

**NOVATO
SANITARY DISTRICT**

FINANCIAL STATEMENTS

AND

ACCOMPANYING INFORMATION

JUNE 30, 2009

WITH

INDEPENDENT AUDITORS' REPORT

NOVATO SANITARY DISTRICT

JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Novato Sanitary District
Novato, California

We have audited the accompanying statement of net assets of Novato Sanitary District as of June 30, 2009, and the related statements of revenue and expenses and changes in net assets, and cash flows for the year then ended. These basic 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 financial position of Novato Sanitary District as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America, as well as accounting systems provided by the State Comptroller's Office for Special Districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2010, in our consideration of the District's internal control over financial reporting and 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.

The information identified in the accompanying table of contents as Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
March 24, 2010

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2009. This information is presented in conjunction with the audited financial statements, which follow this section.

Financial Highlights

- The District's total ending net assets increased by \$4.7 million or 4.10% when compared to fiscal year 2007-08.
- Actual operating revenues increased by \$580,198 or 4.93% over the previous year. Several factors contributed to the increase, including a 2008-09 sewer service charge increase of \$40 per year per account, \$8 of which was applied to the Operating Fund and \$32 to the Capital Improvements Fund. Total operating expenses increased by \$1,947,053 or 22.15% compared to fiscal year 2007-08. Increases are primarily due to increased depreciation expense this year to comply with GASB 34 in the amount of \$1,243,040, accounting for 14% of the 22.15% increase this fiscal year.
- Capital contributions increased by \$387,279 or 59.08% when compared to fiscal year 2007-08. Sewer improvements and easements and connection fees totaling \$1,042,803 were contributed in 2008-09. Expenditures for capital improvement projects totaled approximately \$34 million, an increase of \$4 million or 13.35% when compared to 2007-08, and mostly related to the District's Wastewater Facility Upgrade Project.

District Highlights

- The major activity during fiscal year 2008-09 was the continuing construction of the District's Wastewater Treatment Facilities Upgrade Project. Construction on the Novato Treatment Plant Upgrade that began in May 2007 (Contract B) is continuing generally on schedule and within budget. The current contract completion date is September 2010. Collection system repairs and improvements were performed in addition to pump station rehabilitation, reclamation facilities improvements, and several other minor projects. The main carryover projects from fiscal year 2007-08 included ongoing collection system repairs and pump station rehabilitation, and preparation of a Collection System Master Plan.
- The District accepted approximately 2,413 lineal feet of sewer main extensions from 6 private projects, and approximately 4,946 square feet of sewer main easements during fiscal year 2008-09.
- A total of 244,469 feet of sewer line was cleaned and 1,133 work orders completed in fiscal year 2008-09 as part of the District's ongoing collection system maintenance program.
- As of July 1, 2008, the District's annual residential sewer service charge was increased by \$40 (from \$382.00 to \$422.00).

Required Financial Statements

The financial statements of the District report information utilizing methods similar to those used by private sector companies.

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

- **Statement of Net Assets** – Includes all District assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return; evaluating the capital structure of the District; and assessing the liquidity and financial flexibility of the District.
- **Statement of Revenues, Expenses and Changes in Net Assets** – All of the current year revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.
- **Statement of Cash Flows** – The primary purpose of this statement is to provide information about District cash receipts, cash disbursements and net changes in cash resulting from operations, investments, and capital and non-capital financing activities. It illustrates the source of revenue, purposes for which it was used, and change in cash balance during the reporting period.

STATEMENT OF NET ASSETS

The following table shows the condensed statement of net assets of the Novato Sanitary District for the past two years. The District's total net assets increased from 2007-08 by \$4.1 million.

Condensed Statement of Net Assets

	<u>Fiscal Year 2008-09</u>	<u>Fiscal Year 2007-08</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 33,390,384	\$ 34,422,186	\$ (1,031,802)	-3.00%
Capital Assets	166,604,655	135,398,729	31,205,926	23.05%
Other Non-current assets	35,433	54,122	(18,689)	-34.53%
Total Assets	<u>200,030,472</u>	<u>169,875,037</u>	<u>30,155,435</u>	17.75%
Long-Term Liabilities	78,175,655	51,868,701	26,306,954	50.72%
Other Liabilities	3,828,261	4,630,568	(802,307)	-17.33%
Total Liabilities	<u>82,003,916</u>	<u>56,499,269</u>	<u>25,504,647</u>	45.14%
Net Assets:				
Invested in Capital Assets				
Net of Related Debt	88,644,270	105,446,620	(16,802,350)	-15.93%
Unrestricted	29,382,286	7,929,148	21,453,138	270.56%
Total Net Assets	<u>\$ 118,026,556</u>	<u>\$ 113,375,768</u>	<u>\$ 4,650,788</u>	4.10%

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

REVIEW OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following table shows the condensed statement of revenues, expenses, and changes in net assets for the Novato Sanitary District.

	Fiscal Year 2008-09	Fiscal Year 2007-08	Dollar Change	Percent Change
Sewer Service Charges (SSC)	\$ 11,687,126	\$ 11,063,829	\$ 623,297	5.63%
Other Service Charges and Misc.	389,860	432,959	(43,099)	-9.95%
AB939 solid waste programs	271,862	271,862	-	0.00%
Total Operating Revenue	12,348,848	11,768,650	580,198	4.93%
Property tax	2,527,507	1,995,120	532,387	26.68%
All other	850,314	1,211,498	(361,184)	-29.81%
Total Non-Operating Revenue	3,377,821	3,206,618	171,203	5.34%
Total Revenues	15,726,669	14,975,268	751,401	5.02%
Total Labor and Benefits	4,037,060	3,842,385	194,675	5.07%
Chemicals and Utilities	1,254,642	1,150,641	104,001	9.04%
Repairs and Maintenance	510,214	529,299	(19,085)	-3.61%
Professional and Outside Services	408,792	456,188	(47,396)	-10.39%
Supplies	113,270	126,397	(13,127)	-10.39%
Hauling & Disposal (sludge)	100,835	47,126	53,709	113.97%
Insurance Expense	208,958	325,798	(116,840)	-35.86%
All Other	1,097,876	1,005,098	92,778	9.23%
Depreciation Expense	3,005,676	1,307,338	1,698,338	129.91%
Total Operating Expenses	10,737,323	8,790,270	1,947,053	22.15%
Interest	1,302,270	1,305,067	(2,797)	-0.21%
All other	79,091	221,920	(142,829)	-64.36%
Total Non-Operating Expense	1,381,361	1,526,987	(145,626)	-9.54%
Total Expenses	12,118,684	10,317,257	1,801,427	17.46%
Excess of Revenues Over Expenses	3,607,985	4,658,011	(1,050,026)	-22.54%
Capital Contributions	1,042,803	655,524	387,279	59.08%
Change in Net Assets	4,650,788	5,313,535	(662,747)	-12.47%
Beginning Net Assets	113,375,768	108,062,233	5,313,535	4.92%
Ending Net Assets	\$ 118,026,556	\$ 113,375,768	\$ 4,650,788	4.10%

In 2008-09, operating revenues increased \$580,198 or 4.93% compared to 2007-08. Total labor and benefits increased by \$194,675 or 5.07% and depreciation increased by \$1,698,334 due to GASB 34 and all other Operating Expenses increased by \$54,040.

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

CAPITAL ASSETS

As of June 30, 2009, the District's investment in capital assets totaled \$166,604,655 which is an increase of \$31.2 million or 23.05 % over the capital asset balance of \$135,398,729 at June 30, 2008. Capital assets include all of the District's major infrastructure such as wastewater treatment facilities, sewers, land, buildings, and pumping stations, as well as vehicles and furniture and equipment exceeding our capitalization limit of \$5,000, net of depreciation. A comparison of the District's capital assets over the past two fiscal years is presented below.

	<u>Fiscal Year</u> <u>2008-09</u>	<u>Fiscal Year</u> <u>2007-08</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land and improvements	\$ 55,025,525	\$ 55,025,525	\$ -	0.00%
Buildings and structures	25,612,978	24,831,355	781,623	3.15%
Equipment - sewer facilities	12,102,468	12,305,811	(203,343)	-1.65%
Equipment - general	1,768,551	1,767,981	570	0.03%
Sewer collection and outfall systems	45,771,394	45,043,692	727,702	1.62%
Easements	1,617,174	1,570,418	46,756	2.98%
Construction in progress	54,849,947	22,212,481	32,637,466	146.93%
Subtotal	<u>196,748,037</u>	<u>162,757,263</u>	<u>33,990,774</u>	<u>20.88%</u>
Less accumulated depreciation	<u>(30,143,382)</u>	<u>(27,358,534)</u>	<u>(2,784,848)</u>	<u>10.18%</u>
Total Capital Assets (net of depreciation)	<u>\$ 166,604,655</u>	<u>\$ 135,398,729</u>	<u>\$ 31,205,926</u>	<u>23.05%</u>

Additional information on capital assets is contained in footnote #3.

DEBT ADMINISTRATION

The District drew on its revolving line of credit during the year to continue construction on the Wastewater Facilities Upgrade project. As of June 30, 2009, the District had the following outstanding debt:

Long-term Revolving Line of Credit	\$30,006,231
State Water Resources Control Board Loan	\$47,989,587

Additional information on debt is contained in footnote #4.

ECONOMIC AND OTHER FACTORS

Increasingly stringent regulatory requirements mandated by Federal, State and Local regulatory agencies causes the expenditure of more funds to comply with numerous strict and complex testing and compliance regulations. In addition to making efforts to control spending, the District has the ability to raise sewer service charges to meet long-term commitments.

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the revenues it receives. If you have questions about this report or need additional information, please contact: Manager-Engineer, Novato Sanitary District, 500 Davidson Street, Novato, CA 94945. Telephone: (415) 892-1694.

NOVATO SANITARY DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 32,828,454
Service charges, taxes and other receivables	422,271
Interest receivable	139,659
Total current assets	<u>33,390,384</u>

CAPITAL ASSETS

Property, plant, and equipment, net of accumulated depreciation of \$30,143,382	166,604,655
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OTHER LONG-TERM ASSETS

Revolving credit line origination fee	35,433
TOTAL ASSETS	<u>200,030,472</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	2,969,873
Interest payable	325,568
Deposits payable	163,942
Payable for special assessment	166,520
Other payables	160,000
Current portion of compensated absences	42,358
Total current liabilities	<u>3,828,261</u>

LONG-TERM LIABILITIES

Revolving credit promissory note	30,006,231
Loan payable - State Water Resources Control Board	47,989,587
Accrued compensated absences	179,837
TOTAL LIABILITIES	<u>82,003,916</u>

NET ASSETS

Invested in capital assets, net of related debt	88,644,270
Unrestricted	29,382,286
TOTAL NET ASSETS	<u>\$ 118,026,556</u>

The accompanying notes are an integral part of these financial statements.

NOVATO SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

OPERATING REVENUE	
Sewer service charges	\$ 11,687,126
Permit, inspection and other fees	27,408
Other service charges	287,716
Recycled water facility	74,736
AB939 - solid waste programs	271,862
Total operating revenue	<u>12,348,848</u>
OPERATING EXPENSES	
Collection System	599,787
Treatment plant	3,017,243
Wastewater reclamation and disposal	411,778
Laboratory and monitoring	537,068
Sewers and pump stations	332,809
Recycled water facility	74,737
AB939 - solid waste programs	286,683
Administration and engineering	2,452,853
Depreciation	3,005,676
Amortization	18,689
Total operating expenses	<u>10,737,323</u>
OPERATING INCOME	<u>1,611,525</u>
NON-OPERATING REVENUES (EXPENSES)	
Taxes	2,527,507
Interest Income	702,002
Franchise fees	45,000
Rental income	82,517
Other revenue	20,795
Gain (loss) on disposition of capital assets	(79,091)
Interest Expense	(1,302,270)
Total nonoperating revenues (expenses)	<u>1,996,460</u>
Income before contributions	3,607,985
Capital contributions - connection fees	647,101
Contributed assets	395,702
CHANGE IN NET ASSETS	4,650,788
Total Net Assets - Beginning	<u>113,375,768</u>
Total Net Assets - Ending	<u>\$ 118,026,556</u>

The accompanying notes are an integral part of these financial statements.

NOVATO SANITARY DISTRICT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

Cash Flows From Operating Activities:

Receipts from customers and users	\$ 12,085,138
Payments to suppliers	(4,435,427)
Payments to employees	(3,877,890)
Net cash provided by operating activities	<u>3,771,821</u>

Cash Flows From Noncapital Financing Activities:

Franchise Fees	45,000
Rents collected	82,517
Net cash provided by noncapital and related financing activities	<u>127,517</u>

Cash Flows From Capital And Related Financing Activities:

Connection fees	647,101
Taxes	2,527,507
Other revenues	20,795
Acquisition and construction of capital assets	(33,913,679)
Proceeds from debt issuance	26,297,761
Long-term debt interest paid	(1,283,581)
Net cash used by capital and related financing activities	<u>(5,704,096)</u>

Cash Flows From Investing Activities:

Investment income received	746,119
Net cash provided by investing activities	<u>746,119</u>

Net decrease in cash and cash equivalents	(1,058,639)
Cash and cash equivalents, July 1	33,887,093
Cash and cash equivalents, June 30	<u>\$ 32,828,454</u>

The accompanying notes are an integral part of these financial statements.

NOVATO SANITARY DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2009

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income	\$ 1,611,525
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	3,005,676
Amortization expense	18,689
(Increase) decrease in :	
Accounts and notes receivable	(86,787)
Increase (decrease) in:	
Accounts payable and accrued expenses	(653,285)
Accrued salaries & benefits	51,551
Deposits	(92,536)
Other current liabilities	(96,973)
Payable for special assessment	(1,871)
Prepaid expenses	15,832
Net cash provided by operating activities	<u>\$ 3,771,821</u>

Noncash capital activities:

Contributed capital assets	<u>\$ 395,702</u>
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The accompanying notes are an integral part of these financial statements.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Novato Sanitary District (the “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 21 square miles in and around the City of Novato in Marin County. Revenues are derived principally from sewer service charges collected from commercial and residential users within the District. The District also franchises municipal solid waste (garbage) services.

The Financial Reporting Entity

The District’s financial statements do not include those of any other governmental unit and are not included as a component unit of any other governmental reporting entity.

The financial statements of the District are presented as those of an enterprise fund under the broad category of funds called proprietary funds.

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The acquisition and capital improvement of the physical plant facilities, required to provide these goods and services, are financed from existing cash resources, cash flows from operations, the issuance of bonds, and contributed capital.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. Under this method, assets and revenues are recorded when earned, and liabilities and expenses are recorded when the related obligations are incurred. As permitted by the Governmental Accounting Standards Board’s Statement Number 20, the District applies all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Cash and Investments

The District's cash and cash equivalents are considered to be cash-on-hand, demand-deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State of California Local Agency Investment Fund (LAIF).

Investments are stated at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. All investment income and changes in fair value are recognized in the Statement of Revenues and Expenses and Changes in Net Assets. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations.

Capital Assets

Capital assets consist of property, plant, and equipment purchased and are stated at cost less accumulated depreciation. Subsurface sewer lines, equipment, and land and improvements contributed to the District are stated at estimated value at the time of contribution. The District has a policy to capitalize assets with an individual cost of \$5,000 or more.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Costs of feasibility studies are accumulated in construction-in-process. If the study results in a fixed asset addition, these costs are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Alternately, costs not resulting in a fixed asset addition are expensed through operating expenses. Feasibility studies, when used, are considered necessary for maintaining the efficient operations of the District's facilities.

Depreciation is provided using the straight-line method over estimated useful lives of assets as follows:

Land improvements	15 Years
Buildings and structures, exclusive of subsurface pump stations	15-50 Years
Furniture	15 Years
Sewer facilities equipment	5-35 Years
General equipment	5-35 Years

Use of Estimates

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

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

New Governmental Accounting and Reporting Standards

In June 2004, GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities/assets in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/assets, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation, that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2010. The District has not yet determined its effects on the financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2010, and does not believe it will have a significant impact on the financial statements.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement is not effective until June 30, 2010. The District has not yet determined its effects on the financial statements.

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. The District is accounted for as an enterprise fund and therefore this statement does not apply.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. This Statement will make it easier for preparers of state and local government financial statements to identify and apply all relevant guidance. The provisions of this Statement were effective upon issuance and did not have any impact on the financial statements.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. The provisions of this Statement were effective upon issuance and did not have any impact on the financial statements.

Changes in Accounting Principles

In November 2006, GASB issued GASBS No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007. The District implemented the provisions of this statement for the current fiscal year ending June 30, 2009. The District believes that the current report is in compliance with GASB Statement No. 49 and that there was no significant impact on the financial statements as a result of implementation of this pronouncement.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. This Statement is not effective until June 30, 2009. The District implemented the provisions of this statement for the current fiscal year ending June 30, 2009. The District believes that the current report is in compliance with GASB Statement No. 52 and that there was no significant impact on the financial statements as a result of implementation of this pronouncement.

NOTE #2 - CASH AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand	\$ 491
Deposits with financial institutions	95,862
Investments	32,732,101
Total Deposits and Investments	<u>\$32,828,454</u>

Policies and Practices

The District is authorized under the California Government Code and the District's investment policy to make direct investments in bonds issued by Novato Sanitary District, local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; collateralized mortgage obligations; funds held under the terms of a Trust Indenture; and collateralized bank deposits with a perfected security interest in accordance with the Uniform Commercial Code.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Investments prohibited by the District are 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.

The District's investments were in compliance with the above provisions as of and for the year ended June 30, 2009.

General Authorizations

The table below identifies the investment types that are authorized by the District and by the California Government Code, and are further limited by the District's investment policy. Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are also indicated.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 /30 days	20% of base	None
Medium Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	15%	10%
Mortgage Pass-Through Security	N/A	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Passbook Savings Account Demand Deposits	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by purchasing only shorter term investments as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2009, the District had the following investments:

Investment Type	Fair Value	Maturity Date
State Investment Pool	\$32,776,754	235 Days
Total	<u>\$32,776,754</u>	

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

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. The state investment pool is not rated.

Concentration of Credit Risk

The District's investment policy contains limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. No more than 30% may be invested in Bankers Acceptances of any single commercial bank; no more than 10% may be invested in either Commercial Paper or Money Market Mutual Fund.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy, as well as 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. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2009, the District's total bank balance of \$358,698 was insured by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. However, the District's policy states that 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. Additionally, collateralization will be required on certificates of deposit. Collateral must be held by a third party trustee and valued on a monthly basis. The collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC Section 53601(i)(2).

Investment in the State Investment Pool - The District is a voluntary 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 fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

NOTE #3 – CAPITAL ASSETS

Changes in the District's property, plant and equipment and accumulated depreciation for the year ended June 30, 2009 are summarized as follows:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Capital assets, not being depreciated:					
Land	\$ 2,449,262	\$ -	\$ -	\$ -	\$ 2,449,262
Construction in progress	22,212,481	33,452,673	-	(815,207)	54,849,947
Sewer collection and outfall systems	45,043,692	727,702	-	-	45,771,394
Easements	1,570,418	46,756	-	-	1,617,174
Total Capital assets, not being depreciated:	71,275,853	34,227,131	-	(815,207)	104,687,777
Capital assets, being depreciated:					
Buildings and structures	24,831,355	-	-	781,623	25,612,978
Improvements other than buildings	52,576,263	-	-	-	52,576,263
Equipment - sewer facilities	12,305,811	28,188	(231,531)	-	12,102,468
Equipment - general	1,767,981	40,125	(73,139)	33,584	1,768,551
Total Capital assets, being depreciated:	91,481,410	68,313	(304,670)	815,207	92,060,260
Less: Accumulated depreciation					
Total Accumulated depreciation:	(27,358,534)	(3,005,676)	220,828	-	(30,143,382)
Total capital assets, being depreciated, net	64,122,876	(2,937,363)	(83,842)	815,207	61,916,878
Total Capital Assets, net	\$ 135,398,729	\$ 31,289,768	\$ (83,842)	\$ -	\$ 166,604,655

NOTE #4 – LONG-TERM DEBT

Long-term obligations at June 30, 2009 are summarized as below:

Summary	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Current Portion	Long-Term Portion
Compensated Absences	\$ 170,644	\$ 63,940	\$ 12,389	\$ 222,195	\$ 42,358	\$ 179,837
Revolving Credit Line	30,006,231	-	-	30,006,231	-	30,006,231
State Water Resources Control Board Loan	21,691,826	26,297,761	-	47,989,587	-	47,989,587
Total	\$ 51,868,701	\$ 26,361,701	\$ 12,389	\$ 78,218,013	\$ 42,358	\$ 78,175,655

A. Revolving Credit Line

Under the terms of a May 10, 2006, revolving credit agreement with Zions First National Bank, the District may borrow up to \$30,000,000 to provide interim financing for the acquisition and construction of improvements to the wastewater collection, treatment, and disposal facilities of the District. In the current year, the actual obligation incurred is \$30,006,231, which exceeds the limit of the revolving credit agreement by \$6,231. The District applied for and received a loan from the State Water Resources Control Board's State Revolving Fund (SRF) to provide long-term financing for these construction projects, and the District's financing plan calls for the repayment of the revolving credit line obligation from the proceeds of any State loans or from other long-term financing arrangements.

NOVATO SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

The revolving credit line is secured by a pledge of and lien against the net revenues of the wastewater system. The maturity date for the revolving credit line obligation is April 1, 2011. The revolving credit obligation accrues interest at an annual fixed rate of 4.34%. Credit extended on or after May 10, 2007, will accrue interest at a variable rate, defined in the agreement as a rate of interest equal to 85 percent of the one-year Seattle Federal Home Loan Bank Rate which was 1.06% at June 30, 2009. Interest is payable semiannually on October 1 and April 1. The outstanding balance at June 30, 2009, is \$30,006,231 and is classified as a long term liability.

Maturities for the next five years and thereafter for this revolving credit obligation as of June 30, 2009, are as follows:

Year ended June 30	Principal	Estimated Interest	Total
2010	\$ -	\$ 1,302,270	\$ 1,302,270
2011	30,006,231	1,302,270	31,308,501
	<u>\$ 30,006,231</u>	<u>\$ 2,604,540</u>	<u>\$ 32,610,771</u>

B. State Water Resources Control Board Loan

During 2007-08, Novato Sanitary District was granted a loan for \$81,329,083 from the State Water Resources Control Board under the State Revolving Fund program to upgrade and expand the Novato Treatment Plant to treat the combined flow of both its wastewater treatment plants. These funds are federal funds provided to the State of California under the Federal Clean Water Act.

A new pump station (the Ignacio Transfer Pump Station) was constructed at the site of the Ignacio Treatment Plant. The Ignacio Conveyance Force Main was constructed 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.

On July 22, 2008, the District drew \$7,524,999 against the total approved loan amount. On October 17, 2008, the District drew an additional \$4,878,471, on January 21, 2009 an additional \$6,687,667 and another \$7,204,624 on April 2, 2009. Interest accrues on the obligation at a rate of 2.40 percent compounded annually. For the period of June 30, 2008 through June 30, 2009 total interest accrued was \$604,110. At the end of each State fiscal year (June 30), interest accrued on loan disbursements will be added to the principal amount, and repayments will be made based upon the revised principal balance. The first loan principal and interest payment is due on December 15, 2011; and thereafter subsequent loan payments are due every December 15 through the year 2030.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

The following table summarizes the debt service maturity schedule of the District for this loan:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ -	\$ -	\$ -
2011	-	-	-
2012	1,897,640	1,151,750	3,049,390
2013	1,943,183	1,106,207	3,049,390
2014	1,989,820	1,059,570	3,049,390
2015-2019	10,688,773	4,569,177	15,257,950
2020-2024	12,034,492	3,212,461	15,246,953
2025-2029	13,549,634	1,697,320	15,246,954
2030-2031	5,886,045	212,735	6,098,780
Total	\$ 47,989,587	\$ 13,009,220	\$ 60,998,807

NOTE #5 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The District's defined benefit pension plan (Miscellaneous Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by state statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance or resolution. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

B. Funding Policy

Active plan members in the Miscellaneous Plan are required to contribute 7 percent of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for Fiscal Year 2008-2009 was 12.43 percent for 34 employees. (The District has only miscellaneous employees.) 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.

Annual Pension Cost

For Fiscal Year 2008-2009, the District's annual pension cost was \$330,422. The District also contributed \$186,063 for plan members' contributions. The required contribution for fiscal year 2008-2009 was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses); and (b) projected salary increases that vary by duration of service ranging from 3.25 percent to 14.45 percent for miscellaneous members. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of Miscellaneous Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two- to five-year period depending upon the size of investment gains and/or losses. Miscellaneous Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006, was 16 years.

C. Three-Year Trend Information for Miscellaneous Plan:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$ 310,736	100%	\$ -
6/30/2008	331,736	100%	-
6/30/2009	330,422	100%	-

NOTE #6 – POST-RETIREMENT BENEFITS

The District provides post-retirement benefits to 19 eligible employees for post-retirement health insurance premiums and accounts for these benefits on the, "pay as you go," method. Benefit provisions are established and may be amended by the District's Board of Directors. Retired employees have a choice of remaining on the District's group health insurance plan or purchasing a plan of their choice. The District is billed monthly for its share of the premium and the employee's share of the premium is deducted from his/her retirement plan. For the fiscal year 2008-2009, the District paid \$148,185 in post-retirement health insurance benefits to eligible retirees.

NOTE #7 – COMMITMENTS AND CONTINGENT LIABILITIES

The District is currently engaged in the construction of various capital projects. Contractual commitments in connection with those projects will be satisfied in the normal course of business activities financed from loan proceeds under the State Revolving Fund program and current operations. The amount of commitment at June 30, 2009 was \$27,625,845.

The District is party to various legal proceedings which normally occur in governmental operations. Management has determined that these legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

NOTE #8 - RISK MANAGEMENT

The District is exposed to risk of loss from property, liability and workers' compensation. The District mitigates its risk by participating in risk sharing and insurance-purchasing pools through membership in the California Sanitation Risk Management Authority (CSRMA).

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Risk sharing pools provide general liability, workers' compensation, and employment practices coverage. The pools operate to share risk among the members of the pool up to a limit of \$15,750,000, \$750,000 and \$15,750,000 for general liability, worker's compensation, and employment related practices, respectively. The members are assessed a yearly premium which, based on experience, can be reduced up to 25% or increased up to 50% retroactively. Members share losses that exceed the maximum premium assessment. Insurance-purchasing pools provide property insurance and excess coverage to \$15 million on general liability and worker's compensation.

The District chooses to maintain a deductible of \$100,000 for the general liability pool and \$25,000 for the property insurance and employment practices pools. The District maintains a self-insurance reserve for the purpose of funding payments under the deductible. Claims paid have not been material to the financial position of the District and are charged to operations as incurred.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2009:

Total assets	\$ 29,209,229
Total liabilities	14,730,899
Net assets	<u>\$ 14,478,330</u>
Total revenues	\$ 11,002,376
Total expenses	7,809,040
Net income	<u>\$ 3,193,336</u>

NOTE #9 – LOCAL IMPROVEMENT DISTRICT BONDS

Within the District's boundaries, there exists the 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 \$1,605,000 at June 30, 2009.

SUPPLEMENTAL INFORMATION



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Novato Sanitary District
Novato, California

The accompanying information following is presented for purposes of additional analysis and is not a required part of the basic financial statements. Our audit of the basic financial statements was made for the purpose of forming an opinion on those statements taken as a whole. The accompanying information has been subjected to the procedures applied in the audit of the related basic financial statements.

In our opinion, the accompanying information mentioned above is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
March 24, 2010

NOVATO SANITARY DISTRICT

OPERATING EXPENSES (EXCLUDING DEPRECIATION) FOR THE YEAR ENDED JUNE 30, 2009

	Collection System	Novato Treatment	Ignacio Treatment	Wastewater Reclamation/ Disposal	Laboratory and Monitoring	Sewers and Pump Stations	Solid Waste Programs	Recycled Water Programs	Administrative and Engineering	Total	Percent
Salaries and wages	\$ 314,783	\$ 823,707	\$ 191,325	\$ 44,152	\$ 230,603	\$ 73,588	\$ -	\$ 24,592	\$ 1,005,156	\$ 2,707,906	35.1%
Employee benefits	137,315	340,154	80,036	18,470	91,518	30,784	-	10,093	472,784	1,181,154	15.3%
Retiree health benefits	-	-	-	-	-	-	-	-	148,185	148,185	1.9%
Director's fees	-	-	-	-	-	-	-	-	40,381	40,381	0.5%
Gasoline, oil and fuel	9,109	18,526	12,899	9,183	1,601	2,626	-	293	6,826	61,063	0.8%
Software maintenance	18,899	2,410	2,410	2,410	334	2,410	-	-	-	28,873	0.4%
Insurance	-	-	-	-	-	-	-	-	131,049	131,049	1.7%
Insurance claims	-	-	-	-	-	-	-	-	77,909	77,909	1.0%
Memberships	-	-	-	-	-	-	-	-	8,088	8,088	0.1%
Office expense	-	-	-	-	-	-	-	-	21,618	21,618	0.3%
Supplies	18,449	26,168	19,613	3,212	27,869	9,280	-	165	8,514	113,270	1.5%
Chemicals	-	182,532	125,404	-	-	-	-	30,052	-	337,988	4.4%
Janitorial services	-	13,558	-	-	-	-	-	-	-	13,558	0.2%
Grounds maintenance	-	4,242	-	-	-	-	-	-	-	4,242	0.1%
Sludge disposal	-	45,856	-	54,979	-	-	-	-	-	100,835	1.3%
Accounting	-	-	-	-	-	-	-	-	22,150	22,150	0.3%
Attorney	-	-	-	-	-	-	-	-	156,846	156,846	2.0%
Consulting services	-	-	-	-	-	-	84,681	-	135,115	219,796	2.8%
IT/Misc electrical	-	-	-	-	-	-	-	-	27,096	27,096	0.4%
Printing and publication	-	-	-	-	-	-	-	-	7,789	7,789	0.1%
Repairs and maintenance	47,526	169,681	89,469	87,467	8,203	94,866	-	2,876	10,126	510,214	6.6%
Unusual equipment maintenance	-	-	10,480	46,802	-	-	-	-	-	57,282	0.7%
Inspections	-	-	-	-	-	-	-	-	-	-	0.0%
Small Tool Purchase	1,721	767	2,000	573	-	1,003	-	-	-	6,064	0.1%
Outside services	39,579	-	-	-	-	-	-	-	-	39,579	0.5%
Ditch/Dike Maintenance	-	-	-	-	-	-	-	-	-	-	0.0%
Research/monitoring	-	-	-	-	96,360	-	-	-	-	96,360	1.2%
Pollution prevention - public ed	-	-	-	-	78,221	-	-	-	-	78,221	1.0%
Travel, meetings and training	-	-	-	-	-	-	-	-	62,690	62,690	0.8%
Utilities	-	483,906	203,069	140,760	-	82,253	-	6,666	-	916,654	11.9%
Water	3,045	2,210	148	2,186	-	9,400	-	-	-	16,989	0.2%
Telephone	916	10,346	2,332	1,584	-	24,223	-	-	11,554	50,955	0.7%
Other(Garbage Collection)	1,246	114,549	17,242	-	-	-	-	-	-	133,037	1.7%
Other	-	-	1,695	-	-	-	-	-	-	1,695	0.0%
Permits and fees	7,199	20,509	-	-	2,359	2,376	-	-	-	32,443	0.4%
County fees - Property taxes	-	-	-	-	-	-	-	-	27,568	27,568	0.4%
County fees - Sewer service	-	-	-	-	-	-	-	-	28,596	28,596	0.4%
Service charge system exp	-	-	-	-	-	-	-	-	-	-	0.0%
Household hazardous waste	-	-	-	-	-	-	181,222	-	-	181,222	2.3%
Vehicle replacement	-	-	-	-	-	-	-	-	-	-	0.0%
Permanent Facility	-	-	-	-	-	-	9,653	-	-	9,653	0.1%
Used Oil Program	-	-	-	-	-	-	1,127	-	-	1,127	0.0%
AB 939 Administrative Services	-	-	-	-	-	-	10,000	-	-	10,000	0.1%
Election expense	-	-	-	-	-	-	-	-	-	-	0.0%
Agency dues	-	-	-	-	-	-	-	-	42,813	42,813	0.6%
Total	\$ 599,787	\$ 2,259,121	\$ 758,122	\$ 411,778	\$ 537,068	\$ 332,809	\$ 286,683	\$ 74,737	\$ 2,452,853	\$ 7,712,958	100.0%
Percent	7.8%	29.3%	9.8%	5.3%	7.0%	4.3%	3.7%	1.0%	31.8%	100.0%	

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009**

	Actual	Budgeted
Collection System		
Salaries & Wages	\$ 314,783	\$ 334,145
Employee benefits	137,315	145,353
Gas, Oil & Fuel	9,109	15,000
Software Maintenance	18,899	75,000
Operating Supplies	18,449	17,000
Repairs & Maintenance	47,526	55,000
Small Tools	1,721	2,500
Outside Services	39,579	70,000
Water	3,045	4,000
Telephone	916	2,000
Other (Garbage Collection)	1,246	2,495
Permits & Fees	7,199	2,000
Vehicle Replacement	-	35,000
Capital Outlay	-	12,500
Total - Collection System	\$ 599,787	\$ 771,993

	Actual	Budgeted
Novato Treatment Plant:		
Salaries and wages	\$ 823,707	\$ 835,362
Employee benefits	340,154	363,382
Gasoline, oil, and fuel	18,526	30,000
Software maintenance	2,410	5,000
Operating supplies	26,168	30,000
Operating chemicals	182,532	184,000
Janitorial services	13,558	20,000
Grounds maintenance	4,242	3,000
Sludge Disposal - Contract	45,856	-
Repairs and maintenance	169,681	150,000
Unusual equipment maintenance	-	20,000
Small tool purchases	767	1,000
Utilities	483,906	500,000
Water	2,210	3,000
Telephone	10,346	8,000
Other (Garbage Collection)	114,549	4,756
Permits and fees	20,509	50,000
Vehicle replacement	-	16,000
Capital outlay	-	23,000
Total - Novato Treatment Plant	\$ 2,259,121	\$ 2,246,500

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

	Actual	Budgeted
Ignacio Treatment Plant:		
Salaries and wages	\$ 191,325	\$ 197,449
Employee benefits	80,036	85,890
Gasoline, oil, and fuel	12,899	12,500
Software maintenance	2,410	2,500
Operating supplies	19,613	20,000
Operating chemicals	125,404	125,000
Grounds maintenance	-	2,000
Repairs and maintenance	89,469	100,000
Unusual equipment maintenance	10,480	50,000
Small tools	2,000	2,500
Utilities	203,069	220,000
Water	148	1,000
Telephone	2,332	1,000
Other	1,695	2,496
Permits and fees	17,242	18,000
Vehicle replacement	-	5,200
Capital outlay	-	13,000
Total - Ignacio Treatment Plant	\$ 758,122	\$ 858,535

	Actual	Budgeted
Wastewater Reclamation / Disposal Facilities		
Salaries and wages	\$ 44,152	\$ 45,565
Employee benefits	18,470	19,821
Gasoline, oil, and fuel	9,183	12,500
Software maintenance	2,410	2,500
Operating supplies	3,212	6,000
Operating chemicals	-	2,500
Sludge disposal - contract	54,979	75,000
Repairs and maintenance	87,467	120,000
Unusual equipment maintenance	46,802	100,000
Small tools	573	2,500
Ditch/Dike Maintenance	-	25,000
Utilities	140,760	120,000
Water - Reclamation	2,186	6,000
Permits and fees	1,584	1,500
Vehicle replacement	-	7,000
Capital Outlay	-	63,000
Total - Wastewater Reclamation	\$ 411,778	\$ 608,886

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

	Actual	Budgeted
Laboratory and Monitoring:		
Salaries and wages	\$ 230,603	\$ 220,363
Employee benefits	91,518	95,858
Gasoline, oil, and fuel	1,601	2,625
Software maintenance	334	5,000
Operating supplies	27,869	35,000
Repairs and maintenance	8,203	7,500
Research and monitoring (contractual)	96,360	96,610
Pollution prevention / public education	78,221	105,000
Permits and fees	2,359	3,000
Vehicle replacement	-	1,400
Capital Outlay	-	20,000
Total - Laboratory and Monitoring	\$ 537,068	\$ 592,356

	Actual	Budgeted
Sewers and Pump Stations:		
Salaries and wages	\$ 73,588	\$ 75,942
Employee benefits	30,784	33,035
Gasoline, oil, and fuel	2,626	4000
Software maintenance	2,410	2,500
Operating supplies	9,280	12,000
Operating chemicals	-	4,000
Repairs and maintenance	94,866	100,000
Unusual equipment maintenance	-	10,000
Small tools	1,003	5,000
Utilities	82,253	90,000
Water	9,400	8,500
Telephone	24,223	20,000
Permits and fees	2,376	3,000
Vehicle replacement	-	10,000
Capital outlay	-	13,000
Total - Sewers and Pump Stations	\$ 332,809	\$ 390,977

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

	Actual	Budgeted
Solid Waste Program		
Consulting services	\$ 84,681	\$ 81,184
Household hazardous waste	181,222	200,000
Permanent HHW facility	9,653	12,000
Used Oil Program	1,127	17,125
Administrative expenses	10,000	10,000
Other expenses	-	5,000
Total - Solid Waste Program	\$ 286,683	\$ 325,309

	Actual	Budgeted
Recycled Water Program		
Salaries	\$ 24,592	\$ 30,377
Employee benefits	10,093	13,214
Gas, oil and fuel	293	600
Software maintenance	-	5,000
Operating supplies	165	1,000
Operating chemicals	30,052	15,000
Repairs and maintenance	2,876	25,000
Utilities	6,666	8,000
Permits and fees	-	1,200
Total - Recycled Water Program	\$ 74,737	\$ 99,391

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

	Actual	Budgeted
Administrative and Engineering:		
Salaries and wages	\$ 1,005,156	\$ 1,032,529
Employee benefits	472,784	480,150
Retiree health benefits	148,185	175,745
Director's fees	40,381	37,800
Gasoline, oil, and fuel	6,826	11,000
Insurance	131,049	139,367
Insurance claims expense	77,909	100,000
Agency dues	42,813	40,000
Memberships	8,088	9,000
Office expense	21,618	27,000
Engineering supplies	8,514	8,000
Accounting and auditing	22,150	25,000
Attorneys' fees	156,846	160,000
Outside consulting	135,115	142,000
IT/Misc electrical	27,096	54,000
Printing and publishing	7,789	8,000
Repairs and maintenance	10,126	13,000
Travel, meetings, and training	62,690	75,000
Telephone	11,554	11,500
County fees - Property taxes	27,568	56,100
County fees - Sewer service	28,596	-
Vehicle replacement	-	7,500
Capital outlay	-	5,600
Total - Administrative and Engineering	\$ 2,452,853	\$ 2,618,291



INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES
APPLIED TO APPROPRIATIONS LIMIT WORKSHEETS

Board of Directors
Novato Sanitary District
Novato, California

We have applied the procedures enumerated below the Appropriations Limit worksheet of the Novato Sanitary District for the year ended June 30, 2009. These procedures, which were agreed-upon by the Novato Sanitary District and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*), were performed solely to assist the Novato Sanitary District in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below for either the purpose that this report has been requested or for any other purpose.

The procedures performed and the findings were as follows:

1. We obtained the completed worksheets No. 1 through No. 7 (or alternative worksheets) and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

2. For the Appropriations Limit worksheet, we added last year's limit, total adjustments, and agreed the resulting amount to this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the prior year appropriations limit presented in the Appropriations Limit worksheet to the prior year appropriations limit adopted by the Board of Directors during the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the Appropriations Limit worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled Article XIIB Appropriations Limitation Uniform Guidelines.

This report is intended solely for the use of the Novato Sanitary District and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Vavrinek, Trine, Day & Co. LLP.

Pleasanton, California
March 24, 2010