

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$113,052,255 and \$110,471,520 as of June 30, 2012 and June 30, 2011, respectively.

By far the largest portion of the District's net assets (93% and 96% as of June 30, 2012 and 2011, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2012 and 2011, the District showed a positive balance in its unrestricted net assets of \$7,789,467 and \$3,974,394, respectively, which may be utilized in future years. See note 9 for further discussion.

Novato Sanitary District
Management's Discussion and Analysis
 For the Year Ended June 30, 2012 and 2011

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets					
	2012	2011	Change	2010	Change
Revenues:					
Operating revenues	\$ 14,225,285	14,316,441	(91,156)	14,071,716	244,725
Non-operating revenues	2,088,099	1,972,683	115,416	2,119,105	(146,422)
Total revenues	16,313,384	16,289,124	24,260	16,190,821	98,303
Expenses:					
Operating expenses	9,758,265	8,464,043	1,294,222	9,654,452	(1,190,409)
Depreciation and amortization	3,238,715	2,306,550	932,165	2,288,892	17,658
Non-operating expenses	3,055,503	6,891,446	(3,835,943)	2,169,519	4,721,927
Total expenses	16,052,483	17,662,039	(1,609,556)	14,112,863	3,549,176
Net income before capital contributions	260,901	(1,372,915)	1,633,816	2,077,958	(3,450,873)
Capital contributions	2,319,834	498,138	1,821,696	1,724,657	(1,226,519)
Change in net assets	2,580,735	(874,777)	3,455,512	3,802,615	(4,677,392)
Net assets, beginning of year	110,471,520	111,346,297	(874,777)	107,543,682	3,802,615
Net assets, end of year	\$ 113,052,255	110,471,520	2,580,735	111,346,297	(874,777)

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$2,580,735 and a decrease of \$874,777 for the fiscal years ended June 30, 2012 and 2011, respectively. A closer examination of the sources of changes in net assets reveals that:

In 2012, the District's capital contributions increased 365% or \$1,821,696. In 2011, the capital contributions decreased 246.2% or \$1,226,519. These changes are primarily due to the grant funding received by the District in fiscal year ended June 30, 2012.

In 2012, the District's operating expenses before depreciation increased 15.3% or \$1,294,222 due primarily to the payoff of the CalPERS side fund of approximately \$1.2 million. In 2011, the District's operating expenses before depreciation decreased 12.3% or \$1,190,409 due to the EPA concluding its investigation in fiscal year 2010 and a decrease of \$535,980 in treatment plant operating costs due to the Veolia contract.

In 2012, the District's non-operating expenses decreased 125.5% or \$3,835,943 due primarily to the \$6.6 million of capital assets written off upon completion of Contract B- Wastewater Facility Upgrade Project. In 2011, the District's non-operating expenses increased 68.5% or \$4,721,927.

Novato Sanitary District
Management's Discussion and Analysis
 For the Year Ended June 30, 2012 and 2011

Operating and Non-Operating Revenues

	2012	2011	Change	2010	Change
Operating revenues:					
Sewerage service charges	\$ 13,671,131	13,570,839	100,292	13,462,437	108,402
Other service charges	227,067	447,577	(220,510)	300,817	146,760
Permit, inspection and other fees	21,441	9,532	11,909	23,163	(13,631)
Recycled water facility	8,060	8,000	60	8,000	-
AB939 – solid waste programs	297,586	280,493	17,093	277,299	3,194
Total operating revenues	14,225,285	14,316,441	(91,156)	14,071,716	244,725
Non-operating revenue:					
Property taxes	1,795,489	1,773,877	21,612	1,866,049	(92,172)
Franchise fees	45,000	45,000	-	45,000	-
Rental revenue	(18,901)	50,000	(68,901)	-	50,000
Interest earnings	37,129	30,387	6,742	196,303	(165,916)
Other non-operating revenues	229,382	73,419	155,963	11,753	61,666
Total non-operating revenues	2,088,099	1,972,683	115,416	2,119,105	(146,422)
Total revenues	\$ 16,313,384	16,289,124	24,260	16,190,821	98,303

Total revenues increased by \$24,260 and increased by \$98,303 in fiscal years 2012 and 2011, respectively.

Operating and Non-Operating Expenses

	2012	2011	Change	2010	Change
Operating expenses:					
Collection system	\$ 1,274,730	963,487	311,243	828,832	134,655
Treatment plant	2,560,633	2,566,139	(5,506)	3,102,119	(535,980)
Wastewater reclamation and disposal	442,266	355,218	87,048	296,268	58,950
Laboratory and monitoring	621,758	688,238	(66,480)	597,743	90,495
Sewers and pump stations	758,563	673,344	85,219	540,641	132,703
Recycled water facility	-	-	-	-	-
AB939 – solid waste programs	310,890	307,137	3,753	284,999	22,138
Administrative and engineering	3,789,425	2,910,480	878,945	4,003,850	(1,093,370)
Total operating expenses	9,758,265	8,464,043	1,294,222	9,654,452	(1,190,409)
Depreciation and amortization exp.	3,238,715	2,306,550	932,165	2,288,892	17,658
Non-operating expenses:					
Interest expense	2,669,346	209,456	2,459,890	1,211,880	(1,002,424)
Deferred charges amortization	10,564	16,744	(6,180)	18,689	(1,945)
Loss on sale/disposition of assets	367,095	6,634,450	(6,267,355)	909,553	5,724,897
Other non-operating expenses	8,498	30,796	(22,298)	29,397	1,399
Total non-operating expenses	3,055,503	6,891,446	(3,835,943)	2,169,519	4,721,927
Total expenses	\$ 16,052,483	17,662,039	(1,609,556)	14,112,863	3,549,176

Total expenses decreased by \$1,609,556 and increased by \$3,549,176 in fiscal years 2012 and 2011, respectively.

Novato Sanitary District
Management's Discussion and Analysis
For the Year Ended June 30, 2012 and 2011

Capital Asset Administration

Changes in capital assets amounts for 2012 were as follows:					
		Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Capital assets:					
Non-depreciable assets	\$	9,713,762	7,850,553	(1,134,204)	16,430,111
Depreciable assets		215,476,914	2,953,577	(730,491)	217,700,000
Accumulated depreciation		(37,364,467)	(3,245,189)	368,662	(40,240,994)
Total capital assets, net	\$	187,826,209	7,558,941	(1,496,033)	193,889,117
Changes in capital assets amounts for 2011 were as follows:					
		Balance 2010	Additions	Transfers/ Deletions	Balance 2011
Capital assets:					
Non-depreciable assets	\$	84,690,638	9,603,701	(84,580,577)	9,713,762
Depreciable assets		140,462,261	89,097,656	(14,083,003)	215,476,914
Accumulated depreciation		(42,506,470)	(2,306,550)	7,448,553	(37,364,467)
Total capital assets, net	\$	182,646,429	96,394,807	(91,215,027)	187,826,209

At the end of fiscal year 2012 and 2011, the District's investment in capital assets amounted to \$193,889,117 and \$187,826,209 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land improvements, sewer collection and outfall system, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to portions of the District's sewer collection and treatment system and construction of the Recycled Water Facility. (See note 5 for further details)

Debt Administration

Changes in long-term debt amounts for 2012 were as follows:					
Loan payable		81,329,083	-	(21,136)	81,307,947
2011 Certificates Of Participation			21,750,000		21,750,000
Total long-term debt	\$	81,329,083	21,750,000	(21,136)	103,057,947
Changes in long-term debt amounts for 2011 were as follows:					
		Balance 2010	Additions	Deletions	Balance 2011
Long-term debt:					
Note payable	\$	5,233,207	-	(5,233,207)	-
Loan payable		75,348,207	5,980,876	-	81,329,083
Total long-term debt	\$	80,581,414	5,980,876	(5,233,207)	81,329,083

During fiscal year 2012, the District issued new 2011 Certificates of Participation and began making payments on the SRF loan. See note 7 for further details of the District's long-term debt.

Novato Sanitary District
Management's Discussion and Analysis
For the Year Ended June 30, 2012 and 2011

Subsequent Events

On April 19, 2011, the State Water Resources Control Board (SWRCB) enforcement officials indicated that they were seeking civil penalties in the amount of \$700k relating to alleged violations between 2007 and 2011. The District met with the SWRCB on October 7, 2011 to rebut the factual and legal bases for those civil penalties. That meeting was part of the District's ongoing effort to engage in settlement discussions with the SWRCB with the goals of (1) minimizing penalties relating to this and other events that are the subject of civil enforcement by the SWRCB, and (2) obtaining a global settlement of all pending civil enforcement. The meeting was productive but settlement was not reached until May 18, 2012 when the District signed a settlement agreement with the SWRCB in the amount of \$344,000. However, there was a public request for further review of this settlement. Therefore, it wasn't until October 16, 2012 that the District received the final settlement paperwork. The payment of the \$344,000 will be allocated as follows: Fines/Penalties - \$203,862 to SWRCB, \$10,240 to Department of Fish and Game, and the remainder to be paid by the District by completing two supplemental environmental projects.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 500 Davidson Street, Novato, California, 94945.

Basic Financial Statements

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NOVATO SANITARY DISTRICT
STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$10,331,492	\$6,887,079
Restricted - cash and cash equivalents (Note 2)	14,595,327	161,168
Accrued interest receivable	15,093	14,250
Accounts receivable, net (Note 3)	1,308,499	3,168,841
Prepaid expenses and other deposits	<u>52,813</u>	<u>60,470</u>
Total current assets	<u>26,303,224</u>	<u>10,291,808</u>
NON-CURRENT ASSETS		
Deferred charges, net (Note 4)	64,004	
Capital assets - not being depreciated (Note 5)	16,430,111	9,713,762
Capital assets - being depreciated (Note 5)	<u>177,459,006</u>	<u>178,112,447</u>
Total non-current assets	<u>193,953,121</u>	<u>187,826,209</u>
TOTAL ASSETS	<u><u>\$220,256,345</u></u>	<u><u>\$198,118,017</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$1,780,576	\$1,247,827
Payable to other agency	285,000	
Customers deposit and deferred revenue	44,041	13,043
Restricted - special assessment payable	163,708	161,168
Accrued interest payable	971,294	4,230,160
Long-term liabilities - due within one year:		
Compensated absences (Note 6)	39,111	38,290
State Revolving Fund Loan payable (Note 7)	3,431,967	
Certificates of Participation (Note 7)	<u>800,000</u>	
Total current liabilities	<u>7,515,697</u>	<u>5,690,488</u>
NON-CURRENT LIABILITIES		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 6)	117,334	114,870
Other post-employment benefits payable (Note 8)	745,079	512,056
State Revolving Fund Loan payable (Note 7)	77,875,980	81,329,083
Certificates of Participation (Note 7)	<u>20,950,000</u>	
Total non-current liabilities	<u>99,688,393</u>	<u>81,956,009</u>
TOTAL LIABILITIES	<u>107,204,090</u>	<u>87,646,497</u>
NET ASSETS (Note 9)		
Investment in capital assets, net of related debt	105,262,788	106,497,126
Unrestricted	<u>7,789,467</u>	<u>3,974,394</u>
TOTAL NET ASSETS	<u>113,052,255</u>	<u>110,471,520</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$220,256,345</u></u>	<u><u>\$198,118,017</u></u>

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Sewer service charges	\$13,671,131	\$13,570,839
Other service charges	227,067	447,577
Permit, inspection and other fees	21,441	9,532
Recycled water facility	8,060	8,000
AB939 - solid waste programs	297,586	280,493
Total operating revenues	14,225,285	14,316,441
OPERATING EXPENSES		
Collection system	1,274,730	963,487
Treatment plant	2,560,633	2,566,139
Wastewater reclamation and disposal	442,266	355,218
Laboratory and monitoring	621,758	688,238
Sewers and pump stations	758,563	673,344
AB939 - solid waste programs	310,890	307,137
Administrative and engineering	3,789,425	2,910,480
Total operating expenses	9,758,265	8,464,043
Operating income before depreciation	4,467,020	5,852,398
Depreciation and amortization	(3,238,715)	(2,306,550)
OPERATING INCOME	1,228,305	3,545,848
NONOPERATING REVENUES (EXPENSES)		
Property taxes	1,795,489	1,773,877
Franchise fees	45,000	45,000
Rental revenue	(18,901)	50,000
Interest income	37,129	30,387
Interest expense	(2,669,346)	(209,456)
Deferred charges amortization	(10,564)	(16,744)
Gain (loss) on sale/disposition of capital assets	(367,095)	(6,634,450)
Other non-operating revenues	229,382	73,419
Other non-operating expenses	(8,498)	(30,796)
Total nonoperating revenues (expenses), net	(967,404)	(4,918,763)
Net income (loss) before capital contributions	260,901	(1,372,915)
CAPITAL CONTRIBUTIONS		
Connection fees	880,541	174,631
Capital contributions	5,732	101,818
Capital grants	1,433,561	221,689
Total capital contributions	2,319,834	498,138
CHANGES IN NET ASSETS	2,580,735	(874,777)
NET ASSETS, BEGINNING OF YEAR	110,471,520	111,346,297
NET ASSETS, END OF YEAR	\$113,052,255	\$110,471,520

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers for sewer service charges and services	\$14,211,233	\$14,492,292
Cash paid to employees for salaries, wages and benefits	(1,967,391)	(2,073,032)
Cash paid to vendors and suppliers for materials and services	(6,704,120)	(7,413,776)
Net Cash Provided by Operating Activities	5,539,722	5,005,484
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	1,795,489	1,782,840
Cash Flows from Noncapital Financing Activities	1,795,489	1,782,840
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(9,668,718)	(14,120,780)
Capital contributions	2,319,834	276,449
Proceeds received from loan payable	2,129,875	6,478,332
Proceeds received from Certificates of Participation	21,750,000	
Principal payments on long-term debt	(21,136)	(5,233,207)
Interest payments on long-term debt	(6,002,780)	1,633,394
Cash Flows from (used for) Capital and Related Financing Activities	10,507,075	(10,965,812)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	36,286	60,908
Cash Flows from Investing Activities	36,286	60,908
NET INCREASE (DECREASE) IN CASH	17,878,572	(4,116,580)
Cash, beginning of year	7,048,247	11,164,827
Cash, end of year	\$24,926,819	\$7,048,247
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$10,331,492	\$6,887,079
Restricted - cash and cash equivalents	14,595,327	161,168
Total cash and cash equivalents	\$24,926,819	\$7,048,247

(Continued)

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$1,228,305</u>	<u>\$3,545,848</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,238,715	2,306,550
Other non-operating revenues	255,481	168,419
Other non-operating expenses	(8,498)	(30,796)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable - sewer services	(269,533)	7,432
Prepaid expenses and other deposits	7,657	(1,621)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	532,749	(1,126,026)
Payable to other agency	285,000	
Customer deposits and deferred revenue	30,998	(70,605)
Restricted - special assessment payable	2,540	(5,964)
Compensated absences	3,285	(16,573)
Other post-employment benefits payable	<u>233,023</u>	<u>228,820</u>
Total adjustments	<u>4,311,417</u>	<u>1,459,636</u>
Net cash provided by operating activities	<u>\$5,539,722</u>	<u>\$5,005,484</u>
Schedule of Non-Cash Investing and Financing Activities:		
Change in fair market value of investments	\$27,789	\$11,096
Capital contributions	5,732	276,449

See accompanying notes to financial statements

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**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Operations of the Reporting Entity*

The Novato Sanitary District (District) is a separate governmental unit established as a Special District of the State of California, created in 1925. The District provides sewage collection, treatment, reclamation, and disposal services to an area of about 25 square miles in and around the City of Novato in Marin County, California. Revenues are derived principally from sewer service charges collected from commercial and residential customers within the District's service area. The District is governed by a five-member Board of Directors who serve four year terms.

B. *Basis of Accounting and Measurement Focus*

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

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing wastewater service, treatment and collection to its service area on a continuing basis be financed or recovered primarily through user charges (sewer service charges), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as sewer service charges as well as treatment and collection charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

C. *Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

**NOVATO SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

E. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

F. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

G. Property Taxes and Sewer Assessments

The Marin County Assessor's Office assesses all real and personal property within the County each year. The Marin County Tax Collector's Office bills and collects the District's share of property taxes and assessments. The Marin County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the Marin County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

H. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

I. Deferred Charges

The deferred charges are from issuance costs on the District's long-term debt that will be amortized over the remaining life of the debt.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Sewer system improvements - 15 years
- Sewer collection and outfall system - 50 to 100 years
- Buildings and structures - 15 to 50 years
- Sewer facilities equipment - 5 to 35 years
- Equipment - 5 to 35 years

K. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours during their first 15 years of service and 320 hours after 15 years of service. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time unless the employee retires from the District in which case unused sick leave is counted 100% towards CalPERS service credits.

L. Sewer Service Charges

The majority of sewer service charges are billed annually on the County of Marin's property tax bills.

M. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or connection to the District's system.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

N. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets, net of Related Debt** - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** - This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

O. Reclassifications

For the year ended June 30, 2012, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform to the fiscal year 2012 presentation.

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

	2012	2011
Cash and cash equivalents	\$10,331,492	\$6,887,079
Restricted cash and investments	14,595,327	161,168
Total Cash and Investments	\$24,926,819	\$7,048,247

Cash and cash equivalents as of June 30, consist of the following:

	2012	2011
<i>Held by District:</i>		
Cash on hand	\$252	\$719
Deposits with financial institutions	418,582	9,071
Local Agency Investment Fund	10,076,367	7,038,457
<i>Held by Fiscal Agent:</i>		
Cash on hand	1,723,214	
Local Agency Investment Fund	12,708,404	
Total Cash and Investments	\$24,926,819	\$7,048,247

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 2 – CASH AND INVESTMENTS (Continued)

A. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
State and Local Agency Bonds, Notes and Warrants	5 years		100%	None
Registered State bonds, Notes and Warrants	5 years		100%	None
U.S. Treasury Obligations	5 years		100%	None
Federal Agency Securities	5 years		100%	None
Banker's Acceptances	270 days		40%	30%
Prime Commercial Paper	180 days	A-1	25%	10%
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	1 year		100%	None
Reverse Repurchase Agreements	92/30 days		20% of base	None
Medium-term Notes	5 years	AA	30 %	None
Money Market Mutual Funds	N/A		15%	10%
Mortgage Pass-through Securities	N/A		30%	None
California Local Agency Investment Fund	N/A		\$40 million per account	None
Passbook Savings Account Demand Deposits	N/A		100%	None

**NOVATO SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Investments Authorized by the District’s Debt Issues

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions related to maturities and credit ratings, where applicable, of these investments:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality (per S&P)
Federal Securities		
U.S. Agency Securities		A
Interest Bearing Deposit Accounts, including Certificates of Deposit		A or fully insured by the FDIC
Commercial Paper		Highest Short-Term Rating
Federal Funds or Bankers' Acceptances	1 year	Highest Rating Category AAAm-G, AAAm or Aam
Money Market Funds		
Obligations the interest on which is excludable from gross income pursuant to IRS Tax Code Section 103		A
Obligations issued by any corporation organized and operating within the U.S. with assets > \$500 million		A
Municipal Bonds or Notes		Two Highest Categories
Guaranteed Investment Agreements		A
California Local Agency Investment Fund		

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 at June 30, 2012 and 2011 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

D. Interest Rate Risk

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

The District 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 District 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 and 2011, these investments matured in an average of 268 and 237 days, respectively.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2012 and 2011, the Local Agency Investment Fund was not rated.

F. Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of total District's investments at June 30, 2012 and 2011, respectively.

NOTE 3 – ACCOUNTS RECEIVABLE

The District's accounts receivable at June 30, was as follows:

Description	2012	2011
Sewer services	\$209,489	\$335,664
Governmental agencies	51,874	410,944
Loan proceeds		2,129,975
Capital grant	886,120	221,689
Property tax	122,414	1,823
Other, net of allowance	38,602	68,746
	<u>\$1,308,499</u>	<u>\$3,168,841</u>

NOTE 4 – DEFERRED CHARGES

Deferred charges relate to the issuance costs of the District's long-term debt and are being amortized over the length of the debt service.

The balance at June 30, consists of the following:

	2012	2011
Deferred charges	\$74,568	\$91,500
Accumulated amortization	(10,564)	(91,500)
Deferred charges, net	<u>\$64,004</u>	<u>\$0</u>

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 5 – CAPITAL ASSETS

A. Capital Assets Activity

Changes in capital assets for the current fiscal year were as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2012</u>
Non-depreciable assets:				
Land and land rights	\$2,774,742			\$2,774,742
Easements	2,112,363	\$5,732		2,118,095
Construction-in-process	4,826,657	7,844,821	(\$1,134,204)	11,537,274
Total non-depreciable assets	<u>9,713,762</u>	<u>7,850,553</u>	<u>(1,134,204)</u>	<u>16,430,111</u>
Depreciable assets:				
Sewer system improvements	159,878,106	2,833,199	(355,594)	162,355,711
Sewer collection and outfall system	46,515,619			46,515,619
Sewer facilities equipment	7,199,641	101,592	(405,544)	6,895,689
Equipment	1,883,548	18,786	30,647	1,932,981
Total depreciable assets	<u>215,476,914</u>	<u>2,953,577</u>	<u>(730,491)</u>	<u>217,700,000</u>
Accumulated depreciation:				
Sewer system improvements	(18,586,610)	(2,507,252)	10,644	(21,083,218)
Sewer collection and outfall system	(12,684,880)	(479,483)		(13,164,363)
Sewer facilities equipment	(5,155,345)	(157,631)	305,666	(5,007,310)
Equipment	(937,632)	(100,823)	52,352	(986,103)
Total accumulated depreciation	<u>(37,364,467)</u>	<u>(3,245,189)</u>	<u>368,662</u>	<u>(40,240,994)</u>
Total depreciable assets, net	<u>178,112,447</u>	<u>(291,612)</u>	<u>(361,829)</u>	<u>177,459,006</u>
Total capital assets, net	<u>\$187,826,209</u>	<u>\$7,558,941</u>	<u>(\$1,496,033)</u>	<u>\$193,889,117</u>

Major capital assets additions during the year include construction of the District's new recycled water facility and other buildings, structures and improvements.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 5 – CAPITAL ASSETS (Continued)

Changes in capital assets for the prior fiscal year were as follows:

	Balance June 30, 2010	Additions	Deletions/ Transfers	Balance June 30, 2011
Non-depreciable assets:				
Land and land rights	\$2,774,742			\$2,774,742
Easements	1,617,174	\$495,189		2,112,363
Construction-in-process	80,298,722	9,108,512	(\$84,580,577)	4,826,657
Total non-depreciable assets	84,690,638	9,603,701	(84,580,577)	9,713,762
Depreciable assets:				
Sewer system improvements	80,081,277	88,703,074	(8,906,245)	159,878,106
Sewer collection and outfall system	46,495,989	19,630		46,515,619
Sewer facilities equipment	12,115,109	256,908	(5,172,376)	7,199,641
Equipment	1,769,886	118,044	(4,382)	1,883,548
Total depreciable assets	140,462,261	89,097,656	(14,083,003)	215,476,914
Accumulated depreciation:				
Sewer system improvements	(20,701,543)	(1,319,733)	3,434,666	(18,586,610)
Sewer collection and outfall system	(12,205,397)	(479,483)		(12,684,880)
Sewer facilities equipment	(8,754,123)	(410,727)	4,009,505	(5,155,345)
Equipment	(845,407)	(96,607)	4,382	(937,632)
Total accumulated depreciation	(42,506,470)	(2,306,550)	7,448,553	(37,364,467)
Total depreciable assets, net	97,955,791	86,791,106	(6,634,450)	178,112,447
Total capital assets, net	\$182,646,429	\$96,394,807	(\$91,215,027)	\$187,826,209

Major capital assets additions during the year include construction of the District's new wastewater treatment plant and other buildings, structures and improvements.

B. Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset.

Construction-in-process consists of the following projects as of June 30:

Projects	2010	2011	2012
Wastewater treatment plant upgrade	\$77,056,798	\$1,279,999	\$7,947,232
Collection system improvements	1,752,633	2,015,244	2,119,019
Pump station rehabilitation	783,108	936,614	803,188
North Bay Water Reuse Authority	395,272	475,385	526,016
SCADA System improvements	201,450		
NTP soil and groundwater project	100,273	100,273	
Various other minor projects >\$50,000	9,188	19,142	141,819
Total	\$80,298,722	\$4,826,657	\$11,537,274

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 6 – COMPENSATED ABSENCES

The changes to compensated absences balances at June 30, were as follows:

<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>	<u>Due With in One Year</u>
<u>\$153,160</u>	<u>\$4,072</u>	<u>(\$787)</u>	<u>\$156,445</u>	<u>\$39,111</u>
<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</u>	<u>Due With in One Year</u>
<u>\$169,733</u>	<u>\$122,569</u>	<u>(\$139,142)</u>	<u>\$153,160</u>	<u>\$38,290</u>

NOTE 7 – LONG-TERM DEBT

A. Long-Term Debt Activity

Changes in long-term debt amounts for 2011-2012 were as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>	<u>Due within one year</u>
Long-term debt:					
2011 Wastewater Revenue Certificates of Participation		\$21,750,000		\$21,750,000	\$800,000
SRF Loan payable	\$81,329,083		(\$21,136)	81,307,947	3,431,967
Total long-term debt	<u>\$81,329,083</u>	<u>\$21,750,000</u>	<u>(\$21,136)</u>	<u>\$103,057,947</u>	<u>\$4,231,967</u>

Changes in long-term debt amounts for 2010-2011 were as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Due within one year</u>
Long-term debt:					
Note payable	\$5,233,207		(\$5,233,207)		
Loan payable	75,348,207	\$5,980,876		\$81,329,083	
Total long-term debt	<u>\$80,581,414</u>	<u>\$5,980,876</u>	<u>(\$5,233,207)</u>	<u>\$81,329,083</u>	

B. 2011 Wastewater Revenue Certificates of Participation

The District issued \$21,750,000 in Wastewater Revenue Certificates of Participation on September 27, 2011 to finance the construction of wastewater system improvements and pay issuance costs. The Certificates are payable from net revenues of the District and bear interest rates of 3.00%-4.75%. Interest payments are due February 1 and August 1 of each year, commencing on February 1, 2012. Principal payments are due February 1 of each year commencing February 1, 2013 through 2032.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 7 – LONG-TERM DEBT (Continued)

The following table summarizes the debt service maturity of the District for the 2011 Certificates of Participation:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$800,000	\$885,698	\$1,685,698
2014	830,000	861,698	1,691,698
2015	855,000	836,798	1,691,798
2016	885,000	811,148	1,696,148
2017	905,000	775,748	1,680,748
2018-2022	4,875,000	3,318,540	\$8,193,540
2023-2027	5,740,000	2,280,534	\$8,020,534
2028-2032	6,860,000	966,016	\$7,826,016
Total	<u>\$21,750,000</u>	<u>\$10,736,180</u>	<u>\$32,486,180</u>

C. *Loan Payable - State Water Resources Control Board Loan*

In fiscal year 2008, the District was granted a loan for \$81,329,083 from the California State Water Resources Control Board under the State Revolving Fund (SRF) loan program to upgrade and expand the Novato Treatment Plant to treat the combined flow of the District's wastewater treatment plants. The funds received are Federal funding provided to the State of California under the Federal Clean Water Act.

The District constructed the Ignacio Transfer Pump Station at the site of the Ignacio Treatment Plant along with the Ignacio Conveyance Force Main to convey flow from the Ignacio Transfer Pump Station to the Novato Treatment Plant. Upon completion of the upgrade to the Novato Treatment Plant, the Ignacio Treatment Plant will be phased out of service and flows from the Ignacio Plant will be pumped to the Novato Plant for treatment.

As of June 30, 2012, the District has received \$81,329,083 from the SRF loan program. Interest accrues on the obligation at a rate of 2.40% compounded annually. The first debt service payment was paid on December 31, 2011 and each December 31st thereafter through fiscal year 2031. The following table summarizes the debt service maturity of the District for this loan as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$3,431,967	\$1,946,989	\$5,378,956
2014	3,509,933	1,869,024	5,378,957
2015	3,594,171	1,784,785	5,378,956
2016	3,680,431	1,698,525	5,378,956
2017	3,768,762	1,610,195	5,378,957
2018-2022	20,244,768	6,650,013	26,894,781
2023-2027	22,793,581	4,101,199	26,894,780
2028-2031	20,284,334	1,231,490	21,515,824
Total	<u>\$81,307,947</u>	<u>\$20,892,220</u>	<u>\$102,200,167</u>

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 7 – LONG-TERM DEBT (Continued)

D. Note Payable – Revolving Credit Line

On May 10, 2006, the District secured a revolving credit line with Zions National Bank. Under the terms of the agreement for the revolving credit line the District could borrow up to \$30 million to provide interim financing for the acquisition and construction of improvements to the wastewater collection, treatment, and disposal facilities of the District. The revolving credit line was secured by a pledge of and lien against the net revenues of the District’s wastewater system. The maturity date of the revolving credit line obligation was April 1, 2011. The revolving credit line obligation accrued interest at a variable rate, defined in the agreement as a rate of interest equal to 85% of the one-year Seattle Federal Home Loan Bank rate which was .75% as of June 30, 2010. Interest was payable semi-annually on October 1 and April 1. The outstanding note payable balance of \$5,233,207 was repaid by the District before April 1, 2011.

NOTE 8 – POST EMPLOYMENT BENEFITS PAYABLE

The District 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). Required disclosures are presented below.

A. Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District.

Membership in the OPEB plan consisted of the following members as of June 30:

	2012	2011	2010
Active plan members	20	20	25
Retirees and beneficiaries receiving benefits	23	24	22
Separated plan members entitled to but not yet receiving benefits			
Total plan membership	43	44	47

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 8 – POST EMPLOYMENT BENEFITS PAYABLE (Continued)

B. *Single-Employer Plan - Description of Benefits*

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Spouses, surviving spouses and eligible dependents are also eligible to receive benefits. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirements of Plan members and the District were adopted by the Board of Directors in July 2008 as follows:

The District contributes toward post-retirement benefits for employees who retire after age 50 with at least 5 years of service. For those employed prior to July 1, 2008, who retire after age 55 with at least 10 years of service, the District will pay the full monthly premiums for medical coverage for the retired employee, but not more than the Kaiser Northern California amount. If the retiree is at least age 60 with at least 15 years of service, the premium for the employee's one eligible spouse is paid. Coverage is for the lives of the retired employee and spouse. Medical coverage is provided under any plans offered by CalPERS.

For all other employees, hired on or after July 1, 2008, who retire after age 50 with at least 5 years of service, the District will pay the minimum CalPERS medical benefit. In 2012 and 2011, respectively, this minimum amount was \$112 and \$108 per month. This benefit is paid for as long as the retiree or spouse is living, provided he/she is covered under the CalPERS medical plans.

C. *Funding Policy*

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 14.028% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan for those employees employed prior to July, 1, 2008 and meet the required service years. The District will pay the minimum CalPERS medical benefit for all other employees who do not meet the previously noted service requirements. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 8 – POST EMPLOYMENT BENEFITS PAYABLE (Continued)

D. Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2010 actuarial valuation using the entry age normal cost method. This is a projected benefit cost 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) 4.0% investment rate of return, (b) 0.0% projected annual salary increase, (c) 4.0% inflation rate and (d) health care cost trend rates from 5.0% to 7.0% for medical benefits. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least tri-ennially as results are compared to past expectations and new estimates are made about the future. The District'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.

E. Funding Progress and Funded Status

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$458,282	\$443,883	\$473,000
Interest on net OPEB obligation	20,777	11,233	
Adjustment to annual required contribution	<u>(31,172)</u>	<u>(16,535)</u>	
Total annual OPEB expense	447,887	438,581	473,000
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(214,864)</u>	<u>(209,761)</u>	<u>(189,764)</u>
Total change in net OPEB payable obligation	233,023	228,820	283,236
OPEB payable - beginning of year	<u>512,056</u>	<u>283,236</u>	
OPEB payable - end of year	<u>\$745,079</u>	<u>\$512,056</u>	<u>\$283,236</u>

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2012 amounted to \$6,112,283 per the actuarial study dated July 1, 2010.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 8 – POST EMPLOYMENT BENEFITS PAYABLE (Continued)

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

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2012	\$447,887	\$214,864	47.97%	\$745,079
2011	438,581	209,761	47.83%	512,056
2010	473,000	189,764	40.12%	283,236

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 last three actuarial studies are presented below:

Required Supplemental Information - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$0	\$6,112,283	\$6,112,283	0.00%	\$2,000,000	305.610%
7/1/2009	0	5,554,000	5,554,000	0.00%	2,350,000	236.340%

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 9 – NET ASSETS

Calculation of net assets as of June 30, were as follows:

	2012	2011
<i>Net Investment in capital assets:</i>		
Capital assets - not being depreciated	\$16,430,111	\$9,713,762
Capital assets, net - being depreciated	177,459,006	178,112,447
SRF Loan Payable	(81,307,947)	(81,329,083)
Certificates of Participation	(21,750,000)	
Unspent proceeds	14,431,618	
Total investment in capital assets, net of related debt	105,262,788	106,497,126
<i>Unrestricted net assets:</i>		
Non-spendable net assets:		
Prepaid expenses and deposits	52,813	60,470
Deferred charges, net	64,004	
Total non-spendable net assets	116,817	60,470
Spendable net assets are designated as follows:		
Undesignated net assets reserve	7,672,650	3,913,924
Total spendable net assets	7,672,650	3,913,924
Total unrestricted net assets	7,789,467	3,974,394
Total net assets	\$113,052,255	\$110,471,520

NOTE 10 – DEFERRED COMPENSATION SAVINGS PLAN

The District's employees may participate in two 457 Deferred Compensation Programs (Programs). The Programs are available to all District employees and are entirely voluntary. The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in these Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. The District makes no matching contributions to the Programs.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all Program assets held in trust by the District's two deferred compensation programs at June 30, 2012 and 2011 amounted to \$2,064,124 and \$1,810,005, respectively.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 10 – DEFERRED COMPENSATION SAVINGS PLAN (Continued)

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

The District also offers a 401(a) Plan (Plan) to management and confidential employees. The District contributes 2.5% of base salary for all qualified employees, with the exception of the Manager-Engineer and Deputy Manager. The District's contribution for the Manager-Engineer is equivalent to the maximum of a 457 plan's annual contribution, and the District's contribution for the Deputy Manager is 8% of his base salary. Employees contributions to this Plan are mandatory for qualified employees. Market value of all Plan assets held in trust by the District's 401(a) Plan at June 30, 2012 amounted to \$402,885.

NOTE 11 – DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

B. Funding Policy

The District has two tiers of employees for determining retirement benefits – Tier I is for those employees hired prior to January 1, 2012, and the Tier II is for those employees hired on or after January 1, 2012.

The employee contribution rate for Tier I plan members in the 2.0% at 55 Risk Pool Retirement Plan with CalPERS, is 7% of their annual covered salary of which the employee pays 1% and the District pays 6%. The contribution rate for Tier II plan members in the 2% at 60 Risk Pool Retirement Plan with CalPERS, is 7% of their annual covered salary of which the employee pays the entire 7%. The District makes these contributions required of District employees on their behalf and for their account.

Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2012, 2011 and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2012, 2011 and 2010, the District's annual contributions for the CalPERS plan were equal to the Agency's required and actual contributions for each fiscal year as follows:

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2009-2010	\$301,129	100%	\$0	13.033%
2010-2011	251,631	100%	0	12.937%
2011-2012	215,351	100%	0	14.028%/10.059% *

* The required contribution percentage for the District was adjusted after the pay-off of the Side Fund.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Sanitation Risk Management Authority (CSRMA), an intergovernmental risk sharing joint powers authority currently operating as a common risk management and loss prevention program for sixty California sanitation districts. The District pays an annual premium to CSRMA for its public liability and workers compensation risk coverage. The Agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. At June 30, 2012, the District participated in the self insurance programs of the CSRMA as follows:

- General and automotive liability, including errors and omissions and employment practices liability (EPL): The District is self-insured through the CSRMA up to \$15,500,000 with a \$25,000 deductible (\$25,000 for EPL, \$25,000 for sewer backup, and \$2,500 for E&O) per occurrence. Excess liability insurance is purchased above the \$15,500,000 self-insured layer to \$25,550,000 through CSRMA.
- Workers' compensation and employer's liability: The District is self-insured through the CSRMA up to \$750,000 with a deductible of \$0 per claim. The District purchased through CSRMA, additional excess workers' compensation coverage and excess employer's liability coverage of \$1,000,000.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$1,000,000 per loss for public employee dishonesty, forgery or alteration, computer fraud, coverage of up to \$100,000 for faithful performance and coverage up to \$10,000 for theft, with a deductible of \$10,000 per claim.
- Special form property coverage up to \$63,331,652 with a deductible of \$25,000 per claim.
- Public entity physical damage up to \$1,408,089 total value, with a \$2,000/\$5,000 deductible.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

NOTE 12 – RISK MANAGEMENT (Continued)

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2012, 2011 and 2010. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012, 2011 and 2010.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. *Local Improvement District Bonds*

Within the District's boundaries, there exists Assessment District No. 2001 (Novato Heights) which was formed for the sole purpose of financing sewer system improvements. The District is not liable for repayment of any bonds issued to finance these local improvements. The District acts as the agent for the property owners within the assessment district by collecting assessments, forwarding collections to bondholders, and initiating foreclosure procedures if appropriate. The outstanding balance on these bonds was \$1,350,000, as of June 30, 2012.

B. *Construction Contracts*

The District has a variety of agreements with developers and private parties relating to the installation, improvement or modification of transmission facilities and distribution systems within its service area. The financing of such improvements is provided primarily from advances for construction and the District's capital replacement reserve. The District has committed to approximately \$2,617,077 of open construction contracts as of June 30, 2012.

C. *Grant Awards*

Grant funds received by the District are subject to audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

D. *Litigation*

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

NOTE 14 – SUBSEQUENT EVENT

In October 2012, the District reached a settlement agreement with the State Water Resources Control Board over a civil dispute for alleged violations between 2007 and 2011. The settlement agreement calls for the District to pay \$203,862 to the State Water Resources Control Board, \$10,240 to the Department of Fish and Game, and to complete two supplemental environment projects. The estimated total cost of the settlement agreement is \$354,000.

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Required Supplementary Information

Novato Sanitary District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Years Ended June 30, 2012 and 2011

Funded Status and Funding Progress of the Plan

Required Supplemental Information - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$0	\$6,112,283	\$6,112,283	0.00%	\$2,000,000	305.610%
7/1/2009	0	5,554,000	5,554,000	0.00%	2,350,000	236.340%

The most recent valuation (dated July 1, 2010) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$6,112,283. There are no plan assets because the District funds on a pay as-you-go basis. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2012 was estimated at \$2,000,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 305.61 %.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Years smoothed market
Actuarial assumptions:	
Discount rate	4.00%
Projected salary increase	District expected COLA
Inflation – discount rate	4.00%

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Statistical Information Section

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**Novato Sanitary District
Statistical Section**

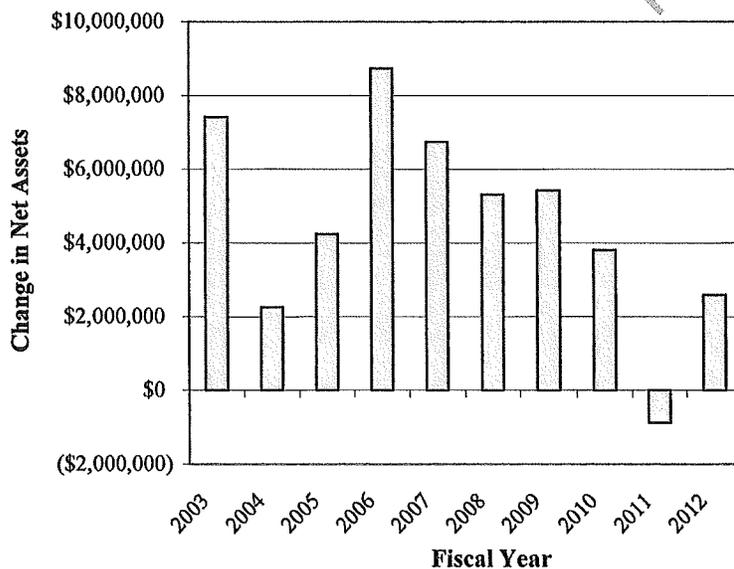
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Table of Contents

	<u>Page No.</u>
Financial Trends	40-43
These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	
Revenue Capacity	44-48
These schedules contain information to help the reader assess the District's most significant own-source revenue, sewer service charges.	
Debt Capacity	49-50
These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
Demographic Information	51
This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	52-53
This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	

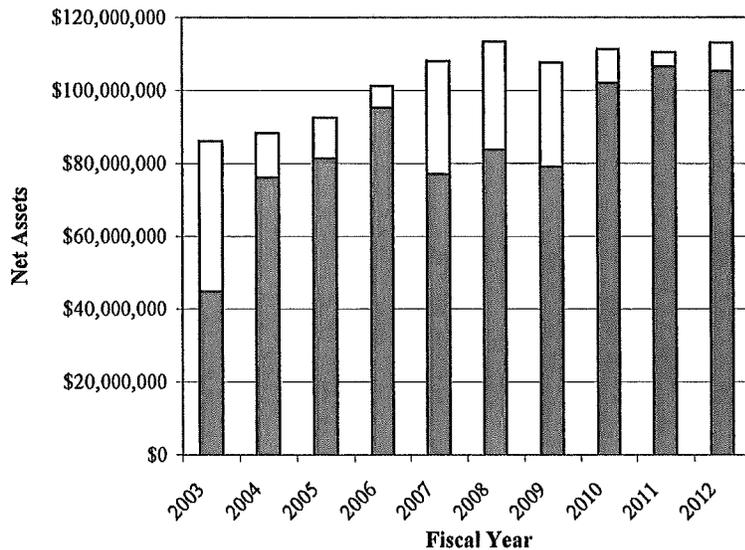
Novato Sanitary District
Changes in Net Assets and Net Assets by Component
Last Ten Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
Changes in net assets:				
Operating revenues (see Schedule 2)	\$4,803,853	4,626,891	8,339,963	9,937,511
Operating expenses (see Schedule 3)	(4,865,811)	(5,220,170)	(5,656,823)	(5,848,165)
Depreciation and amortization	(754,664)	(810,357)	(871,142)	(912,921)
Operating income(loss)	(816,622)	(1,403,636)	1,811,998	3,176,425
Non-operating revenues (expenses)				
Property taxes	1,344,630	1,392,792	1,279,567	1,385,156
Interest	339,528	196,824	254,031	330,052
Interest expense	(100,407)	(71,863)	(43,064)	(20,687)
Connection Fees	1,088,551			
Special Equalization Charges	6,120	15,267	18,339	437
Franchise fees/Rental Income	117,517	117,517	117,517	122,517
Deferred Charges Amortization				
Gain/(Loss) on sale/disposition of assets	(174,180)	(822,873)	(111,529)	(101,481)
Other revenue/(expense), net	(2,293)	(1,112)	(875)	(11,911)
Total non-operating revenues (expenses), net	2,619,466	826,552	1,513,986	1,704,083
Net income before capital contributions	1,802,844	(577,084)	3,325,984	4,880,508
Connection Fees		1,460,645	675,451	511,830
Capital contributions	5,609,290	1,374,674	242,866	3,342,124
Capital Grant				
Changes in net assets	\$7,412,134	2,258,235	4,244,301	8,734,462
Net assets by component:				
Invested in capital assets, net of related debt	\$44,869,544	76,163,663	81,353,813	95,265,483
Unrestricted	41,266,400	12,176,517	11,230,668	6,053,460
Total net assets	\$86,135,944	88,340,180	92,584,481	101,318,943



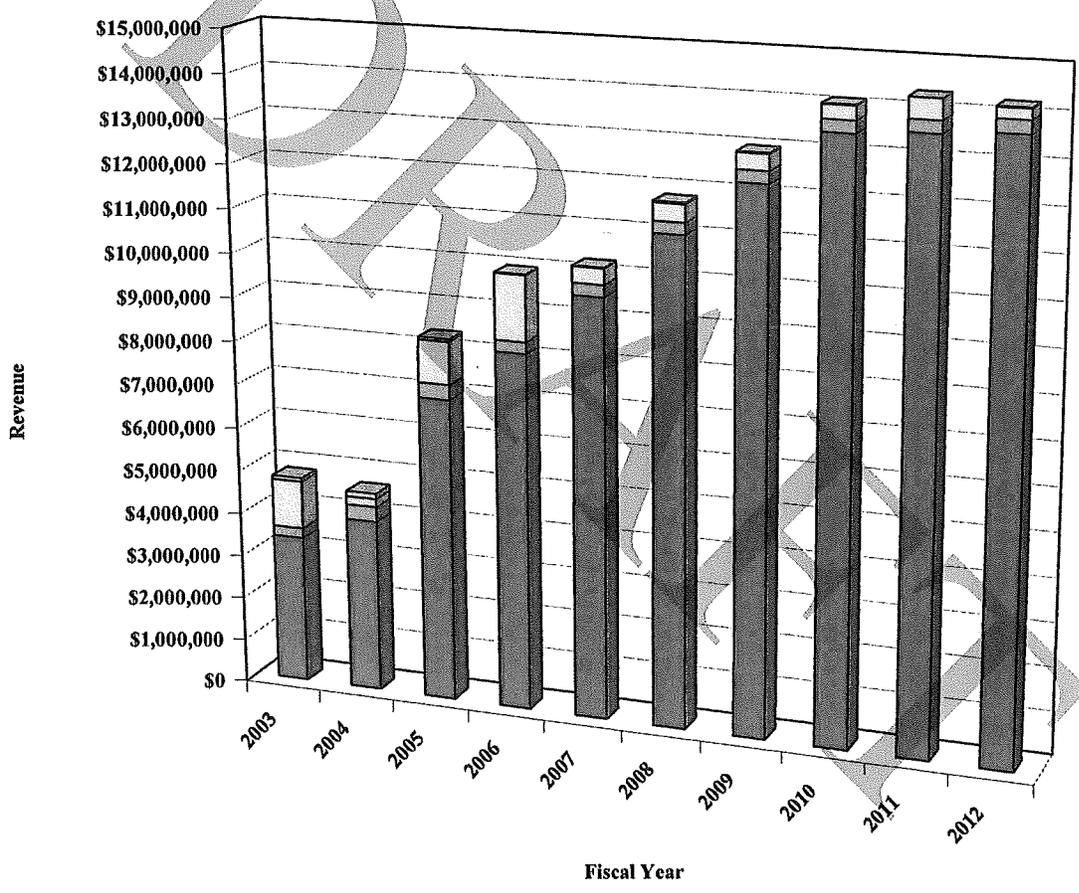
Source: Novato Sanitary District Accounting Department

Fiscal Year					
2007	2008	2009	2010	2011	2012
10,226,728	11,768,650	12,948,148	14,071,716	14,316,441	14,225,285
(6,919,638)	(7,464,243)	(7,685,390)	(9,654,452)	(8,464,043)	(9,758,265)
(967,449)	(1,326,027)	(2,227,627)	(2,288,892)	(2,306,550)	(3,238,715)
2,339,641	2,978,380	3,035,131	2,128,372	3,545,848	1,228,305
1,796,003	1,995,120	1,928,207	1,866,049	1,773,877	1,795,489
657,453	1,081,073	702,002	196,303	30,387	37,129
(383,161)	(1,305,067)	(1,302,270)	(1,211,880)	(209,456)	(2,669,346)
527	2,908				
127,517	127,517	127,517	45,000	95,000	26,099
(453,852)	(221,920)	(18,689)	(18,689)	(16,744)	(10,564)
		(83,842)	(909,553)	(6,634,450)	(367,095)
		(2,022)	(17,644)	42,623	229,382
1,744,487	1,679,631	1,350,903	(50,414)	(4,918,763)	(958,906)
4,084,128	4,658,011	4,386,034	2,077,958	(1,372,915)	269,399
2,325,277	316,609	647,101	1,277,790	174,631	880,541
333,885	338,915	395,702	446,867	101,818	5,732
				221,689	1,433,561
6,743,290	5,313,535	5,428,837	3,802,615	(874,777)	2,589,233
77,039,741	83,754,794	79,067,990	102,065,015	106,497,126	105,262,788
31,022,492	29,620,974	28,475,692	9,281,282	3,974,394	7,789,467
108,062,233	113,375,768	107,543,682	111,346,297	110,471,520	113,052,255



**Novato Sanitary District
Operating Revenue By Source
Last Ten Fiscal Years**

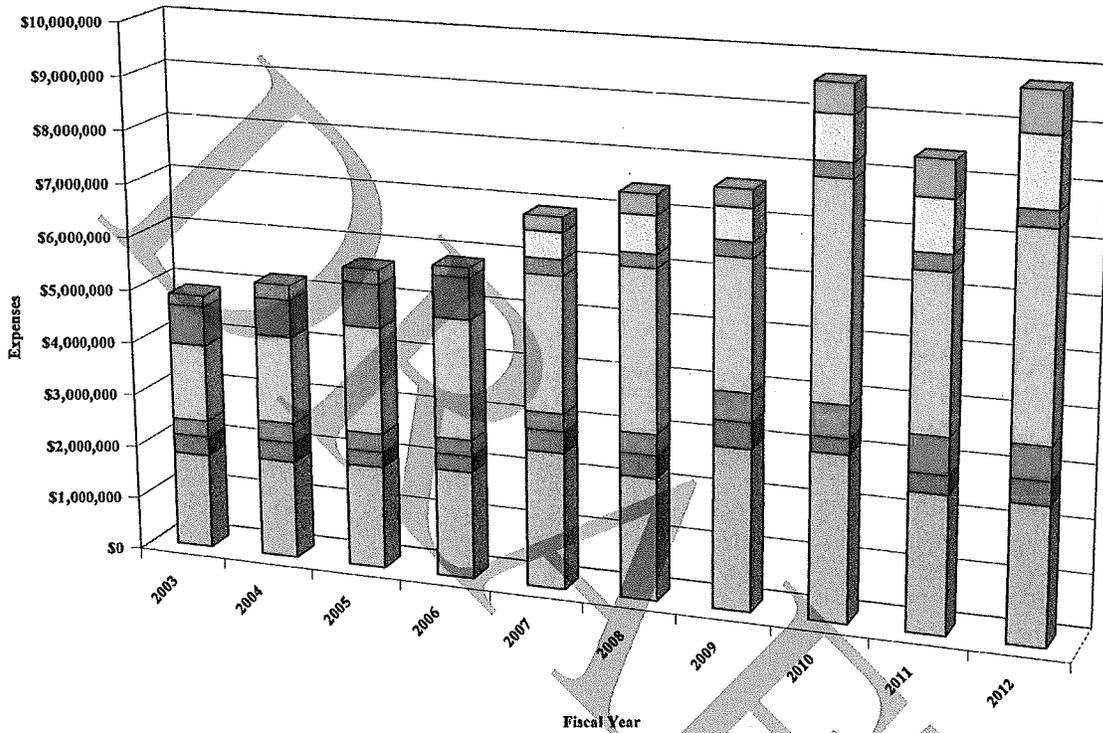
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2003	\$3,390,898	\$81,702	\$229,866	\$1,101,387	\$4,803,853
2004	3,966,670	127,888	341,509	190,824	4,626,891
2005	6,961,866	61,562	345,215	971,320	8,339,963
2006	8,161,755	15,146	264,378	1,496,232	9,937,511
2007	9,573,338	20,063	271,378	361,949	10,226,728
2008	11,063,829	39,291	271,862	393,668	11,768,650
2009	12,286,426	27,408	271,862	362,452	12,948,148
2010	13,462,437	23,163	277,299	308,817	14,071,716
2011	13,570,839	9,532	280,493	455,577	14,316,441
2012	13,671,131	21,441	297,586	235,127	14,225,285



Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Operating Expenses by Activity
Last Ten Fiscal Years**

Fiscal Year	Collection System	Wastewater Treatment	Wastewater Reclamation/Disposal	Laboratory & Monitoring	Pump Stations	Sewer and Pump Stations	AD939 -Solid Waste Programs	Administration & Engineering	Total Operating Expenses
2003		\$1,791,250	\$360,607	\$304,278		\$737,685	\$214,267	\$1,457,724	\$4,865,811
2004		1,843,595	380,532	366,882		709,261	278,422	1,641,478	5,220,170
2005		1,930,880	290,195	350,754		821,807	266,646	1,996,541	5,656,823
2006		2,020,955	307,605	303,287		784,996	181,886	2,249,436	5,848,165
2007	\$493,029	2,569,632	411,564	331,627	\$280,028		297,396	2,536,362	6,919,638
2008	694,147	2,289,718	426,492	389,036	383,503		249,797	3,031,550	7,464,243
2009	599,787	3,017,245	486,514	537,069	332,808		286,682	2,425,285	7,685,390
2010	828,832	3,102,119	296,268	597,743	540,641		284,999	4,003,850	9,654,452
2011	963,487	2,566,139	355,218	688,238	673,344		307,137	2,910,480	8,464,043
2012	1,274,730	2,560,633	442,266	621,758	758,563		310,890	3,789,425	9,758,265



Notes:
Beginning in 2007, Collection and Pump Stations were separate departments previously classified under the Sewer and Pump Stations department.

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Assessed Value of Taxable Property
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Percent Change</u>
2003	\$6,472,321,272	
2004	7,093,625,831	9.60%
2005	7,910,248,923	11.51%
2006	8,838,973,455	11.74%
2007	9,491,627,231	7.38%
2008	9,829,812,081	3.56%
2009	9,580,325,664	-2.54%
2010	9,432,410,765	-1.54%
2011	9,349,746,271	-0.88%
2012	9,245,463,186	-1.12%

Source: County of Marin Tax Assessor

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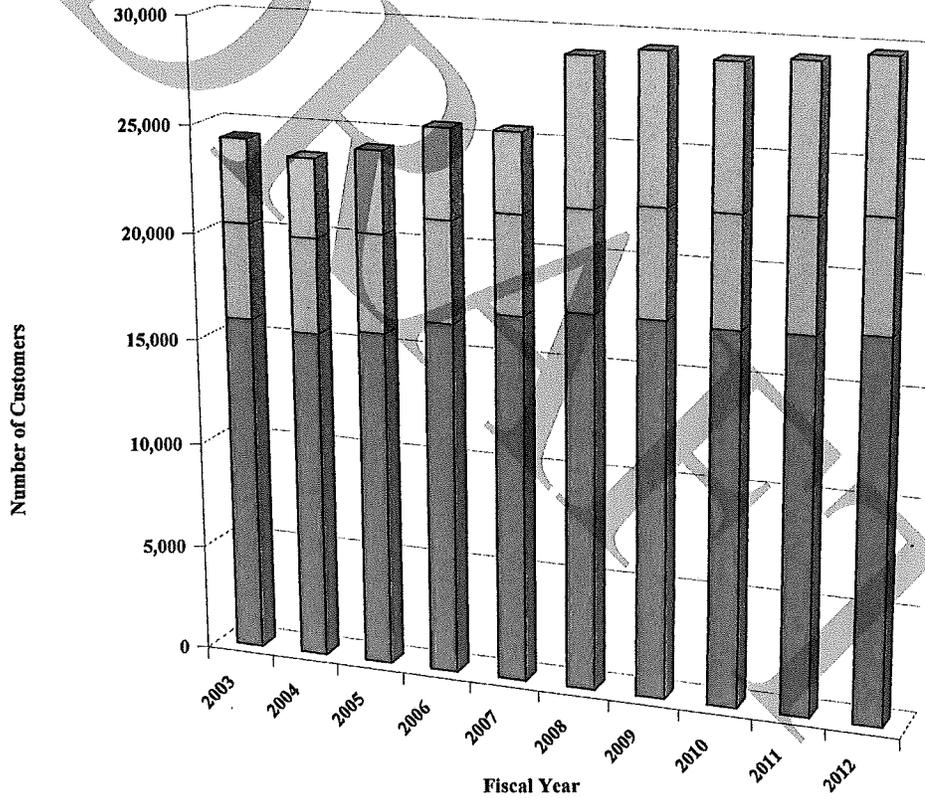
**Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Current Taxes	Prior Year Tax Collections,	Percent of Current Taxes	Net Collections
2003	\$1,301,929	\$1,301,929	100.0%	\$2,148	0.2%	\$ 1,304,077
2004	1,369,201	1,369,201	100.0%	1,016	0.1%	1,370,217
2005	1,274,602	1,274,602	100.0%	2,460	0.2%	1,277,062
2006	1,436,617	1,436,617	100.0%	1,096	0.1%	1,437,713
2007	1,760,488	1,760,488	100.0%	1,745	0.1%	1,762,233
2008	1,999,824	1,999,824	100.0%	2,202	0.1%	2,002,026
2009	1,926,506	1,926,506	100.0%	1,701	0.1%	1,928,207
2010	1,724,197	1,724,197	100.0%	1,752	0.1%	1,725,949
2011	1,773,877	1,771,181	99.8%	2,696	0.2%	1,773,877
2012	1,793,101	1,793,101	100.0%	2,066	0.1%	1,795,167

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Equivalent Dwelling Units by Type at Fiscal Year-End⁽¹⁾
Last Ten Fiscal Years**

Fiscal Year	Customer Type			Total
	Single Family Residential	Multi family Residential	Commercial	
2003	15,933.20	4,484.80	3,924.74	24,342.74
2004	15,519.20	4,457.00	3,690.88	23,667.08
2005	15,816.80	4,598.60	3,820.10	24,235.50
2006	16,559.00	4,735.60	4,165.15	25,459.75
2007	17,193.00	4,608.20	3,681.99	25,483.19
2008	17,572.20	4,696.60	6,745.96	29,014.76
2009	17,568.60	5,016.20	6,811.97	29,396.77
2010	17,407.40	5,133.40	6,576.55	29,117.35
2011	17,471.40	5,186.20	6,677.08	29,334.68
2012	17,705.80	5,184.20	6,814.04	29,704.04



Notes:

The District charges its customers a flat rate per equivalent dwelling unit (EDU) and the fee appears on the customers' annual property tax bill Number of customers as of June 30 of fiscal year.
Multi family residential includes apartments and condominiums.

Source: Novato Sanitary District Operations Department

**Novato Sanitary District
Wastewater Service Charges
Last Ten Fiscal Years**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Price per EDU per year	\$ 155	\$ 262	\$ 302	\$ 342	\$ 382	\$ 422	\$ 462	\$ 462	\$ 462	\$ 462
Price per EDU per month	\$ 12.92	\$ 21.83	\$ 25.17	\$ 28.50	\$ 31.83	\$ 35.17	\$ 38.50	\$ 38.50	\$ 38.50	\$ 38.50

EDUs

Single Family
Apartments, Condominiums, Duplexes and Townhouses
Motor Home or Trailer Park
Guest House with kitchen and bedroom
Guest House without kitchen

EDU Factors

1
1 per living unit
1 per space
1 per living unit
0 per living unit

Non Residential

	<i>Charge per square foot</i>	<i>Charge per HCF water use</i>
Base Charge/ Unspecified	\$ 0.19	\$ 2.52
Auditoriums theaters	\$ 0.19	\$ 2.52
Auto service stations	\$ 0.19	\$ 2.52
Churches	\$ 0.19	\$ 2.52
Gymnasium w/ showers	\$ 0.19	\$ 2.52
Office	\$ 0.19	\$ 2.52
Public office	\$ 0.19	\$ 2.52
Retail	\$ 0.19	\$ 2.52
School classrooms/administration	\$ 0.19	\$ 2.52
Meeting halls with kitchens	\$ 0.19	\$ 3.53
Mortuary	\$ 0.19	\$ 5.48
Supermarkets	\$ 0.19	\$ 5.48
Dental offices	\$ 0.25	\$ 2.52
Hospitals	\$ 0.25	\$ 2.52
Medical offices	\$ 0.25	\$ 2.52
Veterinary offices	\$ 0.25	\$ 2.52
Bakeries	\$ 0.38	\$ 5.48
Cafeteria/dining area	\$ 0.38	\$ 5.48
Delicatessens	\$ 0.38	\$ 5.48
Ice Cream/yogurt shops	\$ 0.38	\$ 5.48
Restaurants cafes	\$ 0.38	\$ 5.48
Laundry and Laundromats	\$ 0.57	\$ 3.53
Warehouse or Storage not live/work	\$ -00	\$ -00

Notes:

Rates as of July 1 of each year

Source: Novato Sanitary District Engineering Department

**Novato Sanitary District
Principal Customers
Current Fiscal Year and Ten Years Ago**

Customer	2012		2003	
	EDU's	Percentage of Total	EDU's	Percentage of Total
Fireman's Fund	367	1.24%	392	1.61%
Novato Unified School District	397	1.34%	127	0.52%
Vintage Oaks Shopping Center (not including Costco or Target	285	0.96%	324	1.33%
BioMarin	197	0.66%	114	0.47%
Hamilton Hangars (3-10)	173	0.58%	-	0.00%
Nave Bros	164	0.55%	120	0.49%
Novato Community Hospital	91	0.31%	52	0.21%
City Of Novato	57	0.19%	38	0.16%
Condiotti Enterprises Inc.	128	0.43%	71	0.29%
Novato Fair Shopping Center	118	0.40%	130	0.53%
Total EDUs: Principal customers	1,977	6.66%	1,368	5.61%
Total Equivalent Dwelling Units (EDUs)	29,704	100.00%	24,350	100.00%

Source: Novato Sanitary District Engineering Department

**Novato Sanitary District
Debt Coverage
Last Ten Fiscal Years**

Fiscal Year	Net Revenues	Operating Expenses⁽¹⁾	Net Available Revenues	Principal	Debt Service Interest	Total	Coverage Ratio
2003	\$7,523,726	(\$4,865,811)	\$2,657,915	\$425,000	\$100,407	\$525,407	5.06
2004	6,985,951	(5,220,170)	1,765,781	450,000	71,863	521,863	3.38
2005	10,572,464	(5,656,823)	4,915,641	300,000	43,064	343,064	14.33
2006	12,174,111	(5,848,165)	6,325,946	300,000	20,687	320,687	19.73
2007	14,679,653	(6,919,638)	7,760,015	325,000	383,161	708,161	10.96
2008	14,753,348	(7,464,243)	7,289,105		1,305,067	1,305,067	5.59
2009	16,248,422	(7,685,390)	8,563,032		1,302,270	1,302,270	6.58
2010	16,510,972	(9,654,452)	6,856,520	24,773,024	1,211,880	25,984,904	0.264
2011	10,003,454	(8,464,043)	1,539,411	5,233,207	209,456	5,442,663	0.283
2012	15,380,957	(9,758,265)	5,622,692	21,136	2,669,346	2,690,482	2.090

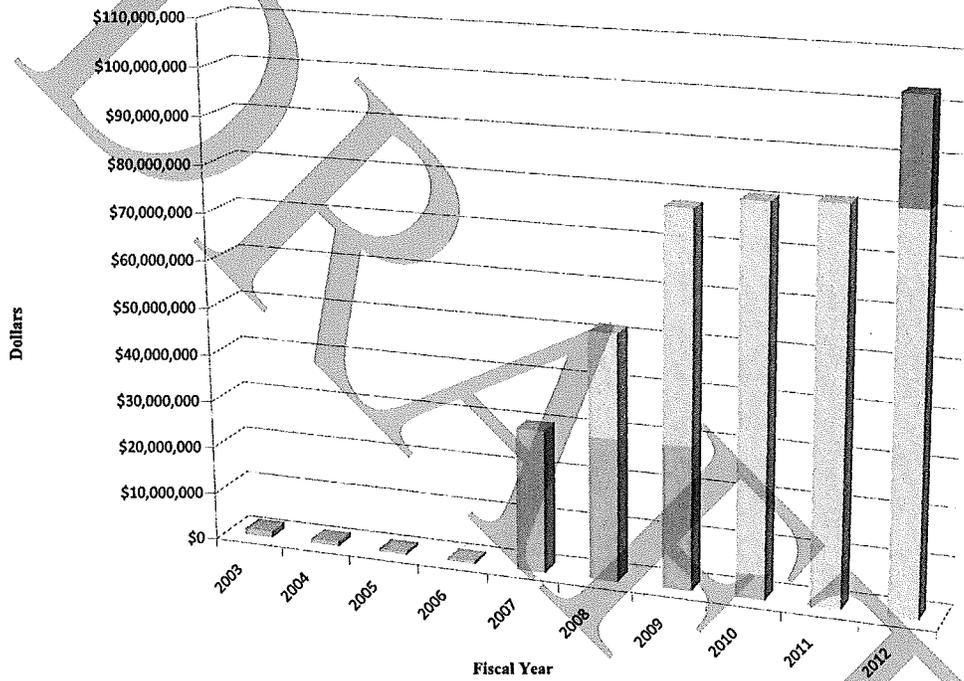
Notes:

(1) Operating expenses exclude depreciation expense.

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

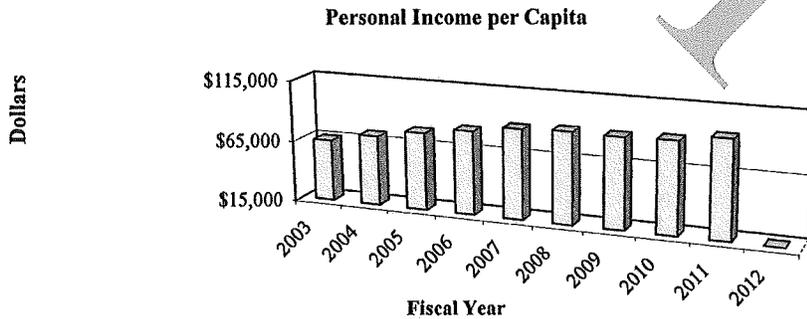
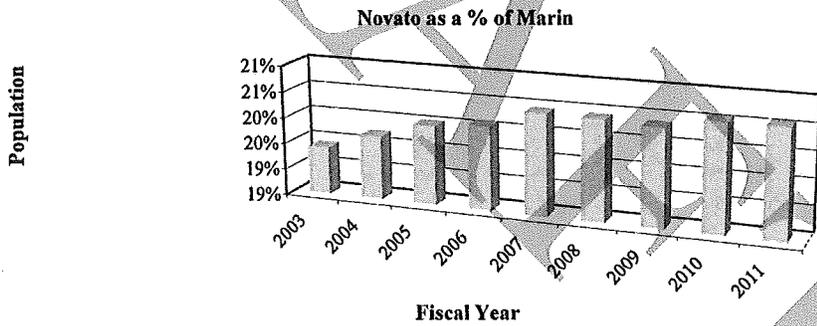
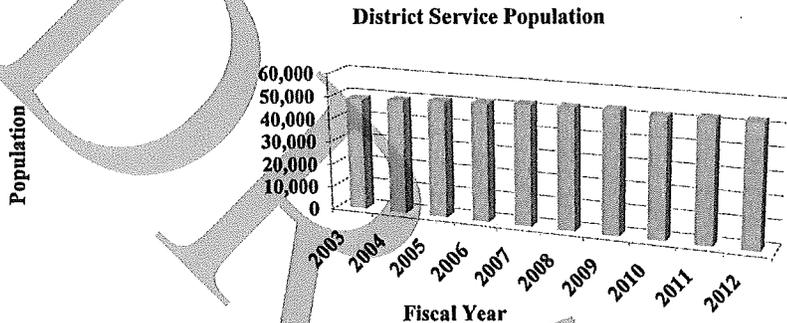
Fiscal Year	General Obligation Bonds Payable	Credit Line	SRF Loan Payable	Certificates of Participation Bond Payable	Total		
					Debt	Per Capita	As a Share of Personal Income
2003	\$1,375,000				\$1,375,000	\$28.25	0.04%
2004	925,000				925,000	18.67	0.03%
2005	625,000				625,000	12.39	0.02%
2006	325,000	\$191,500			516,500	10.12	0.01%
2007		30,006,231			30,006,231	575.66	0.65%
2008		30,006,231	\$21,691,826		51,698,057	983.75	1.09%
2009		30,006,231	47,989,587		77,995,818	1,473.82	1.65%
2010		5,233,207	75,348,207		80,581,414	1,552.51	1.72%
2011			81,329,083		81,329,083	1,550.42	1.63%
2012			81,307,947	\$21,750,000	103,057,947	1,953.71	n/a



Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Demographics and Economic Statistics
Last Ten Calendar Years**

Year	District Service Population	(1) Novato as a % of Marin	County of Marin ⁽²⁾			
			Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2003	48,670	19%	4.9%	250,804	\$16,340,714	\$65,153
2004	49,533	20%	4.5%	251,202	18,114,794	72,112
2005	50,464	20%	4.0%	252,116	19,763,926	78,392
2006	51,037	20%	4.6%	253,818	21,184,396	83,463
2007	52,125	20%	4.4%	255,080	22,600,000	88,600
2008	52,552	20%	5.5%	257,406	23,200,000	90,130
2009	52,921	20%	9.4%	259,772	23,156,000	89,140
2010	51,904	21%	9.8%	252,409	22,800,000	90,330
2011	52,456	21%	9.5%	255,031	24,300,000	95,283
2012	52,750	n/a	n/a	n/a	n/a	n/a



Notes:

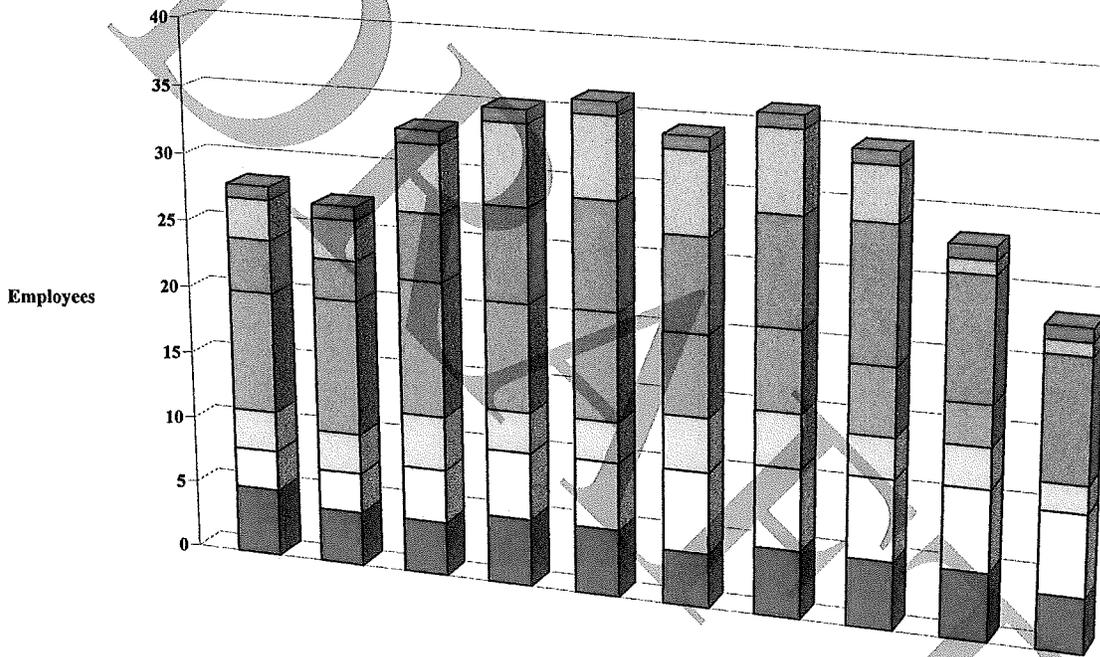
- (1) Approximate population of Novato Sanitary District
- (2) Only County data is updated annually. Therefore, the District has chose to use its data since the District believes that the County data is representative of the conditions and experience of the District.

Sources: California Department of Finance, County of Marin, quickfacts.census.gov, North Marin Water District 2011 Annual Report.

**Novato Sanitary District
Operating and Capacity Indicators
Last Ten Fiscal Years**

Employees

Department	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Administration	5	4	4	5	5	4	5	5	5	4
Engineering	3	3	4	5	5	6	6	6	6	6
Lab Services	3	3	4	3	3	4	4	3	3	2
Operations	9	10	10	8	8	6	6	5	3	0
Collections	4	3	5	7	8	7	8	10	9	9
Maintenance	3	3	5	6	6	6	6	4	1	1
Safety	1	1	1	1	1	1	1	1	1	1
Total	28	27	33	35	36	34	36	34	28	23



Notes:

The decrease in operators in 10/11 due to Treatment Plant Operations contract with Veolia Water.

The three employees were only NSD employees for 1 month of 2010/11.

The Safety resource is a Central Marin Sanitation Employee and is a shared service position among several public utilities.

Source: Novato Sanitary District Records

**Novato Sanitary District
Operating and Capacity Indicators
Last Ten Fiscal Years**

Other Operating and Capacity Indicators

Fiscal Year	Miles of Sewer Lines	Number of Pump Stations	Average Dry Weather Flow (MGD)		Treatment Capacity (MGD)		Total Annual Treatment (MG)
			Novato	Ignacio	Novato	Ignacio	
2003	213	37	2.87	1.66	4.53	2.02	1,653
2004	220	38	2.53	1.81	4.53	2.02	1,584
2005	220	40	3.55	1.64	4.53	2.02	1,894
2006	222	41	3.54	1.470	4.53	2.02	1,829
2007	225	42	3.47	1.340	4.53	2.02	1,756
2008 *	225	42	4.04	0.000	6.55	0	1,475
2009	225	42	4.89	0.000	6.55	0	1,785
2010	226	42	4.23	0.000	7.05	0	1,544
2011	226	42	4.20	0.000	7.05	0	1,955
2012	226	42	4.00	0.000	7.05	0	n/a

Notes:

N/A - Data not available for these years

MG - Millions of Gallons

MGD - Millions of Gallons per Day

*In 2008, all waste water was transferred from our new Ignacio Pump Transfer Station to the Novato Treatment Plant where it was treated. All waste water is treated solely at the Novato site as of completion of the Ignacio Pump Transfer Station in 2009.

Source: Novato Sanitary District Operations and Accounting Departments

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