



Novato Sanitary District
Novato, California
Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2011 and 2010



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, 2011

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>First Seated on Board</u>	<u>Current Term</u>
William C. Long	President	Elected	12/2001	12/09-12/13
Michael Di Giorgio	Director	Elected	12/2005	12/09-12/13
Jean Mariani	Director	Appointed	5/2011	05/11-12/11
George C. Quesada	Director	Elected	12/1974	12/07-12/11
Dennis J. Welsh	Director	Elected	12/2009	12/09-12/13

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

Novato Sanitary District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2011 and 2010

NOVATO SANITARY DISTRICT

500 Davidson Street
Novato, California 94945

Prepared by:
Beverly James, General Manager
June Brown, Administrative Services Manager
Laura Creamer, Finance Officer

**Novato Sanitary District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2011 and 2010**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Introductory Section	
Letter of Transmittal	1-6
Organizational Chart	7
Financial Section	
Independent Auditor’s Report	8-9
Management’s Discussion and Analysis	10-14
Basic Financial Statements:	
Statements of Net Assets	15
Statements of Revenues, Expenses and Changes in Net Assets	16
Statements of Cash Flows	17-18
Notes to the Basic Financial Statements	19-35
Required Supplementary Information:	
Schedule of Funding Status – Other Post-Employment Benefits Obligation	36
Statistical Information Section	
Statistical Section – Table of Contents	37
Changes in Net Assets by Component – Last Ten Fiscal Years	38-39
Operating Revenues by Source – Last Ten Fiscal Years	40
Operating Expenses by Activity – Last Ten Fiscal Years	41
Assessed Value of Taxable Property – Last Ten Fiscal Years	42
Property Tax Levies and Collections – Last Ten Fiscal Years	43
Revenue Base – Equivalent Dwelling Units by Type – Last Ten Fiscal Years	44
Revenue Base – Wastewater Service Charges – Last Ten Fiscal Years	45
Principal Customers – Current Fiscal Year and Ten Years Ago	46
Debt Coverage – Last Ten Fiscal Years	47
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	48
Demographic and Economic Statistics – Last Ten Calendar Years	49
Operating and Capacity Indicators – Total Employees – Last Ten Fiscal Years	50
Other Operating and Capacity Indicators – Last Ten Fiscal Years	51
Report on Internal Controls and Compliance	
Independent Auditor’s Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52

Introductory Section



September 30, 2011

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, 2011 is hereby submitted as required. Charles Z. Fedak & Company, CPA's, 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 is to provide reasonable assurance that the financial statements of the Novato Sanitary District for the fiscal year ended June 30, 2011 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, 2011 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 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 25 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. Another unique feature of the reclamation facility is a 10-acre wildlife pond utilizing treated wastewater. The pond supports a variety of fresh water 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, 0.5 million gallons per day of Title 22 recycled water is produced for use as irrigation of the Stonetree Golf Course in 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 General Manager. The General Manager 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:

To meet and exceed its obligation to collect, convey, treat, recycle and discharge wastewater in an environmentally and economically sustainable manner.

The District's long-term vision is:

To deliver regulatory compliant, high quality, reliable, and cost effective services. Our staff will be well-trained, positively motivated, with opportunities for self-improvement. We will have documented systems for maintenance management, laboratory information management, process control, and regulatory reporting. We will protect our capital investment by instituting preventive and predictive maintenance practices. We will provide a safe work environment with a "best in class" Safety Program. We will manage our systems to minimize our carbon footprint.

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 zoned for 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 10.1% and 11.3% of the District's total revenue for fiscal year 2010 and 2011, respectively. Due to the current conditions in the housing market, property tax revenues are not expected to increase at prior years 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 corner-stone of these policies is the District's 2011 Comprehensive Financial Plan that forecasts the District's expenditures and revenue needs for the next 4 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 Standards. 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 upgraded 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 take several more years to complete.
- 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 completed its 2011 Comprehensive Financial Plan Update which projects the likely future financial condition of the District to provide guidance in the decision making process.
- 5) The District has undertaken a pilot Lateral Replacement Program to repair or replace damaged private laterals. The program reimburses ratepayers up to \$1,500 for lateral replacement installation. The goal of this program is to provide an incentive to District customers to maintain their private laterals. During the fiscal year 2011 the District contributed \$13,174 for the replacement and repair of nine damaged private laterals.
- 6) The District is constructing a 1.7 million gallons per day Recycled Water Treatment Facility. 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 Central Novato.

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 the 2% @ 55 defined benefit pension plan. 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-four 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 Charles Z. Fedak & Company, CPA's, An Accountancy Corporation, to conduct the audit. The auditor's report on the financial statements is included in the financial section of this report.

AWARDS

This is the first year that the District is submitting its Comprehensive Annual Financial Report (CAFR) for the Government Finance Officers Association of the United States and Canada's (GFOA) *Certificate of Achievement for Excellence in Financial Reporting*. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for 2011.

ACKNOWLEDGEMENTS

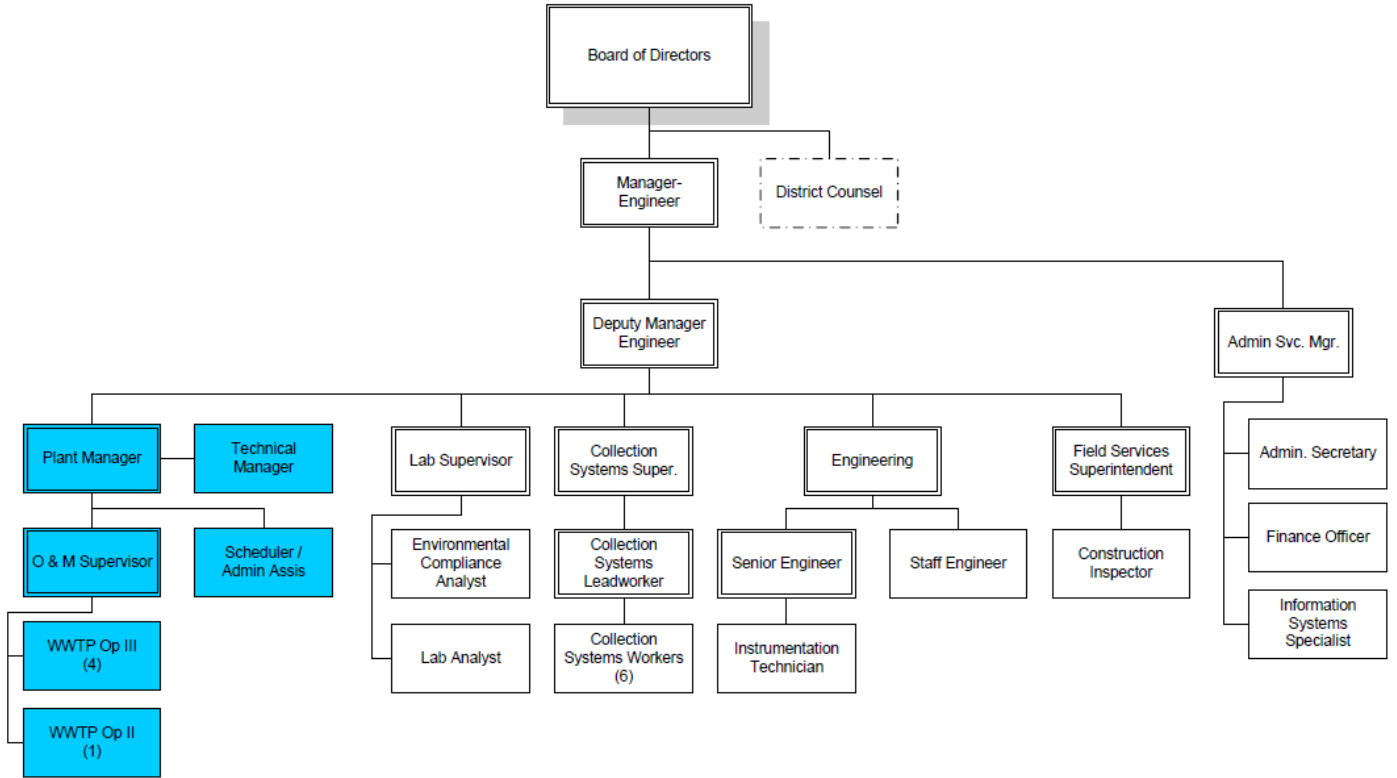
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. A special note of appreciation goes to Laura Creamer, the District's Finance Officer, and June Brown, the District's Administrative Services Manager for their assistance with developing this report. We would also like to recognize the members of the Board of Directors' Ad Hoc Audit Committee, Jean Mariani and Dennis Welsh. 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,



Beverly B. James
General Manager

Novato Sanitary District Organizational Chart



< Page Intentionally Left Blank >

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report

Board of Directors
Novato Sanitary District
Novato, California

We have audited the accompanying financial statements of the Novato Sanitary District (District) as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

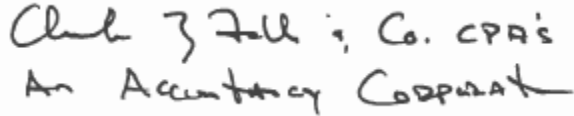
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Novato Sanitary District as of June 30, 2011 and 2010, and the respective changes in net assets and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit. This report can be found on page 52.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 and the required supplementary information on page 36 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Independent Auditor's Report, continued

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 7 and the statistical section on pages 37 through 51 are presented for purposes of additional analysis and are not required parts of the basic 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.



Charles Z. Fedak and Company - CPA's
An Accountancy Corporation

Charles Z. Fedak and Company - CPA's An Accountancy Corporation
Cypress, California
September 30, 2011

Novato Sanitary District
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

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 year ended June 30, 2011 and 2010. 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 2011, the District's net assets decreased 0.8% or \$874,777 to \$110,471,520. In 2010, the District's net assets increased 3.4% or \$3,802,615 to \$111,346,297.
- In 2011, the District's operating revenues increased 1.7% or \$244,725 due to increased revenue from sewer service charges and other service charges. In 2010, the District's operating revenues increased 8.7% or \$1,123,568 due primarily from the 2009 fiscal year sewer service charge increase of \$40 per year per account which yielded a \$1,176,011 increase in the sewer service charge revenue.
- 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. Also, in fiscal year 2011 the legal fees associated with the EPA investigation decreased by approximately \$1.0 million dollars. In 2010, the District's operating expenses before depreciation increased 25.6% or \$1,969,062 primarily due to the increase in legal fees incurred for the EPA investigation between May 2009 and August 2010. (See note 14 for further information)

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.

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.

Novato Sanitary District
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

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 19 through 35.

Statement of Net Assets

Condensed Statements of Net Assets					
	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>
Assets:					
Current assets	\$ 10,291,808	14,729,450	(4,437,642)	33,390,384	(18,660,934)
Non-current assets	-	16,744	(16,744)	35,433	(18,689)
Capital assets, net	<u>187,826,209</u>	<u>182,646,429</u>	<u>5,179,780</u>	<u>157,063,808</u>	<u>25,582,621</u>
Total assets	<u><u>198,118,017</u></u>	<u><u>197,392,623</u></u>	<u><u>725,394</u></u>	<u><u>190,489,625</u></u>	<u><u>6,902,998</u></u>
Liabilities:					
Current liabilities	5,690,488	10,287,583	(4,597,095)	34,789,710	(24,502,127)
Non-current liabilities	<u>81,956,009</u>	<u>75,758,743</u>	<u>6,197,266</u>	<u>48,156,233</u>	<u>27,602,510</u>
Total liabilities	<u><u>87,646,497</u></u>	<u><u>86,046,326</u></u>	<u><u>1,600,171</u></u>	<u><u>82,945,943</u></u>	<u><u>3,100,383</u></u>
Net assets:					
Net investment in capital assets	106,497,126	102,065,015	4,432,111	79,067,990	22,997,025
Unrestricted	<u>3,974,394</u>	<u>9,281,282</u>	<u>(5,306,888)</u>	<u>28,475,692</u>	<u>(19,194,410)</u>
Total net assets	<u><u>110,471,520</u></u>	<u><u>111,346,297</u></u>	<u><u>(874,777)</u></u>	<u><u>107,543,682</u></u>	<u><u>3,802,615</u></u>
Total liabilities and net assets	<u><u>\$ 198,118,017</u></u>	<u><u>197,392,623</u></u>	<u><u>725,394</u></u>	<u><u>190,489,625</u></u>	<u><u>6,902,998</u></u>

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 \$110,471,520 and \$111,346,297 as of June 30, 2011 and June 30, 2010, respectively.

By far the largest portion of the District's net assets (92% and 74% as of June 30, 2011 and 2010, 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 2011 and 2010, the District showed a positive balance in its unrestricted net assets of \$3,974,394 and \$9,281,282, respectively, which may be utilized in future years. See note 9 for further discussion.

Novato Sanitary District
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2011	2010	Change	2009	Change
Revenues:					
Operating revenues	\$ 14,316,441	14,071,716	244,725	12,948,148	1,123,568
Non-operating revenues	1,972,683	2,119,105	(146,422)	2,783,272	(664,167)
Total revenues	16,289,124	16,190,821	98,303	15,731,420	459,401
Expenses:					
Operating expenses	8,464,043	9,654,452	(1,190,409)	7,685,390	1,969,062
Depreciation and amortization	2,306,550	2,288,892	17,658	2,227,627	61,265
Non-operating expenses	6,891,446	2,169,519	4,721,927	1,432,369	737,150
Total expenses	17,662,039	14,112,863	3,549,176	11,345,386	2,767,477
Net income before capital contributions	(1,372,915)	2,077,958	(3,450,873)	4,386,034	(2,308,076)
Capital contributions	498,138	1,724,657	(1,226,519)	1,042,803	681,854
Change in net assets	(874,777)	3,802,615	(4,677,392)	5,428,837	(1,626,222)
Net assets, beginning of year	111,346,297	107,543,682	3,802,615	102,114,845	5,428,837
Net assets, end of year	\$ 110,471,520	111,346,297	(874,777)	107,543,682	3,802,615

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 decreased by \$874,777 and increased \$3,802,615 for the fiscal years ended June 30, 2011 and 2010, respectively.

A closer examination of the sources of changes in net assets reveals that:

In 2011, the District's operating revenues increased 1.7% or \$244,725 due to increased revenue from sewer service charges and other service charges. In 2010, the District's operating revenues increased 8.7% or \$1,123,568 due primarily from the 2009 fiscal year sewer service charge increase of \$40 per year per account which yielded a \$1,176,011 increase in the sewer service charge revenue.

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 2010, the District's operating expenses before depreciation increased 25.6% or \$1,969,062 primarily due to the increase in legal fees incurred for the EPA investigation between May 2009 and August 2010. (See note 14 for further information)

Operating and Non-Operating Revenues

	2011	2010	Change	2009	Change
Operating revenues:					
Sewerage service charges	\$ 13,570,839	13,462,437	108,402	12,286,426	1,176,011
Other service charges	447,577	300,817	146,760	287,716	13,101
Permit, inspection and other fees	9,532	23,163	(13,631)	27,408	(4,245)
Recycled water facility	8,000	8,000	-	74,736	(66,736)
AB939 – solid waste programs	280,493	277,299	3,194	271,862	5,437
Total operating revenues	14,316,441	14,071,716	244,725	12,948,148	1,123,568
Non-operating revenue:					
Property taxes	1,773,877	1,866,049	(92,172)	1,928,207	(62,158)
Franchise fees	45,000	45,000	-	45,000	-
Rental revenue	50,000	-	50,000	82,517	(82,517)
Interest earnings	30,387	196,303	(165,916)	702,002	(505,699)
Other non-operating revenues	73,419	11,753	61,666	25,546	(13,793)
Total non-operating revenues	1,972,683	2,119,105	(146,422)	2,783,272	(664,167)
Total revenues	\$ 16,289,124	16,190,821	98,303	15,731,420	459,401

Novato Sanitary District
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

Operating and Non-Operating Revenues, continued

Total revenues increased by \$98,303 and increased by \$459,401 in fiscal years 2011 and 2010, respectively.

Operating and Non-Operating Expenses

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>
Operating expenses:					
Collection system	\$ 963,487	828,832	134,655	599,787	229,045
Treatment plant	2,566,139	3,102,119	(535,980)	3,017,245	84,874
Wastewater reclamation	355,218	296,268	58,950	411,778	(115,510)
Laboratory and monitoring	688,238	597,743	90,495	537,069	60,674
Sewers and pump stations	673,344	540,641	132,703	332,808	207,833
Recycled water facility	-	-	-	74,736	(74,736)
AB939 – solid waste programs	307,137	284,999	22,138	286,682	(1,683)
Administrative and engineering	2,910,480	4,003,850	(1,093,370)	2,425,285	1,578,565
Total operating expenses	<u>8,464,043</u>	<u>9,654,452</u>	<u>(1,190,409)</u>	<u>7,685,390</u>	<u>1,969,062</u>
Depreciation and amortization exp.	<u>2,306,550</u>	<u>2,288,892</u>	<u>17,658</u>	<u>2,227,627</u>	<u>61,265</u>
Non-operating expenses:					
Interest expense	209,456	1,211,880	(1,002,424)	1,302,270	(90,390)
Deferred charges amortization	16,744	18,689	(1,945)	18,689	-
Loss on sale/disposition of assets	6,634,450	909,553	5,724,897	83,842	825,711
Other non-operating expenses	30,796	29,397	1,399	27,568	1,829
Total non-operating expenses	<u>6,891,446</u>	<u>2,169,519</u>	<u>4,721,927</u>	<u>1,432,369</u>	<u>737,150</u>
Total expenses	<u>\$ 17,662,039</u>	<u>14,112,863</u>	<u>3,549,176</u>	<u>11,345,386</u>	<u>2,767,477</u>

Total expenses increased by \$3,549,176 and increased by \$2,767,477 in fiscal years 2011 and 2010, respectively.

Capital Asset Administration

Changes in capital assets amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
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 and amortization	(42,506,470)	(2,306,550)	7,448,553	(37,364,467)
Total capital assets ,net	<u>\$ 182,646,429</u>	<u>96,394,807</u>	<u>(91,215,027)</u>	<u>187,826,209</u>

Changes in capital assets amounts for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2010</u>
Capital assets:				
Non-depreciable assets	\$ 60,183,890	27,815,084	(3,308,336)	84,690,638
Depreciable assets	137,506,174	4,274,318	(1,318,231)	140,462,261
Accumulated depreciation and amortization	(40,626,256)	(2,288,892)	408,678	(42,506,470)
Total capital assets ,net	<u>\$ 157,063,808</u>	<u>29,800,510</u>	<u>(4,217,889)</u>	<u>182,646,429</u>

Novato Sanitary District
Management's Discussion and Analysis
For the Years Ended June 30, 2011 and 2010

Capital Asset Administration, continued

At the end of fiscal year 2011 and 2010, the District's investment in capital assets amounted to \$187,826,209 and \$182,646,429 (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. (See note 5 for further details)

Debt Administration

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

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</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>

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

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2010</u>
Long-term debt:				
Note payable	\$ 30,006,231	-	(24,773,024)	5,233,207
Loan payable	47,989,587	27,358,620	-	75,348,207
Total long-term debt	<u>\$ 77,995,818</u>	<u>27,358,620</u>	<u>(24,773,024)</u>	<u>80,581,414</u>

See note 7 for further details of the District's long-term debt.

Subsequent Events

On September 27, 2011, the District issued \$21,750,000 in Series 2011 Wastewater Certificates of Participation at an interest rate of 4.11% to complete several construction projects at the District. The proceeds from the issuance were delivered to the Trustee for the District on October 12, 2011. The Series 2011 Wastewater Certificates of Participation are payable over the next twenty-years with principal paid on February 1st each year and interest paid on February 1st and August 1st. (See Note 16 for further details)

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.

< Page Intentionally Left Blank >

Basic Financial Statements

**Novato Sanitary District
Statements of Net Assets
June 30, 2011 and 2010**

<i>Assets</i>	2011	2010
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,887,079	10,997,695
Restricted – cash and cash equivalents (note 2)	161,168	167,132
Accrued interest receivable	14,250	44,771
Accounts receivable – sewer services (note 3)	335,664	195,126
Accounts receivable – governmental agencies	410,944	411,611
Accounts receivable – loan proceeds	2,129,975	2,627,431
Accounts receivable – capital grant	221,689	-
Accounts receivable – other, net	68,746	216,049
Property tax receivable	1,823	10,786
Prepaid expenses and other deposits	60,470	58,849
Total current assets	<u>10,291,808</u>	<u>14,729,450</u>
Non-current assets:		
Deferred charges, net (note 4)	-	16,744
Capital assets – not being depreciated (note 5)	9,713,762	84,690,638
Capital assets, net – being depreciated (note 5)	<u>178,112,447</u>	<u>97,955,791</u>
Total non-current assets	<u>187,826,209</u>	<u>182,663,173</u>
Total assets	<u>\$ 198,118,017</u>	<u>197,392,623</u>
<hr/> <i>Liabilities and Net Assets</i> <hr/>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,247,827	2,373,853
Customer deposits and deferred revenue	13,043	83,648
Restricted – special assessment payable	161,168	167,132
Accrued interest payable	4,230,160	2,387,310
Long-term liabilities – due within one year:		
Compensated absences (note 6)	38,290	42,433
Note payable (note 7)	-	5,233,207
Total current liabilities	<u>5,690,488</u>	<u>10,287,583</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	114,870	127,300
Other post-employment benefits payable (note 8)	512,056	283,236
Loan payable (note 7)	<u>81,329,083</u>	<u>75,348,207</u>
Total non-current liabilities	<u>81,956,009</u>	<u>75,758,743</u>
Total liabilities	<u>87,646,497</u>	<u>86,046,326</u>
Net assets: (note 9)		
Investment in capital assets, net of related debt	106,497,126	102,065,015
Unrestricted	<u>3,974,394</u>	<u>9,281,282</u>
Total net assets	<u>110,471,520</u>	<u>111,346,297</u>
Total liabilities and net assets	<u>\$ 198,118,017</u>	<u>197,392,623</u>

See accompanying notes to the basic financial statements

Novato Sanitary District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Sewer service charges	\$ 13,570,839	13,462,437
Other service charges	447,577	300,817
Permit, inspection and other fees	9,532	23,163
Recycled water facility	8,000	8,000
AB939 – solid waste programs	280,493	277,299
Total operating revenues	14,316,441	14,071,716
Operating expenses:		
Collection system	963,487	828,832
Treatment plant	2,566,139	3,102,119
Wastewater reclamation and disposal	355,218	296,268
Laboratory and monitoring	688,238	597,743
Sewers and pump stations	673,344	540,641
AB939 – solid waste programs	307,137	284,999
Administrative and engineering	2,910,480	4,003,850
Total operating expenses	8,464,043	9,654,452
Operating income before depreciation	5,852,398	4,417,264
Depreciation and amortization	(2,306,550)	(2,288,892)
Operating income	3,545,848	2,128,372
Non-operating revenue(expense)		
Property taxes	1,773,877	1,866,049
Franchise fees	45,000	45,000
Rental revenue	50,000	-
Interest earnings	30,387	196,303
Interest expense	(209,456)	(1,211,880)
Deferred charges amortization	(16,744)	(18,689)
Loss on sale/disposition of capital assets	(6,634,450)	(909,553)
Other non-operating revenues	73,419	11,753
Other non-operating expenses	(30,796)	(29,397)
Total non-operating, net	(4,918,763)	(50,414)
Net income before capital contributions	(1,372,915)	2,077,958
Capital contributions:		
Connection fees	174,631	1,277,790
Capital contributions	101,818	446,867
Capital grant	221,689	-
Total capital contributions	498,138	1,724,657
Change in net assets	(874,777)	3,802,615
Net assets, beginning of year	111,346,297	107,543,682
Net assets, end of year	\$ 110,471,520	111,346,297

See accompanying notes to the basic financial statements

Novato Sanitary District
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash receipts from customers for sewer service charges and services	\$ 14,397,292	13,682,419
Cash paid to employees for salaries and wages	(2,073,032)	(2,327,199)
Cash paid to vendors and suppliers for materials and services	(7,413,776)	(8,020,427)
Net cash provided by operating activities	4,910,484	3,334,793
Cash flows from non-capital financing activities:		
Property taxes	1,782,840	1,855,798
Franchise fees	45,000	45,000
Rental revenue	50,000	-
Net cash provided by non-capital financing activities	1,877,840	1,900,798
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(14,120,780)	(28,781,066)
Capital contributions	276,449	1,724,657
Proceeds received from loan payable	6,478,332	24,731,189
Principal payments on note payable	(5,233,207)	(24,773,024)
Interest payments on note payable	1,633,394	(92,165)
Net cash used in capital and related financing activities	(10,965,812)	(27,190,409)
Cash flows from investing activities:		
Interest earnings	60,908	291,191
Net cash provided by investing activities	60,908	291,191
Net decrease in cash and cash equivalents	(4,116,580)	(21,663,627)
Cash and cash equivalents, beginning of year	11,164,827	32,828,454
Cash and cash equivalents, end of year	\$ 7,048,247	11,164,827
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 6,887,079	10,997,695
Restricted – cash and cash equivalents	161,168	167,132
Total cash and cash equivalents	\$ 7,048,247	11,164,827

Continued on next page

See accompanying notes to the basic financial statements

Novato Sanitary District
Statements of Cash Flows, continued
For the Fiscal Year Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ <u>3,545,848</u>	<u>2,128,372</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Deprecation and amortization	2,306,550	2,288,892
Other non-operating revenues	73,419	11,753
Other non-operating expenses	(30,796)	(29,397)
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – sewer services	(140,538)	(120,824)
Accounts receivable – governmental agencies	667	(263,931)
Accounts receivable – other, net	147,303	(16,295)
Prepaid expenses and other deposits	(1,621)	(58,849)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(1,126,026)	(756,020)
Customer deposits and deferred revenue	(70,605)	(80,294)
Restricted – special assessment payable	(5,964)	612
Compensated absences	(16,573)	(52,462)
Other post-employment benefits payable	<u>228,820</u>	<u>283,236</u>
Total adjustments	<u>1,364,636</u>	<u>1,206,421</u>
Net cash provided by operating activities	<u>\$ <u>4,910,484</u></u>	<u><u>3,334,793</u></u>

See accompanying notes to the basic financial statements

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(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

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.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets

1. 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.

2. 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.

3. 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.

4. 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.

5. 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

6. 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.

7. Deferred Charges

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

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

8. 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

9. 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.

10. Sewer Service Charges

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

11. 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.

12. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

13. Net Assets

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

- **Net Investment in Capital Assets** – 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*.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(2) Cash and Investments

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

	2011	2010
Cash and cash equivalents	\$ 6,887,079	10,997,695
Restricted – cash and cash equivalents	161,168	167,132
Total	\$ 7,048,247	11,164,827

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

	2011	2010
Cash on hand	\$ 719	965
Deposits held with financial institutions	9,071	6,156
Deposits held with California Local Agency Investment Fund	7,038,457	11,157,706
Total	\$ 7,048,247	11,164,827

As of June 30, the external investment pool had the following maturities:

	2011	2010
Deposits held with the California Local Agency Investment Fund	237 days	203 days

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	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
State and local agency bonds, notes and warrants	5 years	None	None
Registered State bonds, notes and warrants	5 years	None	None
U.S. treasury obligations	5 years	None	None
Federal agency securities	5 years	None	None
Banker's acceptances	270 days	40%	30%
Prime commercial paper	180 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 securities	N/A	30%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
Passbook savings account demand deposits	N/A	None	None

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements 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 are recorded on an amortized cost basis.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(2) Cash and Investments

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, 2011 and 2010 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).

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

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.

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, 2011 and 2010, respectively.

(3) Accounts Receivable – Sewer Services

<u>Decription</u>	<u>2011</u>	<u>2010</u>
Accounts receivable – sewer services	\$ 335,664	195,126
Allowance for doubtful accounts	-	-
Total	<u>\$ 335,664</u>	<u>195,126</u>

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(4) Deferred Charges

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

The balance at June 30, consists of the following:

	2011	2010
Deferred charges	\$ 91,500	91,500
Accumulated amortization	(91,500)	(74,756)
Deferred charges, net	\$ -	16,744

(5) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2010	Additions/	Deletions/ Transfers	Balance 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	52,887,597	88,703,074	(8,906,245)	132,684,426
Sewer collection and outfall system	46,495,989	19,630	-	46,515,619
Buildings and structures	27,193,680	-	-	27,193,680
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	(15,489,096)	(997,762)	3,434,666	(13,052,192)
Sewer collection and outfall system	(12,205,397)	(479,483)	-	(12,684,880)
Buildings and structures	(5,212,447)	(321,971)	-	(5,534,418)
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.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(5) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2009</u>	<u>Additions/</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land and land rights	\$ 2,774,742	-	-	2,774,742
Easements	1,617,174	-	-	1,617,174
Construction-in-process	55,791,974	27,815,084	(3,308,336)	80,298,722
Total non-depreciable assets	<u>60,183,890</u>	<u>27,815,084</u>	<u>(3,308,336)</u>	<u>84,690,638</u>
Depreciable assets:				
Sewer system improvements	52,576,263	311,334	-	52,887,597
Sewer collection and outfall system	45,771,394	724,595	-	46,495,989
Buildings and structures	25,287,498	3,177,018	(1,270,836)	27,193,680
Sewer facilities equipment	12,102,468	35,999	(23,358)	12,115,109
Equipment	1,768,551	25,372	(24,037)	1,769,886
Total depreciable assets	<u>137,506,174</u>	<u>4,274,318</u>	<u>(1,318,231)</u>	<u>140,462,261</u>
Accumulated depreciation:				
Sewer system improvements	(14,542,711)	(946,385)	-	(15,489,096)
Sewer collection and outfall system	(11,725,914)	(479,483)	-	(12,205,397)
Buildings and structures	(5,251,759)	(321,971)	361,283	(5,212,447)
Sewer facilities equipment	(8,342,700)	(434,781)	23,358	(8,754,123)
Equipment	(763,172)	(106,272)	24,037	(845,407)
Total accumulated depreciation	<u>(40,626,256)</u>	<u>(2,288,892)</u>	<u>408,678</u>	<u>(42,506,470)</u>
Total depreciable assets, net	<u>96,879,918</u>	<u>1,985,426</u>	<u>(909,553)</u>	<u>97,955,791</u>
Total capital assets, net	<u>\$ 157,063,808</u>	<u>29,800,510</u>	<u>(4,217,889)</u>	<u>182,646,429</u>

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

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:

<u>Projects</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Wastewater treatment plant upgrade	\$ 52,887,332	77,056,798	1,279,999
BMK pump station rehabilitation	2,282,605	-	-
Collection system improvements	-	1,752,633	2,015,244
Pump station rehabilitation	-	783,108	936,614
North Bay Water Reuse Authority	331,043	395,272	475,385
SCADA system improvements	191,223	201,450	-
NTP soil and groundwater project	91,846	100,273	100,273
Various other minor projects >\$50,000	7,925	9,188	19,142
Total	<u>\$ 55,791,974</u>	<u>80,298,722</u>	<u>4,826,657</u>

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(6) Compensated Absences

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

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</u>	<u>Due Within One Year</u>
\$	169,733	122,569	(139,142)	153,160	38,290
	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2010</u>	<u>Due Within One Year</u>
\$	222,195	132,546	(185,008)	169,733	42,433

(7) Long-Term Debt

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

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</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	\$ 80,581,414	5,980,876	(5,233,207)	81,329,083

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

	<u>Balance 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2010</u>
Long-term debt:				
Note payable	\$ 30,006,231	-	(24,773,024)	5,233,207
Loan payable	47,989,587	27,358,620	-	75,348,207
Total long-term debt	\$ 77,995,818	27,358,620	(24,773,024)	80,581,414

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 may 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 District has applied for and has received a loan from the California State Water Resources Control Board's State Revolving Fund (SRF) loan program to provide long-term financing for the construction projects noted above. The District's long-term financing plan calls for the repayment of the revolving credit line obligation from the proceeds of the SRF loan program or from other long-term financing arrangements.

The revolving credit line is 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 accrues 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 0.75% as of June 30, 2010. Interest is 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.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(7) Long-Term Debt, continued

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, 2011, the District has received or requested \$81,329,083 from the SRF loan program. Interest accrues on the obligation at a rate of 2.40% compounded annually. As of June 30, 2011, interest expense on the SRF loan has accrued to the amount of \$4,230,160. The first debt service payment is due 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>
2012	\$ -	6,064,321	6,064,321
2013	3,471,166	1,951,898	5,423,064
2014	3,554,474	1,868,590	5,423,064
2015	3,639,781	1,783,282	5,423,063
2016	3,727,136	1,695,928	5,423,064
2017-2021	20,021,165	7,094,154	27,115,319
2022-2026	22,541,829	4,573,490	27,115,319
2027-2031	24,373,532	1,735,478	26,109,010
Total	\$ 81,329,083	26,767,141	108,096,224

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(8) Post Employment Benefits Payable

During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

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:

	2011	2010	2009
Active plan members	20	25	31
Retirees and beneficiaries receiving benefits	24	22	18
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	44	47	49

Plan Description – 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 dependent is paid. Also, if the retiree is at least age 55 with at least 25-years of service, the premium for the employee’s one eligible dependent is paid. Coverage is for the lives of the retired employee and one eligible dependent. Medical coverage is provided under any plans offered by CalPERS.

Plan Description – Benefits – Two-Tier Plan

For all other employees who retire after age 50 with at least 5-years of service, the District will pay the minimum CalPERS medical benefit. In 2011, this minimum amount is \$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.

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 21.2% of the annual covered payroll.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(8) Post Employment Benefits Payable, continued

Funding Policy, continued

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.

Annual Cost

For the year ended June 30, 2011, the District's ARC cost is \$438,581. The District's net OPEB payable obligation amounted to \$512,056 for the year ended June 30, 2011. The District contributed \$209,761 in age adjusted contributions for current retiree OPEB premiums for the year ended June 30, 2011.

The balance at June 30, consists of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 443,883	473,000	-
Interest on net OPEB obligation	11,233	-	-
Adjustment to annual required contribution	<u>(16,535)</u>	<u>-</u>	<u>-</u>
Total annual OPEB expense	438,581	473,000	-
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(209,761)</u>	<u>(189,764)</u>	<u>-</u>
Total change in net OPEB payable obligation	228,820	283,236	-
OPEB payable – beginning of year	<u>283,236</u>	<u>-</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 512,056</u>	<u>283,236</u>	<u>-</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2011 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2011	\$ 438,581	209,761	47.83%	\$ 512,056
2010	473,000	189,764	40.12%	\$ 283,236
2009	*	-	0.00%	-

* The information for this year is unavailable.

GASB No. 45 was implemented in fiscal year 2010.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on Page 36.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(9) Net Assets

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

	2011	2010
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 9,713,762	84,690,638
Capital assets, net – being depreciated	178,112,447	97,955,791
Note payable	-	(5,233,207)
Loan payable	(81,329,083)	(75,348,207)
Total net investment in capital assets	106,497,126	102,065,015
Unrestricted net assets:		
Non-spendable net assets:		
Prepaid expenses and deposits	60,470	58,849
Deferred charges, net	-	16,744
Total non-spendable net assets	60,470	75,593
Spendable net assets are designated as follows:		
Undesignated net assets reserve	3,913,924	9,205,689
Total spendable net assets	3,913,924	9,205,689
Total unrestricted net assets	3,974,394	9,281,282
Total net assets	\$ 110,471,520	111,346,297

(10) Property Taxes and Sale of a Receivable

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$140,065.

Authorized with the 2010 fiscal year State of California budget package, the State of California Proposition 1A Securitization Program (Securitization Program) was instituted by the California Statewide Communities Development Authority (California Communities), a joint-powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their State of California Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the State of California Proposition 1A receivables and issued bonds (Prop 1A Bonds) to provide California local governmental agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the California local governmental agencies equaled 100% of the amount of the property tax reduction. All transaction costs of the issuance and interest were paid by the State of California. Participating California local governmental agencies have no obligation on the bonds and no credit exposure to the State of California. The District participated in the Securitization Program and accordingly property tax revenue has been recorded in the same manner as if the State of California had not exercised its rights under State of California Proposition 1A. The receivable sale proceeds were equal to the book value of the property tax reduction for each agency and, as a result, no gain or loss was recorded to recognize these proceeds.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(11) 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, 2011 and 2010 amounted to \$1,810,005 and \$1,686,941, respectively.

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. The District's contribution for the Manager-Engineer is equivalent to the maximum of a 457 plan's annual contribution. 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, 2011 amounted to \$320,381.

(12) Defined Benefit Pension Plan

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.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District. 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 2011, 2010 and 2009 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 2011, 2010 and 2009, 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:

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>
2008-2009	\$ 330,422	100%	-	12.430%
2009-2010	301,129	100%	-	13.033%
2010-2011	251,631	100%	-	12.937%

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(13) 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 60 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, 2011, 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 \$750,000 with a \$25,000 deductible (\$25,000 for EPL, \$25,000 for sewer backup, and \$2,500 for E&O) per occurrence. Re-insurance is purchased above the \$750,000 self-insured layer to \$15,750,000 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 includes public employee dishonesty, forgery or alteration, theft, computer fraud, and faithful performance coverage with a deductible of \$1,000 per claim.
- Special form property coverage up to \$62,749,159 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.

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, 2011, 2010 and 2009. 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, 2011, 2010 and 2009.

(14) Commitments and Contingencies

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 \$1,440,000, as of June 30, 2011.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(14) Commitments and Contingencies, continued

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 \$7,143,334 of open construction contracts as of June 30, 2011.

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.

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.

EPA Investigation

In May 2009, United States Department of Justice and Environmental Protection Agency (DOJ & EPA) criminal investigators served a search warrant at the District's Novato facility and collected documents concerning an allegation that the District may have committed violations in previous years.

Thereafter, representatives of the DOJ & EPA informed the District that the agencies were conducting an investigation and assessing whether to bring enforcement action against the District and several of the District's current and former employees for violations of the federal Clean Water Act. Both criminal and civil enforcement were being contemplated and the investigation was focused on conduct occurring in 2007.

Also, on March 4, 2010, California State Water Resources Control Board (SWRCB) enforcement officials conducted an unannounced inspection of the District's Novato facility and interviewed several District employees and employees of the District's contractor, Veolia. The District's understanding is that the focus of the SWRCB's investigative effort overlapped with the federal investigation. The District has incurred significant legal expenses in connection with these investigations in fiscal year 2010.

On August 24, 2010, the Assistant United States Attorney in charge of the DOJ & EPA investigation informed the District's counsel that DOJ had decided not to file criminal charges against the District or any of the District's officers or employees and had referred the investigation to the SWRCB for any further action.

On April 19, 2011, SWRCB enforcement officials indicated that they were seeking civil penalties in the amount of \$700,000 relating to alleged violations in 2007. 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; however, at this time, it is not possible to reliably predict the amount of civil penalties that will ultimately be assessed relating to the 2007 events, if any. Therefore the District has not accrued for a settlement loss on the accompanying financial statements due to the uncertainty of the amount of civil penalties the District may incur, if any, by a SWRCB enforcement action.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(15) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No.60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No.61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Novato Sanitary District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(16) Subsequent Events

On September 27, 2011, the District issued \$21,750,000 in Series 2011 Wastewater Certificates of Participation at an interest rate of 4.11% to complete several construction projects at the District. The proceeds from the issuance will be delivered to the Trustee for the District on October 12, 2011. The Series 2011 Wastewater Certificates of Participation are payable over the next twenty-years with principal paid on February 1st each year and interest paid on February 1st and August 1st. The debt service schedule for repayment of the Series 2011 Wastewater Certificates of Participation is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	268,170	268,170
2013	800,000	885,697	1,685,697
2014	830,000	861,698	1,691,698
2015	855,000	836,797	1,691,797
2016	885,000	811,148	1,696,148
2017-2021	4,745,000	3,508,537	8,253,537
2022-2026	5,540,000	2,502,138	8,042,138
2027-2031	6,710,000	1,264,575	7,974,575
2032	1,385,000	65,787	1,450,787
Total	\$ <u>21,750,000</u>	<u>11,004,547</u>	<u>32,754,547</u>

Events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2011, which is the date the financial statements were available to be issued.

Required Supplementary Information

Novato Sanitary District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Years Ended June 30, 2011 and 2010

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)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$ -	6,112,283	6,112,283	0.00%	\$ 2,000,000	305.61%
7/1/2009	-	5,554,000	5,554,000	0.00%	\$ 2,350,000	236.34%

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, 2011 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 Year smoothed market
Actuarial assumptions:	
Discount rate	4.00%
Projected salary increase	District expected COLA
Inflation - discount rate	4.00%

< Page Intentionally Left Blank >

Statistical Information Section

**Novato Sanitary District
Statistical Section**

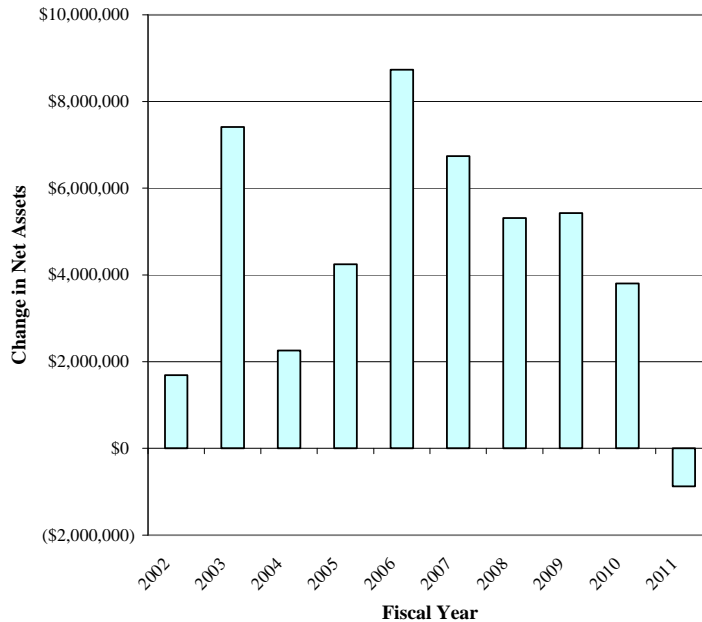
This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

Table of Contents

	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	38-41
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, sewer service charges.	42-46
Debt Capacity 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.	47-48
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	49
Operating Information 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.	50-51

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

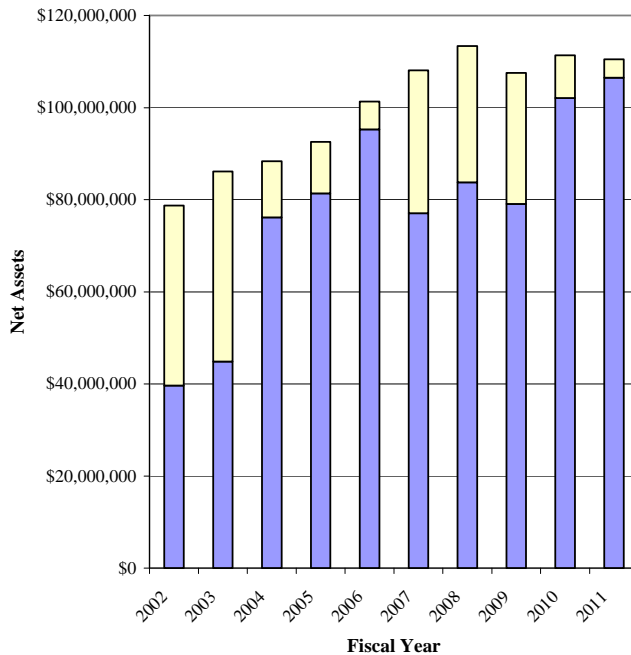
	Fiscal Year				
	2002	2003	2004	2005	2006
Changes in net assets:					
Operating revenues (see Schedule 2)	\$ 3,591,017	4,803,853	4,626,891	8,339,963	9,937,511
Operating expenses (see Schedule 3)	(4,430,976)	(4,865,811)	(5,220,170)	(5,656,823)	(5,848,165)
Depreciation and amortization	(875,810)	(754,664)	(810,357)	(871,142)	(912,921)
Operating income(loss)	(1,715,769)	(816,622)	(1,403,636)	1,811,998	3,176,425
Non-operating revenues(expenses)					
Property taxes	1,252,939	1,344,630	1,392,792	1,279,567	1,385,156
Interest	548,692	339,528	196,824	254,031	330,052
Interest expense	(128,398)	(100,407)	(71,863)	(43,064)	(20,687)
Connection Fees	1,019,290	1,088,551			
Special Equalization Charges	19,517	6,120	15,267	18,339	437
Franchise fees/Rental Income	117,517	117,517	117,517	117,517	122,517
Deferred Charges Amortization	-	-	-	-	-
Gain/(Loss) on sale/disposition of assets	(63,781)	(174,180)	(822,873)	(111,529)	(101,481)
Other revenue/(expense), net	59,805	(2,293)	(1,112)	(875)	(11,911)
Total non-operating revenues(expenses), net	2,825,581	2,619,466	826,552	1,513,986	1,704,083
Net income before capital contributions	1,109,812	1,802,844	(577,084)	3,325,984	4,880,508
Connection fees	-	-	1,460,645	675,451	511,830
Capital contributions	581,267	5,609,290	1,374,674	242,866	3,342,124
Capital grant	-	-	-	-	-
Changes in net assets	\$ 1,691,079	7,412,134	2,258,235	4,244,301	8,734,462
Net assets by component:					
Invested in capital assets, net of related debt	\$ 39,672,743	44,869,544	76,163,663	81,353,813	95,265,483
Unrestricted	39,051,067	41,266,400	12,176,517	11,230,668	6,053,460
Total net assets	\$ 78,723,810	86,135,944	88,340,180	92,584,481	101,318,943



Source: Novato Sanitary District Accounting Department

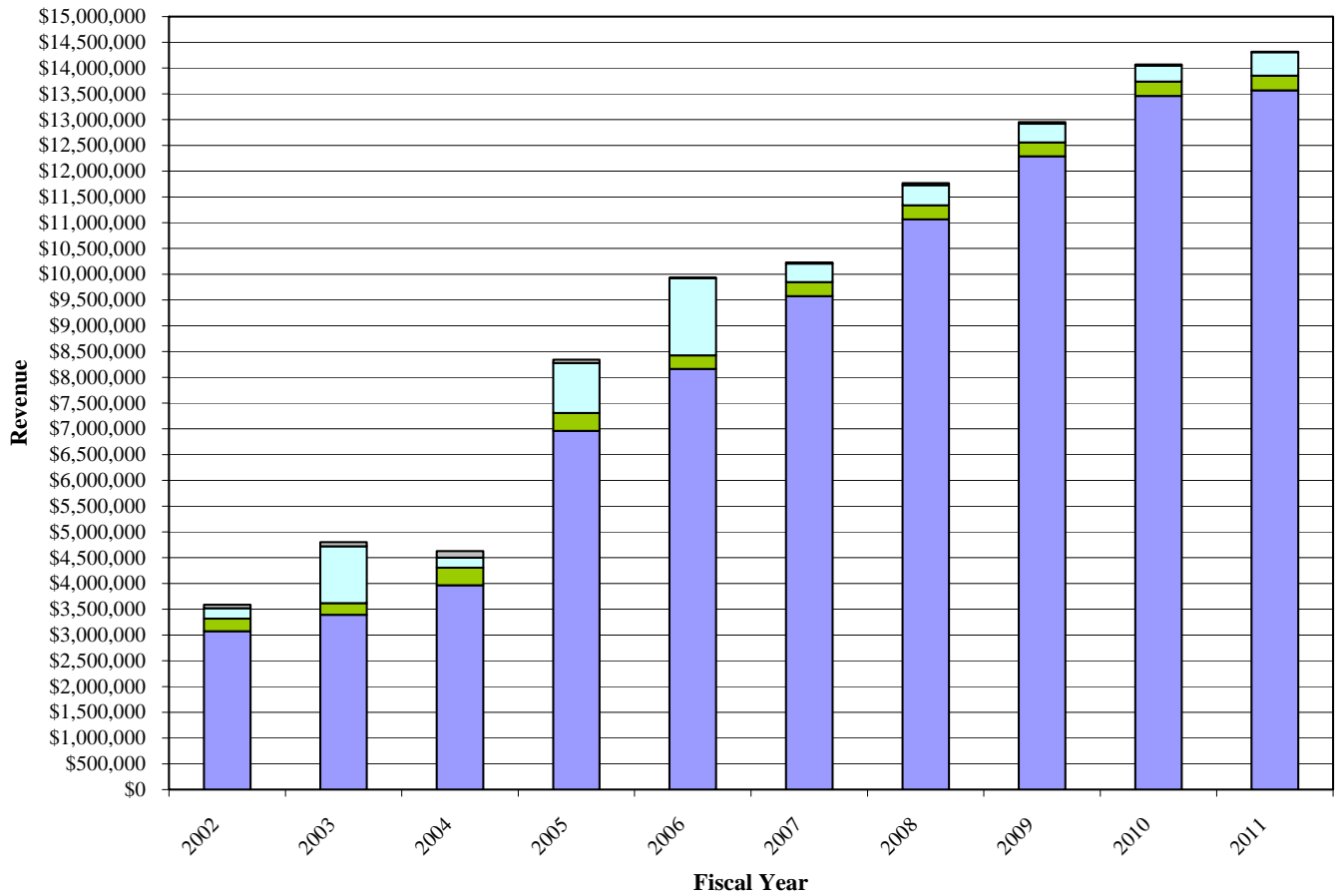
Novato Sanitary District
Changes in Net Assets and Net Assets by Component, continued
Last Ten Fiscal Years

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



Novato Sanitary District Operating Revenues by Source Last Ten Fiscal Years

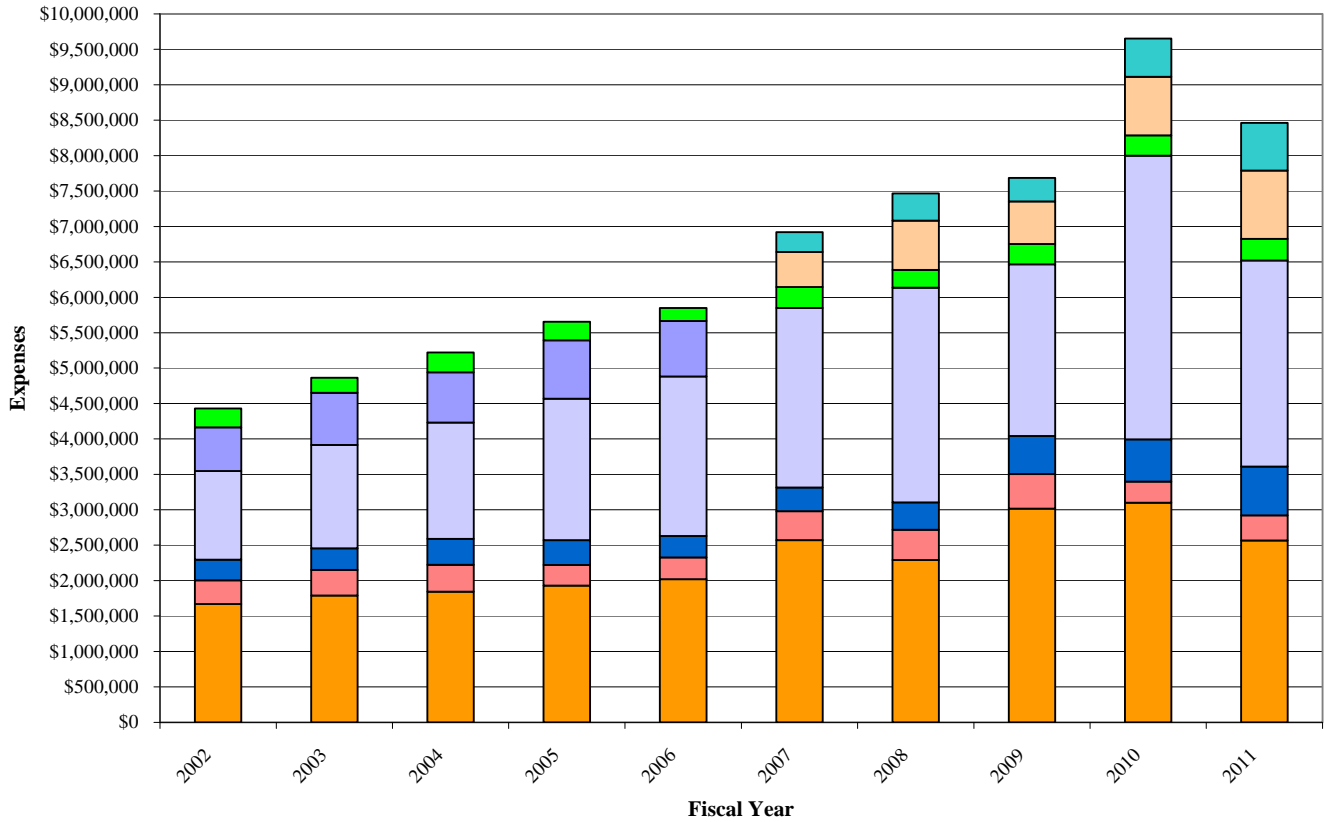
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2002	3,076,304	73,062	240,162	201,489	3,591,017
2003	3,390,898	81,702	229,866	1,101,387	4,803,853
2004	3,966,670	127,888	341,509	190,824	4,626,891
2005	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



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	Laboratory & Monitoring	Pump Stations	Sewer and Pump Stations	AB939 -Solid Waste Programs	Admin & Engineering	Total Operating Expenses
2002		1,670,202	332,940	294,576		616,553	266,011	1,250,694	4,430,976
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



Source: Novato Sanitary District Accounting Department

Note: Beginning in 2007, Collection and Pump Stations were separate departments previously classified under the Sewer and Pump Stations 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>
2002	6,058,519,237	
2003	6,472,321,272	6.83%
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%

Source: County of Marin Tax Assessor

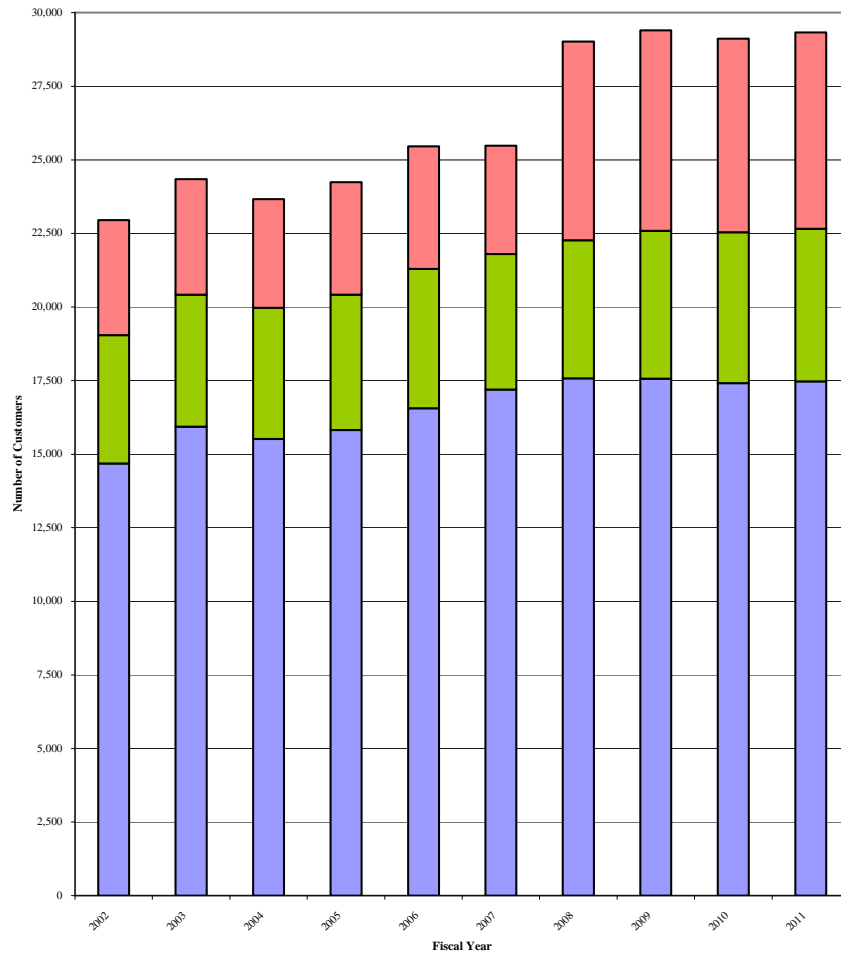
**Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Current Taxes	Prior Year Tax Collections,	Percent of Current Taxes	Net Collections
2002	\$ 1,174,367	\$ 1,174,367	100.0%	\$ 49,616	4.2%	\$ 1,223,983
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

Source: Novato Sanitary District Accounting Department

Novato Sanitary District
Revenue Base – Equivalent Dwelling Units by Type at Fiscal Year-End
Last Ten Fiscal Years

Fiscal Year	Customer Type			Total
	Single Family Residential	Multi family Residential	Commercial	
2002	14,683.00	4,357.20	3,913.81	22,954.01
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



Notes:

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

Source: Novato Sanitary District Operations Department

Novato Sanitary District
Revenue Base – Wastewater Service Charges
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Price per EDU per year	\$ 135	\$ 155	\$ 262	\$ 302	\$ 342	\$ 382	\$ 422	\$ 462	\$ 462	\$ 462
Price per EDU per month	\$ 11.25	\$ 12.92	\$ 21.83	\$ 25.17	\$ 28.50	\$ 31.83	\$ 35.17	\$ 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 Records.

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

Customer	2011		2002	
	EDU's	Percentage of Total	EDU's	Percentage of Total
Novato Unified School District	368	1.26%	232	0.87%
Fireman's Fund	368	1.25%	243	0.91%
Vintage Oaks Shopping Center (not including Costco or Target	274	0.94%	274	1.02%
Hamilton Hangars (3-10)	187	0.64%	-	0.00%
BioMarin	183	0.62%	105	0.39%
Nave Bros	130	0.44%	95	0.35%
Condiotti Enterprises Inc.	127	0.43%	31	0.12%
Novato Fair Shopping Center	120	0.41%	94	0.35%
City Of Novato	110	0.37%	35	0.13%
Novato Community Hospital	91	0.31%	78	0.29%
Total EDU's: Principal customers	1,958	6.67%	1,187	4.43%
Total Equivalent Dwelling Units	29,335	100.00%	26,772	100.00%

EDU's = Equivalent Dwelling Units

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	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2002	\$ 6,544,996	(4,430,976)	2,114,020	375,000	128,398	503,398	420%
2003	7,523,726	(4,865,811)	2,657,915	425,000	100,407	525,407	506%
2004	6,985,951	(5,220,170)	1,765,781	450,000	71,863	521,863	338%
2005	10,572,464	(5,656,823)	4,915,641	300,000	43,064	343,064	1433%
2006	12,174,111	(5,848,165)	6,325,946	300,000	20,687	320,687	1973%
2007	14,679,653	(6,919,638)	7,760,015	325,000	383,161	708,161	1096%
2008	14,753,348	(7,464,243)	7,289,105	-	1,305,067	1,305,067	559%
2009	16,248,422	(7,685,390)	8,563,032	-	1,302,270	1,302,270	658%
2010	16,510,972	(9,654,452)	6,856,520	24,773,024	1,211,880	25,984,904	26%
2011	10,003,454	(8,464,043)	1,539,411	5,233,207	209,456	5,442,663	28%

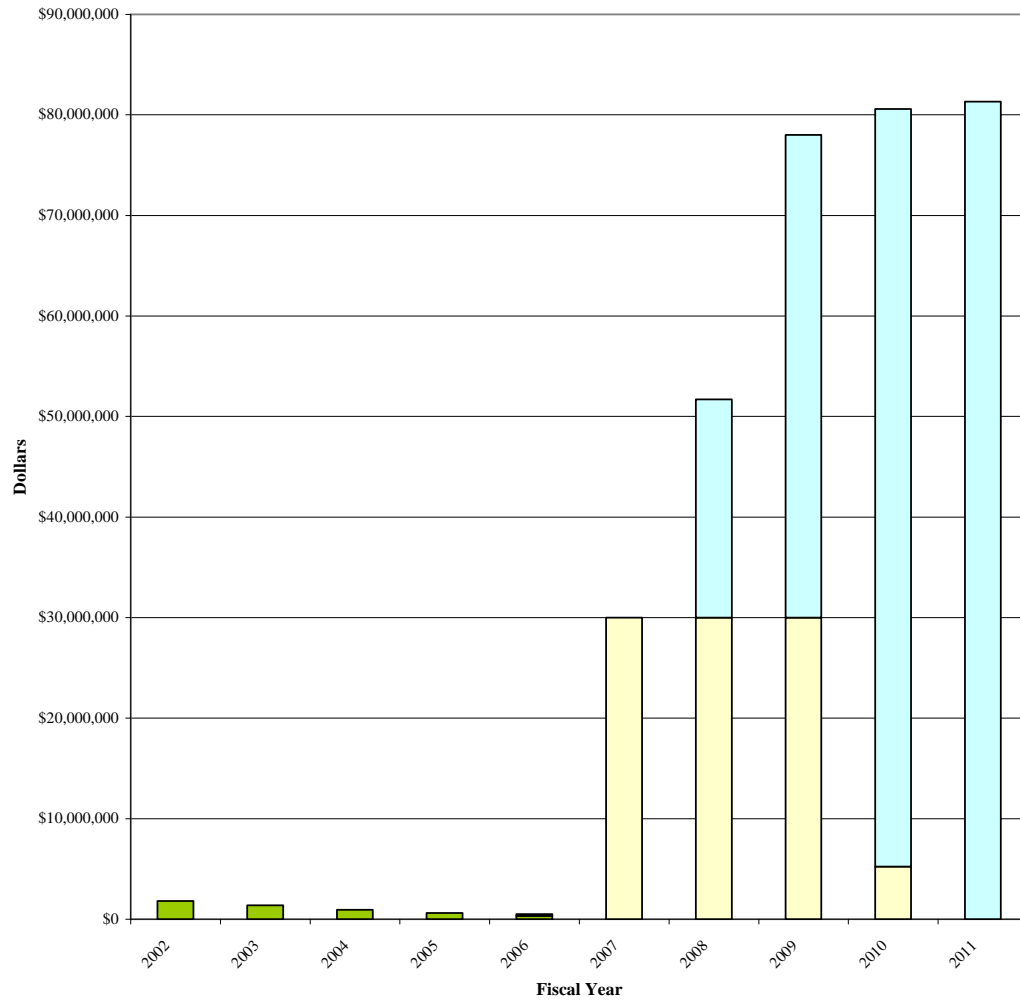
Notes:

(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

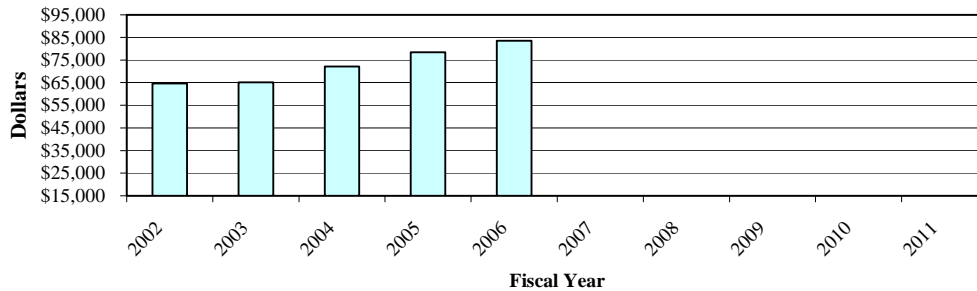
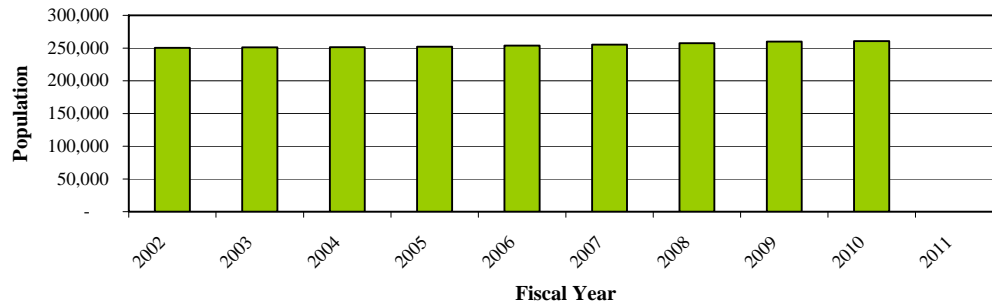
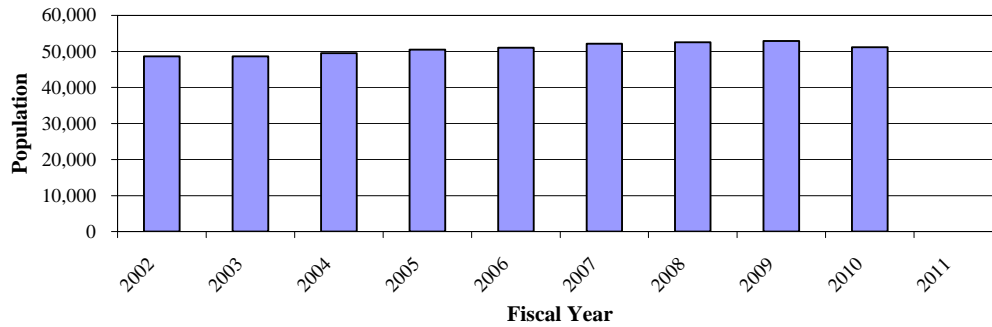
Fiscal Year	General Obligation Bonds Payable	Credit Line	SRF Loan Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2002	1,800,000			1,800,000	36.99	0.06%
2003	1,375,000			1,375,000	28.25	0.04%
2004	925,000			925,000	18.67	0.03%
2005	625,000	-	-	625,000	12.39	0.02%
2006	325,000	191,500	-	516,500	10.12	0.01%
2007	-	30,006,231	-	30,006,231	575.66	n/a
2008	-	30,006,231	21,691,826	51,698,057	983.75	n/a
2009	-	30,006,231	47,989,587	77,995,818	1,473.82	n/a
2010	-	5,233,207	75,348,207	80,581,414	1,575.39	n/a
2011	-	-	81,329,083	81,329,083	n/a	n/a



Source: Novato Sanitary District Accounting Department

Novato Sanitary District Demographic and Economic Statistics Last Ten Fiscal Years

Year	District Service Population (1)	County of Marin ⁽²⁾			
		Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2002	48,659	3.9%	250,090	16,158,935	64,612
2003	48,670	4.9%	250,804	16,340,714	65,153
2004	49,533	4.5%	251,202	18,114,794	72,112
2005	50,464	4.0%	252,116	19,763,926	78,392
2006	51,037	4.6%	253,818	21,184,396	83,463
2007	52,125	4.4%	255,080	n/a	n/a
2008	52,552	5.5%	257,406	n/a	n/a
2009	52,921	9.4%	259,772	n/a	n/a
2010 *	51,150	9.8%	260,651	n/a	n/a
2011	n/a	n/a	n/a	n/a	n/a



Sources: California Department of Finance, County of Marin, North Marin Water District 2010 Annual Report

Notes:

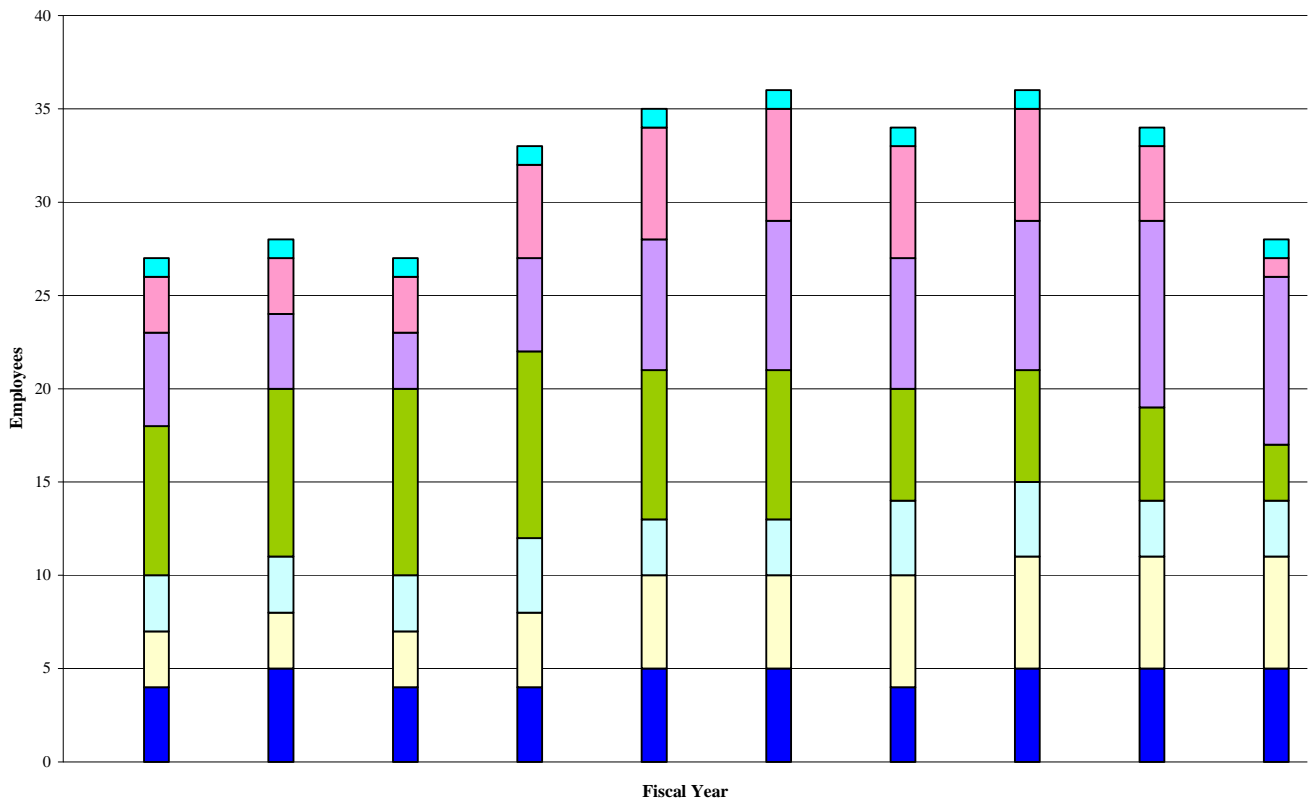
- (1) Approximate population of Novato Sanitary District
- (2) Only County data is updated annually. Therefore, the District has chose to use its data since the District believes that the County data is representative of the conditions and experience of the District.

* For the 2010, the estimated population prior to the 2010 Final Census figure.

Novato Sanitary District Operating and Capacity Indicators – Total Employees Last Ten Fiscal Years

Employees

Department	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Administration	4	5	4	4	5	5	4	5	5	5
Engineering	3	3	3	4	5	5	6	6	6	6
Lab Services	3	3	3	4	3	3	4	4	3	3
Operations	8	9	10	10	8	8	6	6	5	3*
Collections	5	4	3	5	7	8	7	8	10	9
Maintenance	3	3	3	5	6	6	6	6	4	1
Safety	1	1	1	1	1	1	1	1	1	1
Total	27	28	27	33	35	36	34	36	34	28



Note(1): The decrease in operators in 10/11 due to Treatment Plant Operations outsourced to Veolia Water.

The three employees were only NSD employees for 1 month of 10/11.

Note(2) 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
Other 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	
2002	189	37	3.60	1.681	4.53	2.02	1,929
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	N/A	N/A	N/A	N/A	7.05	0	N/A

N/A - Data not available for these years

MG - Millions of Gallons

MGD - Millions of Gallons per Day

*In 2008, 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.

Sources: Novato Sanitary District Operations and Accounting Departments

< Page Intentionally Left Blank >

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Novato Sanitary District
Novato, California

We have audited the basic financial statements of the Novato Sanitary District (District) as of and for the years ended June 30, 2011 and 2010 and have issued our report thereon dated September 30, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Charles Z. Fedak & Co. CPAs
An Accountancy Corporation*

Charles Z. Fedak and Company - CPA's An Accountancy Corporation
Cypress, California
September 30, 2011