

NOVATO SANITARY DISTRICT

March 23, 2009

A regular meeting of the Board of Directors of the Novato Sanitary District will be held at 4:30 p.m., Monday, March 23, 2009, at the District Office, 500 Davidson Street, Novato.

Materials related to items on this agenda are available for public inspection in the District Office, 500 Davidson Street, Novato, during normal business hours.

AGENDA

1. PLEDGE OF ALLEGIANCE:

2. AGENDA APPROVAL:

3. PUBLIC COMMENT:

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

4. BOARD MEMBER REPORTS:

5. REVIEW OF MINUTES:

- a. Consider approval of minutes of March 9, 2009 meeting.

6. CONSENT CALENDAR:

The Manager-Engineer has reviewed the following items. To her knowledge, there is no opposition to the action. The items can be acted on in one consolidated motion as recommended or may be removed from the Consent Calendar and separately considered at the request of any person.

- a. Receive final 2007-08 audited financial statements.
- b. Authorize expenditure of up to \$30,000 for emergency power during PG&E maintenance power outage at Ignacio Treatment Plant.
- c. Meeting schedule – April 13th and 27th, May 11th and 26th, June 8th and 22nd.
- d. Approve disbursements.

7. WASTEWATER FACILITIES UPGRADE PROJECT, CONTRACT B, 2006-09:

- a. Receive progress report on treatment plant construction project.
- b. Consider approval for the Senior Engineer to travel to Springfield, Missouri, March 31, 2009 to April 2, 2009, to witness Turblex blower testing.
- c. Consider authorizing staff to request proposals for preparation of a landscape plan for screening the east side of the treatment plant.

8. COLLECTION SYSTEM SPOT REPAIRS PROJECT 72803:

- a. Consider approval of change orders and filing Notice of Completion.

9. COLLECTION SYSTEM IMPROVEMENT PROJECT 72706:

- a. Consider approval of time extension.

10. PERSONNEL:

- a. Consider approval for payment of two additional days lost for employee performing jury duty.

11. 2009-10 ANNUAL DISTRICT BUDGET:

- a. Consider approval of budget adoption schedule.

12. STAFF REPORTS:

- a. County-wide Water Infrastructure Summit
- b. North Bay Water Reuse Authority meeting
- c. North Bay Watershed Association

13. MANAGER'S ANNOUNCEMENTS:

14. ADJOURNMENT:

Next resolution no. 3001

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

March 9, 2009

A regular meeting of the Board of Directors of the Novato Sanitary District was held at 4:30 p.m., Monday, March 9, 2009, at the District Office, 500 Davidson Street, Novato.

BOARD MEMBERS PRESENT: President Michael Di Giorgio, Members James D. Fritz, William C. Long and George C. Quesada. Member Arthur T. Knutson arrived at 4:35 PM.

BOARD MEMBERS ABSENT: None.

STAFF PRESENT: Manager-Engineer-Secretary Beverly B. James, Deputy Manager-Engineer Sandeep Karkal, Administrative Secretary Julie Borda and District Counsel Kent Alm.

ALSO PRESENT: Paul Eisenhardt, The Eisenhardt Group
Wayne Griffith, The Eisenhardt Group
Jack Kaplan, Novato Resident
Ron Hayden, Shingle Springs
Pam Welsh, Novato Resident
Dennis Welsh, Novato Resident, former NSD employee
Heidi Heffelfinger, Novato Resident
Sam Renati, Novato Resident, former Board Member
Dean Heffelfinger, Novato Resident
Natalie Lloyd, Food & Water Watch
Colleen Rose, Novato Resident
Richard Di Marco, Novato Resident, former NSD employee
L.M. Arndt, San Rafael
Patricia Silva, Novato Resident
Michael Silva, Novato Resident

PLEDGE OF ALLEGIANCE:

AGENDA APPROVAL: The Manager requested Agenda Items 7 and 8 be moved to immediately follow Public Comment.

On motion of Member Quesada, seconded by Member Fritz, and unanimously carried by those Members present, the agenda was approved as modified.

PUBLIC COMMENT: The Manager read an email she received from Michelle Rogers, Sergeant of Field Services, Marin Humane Society, addressed to Steve McCaffrey of Novato Disposal. "Please accept my sincerest thanks and appreciation to you and your company for donating a debris box for a needy household on Nova Lane in Novato. Because of your incredible generosity, this family will have a safer, cleaner environment to live in! With collaborative efforts from many different organizations such as yours, we can make a difference in the lives of those in need."

PUBLIC HEARING – CONSIDER PROPOSED LEASE AGREEMENT FOR RANCH AT RECLAMATION FACILITY:

President Di Giorgio opened the Public Hearing at 4:36 PM.

The Manager discussed the District's recommendations for the Ranch Property, pointing out that the property consists of an irrigated pasture site located on both sides of State Highway 37, between Novato Creek and Atherton Ave. and Black Point, in the City of Novato. She stated the lease term was for 10 (ten) years, commencing on April 1, 2009 and ending on March 31, 2019. She pointed out that the property will be leased only for the purpose of dry weather pasturing of beef cattle and/or non-milking dairy animals, and harvesting of pasture grass to be utilized for feeding animals.

District Counsel Kent Alm discussed the provisions of the Lease with the Board.

The Hearing was opened to Public Comment: Mr. Ron Hayden addressed the Board, stating that he has been leasing Site 7 since March 1, 1994. Mr. Hayden expressed his interest in continuing to lease the property from the District.

There being no further comment from anyone present, the Public Hearing was closed at 4:43 p.m.

Member Quesada stated he felt a 10 year lease was too long and would like a 5 year lease with a possible 5 year extension.

The Manager explained why a 10 year lease is preferred. She went on to explain that the lease would be awarded based on lessee qualifications, experience and financial concern for the District. Member Long pointed out that there are several provisions available to terminate the lease prior to its expiration if the District should wish to do so.

On motion of Member Long, seconded by Member Fritz, and carried unanimously, staff was authorized to negotiate a lease agreement for the Ranch Property.

WASTEWATER FACILITY UPGRADE PROJECT:

-Consider authorizing staff to issue a Request for Qualifications for operation and maintenance of the wastewater treatment facilities. The Manager noted that the District is constructing a significant upgrade to its Novato Treatment Plant (NTP). She stated that this upgrade will consolidate the functions of the District's Ignacio Treatment Plant (ITP) and the existing NTP into the upgraded Novato Treatment Plant. The new plant's state-of-the-art construction and complex operation and maintenance requirements call for an initial upsurge in managerial staff and technical experts during the transition. In addition, the District will need to maintain costly equipment warranties that demand new procedures, new skills, additional management oversight, and extensive staff training

for ongoing operation. She stated that the District has investigated two alternative approaches to operating the new treatment plant relative to a no-change approach.

She stated the District has worked with Paul Eisenhardt of The Eisenhardt Group to determine suitable options for the District.

Paul Eisenhardt addressed the Board and audience and discussed a report he prepared on behalf of the District titled "Staff and Operations Assessment for New Facility Startup, Transition and Operation, February 2009." He stated the reason for issuing the RFQ is to find out if there are qualified companies that would provide the expertise needed to manage the plant's start-up process while providing cost savings to the District's ratepayers. Mr. Eisenhardt noted three alternatives available for the District's new plant startup:

Option 1) Make no changes or augmentation to the District staff and continue to operate the new plant with the current employees.

Option 2) Employing consultants to augment staff. With this option, Mr. Eisenhardt explained, the mixing of current staff with temporary consultants raises concerns about blurred lines of responsibility, accountability, and managing multiple consulting teams, and would require extensive management time and attention. Providing the needed training would be more difficult to coordinate among multiple consultants. He stated this is the higher cost option.

Option 3) Contracting with a single firm to assume full responsibility for all operation and maintenance. Mr. Eisenhardt pointed out that this option has been successfully implemented with other treatment plants, including those which the Board Members and District personnel recently toured. He noted that under this option, the District would retain ownership of all facilities while contracting with a private firm for the operation & maintenance of the new facility. The NSD staff working in the wastewater treatment operations and maintenance area would be terminated as NSD employees but would be assured employment with the contract operating firm. Employees will be contractually assured of employment at similar wages and benefits with years of service and longevity recognized by the private sector firm. He stated this is the lower cost option.

Mr. Eisenhardt recommends Option 3 as the most cost effective and suitable alternative for the District.

President Di Giorgio confirmed that the District is not making a decision today as to how to proceed with new facility start-up procedures. He stated the Board is investigating all three options and a final decision has not been made.

Member Long questioned who would be responsible for fines if some area of operation failed. Mr. Eisenhardt stated that under options one and two, the District would be responsible, but under option three, the contract operating firm would be responsible.

He stated that the District's main concern is to operate the plant at a level where the facility is staying in compliance with the regulatory agencies. He also pointed out that the District may violate warranty issues on the new equipment if they are not operated properly.

District Counsel Kent Alm stated that the report Mr. Eisenhardt had prepared for the Board, "Staff and Operations Assessment for New Facility Startup, Transition and Operation, February 2009" is available through the District office. A nominal copying fee will be assessed.

Public Comment:

Dennis Welsh, former Novato Sanitary District employee of 23 years, stated he was shocked to learn of the District's intentions. He commended the NSD operators for their dedication and feels the decision to hire a private sector firm is "really wrong".

Natalie Lloyd of the nonprofit consumer organization Food and Water Watch handed out to the Board a publication titled "Money Down the Drain; How Private Control of Water Wastes Public Resources". In her address to the Board, she referenced cases where private sector firms have exceeded the financial estimates originally set by the District. She requested the Board postpone their decision to make a Request for Qualifications until the public has a chance to review more materials and reports.

Heidi Heffelfinger, a long-time Novato resident stated her concerns. She felt the District was underestimating the value of the current Novato Sanitary District employees who live within such close proximity to the District. She felt a private sector firm would not be able to provide employees who could so quickly respond to emergency situations as the current District employees. She also expressed her concern over who would be responsible for fines that may be incurred and stated she did not feel a long-term contract was necessary.

Richard Di Marco, former Novato Sanitary District employee, stated that management should have been better prepared for the introduction of the new equipment and systems coming on-line. He stated the District should have had a plan in place already to properly train the District's Operations & Maintenance Operators so they would have full knowledge of the new equipment's operating procedures.

There being no other individuals wishing to come before the Board, Public Comment was closed.

Member Long stated he believes the District should move forward with issuing the Request for Qualifications. He expressed his appreciation to the public for their comments.

On motion of Member Long, seconded by Member Fritz, and carried unanimously, the Board authorized staff to issue a Request for Qualifications (RFQ) for operation and maintenance of the wastewater treatment facilities.

President Di Giorgio stated that the District's Collection System, and pump stations will remain in the District's control as well as all policy and rate setting issues. The Laboratory Department will also remain with the District employees for quality control reasons.

Member Quesada stated that the issuing of the RFQ does not commit the District to hiring a private sector firm.

President Di Giorgio called for a five minute recess at 6:00 p.m.

President Di Giorgio reconvened the Board meeting at 6:10 p.m.

- Approve a consulting contract task order for Carollo Engineers to provide interim operational assistance and related services on a time-and-materials, as-needed basis, for an amount not to exceed \$184,000. The Manager explained that the Time-and-Material Contract with Carollo is to assist the District with past staffing shortages as well as anticipated personnel needs. Part of the staffing shortages are due to an employee who is out on extended medical leave. The Manager stated that the District has worked with this contractor before and feels confident they will perform to District's standards. The Manager discussed with the Board the costs, stating that the anticipated charges are within the parameters for this type of consulting work.

On motion of Member Fritz, seconded by Member Queasda, and carried unanimously, the Board approved a consulting contract task order with Carollo Engineers for an amount not to exceed \$184,000.

NORTH BAY WATERSHED ASSOCIATION: BUDGET

- Consider proposed 2009/10 North Bay Watershed Association budget: The Manager stated that the North Bay Watershed Association (NBWA) is seeking guidance from the participating agencies for the 2009/10 budget carryover of unspent funds from the 2008/09 fiscal year of \$92,000. The Manager stated the two alternatives: 1) Allocate the entire carryover to new projects. This alternative would keep the budget at its current level of \$178,300. or 2) Split the carryover between reducing the member agency 2009/10 contributions and new projects, which would result in a reduction in

membership costs of 25% or \$1,641 for Novato Sanitary District. The Manager noted that the NBWA recommends option 2.

On motion of Member Long, seconded by Member Fritz, and carried unanimously, the Board endorsed option 2 as noted above

PERSONNEL

- Abolish the two maintenance worker positions: District Counsel Kent Alm read an excerpt from the District's Personnel Rules and Regulations dated November 2005: "Policy 19.01.1: Whenever, in the sole judgment of the District Board, it becomes necessary to abolish any position due to a reorganization, lack of work or funds, or abandonment of activities, the employee holding said position may be laid off or demoted without the right of appeal. Whenever possible, employees will be given at least thirty (30) calendar days notice of any layoff or demotion."

The Manager explained to the Board that the two maintenance worker positions are being eliminated due to a lack of maintenance work at the treatment plants, pump stations and reclamation facility. She recommends these two positions be abolished due to insufficient work for them to perform.

In addition, the Manager stated that due to the loss of these two positions, the District will need to meet and confer with the Teamsters Local Union 315.

On motion of Member Fritz, seconded by Member Long, and carried unanimously, the District abolished the two Maintenance Worker Positions.

MANAGER'S ANNOUNCEMENTS:

- The Manager discussed a sewer spill that was reported to the District at 5:15 p.m. on Sunday, March 8th. The spill was located in an easement off Pinto Lane and she stated that the spill probably began on Thursday, March 5th. She complimented the Collection Systems crew for their quick response and thorough handling of the situation. She noted that the spill was classified as a Category 1 spill and that she issued a Press Release to the Marin Independent Journal newspaper. The overflow was caused by a blockage due to a build-up of rags and roots. She stated that the storm drain was cleaned and that creek samples were taken. The Deputy Manager estimated the total overflow to be between 2,500 and 4,500 gallons.

CLOSED SESSION CONFERENCE WITH LABOR NEGOTIATORS:

At 6:40 p.m. President Di Giorgio announced the Board would meet in Closed Session to discuss the item on the Closed Session Agenda: Confer with District's labor negotiators regarding meet and confer with District's "General" bargaining unit, represented by Teamsters Local 315.

At 7:26 p.m. President Di Giorgio reconvened the board meeting.

There was no reportable action.

ADJOURNMENT: There being no further business to come before the Board, President Di Giorgio adjourned the meeting at 7:28 p.m.

Respectfully submitted,

Beverly B. James
Secretary

Julie Borda, Recording

**NOVATO
SANITARY DISTRICT**

FINANCIAL STATEMENTS

AND

ACCOMPANYING INFORMATION

JUNE 30, 2008

WITH

INDEPENDENT AUDITORS' REPORT

NOVATO SANITARY DISTRICT

JUNE 30, 2008

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Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Novato Sanitary District
Novato, California

We have audited the accompanying statement of net assets of Novato Sanitary District as of June 30, 2008, and the related statements of revenue and expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Novato Sanitary District as of June 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America, as well as accounting systems provided by the State Comptroller's Office for Special Districts.

In accordance with Government Auditing Standards, we have also issued our report dated February 17, 2009, in our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
February 17, 2009

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2008. This information is presented in conjunction with the audited financial statements, which follow this section.

Financial Highlights

- The District's total ending net assets increased by \$5.3 million or 4.92% when compared to fiscal year 2006-07.
- Actual operating revenues increased by \$1,541,922 or 15.08% over the previous year. Several factors contributed to the increase, including a 2007-08 sewer service charge increase of \$40 per year per account, \$8 of which was applied to the Operating Fund and \$32 to the Capital Improvements Fund. Other increases included a refund of excess ERAF funds; reimbursement to the District for recycled water; and higher than anticipated interest earnings. Total operating expenses increased by \$903,183 or 11.45% compared to fiscal year 2006-07.
- Capital contributions decreased by \$2,003,638 or 75.35% when compared to fiscal year 2006-07. Sewer improvements and easements totaling \$2,349,992 were contributed in 2006-07. Because of the decline in housing related construction, only \$338,915 contributed assets were accepted in 2007-08. Expenditures for capital improvement projects totaled approximately \$30 million, an increase of \$20 million or 66% when compared to 2006-07, and mostly related to the District's Wastewater Facility Upgrade Project.

District Highlights

- The major activity during fiscal year 2007-08 was the continuing construction of the District's Wastewater Treatment Facility Upgrade Project. Construction was completed on the Ignacio Transfer Pump Station (ITPS) Project (Contract A-1) in June 2008. The Ignacio Conveyance Force Main (ICFM) Project (Contract A-2) was also completed in June 2008. Construction on the Novato Treatment Plant Upgrade that began in May 2007 (Contract B) is continuing generally on schedule and within budget. The current contract completion date is September 2010. Ongoing collection system repairs and improvements were performed in addition to several other minor projects. The main carryover projects from fiscal year 2006-07 included the replacement of 7 small pump stations in Bel Marin Keys, sewer improvements coordinated with Whole Foods and Hamilton Marketplace Safeway projects, and preparation of a Collection System Master Plan.
- The District accepted approximately 917 lineal feet of sewer main extensions from 3 private projects, and approximately 28,970 square feet of sewer main easements during fiscal year 2007-08.
- A total of 318,569 feet of sewer line was cleaned and 1,590 work orders completed in fiscal year 2007-08 as part of the District's ongoing collection system maintenance program.
- The only vehicle added this fiscal year was a Toyota Prius.
- As of July 1, 2007, the District's annual residential sewer service charge was increased by \$40 (from \$342.00 to \$382.00).

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Required Financial Statements

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

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

NOVATO SANITARY DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

STATEMENT OF NET ASSETS

The following table shows the condensed statement of net assets of the Novato Sanitary District for the past two years. The District's total net assets increased from 2006-07 by \$5.3 million.

Condensed Statement of Net Assets

	Fiscal Year 2007-08	Fiscal Year 2006-07	Dollar Change	Percent Change
Current Assets	\$ 34,422,186	\$ 33,778,211	\$ 643,975	1.91%
Capital Assets	135,398,729	106,973,161	28,425,568	26.57%
Other Non-current assets	54,122	165,666	(111,544)	-67.33%
Total Assets	<u>169,875,037</u>	<u>140,917,038</u>	<u>28,957,999</u>	20.55%
Long-Term Debt	51,868,701	30,152,853	21,715,848	72.02%
Other Liabilities	4,630,568	2,701,952	1,928,616	71.38%
Total Liabilities	<u>56,499,269</u>	<u>32,854,805</u>	<u>23,644,464</u>	71.97%
Net Assets:				
Invested in Capital Assets				
Net of Related Debt	105,446,620	77,039,741	28,406,879	36.87%
Unrestricted	7,929,148	31,022,492	(23,093,344)	-74.44%
Total Net Assets	<u>\$ 113,375,768</u>	<u>\$ 108,062,233</u>	<u>\$ 5,313,535</u>	4.92%

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

REVIEW OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Fiscal Year 2007-08	Fiscal Year 2006-07	Dollar Change	Percent Change
Sewer Service Charges (SSC)	\$ 11,063,829	\$ 9,573,338	\$ 1,490,491	15.57%
Other Service Charges and Misc.	432,959	382,012	50,947	13.34%
AB939 solid waste programs	271,862	271,378	484	0.18%
Total Operating Revenue	<u>11,768,650</u>	<u>10,226,728</u>	<u>1,541,922</u>	15.08%
Property tax	1,995,120	1,796,003	199,117	11.09%
All other	1,211,498	785,497	426,001	54.23%
Total Non-Operating Revenue	<u>3,206,618</u>	<u>2,581,500</u>	<u>625,118</u>	24.22%
Total Revenues	<u>14,975,268</u>	<u>12,808,228</u>	<u>2,167,040</u>	16.92%
Total Labor and Benefits	3,842,385	3,522,180	320,205	9.09%
Chemicals and Utilities	1,150,641	1,300,736	(150,095)	-11.54%
Repairs and Maintenance	529,299	422,680	106,619	25.22%
Professional and Outside Services	456,188	535,836	(79,648)	-14.86%
Supplies	126,397	148,805	(22,408)	-15.06%
Hauling & Disposal (sludge)	47,126	59,290	(12,164)	-20.52%
Insurance Expense	325,798	118,012	207,786	176.07%
All Other	1,005,098	812,099	192,999	23.77%
Depreciation Expense	1,307,338	967,449	339,889	35.13%
Total Operating Expenses	<u>8,790,270</u>	<u>7,887,087</u>	<u>903,183</u>	11.45%
Interest	1,305,067	383,161	921,906	240.61%
All other	221,920	453,852	(231,932)	-51.10%
Total Non-Operating Expense	<u>1,526,987</u>	<u>837,013</u>	<u>689,974</u>	82.43%
Total Expenses	<u>10,317,257</u>	<u>8,724,100</u>	<u>1,593,157</u>	18.26%
Excess of Revenues Over Expenses	4,658,011	4,084,128	573,883	14.05%
Capital Contributions	655,524	2,659,162	(2,003,638)	-75.35%
Change in Net Assets	5,313,535	6,743,290	(1,429,755)	-21.20%
Beginning Net Assets	108,062,233	101,318,943	6,743,290	6.66%
Ending Net Assets	<u>\$ 113,375,768</u>	<u>\$ 108,062,233</u>	<u>\$ 5,313,535</u>	4.92%

In 2007-08, operating revenues increased by \$1,541,922 or 15.08% compared to 2006-07. Total labor and benefits increased by \$320,205; and all other Operating Expenses increased by \$582,978.

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

CAPITAL ASSETS

As of June 30, 2008, the District's investment in capital assets totaled \$135,398,729 which is an increase of \$28.4 million or 26.57 % over the capital asset balance of \$106,973,161 at June 30, 2007. Capital assets include all of the District's major infrastructure such as wastewater treatment facilities, sewers, land, buildings, and pumping stations, as well as vehicles and furniture and equipment exceeding our capitalization limit of \$5,000, net of depreciation. A comparison of the District's capital assets over the past two fiscal years is presented below.

Capital Assets

	<u>Fiscal Year</u> <u>2007-08</u>	<u>Fiscal Year</u> <u>2006-07</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Land and improvements	\$ 55,025,525	\$ 32,908,710	\$ 22,116,815	67.21%
Buildings and structures	24,831,355	24,831,355	-	0.00%
Equipment - sewer facilities	12,305,811	12,238,221	67,590	0.55%
Equipment - general	1,767,981	1,747,779	20,202	1.16%
Sewer collection and outfall systems	45,043,692	44,238,548	805,144	1.82%
Easements	1,570,418	1,361,918	208,500	15.31%
Construction in progress	22,212,481	15,920,243	6,292,238	39.52%
Subtotal	<u>162,757,263</u>	<u>133,246,774</u>	<u>29,510,489</u>	<u>22.15%</u>
Less accumulated depreciation	<u>(27,358,534)</u>	<u>(26,273,613)</u>	<u>(1,084,921)</u>	<u>4.13%</u>
Total Capital Assets (net of depreciation)	<u>\$ 135,398,729</u>	<u>\$ 106,973,161</u>	<u>\$ 28,425,568</u>	<u>26.57%</u>

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

DEBT ADMINISTRATION

The District drew on its revolving line of credit during the year to begin construction on the Wastewater Facilities Upgrade project. As of June 30, 2008, the District had the following outstanding debt:

Long-term Revolving Line of Credit	\$30,006,231
State Water Resources Control Board Loan	\$21,691,826

Additional information on debt is contained in footnote #4.

NOVATO SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

ECONOMIC AND OTHER FACTORS

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

FINANCIAL CONTACT

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

NOVATO SANITARY DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash, cash equivalents and investments	\$ 33,887,093
Service charges, taxes and other receivables	335,485
Interest receivable	183,776
Prepaid expenses	15,832
Total current assets	<u>34,422,186</u>

CAPITAL ASSETS

Property, plant, and equipment, net of accumulated depreciation of \$27,358,534	135,398,729
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OTHER LONG-TERM ASSETS

Revolving credit line origination fee	54,122
TOTAL ASSETS	<u>169,875,037</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	3,540,641
Interest payable	325,568
Deposits payable	256,478
Deferred revenue	82,517
Payable for special assessment	168,391
Other payables	256,973
Current portion of compensated absences	2,082
Total current liabilities	<u>4,632,650</u>

LONG-TERM LIABILITIES

Revolving credit promissory note	30,006,231
Loan payable - State Water Resources Control Board	21,691,826
Accrued compensated absences	168,562
TOTAL LIABILITIES	<u>56,499,269</u>

NET ASSETS

Invested in capital assets, net of related debt	83,754,794
Unrestricted	29,620,974
TOTAL NET ASSETS	<u>\$ 113,375,768</u>

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

NOVATO SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2008

OPERATING REVENUE	
Sewer service charges	\$ 11,063,829
Permit, inspection and other fees	39,291
Other service charges	300,042
Recycled water facility	93,626
AB939 - solid waste programs	271,862
Total operating revenue	<u>11,768,650</u>
OPERATING EXPENSES	
Collection System	694,147
Treatment plant	2,262,070
Wastewater reclamation and disposal	344,182
Laboratory and monitoring	389,036
Sewers and pump stations	383,503
Recycled water facility	82,310
AB939 - solid waste programs	249,797
Administration and engineering	3,031,550
Capital improvement projects - minor	27,648
Depreciation	1,307,338
Amortization	18,689
Total operating expenses	<u>8,790,270</u>
OPERATING INCOME	<u>2,978,380</u>
NON-OPERATING REVENUES (EXPENSES)	
Taxes	1,995,120
Interest Income	1,081,073
Special equalization charges	2,908
Franchise fees	45,000
Rental income	82,517
Gain (loss) on disposition of capital assets	(221,920)
Interest Expense	(1,305,067)
Total nonoperating revenues (expenses)	<u>1,679,631</u>
Income before contributions	4,658,011
Capital contributions - connection fees	316,609
Contributed assets	<u>338,915</u>
CHANGE IN NET ASSETS	5,313,535
Total Net Assets - Beginning	<u>108,062,233</u>
Total Net Assets - Ending	<u>\$ 113,375,768</u>

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

NOVATO SANITARY DISTRICT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2008

Cash Flows From Operating Activities:

Receipts from customers and users	\$ 11,695,932
Payments to suppliers	(1,847,887)
Payments to employees	(3,852,988)
Net cash provided by operating activities	<u>5,995,057</u>

Cash Flows From Noncapital Financing Activities:

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

Cash Flows From Capital And Related Financing Activities:

Connection fees	316,609
Taxes	1,995,120
Special equalization charges	2,908
Acquisition and construction of capital assets	(29,634,600)
Proceeds from debt issuance	21,691,826
Employee loan payoff	92,855
Long-term debt interest paid	(1,193,381)
Net cash used by capital and related financing activities	<u>(6,728,663)</u>

Cash Flows From Investing Activities:

Investment income received	<u>1,248,508</u>
Net cash provided by investing activities	<u>1,248,508</u>

Net increase in cash and cash equivalents	642,419
Cash and cash equivalents, July 1	<u>33,244,674</u>
Cash and cash equivalents, June 30	<u>\$ 33,887,093</u>

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

NOVATO SANITARY DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2008

Reconciliation of operating income to net cash

provided (used) by operating activities:

Operating income	\$	2,978,380
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		1,307,338
Amortization expense		18,689
(Increase) decrease in :		
Accounts and notes receivable		(153,159)
Increase (decrease) in:		
Accounts payable and accrued expenses		1,498,205
Accrued salaries & benefits		24,022
Deposits		59,674
Other current liabilities		256,973
Payable for special assessment		20,767
Prepaid expenses		(15,832)
Net cash provided by operating activities	\$	<u>5,995,057</u>

Noncash capital activities:

Contributed capital assets	\$	<u>338,915</u>
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The accompanying notes are an integral part of these financial statements.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Novato Sanitary District (the “District”) is a separate governmental unit established as a special District of the State of California, created in 1925. The District provides sewage collection, treatment, reclamation, and disposal services to an area of about 21 square miles in and around the City of Novato in Marin County. Revenues are derived principally from sewer service charges collected from commercial and residential users within the District. The District also franchises municipal solid waste (garbage) services.

The Financial Reporting Entity

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

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

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

Measurement Focus and Basis of Accounting

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

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

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Cash and Investments

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

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

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

Capital Assets

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

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

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

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

Use of Estimates

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

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

New Governmental Accounting and Reporting Standards

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

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

This Statement generally provides for prospective implementation, that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the financial statements.

GASB Statement No. 49: In November 2006, GASB issued GASBS No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the financial statements.

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

GASB Statement No. 52: In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. This Statement is not effective until June 30, 2009. The District does not believe it will have a significant impact on the financial statements.

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

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Changes in Accounting Principles

In May 2007, GASB issued GASBS No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27. This statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting surrogate funded status and funding progress information for plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statement and RSI contain information resulting from actuarial valuations as of June 15, 2007. The District implemented the provisions of this statement for the current fiscal year ending June 30, 2008. The District believes that, as a cost-sharing multiple-employer, the current report is in compliance with GASB Statement No. 50. There was no impact on the financial statements as a result of implementation of this pronouncement.

NOTE #2 - CASH AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, consist of the following:

Deposits with financial institutions	\$ 85,352
Investments	<u>33,801,741</u>
Total Deposits and Investments	<u>\$33,887,093</u>

Policies and Practices

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

Investments prohibited by the District are inverse floaters, range notes, interest-only strips derived from mortgage pools, or any investment that may result in a zero interest accrual if held to maturity.

The District's investments were in compliance with the above provisions as of and for the year ended June 30, 2008.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

General Authorizations

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

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

Interest Rate Risk

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

As of June 30, 2008, the District had the following investments:

Investment Type	Fair Value	Maturity Date
State Investment Pool	<u>\$33,800,058</u>	212 Days

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The state investment pool is not rated.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy, as well as the California Government Code, requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2008, the District's total bank balance was \$392,258 with a carrying balance of \$84,475. Of this amount, \$128,690 was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining \$263,568 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. However, the District's policy states that all security transactions entered into by the District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the District by book entry, physical delivery, or by third party custodial agreement as required by CGC Section 53601. Additionally, collateralization will be required on certificates of deposit. Collateral must be held by a third party trustee and valued on a monthly basis. The collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC Section 53601(i)(2).

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

NOTE #3 – CAPITAL ASSETS

Changes in the District's property, plant and equipment and accumulated depreciation for the year ended June 30, 2008 is summarized as follows:

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Capital assets, not being depreciated:					
Land	\$ 2,774,742	\$ -	\$ (325,480)	\$ -	\$ 2,449,262
Construction in progress	15,920,243	28,780,025	(28,386)	(22,459,401)	22,212,481
Sewer collection and outfall systems	44,238,548	797,300	-	7,844	45,043,692
Easements	1,361,918	208,500	-	-	1,570,418
Total Capital assets, not being depreciated:	64,295,451	29,785,825	(353,866)	(22,451,557)	71,275,853
Capital assets, being depreciated:					
Buildings and structures	24,831,355	-	-	-	24,831,355
Improvements other than buildings	30,133,968	-	-	22,442,295	52,576,263
Equipment - sewer facilities	12,238,222	149,988	(91,661)	9,262	12,305,811
Equipment - general	1,747,778	51,374	(31,171)	-	1,767,981
Total Capital assets, being depreciated:	68,951,323	201,362	(122,832)	22,451,557	91,481,410
Less: Accumulated depreciation					
Total Accumulated depreciation:	(26,273,613)	(1,307,338)	222,417		(27,358,534)
Total capital assets, being depreciated, net	42,677,710	(1,105,976)	99,585	22,451,557	64,122,876
Total Capital Assets, net	\$ 106,973,161	\$ 28,679,849	\$ (254,281)	\$ -	\$ 135,398,729

NOTE #4 – LONG-TERM DEBT

Long-term obligations at June 30, 2008 are summarized as below:

Summary	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Current Portion
Compensated Absences	\$ 146,622	\$ 34,114	\$ 10,092	\$ 170,644	\$ 2,082
Revolving Credit Line	30,006,231	-	-	30,006,231	-
State Water Resources Control Board Loan	-	21,691,826	-	21,691,826	-
Total	\$ 30,152,853	\$ 21,725,940	\$ 10,092	\$ 51,868,701	\$ 2,082

A. Revolving Credit Line

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

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

The revolving credit line is secured by a pledge of and lien against the net revenues of the wastewater system. The maturity date for the revolving credit line obligation is April 1, 2011. The revolving credit obligation accrues interest at an annual fixed rate of 4.34%. Credit extended on or after May 10, 2007, will accrue interest at a variable rate, defined in the agreement as a rate of interest equal to 85 percent of the one-year Seattle Federal Home Loan Bank Rate which was 3.38% at June 30, 2008. Interest is payable semiannually on October 1 and April 1. The outstanding balance at June 30, 2008, is \$30,006,231 and is classified as a long term liability.

Maturities for the next five years and thereafter for this revolving credit obligation as of June 30, 2008, are as follows:

Year ended June 30	Estimated		Total
	Principal	Interest	
2009	\$ -	\$ 1,302,270	\$ 1,302,270
2010	-	1,302,270	1,302,270
2011	30,006,231	1,302,270	31,308,501
	<u>\$ 30,006,231</u>	<u>\$ 3,906,810</u>	<u>\$ 33,913,041</u>

B. State Water Resources Control Board Loan

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

A new pump station (the Ignacio Transfer Pump Station) was constructed at the site of the Ignacio Treatment Plant. The Ignacio Conveyance Force Main was constructed to convey flow from the Ignacio Transfer Pump Station to the Novato Treatment Plant. Upon completion of the upgrade to the Novato Treatment Plant, the Ignacio Treatment Plant will be phased out of service and flows from the Ignacio Plant will be pumped to the Novato Plant for treatment.

On May 21, 2008, the District drew \$21,691,826 against the total approved loan amount. On July 22, 2008, the District drew an additional \$7,524,999. Interest accrues on the obligation at a rate of 2.40 percent compounded annually. For the period of May 21 through June 30, total interest accrued was \$56,399. At the end of each State fiscal year (June 30), interest accrued on loan disbursements will be added to the principal amount, and repayments will be made based upon the revised principal balance. The first loan payment is due on December 15, 2011; and thereafter subsequent loan payments are due every December 15 through the year 2030.

NOVATO SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

Fiscal Year	Principal	Interest to Maturity	Total
2009	\$ -	\$ -	\$ -
2010	-	-	-
2011	-	-	-
2012	857,754	520,604	1,378,358
2013	878,341	500,018	1,378,359
2014-2018	4,718,208	2,173,583	6,891,791
2019-2023	5,312,230	1,579,562	6,891,792
2024-2028	5,981,039	910,752	6,891,791
2029-2031	3,944,254	190,821	4,135,075
Total	<u>\$ 21,691,826</u>	<u>\$ 5,875,340</u>	<u>\$ 27,567,166</u>

NOTE #5 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

B. Funding Policy

Active plan members in the Miscellaneous Plan are required to contribute 7 percent of their annual covered salary. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for Fiscal Year 2007-2008 was 12.794 percent for 32 employees. (The District has only miscellaneous employees.) The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For Fiscal Year 2007-2008, the District's annual pension cost was \$331,736. The District also contributed \$181,503 for plan members' contributions. The required contribution for fiscal year 2007-2008 was

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay.

The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses); and (b) projected salary increases that vary by duration of service ranging from 3.25 percent to 14.45 percent for miscellaneous members. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of Miscellaneous Plan's assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a two- to five-year period depending upon the size of investment gains and/or losses. Miscellaneous Plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was 17 years.

C. Three-Year Trend Information for Miscellaneous Plan:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	\$ 229,563	100%	\$ -
6/30/2007	310,736	100%	-
6/30/2008	331,736	100%	-

NOTE #6 - POST-RETIREMENT BENEFITS

The District provides post-retirement benefits to 19 eligible employees for post-retirement health insurance premiums. Retired employees have a choice of remaining on the District's group health insurance plan or purchasing a plan of their choice. The District is billed monthly for its share of the premium and the employee's share of the premium is deducted from his/her retirement plan. For the fiscal year 2007-2008, the District paid \$160,285 in post-retirement health insurance benefits to eligible retirees.

NOTE #7 - RISK MANAGEMENT

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

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

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

NOVATO SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2008:

Total assets	\$	26,583,469
Total liabilities		15,298,475
Net assets	\$	<u>11,284,994</u>
Total revenues	\$	7,694,333
Total expenses		10,806,732
Net income	\$	<u>(3,112,399)</u>

NOTE #8 – LOCAL IMPROVEMENT DISTRICT BONDS

Within the District's boundaries, there exists the Assessment District No. 2001 (Novato Heights) which was formed for the sole purpose of financing sewer system improvements. The District is not liable for repayment of any bonds issued to finance these local improvements. The District acts as the agent for the property owners within the assessment District by collecting assessments, forwarding collections to bondholders, and initiating foreclosure procedures if appropriate. The outstanding balance on these bonds was \$1,680,000 at June 30, 2008.

NOTE #9 – RELATED PARTY TRANSACTIONS / NOTE RECEIVABLE

The Employee Residence Relocation Assistance between the District and the District's Deputy Manager-Engineer is for a \$100,000 loan which is to be applied toward the purchase of the employee's principal residence. The note is secured by a deed of trust. The property is to be located within the boundaries of the District.

The balance of the note receivable as of June 30, 2007, was \$92,855. The original terms of the note stipulated an average interest rate of 4.28 percent with the principal and interest payments payable over a period of 30 years. However, during the 2007-08 fiscal year, the note was paid in full along with interest that had accrued to the payoff date.

SUPPLEMENTAL INFORMATION



Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Novato Sanitary District
Novato, California

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

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

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
February 17, 2009

NOVATO SANITARY DISTRICT

OPERATING EXPENSES (EXCLUDING DEPRECIATION)
FOR THE YEAR ENDED JUNE 30, 2008

	Collection System	Novato Treatment	Ignacio Treatment	Wastewater Reclamation/Disposal	Laboratory and Monitoring	Sewers and Pump Stations	Solid Waste Programs	Recycled Water Programs	Administrative and Engineering	Total
Salaries and wages	\$ 509,053	\$ 385,173	\$ 259,937	\$ 68,566	\$ 229,478	\$ 153,439	\$ -	\$ 28,290	\$ 953,902	\$ 2,587,838
Employee benefits	-	-	-	-	-	-	-	-	1,254,547	1,254,547
Director's fees	-	-	-	-	-	-	-	-	34,625	34,625
Gasoline, oil and fuel	12,760	21,432	12,282	3,621	2,846	1,975	-	35	4,125	59,076
Software maintenance	71,919	3,242	3,235	1,875	-	1,875	-	-	5,117	87,263
Insurance	-	-	-	-	-	-	-	-	72,426	72,426
Insurance claims	-	-	-	-	-	-	-	-	253,372	253,372
Memberships	-	-	-	-	-	-	-	-	6,475	6,475
Office expense	-	-	-	-	-	-	-	-	26,560	26,560
Supplies	16,249	24,437	22,976	6,102	36,471	9,853	-	1,077	9,232	126,397
Chemicals	-	132,447	113,242	2,198	-	2,199	-	-	-	260,688
Janitorial services	-	1,575	-	-	-	-	-	-	-	1,575
Grounds maintenance	-	1,164	400	-	-	-	-	-	-	1,564
Sludge disposal	-	-	21,989	25,137	-	-	-	-	-	47,126
Accounting	-	-	-	-	-	-	-	-	-	19,500
Attorney	-	-	-	-	-	-	-	-	72,518	72,518
Consulting services	-	-	-	-	-	-	76,886	-	96,770	173,656
Printing and publication	-	-	-	-	-	-	-	-	7,869	7,869
Repairs and maintenance	41,736	123,768	107,815	109,078	7,203	92,803	-	33,908	12,988	529,299
Unusual equipment maintenance	-	3,905	25,557	6,300	-	-	-	-	-	35,762
Small Tool Purchase	2,916	4,740	3,064	2,383	-	3,275	-	-	-	16,378
Ditch/Dike Maintenance	-	-	-	1,113	-	-	-	-	-	1,113
Research/monitoring	-	-	-	-	79,089	-	-	-	-	79,089
Pollution prevention - public ed	-	-	-	-	31,590	-	-	-	-	31,590
Travel, meetings and training	-	-	-	-	-	-	-	-	52,607	52,607
Utilities	-	489,824	193,628	111,305	-	87,196	-	8,000	-	889,953
Water	2,508	2,145	737	5,393	-	9,079	-	-	-	19,862
Telephone	1,828	7,990	1,755	1,111	-	19,769	-	-	11,059	43,512
Other	-	-	21,549	-	-	-	782	-	-	22,331
Permits and fees	4,409	61,025	211,037	-	2,359	2,040	-	398	-	281,268
Service charge collection fees	-	-	-	-	-	-	-	-	56,042	56,042
Service charge system Exp	-	-	-	-	-	-	149,924	-	3,792	179,506
Consulting services-collection	29,582	-	-	-	-	-	11,767	-	-	11,767
Permanent Facility	-	-	-	-	-	-	438	-	-	438
Used Oil Program	-	-	-	-	-	-	10,000	-	-	10,000
AB 939 Administrative Services	-	-	-	-	-	-	-	-	44,930	44,930
Election expense	-	-	-	-	-	-	-	-	33,094	33,094
Agency dues	-	-	-	-	-	-	-	-	-	-
Capital Outlay	1,187	-	-	-	-	-	-	-	-	1,187
Total	\$ 694,147	\$ 1,262,867	\$ 999,203	\$ 344,182	\$ 389,036	\$ 383,503	\$ 249,797	\$ 82,310	\$ 3,031,550	\$ 7,436,595
Percent	9.3%	17.0%	13.4%	4.6%	5.2%	5.2%	3.4%	1.1%	40.8%	100.0%

NOVATO SANITARY DISTRICT

OPERATING EXPENSES (BUDGET AND ACTUAL) FOR THE YEAR ENDED JUNE 30, 2008

	Actual	Budgeted
Collection System		
Salaries & Wages	\$ 509,053	\$ 355,793
Gas, Oil & Fuel	12,760	15,000
Software Maintenance	71,919	75,000
Operating Supplies	16,249	15,000
Grounds Maintenance	-	2,500
Repairs & Maintenance	41,736	65,000
Small Tools	2,916	5,000
Outside Services	29,582	30,000
Water	2,508	6,000
Telephone	1,828	5,000
Permits & Fees	4,409	1,000
Vehicle Replacement	-	35,000
Capital Outlay	1,187	50,000
Total - Collection System	\$ 694,147	\$ 660,293

	Actual	Budgeted
Novato Treatment Plant:		
Salaries and wages	\$ 385,173	\$ 696,762
Gasoline, oil, and fuel	21,432	28,000
Software maintenance	3,242	7,000
Operating supplies	24,437	35,000
Operating chemicals	132,447	150,000
Janitorial services	1,575	2,000
Grounds maintenance	1,164	3,000
Repairs and maintenance	123,768	135,000
Unusual equipment maintenance	3,905	65,000
Small tool purchases	4,740	5,000
Utilities	489,824	500,000
Water	2,145	4,000
Telephone	7,990	8,000
Permits and fees	61,025	70,500
Vehicle replacement	-	16,000
Capital outlay	-	5,000
Total - Novato Treatment Plant	\$ 1,262,867	\$ 1,730,262

NOVATO SANITARY DISTRICT

OPERATING EXPENSES (BUDGET AND ACTUAL) FOR THE YEAR ENDED JUNE 30, 2008

	Actual	Budgeted
Ignacio Treatment Plant:		
Salaries and wages	\$ 259,937	\$ 237,195
Gasoline, oil, and fuel	12,282	10,000
Software maintenance	3,235	7,000
Operating supplies	22,976	28,000
Operating chemicals	113,242	120,000
Janitorial services	-	500
Grounds maintenance	400	2,500
Sludge disposal - contract	21,989	25,000
Repairs and maintenance	107,815	100,000
Unusual equipment maintenance	25,557	80,000
Small tools	3,064	2,500
Utilities	193,628	220,000
Water	737	1,750
Telephone	1,755	3,000
Operational assistance	21,549	100,000
Permits and fees	211,037	180,000
Vehicle replacement	-	5,200
Total - Ignacio Treatment Plant	\$ 999,203	\$ 1,122,645

	Actual	Budgeted
Wastewater Reclamation / Disposal Facilities		
Salaries and wages	\$ 68,566	\$ 74,124
Gasoline, oil, and fuel	3,621	10,000
Software maintenance	1,875	5,000
Operating supplies	6,102	4,000
Operating chemicals	2,198	5,000
Sludge disposal - contract	25,137	45,000
Repairs and maintenance	109,078	150,000
Unusual equipment maintenance	6,300	70,000
Small tools	2,383	2,000
Ditch/Dike Maintenance	1,113	50,000
Utilities	111,305	100,000
Water - Reclamation	5,393	7,000
Permits and fees	1,111	2,000
Vehicle replacement	-	7,000
Capital Outlay	-	80,000
Total - Wastewater Reclamation	\$ 344,182	\$ 611,124

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

	Actual	Budgeted
Laboratory and Monitoring:		
Salaries and wages	\$ 229,478	\$ 205,305
Gasoline, oil, and fuel	2,846	2,500
Software maintenance	-	5,000
Operating supplies	36,471	32,000
Repairs and maintenance	7,203	6,000
Research and monitoring (contractual)	79,089	121,000
Pollution prevention / public education	31,590	45,000
Permits and fees	2,359	5,000
Vehicle replacement	-	1,400
Capital Outlay	-	20,000
Total - Laboratory and Monitoring	\$ 389,036	\$ 443,205

	Actual	Budgeted
Sewers and Pump Stations:		
Salaries and wages	\$ 153,439	\$ 88,948
Gasoline, oil, and fuel	1,975	12,000
Software maintenance	1,875	5,000
Operating supplies	9,853	12,000
Operating chemicals	2,199	3,000
Repairs and maintenance	92,803	60,000
Small tools	3,275	5,000
Utilities	87,196	90,000
Water	9,079	7,500
Telephone	19,769	18,000
Permits and fees	2,040	3,000
Vehicle replacement	-	10,000
Capital outlay	-	10,000
Total - Sewers and Pump Stations	\$ 383,503	\$ 324,448

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

	Actual	Budgeted
Solid Waste Program		
Consulting services	\$ 76,886	\$ 75,000
Household hazardous waste	149,924	170,000
Permanent HHW facility	11,767	42,000
Used Oil Program	438	6,551
Administrative expenses	10,000	10,000
Other expenses	782	5,000
Total - Solid Waste Program	\$ 249,797	\$ 308,551

	Actual	Budgeted
Recycled Water Program		
Salaries	\$ 28,290	\$ 29,649
Gas, oil and fuel	35	600
Software maintenance	-	5,000
Operating supplies	1,077	500
Operating chemicals	10,602	10,000
Repairs and maintenance	33,908	27,000
Utilities	8,000	8,000
Permits and fees	398	1,200
Total - Recycled Water Program	\$ 82,310	\$ 81,949

NOVATO SANITARY DISTRICT

**OPERATING EXPENSES – BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

	Actual	Budgeted
Administrative and Engineering:		
Salaries and wages	\$ 953,902	\$ 1,001,001
Employee benefits	1,254,547	1,319,000
Director's fees	34,625	33,000
Election expense	44,930	40,000
Gasoline, oil, and fuel	4,125	11,000
Insurance	72,426	75,000
Insurance claims expense	253,372	25,000
Agency dues	33,094	36,000
Memberships	6,475	9,000
Office expense	26,560	27,000
Software maintenance	5,117	14,000
Engineering supplies	9,232	8,000
Accounting and auditing	19,500	25,000
Attorneys' fees	72,518	90,000
Outside consulting	96,770	160,000
Printing and publishing	7,869	8,000
Repairs and maintenance	12,988	12,000
Travel, meetings, and training	52,607	75,000
Telephone	11,059	11,500
County collection fees	56,042	47,200
Service charge system expense	3,792	10,000
Vehicle replacement	-	5,600
Capital outlay	-	20,000
Total - Administrative and Engineering	\$ 3,031,550	\$ 3,062,301



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

Board of Directors
Novato Sanitary District
Novato, California

We have applied the procedures enumerated below to the Appropriations Limit worksheet of the Novato Sanitary District for the year ended June 30, 2008. These procedures, which were agreed-upon by the Novato Sanitary District and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*), were performed solely to assist the Novato Sanitary District in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution.

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

The procedures performed and the findings were as follows:

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

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

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

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

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

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

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

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

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
February 17, 2009

Novato Treatment Plant Project Contract Summary – March 13, 2009

Schedule and Time Summary:

• Notice to Proceed	May 21, 2007
• Original Contract Duration	1120 Calendar Days
• Original Completion Date	June 13, 2010
• Time Extensions	90 Calendar Days
• Current Contract Duration	1210 Calendar Days
• Current Contract Completion Date	September 11, 2010
• Time Elapsed	662 Calendar Days
• Percent Time Elapsed	55%

Schedule Highlights (See attached Progress Pictures):

- **Overall:** Total Project Substantial Completion is running about 1 month late from the September 11, 2010 target however it is expected that this time can be recovered.
- **Influent Pump Station:** Concrete placement is about complete and mechanical and electrical installation has begun.
- **Headworks & Primary Clarifier No. 2:** These facilities were substantially complete in February and are now in normal operation under the control of the District's operators. Punch list work continues.
- **Primary Clarifier No. 1:** Because this clarifier is to be located at the site of the existing primary clarifier, new primary clarifier No. 2 had to be completed and in service before the existing clarifier could be taken out of service and demolished. Demolition of the existing clarifier is now underway.
- **Aeration Basins:** Concrete for basins 1&2 is about 90% complete including the center flow distribution section. Mechanical and electrical work is now underway with the main emphasis on installation of the aeration air piping. Most of the handrail for basins 1&2 is complete. Work on basins 3&4 has not commenced but is expected to start this month (or early next) with shoring and excavation.
- **Secondary Clarifiers & RAS/WAS Pump Station:** Concrete for the main tank section, including the launder, is complete and leak testing of the tank is complete. Installation of the internal mechanism is expected to start late this month. Concrete for SC#2 is 60% complete. The RAW/WAS pump station drilled concrete piers are in place.
- **UV Disinfection:** Drilled concrete piers are complete. Work on this facility is expected to start soon.
- **Effluent Pump Station:** Drilled concrete piers are complete. Work on this facility is expected to start soon.
- **Gravity Belt Thickeners:** In operation by District's operators.
- **Digester:** Concrete complete; steel lid cover is erected, coated, and awaiting insulation. Handrail on top is complete. Piping between the new digester and the existing solids handling building is underway and will be followed by installation of the various pumping systems next month.

Construction Contract Cost Summary:

• Original Contract Amount	\$ 66,379,000
• Change Orders Executed/Negotiated	\$ 267,346
• Current Contract Amount	\$ 66,646,346
• Progress Payment To-Date	(2) \$ 37,888,065
• Current Contract Amount Expended To-Date	57 %
• Percent Change Orders To-date	0.4%

Potential Contract Cost:

• Current Contract Amount	\$ 66,646,346
• Prospective Changes (from Change Summary below)	\$ 998,864
TOTAL PROSPECTIVE CONSTRUCTION CONTRACT AMOUNT	\$67,645,210

Change Summary:

Item	Time (calendar days)	Amount (\$)
Executed/Negotiated Change Orders	90	267,346
Pending Field Orders (authorized amount) (1)	0	281,268
Pending Requests for Quotation (1)	0	709,696
Pending Potential Change Orders (Contractor Requests) (1)	0	7,900
Subtotal - Open Prospective Changes	0	998,864
TOTAL FIRM & PENDING CHANGES	90	(3) \$1,266,210
PERCENT TOTAL FIRM & PENDING CHANGES		(4) 1.9%

(1) Values presented here may include a combination of unevaluated proposals from contractor, rough "placeholder" values, and items in various stages of negotiations. These values are subject to significant variation and are not intended to be a refined cost forecast.

(2) March 2009 billing not yet available; assume \$1,000,000 earned through mid month.

(3) This is an increase of \$290,468 from the December 2008 report.

(4) This value was 1.5% for the December 2008 report.

Additional Detail for “Change Summary” on Previous Page:

Notable Changes Since Last Report (items greater than \$10,000; rounded)

• Aeration Basin Effluent Channels and Gates	\$13,000
• Aeration Basin 3W Spray System	\$100,000
• Arc Flash Study	\$16,000
• Enhanced Electrical Grounding	\$15,000
• Second Radio Link to Ignacio	\$10,000

Notable Changes Since Inception (items greater than \$50K):

Deductive:

• Flood Acts of God Insurance	(\$731,236)
• Cast In Place Concrete Pier Lengths	<u>(\$193,206)</u>
	(\$924,442)

Additive:

• Alternate Blower	\$515,820
• Aeration Flow Meters	\$160,000
• Precast Concrete Electrical Pull Boxes	\$78,193
• Solids Handling Areas Classification	\$75,000
• Off haul of Unsuitable Material	<u>\$300,000</u>
	\$1,129,013

Note: the Deductive and Additive change values shown here are all included in the Change Summary values presented in preceding sections of this report.

• **Differing Site Conditions:**

Original Contract Allowance	\$750,000
Used through Mid March 2009	\$526,061
Available Balance	\$223,939

Notes:

- 1. The Differing Site Condition costs are not included in the Change Summary values presented in preceding sections of this report because these costs are part of the original contract value.*
- 2. There was no change in the amount of DSC used since the late October 2008 report.*



Influent Pump Station: North View



Influent Pump Station: South View



Headworks Building



Demolition of Existing Primary Clarifier #1



Aeration Basins 1 & 2



Aeration Basins 1 & 2; Mixed Liquor Piping



Aeration Basins Splitter Box



Secondary Clarifier #1: Leak Test



North East Retaining Wall



Digester

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: DISRUPTION OF SERVICE BY PG&E AT IGNACIO TREATMENT PLANT TO PERFORM EMERGENCY SYSTEM UPGRADES	MEETING DATE: 3/23/2009 AGENDA ITEM NO. : 6.b
RECOMMENDED ACTION: Receive report of outage notification by PG&E and authorize the Manager-Engineer to expend emergency unbudgeted funds in an amount up to \$30,000 from Account No. 62150 – Repairs and Maintenance.	
<p>SUMMARY AND DISCUSSION:</p> <p>On March 16, 2009 PG&E provided a formal 2 week notice of outage at the Ignacio Treatment Plant (ITP). They have scheduled the outage for March 30 thru' April 2, 2009. PG&E has informed us that the outage is driven by a mandate from the State Independent System Operator (ISO) to PG&E to upgrade their Ignacio sub-station and related circuits to provide a more reliable power supply to the region encompassing Marin county and east to Mare Island. ISO is requiring PG&E to complete this work by April 5, 2009. Since the ITP is on a dedicated circuit from the sub-station, it will be the only entity affected by the 4-day outage. Also, after discussion with PG&E staff and an attorney for PG&E, District staff has been informed that by statute PG&E is only obligated to provide us a 2-week notice and not be responsible for any impacts thereafter including any costs of emergency power provisions we might have to make. While previous experience with PG&E on similar issues indicates that this may be true, staff will be following up on this with District Counsel. The more pressing issue however is to plan and implement emergency power at the ITP for this outage.</p> <p>Staff has already mobilized to make such provisions. At this writing, bids are been generated by three emergency generator suppliers and should be available by Monday, March 23, 2009. Staff has also contacted Mike Brown Electric Co. (MBEC) for doing the physical work of connecting an emergency generator into the District's ITP power distribution system. Connecting the generator into the ITP system and energizing it is a fairly complex operation as was demonstrated last year during the upgrade of the ITP system to connect in the new Ignacio Transfer Pump Station (ITPS). MBEC has very specific hands-on experience of performing such work at the ITP since they had performed the ITPS work. They will be dedicating the same foreman and/or crew that performed last year's work to this emergency work and staff is reasonably certain that the switchover will go well.</p> <p>Accordingly, it is recommended that the Manager-Engineer be authorized to expend emergency funds in the amount of upto \$30,000 to perform this work, with a final accounting of costs and report on related activities to be provided at a future Board meeting.</p>	
<p>ALTERNATIVES: None.</p>	
<p>BUDGET INFORMATION: The FY08-09 budget for this account is \$100,000 of which approximately \$58,000 remains.</p>	
<p>DEPT. MGR. :</p>	<p>MANAGER'S APPROVAL:</p>

Novato Sanitary District Check Register

March 23, 2009

Date	Num	Name	Credit
Mar 23, 09			
03/23/2009	42067	JMB Construction Inc.	152,184.00
03/23/2009	42088	RMA Engineering & Management, Inc.	20,916.00
03/23/2009	42059	Covello Group, The	20,368.44
03/23/2009	42052	Basic Chemical Solutions	10,964.18
03/23/2009	42081	Olin Chlor Alkali Products	8,091.70
03/23/2009	42069	Koffler Electrical Mech, Inc.	4,277.13
03/23/2009	42096	Vavrinek, Trine, Day & Co. LLP	4,250.00
03/23/2009	42099	W.R. Forde	3,270.00
03/23/2009	42046	3T Equipment Company Inc.	2,849.02
03/23/2009	42053	Caltest Analytical Lab Inc.	2,810.10
03/23/2009	42063	G & K Services	2,682.36
03/23/2009	42072	McCrometer Inc.	2,503.29
03/23/2009	42068	Kaiser Permanente	2,072.76
03/23/2009	42051	American Express-21007	1,898.17
03/23/2009	42055	CASA	1,700.00
03/23/2009	42087	Randall Bros. Auto Inc.	1,591.55
03/23/2009	42071	Maggiora & Ghilotti Inc.	1,418.72
03/23/2009	42098	Verizon California	1,408.59
03/23/2009	42060	CWEA	1,335.00
03/23/2009	42066	IDEXX Distributing Corp.	1,159.45
03/23/2009	Dir Dep	Larry Whitney	1,100.00
03/23/2009	42050	Alliant Insurance Services, Inc	979.00
03/23/2009	42100	WasteManagement	976.50
03/23/2009	42078	Novato Disposal-	848.66
03/23/2009	42065	HACH/American Sigma Inc	812.41
03/23/2009	42106	Zenith Instant Printing, Inc.	808.66
03/23/2009	42077	Novato Advance	808.00
03/23/2009	42058	Control Techniques Americas LLC	684.47
03/23/2009	42093	Team Ghilotti	678.52
03/23/2009	42103	Wedge Roofing Inc.	650.00
03/23/2009	42079	Novato, City	598.00
03/23/2009	42080	Oakley Water Strategies, Inc.	592.50
03/23/2009	42089	Royal Petroleum Company	583.91
03/23/2009	42057	CED Santa Rosa, Inc	572.71
03/23/2009	42073	McMaster-Carr Supply Co.	466.90
03/23/2009	42104	WEF Membership	384.00
03/23/2009	42062	Edward R. Bacon Company, Inc.	329.92
03/23/2009	42061	CWEAmembers	264.00
03/23/2009	42074	Municipal Maintenance, Inc.	260.94
03/23/2009	42070	Lab Safety Supply	222.00
03/23/2009	42084	Petty Cash	206.64
03/23/2009	42048	Alhambra	190.75
03/23/2009	42097	Verizon Business	169.76
03/23/2009	42091	Sanitary District #5	165.00
03/23/2009	42092	Sport & Spine Therapy of Marin, Inc.	165.00
03/23/2009	42102	WC's Locks & Keys	156.68
03/23/2009	42101	Water Components & Building	142.56
03/23/2009	42064	Grainger	138.94
03/23/2009	42047	AirGas-NCN	117.72
03/23/2009	42095	Van Bebbler Brothers Inc.	112.65

03/20/09

Novato Sanitary District

Check Register

March 23, 2009

<u>Date</u>	<u>Num</u>	<u>Name</u>	<u>Credit</u>
03/23/2009	42056	CDW Government, Inc.	110.62
03/23/2009	42075	North Bay Portables	89.64
03/23/2009	42085	Quill Corporation	65.95
03/23/2009	42105	Zee Medical Company	65.67
03/23/2009	42090	S & S Supplies, Inc.	65.34
03/23/2009	42049	All Star Rents LLP	54.82
03/23/2009	42076	North Marin Water District	47.25
03/23/2009	42082	One Stop Auto Service Inc.	30.79
03/23/2009	42094	USA BlueBook	21.50
03/23/2009	42086	Radio Shack	16.13
03/23/2009	42083	Pacific, Gas & Electric	14.78
03/23/2009	42054	Carquest Auto Parts	10.42
			<u><u>262,530.17</u></u>

Mar 23, 09

03/20/09

Novato Sanitary District Check Register

March 23, 2009

	<u>Date</u>	<u>Num</u>	<u>Name</u>	<u>Credit</u>
Mar 23, 09				
	03/23/2009	1342	Zions Bank	651,135.21
	03/23/2009	1337	Covello Group, The	140,207.18
	03/23/2009	1339	RMC Water & Environment, Inc.	99,367.06
	03/23/2009	1340	Shape Incorporated	1,488.00
	03/23/2009	1341	Verizon California Inc	1,100.00
	03/23/2009	1338	Empire Mini Storage - Novato	730.00
Mar 23, 09				<u>894,027.45</u>

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: WASTEWATER FACILITY UPGRADE, CONTRACT B, PROJECT NO. 72609 - BLOWERS INTEGRATED SYSTEMS FACTORY TESTING	MEETING DATE: 3/23/2009 AGENDA ITEM NO. : 7.b.
RECOMMENDED ACTION: Authorize travel by the Senior Engineer to Springfield, Missouri to witness blower integrated systems factory testing, March 31-April 2, 2009	
SUMMARY AND DISCUSSION: <p>At its August 27, 2007 meeting the District Board directed staff to implement single stage blowers on this project. Subsequently, Monterey Mechanical Co. (MMC) the general contractor for the project contracted with Turblex Inc. to provide their blowers as part of the aeration blower package for the project. The physical construction attributes and mechanical testing of the individual blowers was witnessed by the District Deputy Manager-Engineer in May 2008. At this time, the integration and testing of the blowers with their drive motors, the electronically-actuated-dissolved-oxygen-(DO)-levels-driven aeration air supply valves, the control panels (including the programmable logic controllers or PLCs), all of the related electronics and instrumentation systems, and controls (including control algorithms, software, and programming) will be performed at Turblex's Springfield, MO, facility March 31-April 2, 2009.</p> <p>The District's senior engineer is very well qualified to witness this stage of the testing since all of the testing areas are within his area of expertise and generally fall into his sphere of responsibility at the District.</p> <p>The District travel policy requires Board approval for any out-of-state travel. It is recommended that the Board authorize this travel.</p>	
ALTERNATIVES: NA	
BUDGET INFORMATION: The FY08-09 budget for the Wastewater Facility Upgrade Project is \$35,000,000 of which approximately \$16 million remains.	
DEPT. MGR. :	MANAGER'S APPROVAL:

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Wastewater Treatment Plant Upgrade Project: Landscape Plans	MEETING DATE: March 23, 2009 AGENDA ITEM NO.: 7.c.
RECOMMENDED ACTION: Consider authorizing staff to request proposal for preparation of a landscape plan for the eastern side of the treatment plant.	
SUMMARY AND DISCUSSION: The new Novato Treatment Plant is located at the eastern side of the District property which is more visible to houses along Lea Drive. The contractor has now installed an irrigation water supply to the area and is no longer working in the area where plantings would go. District staff is recommending that the District engage a landscape architect to design plantings to screen the treatment plant structures from the view of the neighbors.	
ALTERNATIVES: None	
BUDGET INFORMATION: The FY08-09 budget for the Wastewater Facility Upgrade Project is \$35,000,000 of which approximately \$16 million remains.	
DEPT.MGR.:	MANAGER:

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Collection System Spot Repairs, Group 1; Project 2007-03 (72803)	MEETING DATE: March 23, 2009 AGENDA ITEM NO.: 8.a.
RECOMMENDED ACTION: Consider approval of Change Orders and filing Notice of Completion	
SUMMARY AND DISCUSSION: <p>On April 28, 2008 the Board of Directors accepted a proposal from Bay Pacific Pipeline to complete Group 1 Improvements in the amount of \$74,100.00. This project was created to address deficiencies found by the Collection System Department during routine maintenance and video inspections. Work began in June and the Contractor worked diligently to complete the long list of repair items. The majority of the work was completed by August.</p> <p>During the course of the work there were several occasions where change orders were warranted. The cause of the change orders were utility conflicts and inaccurate information provided to the Contractor during the bidding process. The District also added additional items to the Contract when other issues came up that needed immediate attention. The total amount of change orders on this project is \$32,727.43. Of these change orders \$10,700.00 were the result of issues that came up that needed immediate attention, \$22,027.43 were the result of utility conflicts and misinformation given to the contractor during the bidding process.</p> <p>The contractor finished the work in an as expedient manner as possible. Change orders delayed the original completion date of the project, however, there were no liquidated damages to be assessed on this project. The majority of the change order work was the result of misinformation given to the Contractor during the bidding process. Engineering staff is working with the Collection system staff to provide better information when problems are found in order to prevent future change orders.</p> <p>Staff recommends the Board approve the change orders and authorize staff to issue a Notice of Completion.</p>	
ALTERNATIVES: None	
BUDGET INFORMATION: This work is funded from the budget for Project 72803, Annual Collection System Repairs. As of February 28, 2009 this budget has a balance of \$188,615.00. Total expenditures for this project are \$100,494.43.	
DEPT.MGR.:	MANAGER:

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Collection System Improvements – Wilson Avenue Diversion Sewer; Project No. 72706	MEETING DATE: 3/23/2009 AGENDA ITEM NO. : 9.a.
RECOMMENDED ACTION: Consider request for additional working days.	
SUMMARY AND DISCUSSION: <p>On November 10, 2008 the District Board of Directors awarded the Wilson Avenue Diversion Sewer Project to Bay Pacific Pipeline. On February 9, 2009 the District office issued the Notice to Proceed and the contractor began work to install the cut and cover portion of the project. With allowable days for inclement weather the last day of work was March 18th.</p> <p>Prior to the expiration of working days the contractor submitted a letter requesting additional working days. His original subcontractor for installing the cured in place liner has backed out of the job because they cannot install the liner as specified. The contractor has located another subcontractor to perform the work but they are not immediately available. From a quality control perspective of the finished product, District staff is adamant about using a water cured liner in lieu of steam cured during the installation process. Staff is willing to allow the contractor to change contractors to insure that the installation process is completed per the project specifications.</p> <p>The contractor has requested 40 additional working days to complete the project. This translates to 56 calendar days. Staff recommends awarding the contractor 60 calendar days to complete the project. The contractor has completed all of the work that he can complete up to this point of the project so very little staff time will be expended on the project until the subcontractor becomes available.</p>	
ALTERNATIVES: Not award the extra working days and delete this portion of work from the project.	
BUDGET INFORMATION: None	
DEPT. MGR. :	MANAGER'S APPROVAL:

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: PERSONNEL: Consider approval of payment of 2 additional days lost for employee performing jury duty	MEETING DATE: 3/23/2009 AGENDA ITEM NO. : 10.a
RECOMMENDED ACTION: Approve payment of two additional days for employee serving on jury	
SUMMARY AND DISCUSSION: District Senior Engineer Craig Deasy was selected to serve as a trial juror for Sonoma County Superior Court in January and February. District Personnel Rules and Regulations allow for a total of 10 paid working days per year for jury or witness duty. Payment for working days lost in excess of 10 working days is at the discretion of the District Board. Mr. Deasy served 2 additional days in excess of the allowable 10. Staff recommends that the Board approve the request for payment of the two additional days. The alternative is that Mr. Deasy's vacation would be charged for this time.	
ALTERNATIVES: Do not grant the request for 2 additional days for jury duty.	
BUDGET INFORMATION: Two days of salary for the Senior Engineer is \$867.60.	
DEPT. MGR. :	MANAGER'S APPROVAL:

SCHEDULE FOR APPROVAL OF 2009-10 PRELIMINARY AND FINAL BUDGET, APPROPRIATIONS LIMIT, AND SEWER SERVICE CHARGES

March 23, 2009	Approval of schedule for adoption of 2009-10 Preliminary and Final Budget, Appropriations Limit, and Sewer Service Charges.
April 27, 2009	<u>Regular Board meeting</u> : Budget workshop.
April/May	Staff prepares proposed 2009-10 Preliminary Budget.
May 11, 2009	<u>Regular Board meeting</u> . Capital Improvements review.
May 26, 2009	<u>Regular Board meeting</u> . Operations and Maintenance review.
June 8, 2009	<u>Regular Board Meeting</u> : Initial presentation of 2009-10 Preliminary Budget, adoption of service charge ordinance and scheduling of public hearing for July 13 th .
June 22, 2009	<u>Regular Board Meeting</u> : Board considers adoption of 2009-10 Preliminary Budget.
Thursday, June 25	Publish first public hearing notice in the IJ (at least 14 days before hearing). Second notice to be published July 2 nd .
July 13, 2009	<u>Regular Board Meeting</u> : Public hearings on 2009-10 service charge rates, collection on County tax rolls, and adoption of sewer service charge ordinance.
July 31, 2009	State Department of Finance provides growth factors for calculation of the District's 2009-10 appropriations limit.
August 10, 2009	Deadline for providing sewer service charge information to County of Marin.
August 24, 2009	<u>Regular Board Meeting</u> : Board establishes 2008-09 appropriations limit, approves Final Budget, and adopts resolution fixing tax allocation for 2009-10.

Public Hearing and Service Charge Ordinance Noticing Procedures

Hearing Notice published once a week for two successive weeks with at least 5 days intervening between the respective publication dates. First publication to be at least 14 days prior to the date set for hearing. (Publish in IJ).

Ordinance to be published once in the IJ and posted in 3 public places for one week, to take effect upon the conclusion of the hearing.