

NOVATO SANITARY DISTRICT

Meeting Date: November 14, 2011

The Board of Directors of Novato Sanitary District will hold a Regular Meeting at 6:30 p.m., Monday, November 14, 2011, at the District offices, 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. They are also available on the District's website: www.novatosan.com.

AGENDA

1. PLEDGE OF ALLEGIANCE:

2. AGENDA APPROVAL:

3. PUBLIC COMMENT (Please observe a three-minute time limit):

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

4. REVIEW OF MINUTES:

- a. Consider approval of minutes of the October 10th and 24th, 2011 meetings.

5. 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. Acceptance of Easement from City of Novato.
- b. Approve regular disbursements.

6. 2010-11 AUDITED FINANCIAL STATEMENTS:

- a. Presentation of Audited Financial Statements for fiscal year ended June 30, 2011, by Paul Kaymark, Charles Z. Fedak & Company.

7. ADMINISTRATION:

- a. Consider adoption of District Policy No. 4040, "Board President".
- b. Receive Investment Report for period ended September 30, 2011.
- c. Receive Revenue and Expenditure Report for period ended September 30, 2011.
- d. Review Accounts Receivable.
- e. Consider setting meeting dates of November 28 and December 12, 2011.

8. WASTEWATER FACILITY UPGRADE PROJECT 72609:

- a. Staff report on odor control system re-work timeline.

9. ANNUAL COLLECTION SYSTEM REPAIRS PROJECT 72803:

- a. Review bids received and consider accepting the lowest responsive bid and authorize the Manager-Engineer to execute the contract.

10. STAFF REPORTS:

- a. North Bay Watershed Association meeting.
- b. Marin Association of Realtors Government Affairs Committee meeting.

11. BOARD MEMBER REPORTS:

- a. North Bay Water Reuse Authority

12. MANAGER'S ANNOUNCEMENTS:

13. ADJOURN:

Next resolution no. 3036

Board Strategic Planning Workshop, Tuesday, November 15, 2011, 9:00 AM to approximately 3:30 PM.

Next regular meeting date: Monday, November 28, 2011, 6:30 PM at the Novato Sanitary District office, 500 Davidson Street, Novato, CA.

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.

October 10, 2011

A regular meeting of the Board of Directors of the Novato Sanitary District was held at 6:30 p.m., Monday, October 10, 2011, preceded by a closed session beginning at 5:30 p.m. at the District offices, 500 Davidson Street, Novato.

At 5:32 p.m. President Long announced the Board would meet in closed session to discuss the following matters on the Closed Session Agenda:

CLOSED SESSION CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION – (subdivision (a) of Section 54956.9).

Potential Administrative Civil Liability in the matter of sanitary sewer overflows and treatment plant violations including California Regional Water Quality Control Board Complaint No. R2-2010-0102.

BOARD MEMBERS PRESENT FOR CLOSED SESSION: President William C. Long, Members Michael Di Giorgio, Jean Mariani, George C. Quesada and Dennis Welsh.

STAFF PRESENT: Manager-Engineer-Secretary Beverly B. James, Deputy-Manager Engineer Sandeep Karkal and District Counsel Kent Alm. Also present: Davina Pujari, Attorney with Barg, Coffin, Lewis and Trapp.

The Closed Session ended at 6:32 p.m.

Open session began at 6:38 p.m.

BOARD MEMBERS PRESENT FOR OPEN SESSION: President William C. Long, Members Michael Di Giorgio, Jean Mariani, George C. Quesada and Dennis Welsh.

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

ALSO PRESENT: Steve Clary, RMC Water & Environment
John Coleman, Novato resident
Brant Miller, Novato resident
Jerry Peters, Novato resident
Dasse de longh, District employee and Novato resident
Joe Chakkalake, Novato resident
L. Chakkalake, Novato resident
Suzanne Crow, Novato resident
Deb & Jamie Erze, Novato resident
John P. O'Hare, Veolia Water
John Bailey, Veolia Water

Bob Guinan, Novato resident
Joe Carlomagno, Novato resident
Wally Holmes, Novato resident
Vicky Carlomagno, Novato resident
Al Zeidler, Novato resident
Gene Ruda, Novato resident
Stefan Matan, Novato resident

PLEDGE OF ALLEGIANCE:

AGENDA APPROVAL:

On motion of Member Quesada, seconded by Member Mariani, and carried unanimously, the agenda was approved as mailed.

REPORT FROM CLOSED SESSION:

No reportable action was taken.

PUBLIC COMMENT: None.

REVIEW OF MINUTES:

Consider approval of minutes of the September 26, 2011 Board meeting.

On motion of Member Di Giorgio, seconded by Member Quesada and carried unanimously, the September 26, 2011 Board meeting minutes were approved.

CONSENT CALENDAR:

On motion of Member Quesada, seconded by Member Mariani, and carried unanimously, the following Consent Calendar item was approved:

- a. Approval of regular disbursements in the amount of \$300,728.28, project account disbursements in the amount of \$90,799.82 and Board member disbursements in the amount of \$3,342.30.

WASTEWATER TREATMENT PLANT UPGRADE PROJECT 72609:

Consultant report on odor control. The Manager introduced Steve Clary, Engineer, RMC Water and Environment. Mr. Clary presented handouts to the Board and public and proceeded to show a PowerPoint presentation titled "Odor Control Evaluation, 10 October 2011". The presentation provided an outline of the summary of findings as discovered by James Joyce, independent expert in odor control of wastewater facilities. Mr. Clary pointed out that Mr. Joyce was on site at the District on August 30th and 31st to

conduct an odor survey of the Novato treatment plant and the Lea Dr. neighborhood and to review/inspect the existing odor control facilities. Mr. Clary discussed Mr. Joyce's findings. His report noted that the biofilters are appropriate for Novato Sanitary District's facility and the design airflow rates are adequate, but that the design airflow rates are not being achieved, causing foul air to escape.

Mr. Clary stated that the reason the airflow rates are being restricted is that the geo fabric interface in the odor bed is plugged which reduces the total air flow to half of design capacity and forces foul air through the P-trap and drains. He identified several locations in the plant where foul air is/can be escaping.

Mr. Clary outlined proposed recommendations to be implemented to alleviate the foul odors, including removal of the geo fabric interface and replacing the sand media used in the odor beds with an organic media to a greater depth than is currently being used. He stated that in addition, air leaks would be repaired at the fans and the depth of the P-traps would be increased.

Mr. Clary invited questions and responded to the audience, further detailing findings of the report. Participants expressed their continued distress over the odors and were deeply disappointed at the length of time it has taken the District to find a solution to the odor problem.

The Manager discussed the best and most appropriate way to stay in consistent communication with the treatment facility neighbors. She stated that information and odor updates are critical and should be disseminated to the neighborhood as they are available. She stated that neighbors have been provided with an email address to contact the District with odor complaints and concerns, 24 hours a day. The Board discussed the email method of communication currently being used.

The Board agreed that the odor issue is critical and of the highest urgency to alleviate completely. They requested that if any odor relief measures can be taken immediately, these repairs should be completed prior to the full scope of repairs. They stated that costs should not be a consideration. President Long requested the repairs which address the technical issues be handled in an expedited manner.

Members of the audience discussed their concerns regarding potential health concerns due to the odors and possible chemicals released into the air. Member Mariani asked that any studies which show odor composition and health effects be made available to the public. The Manager stated she would look into these studies and provide them to the public.

Direct staff to develop a timetable to implement recommendations.

President Long directed staff to expedite the repair process.

On motion of Member Di Giorgio, seconded by Member Mariani and carried with the following vote, Board directed Staff to prepare a time-table for the next regular Board meeting to address the details of the technical issues involved with solving the odor bed geo fabric interface problem. Ayes: Di Giorgio, Long, Mariani, Welsh. Noes: Quesada.

Member Quesada stated that he voted no to the motion because he feels the Board should meet in one week with a time-table to implement the repair recommendations. He stated that waiting two weeks is not acceptable.

District Counsel Kent Alm stated that there has been tremendous discouragement with the odor issue but he was encouraged that RMC Water & Environment has stepped up and accepted responsibility for the problem. He stated this helps to expedite the process for resolution.

Mr. Clary stated that RMC can expedite the repair process at the Board's discretion. He stated that RMC has adopted the position that they will pay for the repair of the odor control issues because the problem was confirmed to be a design flaw. He provided to the Board and the public a 17 page correspondence from V&A Consulting Engineers which outlined the independent review by James Joyce. The report provided a discussion of the odor issue and presented recommendations to solve the problem.

Director Welsh posed the question that if RMC has adopted the position that they are responsible for the correction of the design flaw, why does the District need to go through a bid process to have the repairs completed. He questioned why RMC does not hire the contractor to complete the modifications without the District's involvement.

Mr. Clary stated that this option was a possibility if it were acceptable to the Board. He noted that RMC was flexible with their approach and would follow the direction of the Board.

President Long called for a five minute recess at 7:57 p.m.

President Long reconvened the meeting at 8:05 p.m.

PUBLIC HEARING – SANITARY CODE REVISIONS:

Open hearing. President Long opened the Public Hearing at 8:05 p.m. The Manager stated that the documents provided to the Board contained revisions to Ordinance No. 115 to comply with Provision 1 of the Regional Board's Order No. R2-2011-0009. She noted that the proposed Ordinance had been reviewed and approved by legal counsel and is ready for Board adoption.

Public comment on proposed revisions. There was no public comment on the Ordinance.

Close hearing. President Long closed the Public Hearing at 8:08 p.m.

SANITARY CODE REVISIONS:

Consider adoption of Ordinance No. 115 amending Sanitary Code (Ordinance No. 70). The Manager stated that Ordinance No. 115 would replace sections of Ordinance No. 70. President Long pointed out an error on page 16, Sec. 809, item (a) and requested the text be changed as follows: Any liquid or vapor having a closed-cup flashpoint **lower** than 60 degrees C (140 degrees F).

On motion of Member Di Giorgio, seconded by Member Quesada and carried unanimously, the Board adopted Ordinance No. 115 with the above noted revisions.

STAFF REPORTS:

Certificates of Participation sale. The Manager outlined the Certificates of Participation (COP) sale which took place on September 27, 2011 and noted that Morgan Stanley & Co.'s bid was accepted as follows: true interest cost: 4.112659%; par amount: \$21,750,000; bid: \$22,000,125. She stated that the annual payments will vary starting at \$1,685,697.50 and decreasing to \$1,450,787.50 at the end of 20 years. She noted that this payment schedule is consistent with the projections in the financial analysis presented in the Preliminary Offering Statement. The Manager stated that the bond documents have been signed and the first transfer to Bank of New York Mellon will take place on October 13, 2011.

Member Di Giorgio congratulated the finance committee on securing the bond at such a low interest rate.

The Manager stated that Bartle Wells would be reviewing investment options for the COP funds the District receives.

Member Quesada requested letters of appreciation be prepared for Tom Gaffney, Bartle Wells Associates and Chick Adams, Jones Hall Bond Counsel. The Manager stated that she would prepare the letters.

BOARD MEMBER REPORTS:

North Bay Watershed Association meeting. Member Di Giorgio discussed his attendance at this meeting which was held in Petaluma on October 7th. He noted that Bruce Wolfe, Regional Water Quality Control Board, presented a very informative regulatory update.

Member Welsh questioned the status of the proposed sewer main repairs on East Ct. which were brought forth by Mr. Jim Henderson at the previous Board meeting.

Member Quesada questioned if Board members could attend any and all committee meetings solely as part of the audience, not as a member. District Counsel Kent Alm stated that the Brown Act was amended several years ago to address these circumstances. He stated that if a committee meeting is being held and additional Board members are in attendance, the Board members can only act as a member of the public and cannot participate in any way in the meeting. He noted that if the additional member participated, this would be a violation of the Brown Act. Mr. Alm stated he does not recommend that Board members attend committee meetings in which they are not a member. He stated that if Board members wish to attend, the Board may declare in advance that the committee meeting be called a "workshop".

MANAGER'S ANNOUNCEMENTS:

The Wastewater Operations Committee meeting will be held on October 17th at 2:00 p.m. at the District office.

An Audit Committee meeting is tentatively scheduled for October 18th, time to be determined.

ADJOURNMENT: There being no further business to come before the Board, President Long adjourned the Board meeting at 8:33 p.m.

Respectfully submitted,

Beverly B. James
Secretary

Julie Borda, Recording

October 24, 2011

A regular meeting of the Board of Directors of the Novato Sanitary District was held at 6:30 p.m., Monday, October 24, 2011, at the District Office, 500 Davidson Street, Novato.

BOARD MEMBERS PRESENT: President William C. Long, Members Michael Di Giorgio, Jean Mariani, George C. Quesada, and Dennis Welsh.

STAFF PRESENT: Manager-Engineer-Secretary Beverly B. James, Deputy Manager-Engineer Sandeep Karkal and Administrative Secretary Julie Swoboda.

ALSO PRESENT: John Coleman, Novato resident
Dasse de longh, NSD employee, Novato resident
Brant Miller, Novato resident
Joe Carlomagno, Novato resident
Bob Guinon, Novato resident
Jerry Peters, Novato resident
Jo Heffelfinger, Novato resident
Debra & Jamie Erze, Novato residents
Suzanne Crow, Novato resident

PLEDGE OF ALLEGIANCE:

AGENDA APPROVAL:

On motion of Member Quesada, seconded by Member Mariani, and carried unanimously, the agenda was approved as mailed.

PUBLIC COMMENT: None.

REVIEW OF MINUTES:

Consider approval of minutes of the October 10, 2011 meeting.

Member Welsh requested an addition be made to the minutes to reflect his comments regarding the odor control issue as discussed with RMC. The Board Recorder will review the audio portion of the meeting and present revised minutes at the next Board meeting.

CONSENT CALENDAR:

Member Welsh requested item a: *Approve a Resolution providing relief on pH limits for Norcal Dyeworks facility and setting the revised pH limits*, be removed from the Consent Calendar for further discussion.

The Manager stated that the District has made this adjustment for a number of other dischargers. She noted that the pH limits being requested are within the current local limits as set by Federal guidelines.

On motion of Member Di Giorgio, seconded by Member Quesada and carried unanimously, the following Consent Calendar items were approved:

- a. Approval of Resolution No. 3035 providing relief on pH limits for Norcal Dyeworks facility and setting the revised pH limits.
- b. Approval of regular disbursements in the amount of \$133,874.75, project account disbursements in the amount of \$465,993.53, and payroll and payroll related expenses in the amount of \$272,336.06.

WASTEWATER FACILITY UPGRADE PROJECT 72609:

- Staff report on odor control system re-work timeline. The Manager stated that at the October 10, 2011 Board meeting, staff was directed to prepare a time-line for the re-work of the odor control system as an urgent matter. She noted that the design team is taking responsibility for the re-work and is committed to completing the work as expeditiously as possible. She stated that staff has been working on the time-line as well as the legal obligations and is moving forward with the contract. She discussed with the Board the options for having the work completed, noting that the most expeditious route would be to issue a Change Order to Gateway Pacific, who is currently onsite for the Recycled Water Facility. The Manager stated that Gateway Pacific will prepare the Change Order for approval at the November 14th Board meeting, and anticipates starting work immediately upon issuance of the Change Order, on November 15, 2011.

The Manager stated that she has reviewed this proposal with District Counsel, Kent Alm, who noted that this proposition would be acceptable under the Change Order status due to the urgency of the matter. She stated that after Kent's review, a letter had been sent to RMC with the agreement that they will reimburse the District for the costs associated with the design flaw repairs.

Member Welsh clarified that the District would pay for the odor control system modifications and then request reimbursement from RMC Water & Environment. He stated that this arrangement may not be in the best interest of the District and expressed his concern that RMC may default on the payments. He stated that RMC should be responsible for the repairs and make payments directly to the contractor. The Manager stated that the decision of how the necessary repairs will be completed is at the discretion of the Board.

Member Mariani stated that she is not comfortable with RMC executing the construction contract because then the District will not have control of the contractor. She stated it would be better to hold RMC to a contractual payment arrangement with the District.

Member Di Giorgio stated he would like the repairs expedited.

Member Quesada stated she would like to see the odor control medium working to full capacity as soon as possible.

President Long opened the meeting to public comment.

Comments from the audience were as follows:

- Move the process along as quickly as possible.
- The landscaping progress is languishing. They do not want the odor problem to languish as well.
- Concerns that winter weather may delay the construction/repair processes.
 - ✓ *The Manager stated that the replacement of the geo-fabric in the odor beds should not be greatly impacted by rain/winter weather patterns.*
- Plantings to create barriers for the odors to reach the Lea Drive neighborhood.
 - ✓ *The Manager stated that vines will be planted to cover the chain link fence being installed on Lea Drive. This will create a visual and an odor screen from the treatment facility.*
- Are there health issues associated with the fugitive odors?
 - ✓ *The Manager stated she will investigate available reports on health issues related to fugitive odors from sewage treatment facilities.*
- Not a bandage solution; wants a resolution that will be thorough and final.
- Could shared knowledge assist in the development of the odor controls at this time, and if it fails, could shared knowledge assist in making better decisions moving forward?
 - ✓ *The Manager stated that based on the community of engineers the District had at the time of construction, the odor control process was evaluated to be successful.*

President Long stated that as the repair contract is implemented with RMC, the District should include an evaluation process to document resolutions to the odor issues.

Suzanne Crow, Novato resident, questioned how much money has already been spent on odor control/repair issues. She stated that an iron clad contract with RMC is paramount. She noted that some repairs may be sensitive to the wet weather. She stated that the plants have been going in slowly and thus drawn out the length of time the neighborhood has been experiencing mal-odors.

Member Mariani requested a report be prepared which allows the District to document progress of the odor repair problems. She stated this report could be presented monthly at the Wastewater Operations Committee meetings. She requested subsequent progress reports reference the recommendations from the Jim Joyce Odor Control report so the progress can be tracked more definitively.

Member Welsh questioned the costs for the odor repairs to date. He asked for the cost of the bioxide compound and who will be responsible for payment. The Manager stated that the District will be purchasing the equipment to dispense the bioxide at an approximate cost of \$8,000. She stated that bioxide will replace the use of ferric chloride which the District currently uses and the costs for these compounds are comparable.

Member Mariana requested a breakdown of the costs already spent by the District in relation to the odor issue.

President Long suggested that the Wastewater Operations Committee members, or other Board members, visit several wastewater treatment facilities to evaluate the success of their odor control systems.

President Long stated that the odors have increased and are offensive. He stated the District desires to be a good neighbor and had used proven technology in the upgrade of the treatment facility. He invited the neighbors to keep coming forward with comments and concerns and stated the Board will continue to work until a solution is achieved.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM:

- Consider approval to make lump sum payment of District's Side Fund to CalPERS by November 15, 2011. The Manager discussed the District's Side Fund to CalPERS for unfunded liability to the retirement system. She stated that as of November 15, 2011, the Side Fund is projected to be \$1,205,537 at an interest rate of 7.75%. She stated that prepayment of this fund will bring the District a savings of approximately \$75,090 per year. The Manager stated that the District's Fiscal Year 2011-2012 Final Budget included an expenditure of \$1,215,597 to prepay the Side Fund. She requested the Board approve the disbursement.

On motion of Member Di Giorgio, seconded by Member Welsh and carried unanimously, the Board approved the lump sum payment of \$1,205,537 to CalPERS to pay the Novato Sanitary District's Side Fund.

WASTEWATER OPERATIONS:

- Committee Report. Deputy Manager-Engineer Sandeep Karkal stated that the Wastewater Operations Committee met on October 17th. He discussed the report and

gave a status update on the warranty work being performed on the Turblex blower. The Deputy Manager-Engineer reviewed the Collection Systems Operation report as well as the Reclamation Facilities report.

- Presentation of electronic Operations and Maintenance Manual. The Deputy Manager-Engineer gave a presentation of the electronic Operations and Maintenance Manual on the District's computer server. He highlighted the details of the manual and demonstrated the ease of access the electronic version provides.

STAFF REPORTS:

- Elm Street area sewer project. The Manager reported on the cause for the delay on the Elm Street sewer repair project. She explained that when the project started in late July, 2005, District staff and the project construction manager were concerned that the contractor would not start the work in the easements in the Elm Street neighborhood until the middle of winter, making access a problem. In addition, District staff and the contractor became less comfortable with using directional drilling to install the new sewer given its flat profile. Based on these facts, the District removed the work from the contract. She stated that the project was put on hold because it was determined to be more of a maintenance issue and discussed the current options for the repair. The Manager stated that she will invite the concerned Elm St. resident, Mr. Henderson, to meet with her so he can be given more information on the status of the project.

Member Welsh questioned why the engineers who designed the project did not foresee the problems with directional drilling. He asked to see the original engineering and bid documents for this project.

Member Mariani suggested the District use an asset management approach on this project. To prevent overflows, she would like a determination of cost effectiveness through: 1) implementing a more rigorous cleaning schedule vs. 2) replacing the main line.

BOARD MEMBER REPORTS:

The Board members reported on their attendance at the California Special District Association conference which was held in Monterey, CA from October 10th to 13th.

Member Mariani reported on her attendance at the Ethics Training. She stated it was prepared by Meyers Nave and was a good session.

Member Di Giorgio reported on his attendance, including sessions regarding Proposition 218, Public Relations, Board Member Liability and Board and Staff Communications.

President Long reported on his attendance, including sessions regarding Board and District Liabilities as presented by SDRMA. He discussed Board policies and the need for the District to have clear policies.

MANAGER'S ANNOUNCEMENTS:

- Next Board meeting on November 14th at 6:30 p.m.
- Strategic Planning Board Workshop on November 15th, from 9:00 a.m. to approximately 4:00 p.m.
- Wastewater Operations Committee meeting on November 16th at 2:00 p.m. This is rescheduled from the regular date of Monday, November 21st.

ADJOURNMENT: There being no further business to come before the Board, President Long adjourned the meeting at 8:40 p.m.

Respectfully submitted,

Beverly B. James
Secretary

Julie Swoboda, Recording

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Grant of Easement - Hamilton Nursery Project - Sanitary Sewer Easement from the City of Novato	MEETING DATE: November 14, 2011 AGENDA ITEM NO.:
RECOMMENDED ACTION: Consider acceptance of a Grant of Easement from the City of Novato.	
SUMMARY AND DISCUSSION: <p>The Army Corps of Engineers is currently constructing the Hamilton Nursery Project at the former Hamilton AFB Landfill Site.</p> <p>The City of Novato owns a strip of land approximately twenty-five feet wide between the Landfill Site and the Hamilton Meadow Subdivision.</p> <p>The Army Corps needed a Sanitary Sewer Easement over the City's property to gain access to the public sewer located within the Hamilton Meadows Subdivision.</p> <p>The City of Novato has provided a signed Grant of Easement along with a plat and description.</p> <p>Staff has reviewed the contents of this Grant of Easement. Accordingly, staff recommends that the Board consider and accept the City of Novato's grant of Sanitary Sewer Easement.</p>	
ALTERNATIVES: Do not accept the grant of easement from the City of Novato.	
BUDGET INFORMATION: Easement right from one public agency to another public agency, no monetary value.	
DEPT.MGR.:	MANAGER:

Novato Sanitary District

Check Register

November 14, 2011

Date	Num	Name	Credit
Nov 14, 11			
11/14/2011	53618	Veolia Water North America, Inc.	157,099.55
11/14/2011	53603	Pacific, Gas & Electric	74,332.31
11/14/2011	53660	Koffler Electrical Mech, Inc.	17,319.50
11/14/2011	53640	Central Marin Sanitation District	15,257.10
11/14/2011	53659	Johnson, Dee	11,013.90
11/14/2011	53608	Rauch Communication Consultants. Inc.	9,888.37
11/14/2011	53598	Meyers, Nave, Riback, Silver & Wilson	4,851.00
11/14/2011	53645	Control Systems West, Inc.	3,919.00
11/14/2011	53607	Preferred Benefit	3,556.56
11/14/2011	53637	Caltest Analytical Lab Inc.	3,387.70
11/14/2011	53616	U.S. Bank Card (2)(June)	3,263.65
11/14/2011	53638	Cantarutti Electric, Inc	2,942.00
11/14/2011	53649	Dearborn National	2,812.99
11/14/2011	53601	North Marin Water District	2,728.46
11/14/2011	53629	Associated Corrosion Engineers	2,295.00
11/14/2011	53626	Adamson, Robert D.	2,240.00
11/14/2011	53655	Golden Gate Petroleum, Corp	1,995.61
11/14/2011	53634	Brenntag Pacific, Inc.	1,960.16
11/14/2011	53623	Water Environment Research Foundation	1,936.00
11/14/2011	53619	Verizon	1,795.20
11/14/2011	53620	Verizon California	1,644.38
11/14/2011	53614	Thomas & Associates, Inc.	1,557.48
11/14/2011	53648	David Jenkins & Associates	1,250.00
11/14/2011	53644	Comet Building Maintenance, Inc.	1,242.50
11/14/2011	53642	Cintas Corporation	1,041.13
11/14/2011	53658	IEDA, INC	1,020.00
11/14/2011	53654	Frontier Analytical Laboratory, Inc.	1,000.00
11/14/2011	53609	RMC Water & Environment, Inc.	1,000.00
11/14/2011	53641	Charles Z. Fedak & Company Corp.	960.00
11/14/2011	53610	Roy's Sewer Service, Inc.	900.00
11/14/2011	53662	Leonardi Automotive & Electric, Inc.	830.20
11/14/2011	53661	LeBallister's Inc	815.00
11/14/2011	53622	VWR International Inc.	810.11
11/14/2011	53599	Nextel Communications	707.12
11/14/2011	53621	Vision Service Plan	604.41
11/14/2011	1818	Long, William C.	547.62
11/14/2011	53657	Hertz Corporation	477.36
11/14/2011	53627	AirGas-NCN, Inc.	464.38
11/14/2011	53664	MarinScope Inc.	456.75
11/14/2011	53566	3T Equipment Company Inc.	450.10
11/14/2011	53632	Beecher Engineering	450.00
11/14/2011	53611	Siemens Industry, Inc.	439.00
11/14/2011	53652	EOA, Inc.	391.91
11/14/2011	53633	BoundTree Medical, LLC	391.70
11/14/2011	53663	Levy, Larry	350.00
11/14/2011	53628	Alhambra	335.84
11/14/2011	53635	Cagwin & Dorward Inc.	329.00
11/14/2011	53606	Pini Hardware	329.00
11/14/2011	53647	CWEAmembers	327.00
11/14/2011	53636	California Diesel & Power	325.00

Novato Sanitary District

Check Register

November 14, 2011

<u>Date</u>	<u>Num</u>	<u>Name</u>	<u>Credit</u>
11/14/2011	53643	Claremont EAP, Inc.	295.00
11/14/2011	53651	Drive Line Service	284.74
11/14/2011	53630	AT&T Mobility	281.94
11/14/2011	53624	Waterman Industries, GNI Waterman, LLC	217.17
11/14/2011	53605	Petty Cash	181.75
11/14/2011	53665	McMaster-Carr Supply Co.	180.06
11/14/2011	53639	CDW Government, Inc.	139.75
11/14/2011	53615	U.S. Bank Card (1)(Bev)	136.91
11/14/2011	53600	North Marin Auto Parts	118.56
11/14/2011	53656	Grainger	98.79
11/14/2011	53604	Pareto Co.	85.00
11/14/2011	53602	Northern Safety Co., Inc.	84.24
11/14/2011	53650	Don Johnsons Pool Service	75.94
11/14/2011	53653	Federal Express	59.99
11/14/2011	53612	Staples Business Adv Inc.	58.11
11/14/2011	53646	Cook Paging	57.99
11/14/2011	53613	T-Mobile	45.68
11/14/2011	53631	Barnett Medical LLC	45.00
11/14/2011	53625	Able Tire & Brake Inc.	36.74
11/14/2011	53617	United Parcel Service	31.12
			<u><u>348,555.53</u></u>

Nov 14, 11

Novato Sanitary District Check Register Detail

	Date	Num	Account	Debit
3T Equipment Company Inc.				
	10/24/2011	56452	60150 · Repairs & Maintenance	209.86
	10/26/2011	56470	60150 · Repairs & Maintenance	151.88
	10/26/2011	56467	60150 · Repairs & Maintenance	<u>88.36</u>
Total 3T Equipment Company Inc.				450.10
Able Tire & Brake Inc.				
	10/31/2011	177718	60150 · Repairs & Maintenance	<u>36.74</u>
Total Able Tire & Brake Inc.				36.74
Adamson, Robert D.				
	11/03/2011	October 2011	64010 · Salaries & Wages	<u>2,240.00</u>
Total Adamson, Robert D.				2,240.00
AirGas-NCN, Inc.				
	10/27/2011	102447374	65150 · Repairs & Maintenance	<u>464.38</u>
Total AirGas-NCN, Inc.				464.38
Alhambra				
	10/27/2011	5117658 10271	66100 · Engineering Supplies	<u>335.84</u>
Total Alhambra				335.84
Associated Corrosion Engineers				
	10/21/2011	335.10.11	63150 · Repairs & Maintenance	1,836.00
	10/21/2011	335.10.11	65150 · Repairs & Maintenance	<u>459.00</u>
Total Associated Corrosion Engineers				2,295.00
AT&T Mobility				
	10/25/2011	878949969x102 66193	· Telephone	154.96
	10/25/2011	878949969x102 65193	· Telephone	35.46
	10/25/2011	878949969x102 60193	· Telephone	35.66
	10/25/2011	878949969x102 61000-4	· Water/Permits/Telephone	<u>55.86</u>
Total AT&T Mobility				281.94
Barnett Medical LLC				
	10/05/2011	18861	64170 · Pollution Prevention/Public E	<u>45.00</u>
Total Barnett Medical LLC				45.00
Beecher Engineering				
	10/25/2011	1011-27	66123 · O/S Contractual	<u>450.00</u>
Total Beecher Engineering				450.00
BoundTree Medical, LLC				
	10/24/2011	80660589	64170 · Pollution Prevention/Public E	<u>391.70</u>
Total BoundTree Medical, LLC				391.70
Brenntag Pacific, Inc.				
	10/17/2011	BPI141775	65101 · Operating Chemicals	<u>1,960.16</u>
Total Brenntag Pacific, Inc.				1,960.16
Cagwin & Dorward Inc.				
	10/01/2011	420874	66150 · Repairs & Maintenance	<u>329.00</u>
Total Cagwin & Dorward Inc.				329.00
California Diesel & Power				

Novato Sanitary District Check Register Detail

	Date	Num	Account	Debit
	11/01/2011	89354-00	65150 · Repairs & Maintenance	325.00
Total California Diesel & Power				325.00
Caltest Analytical Lab Inc.				
	10/17/2011	418630	64160 · Research & Monitoring	3,387.70
Total Caltest Analytical Lab Inc.				3,387.70
Cantarutti Electric, Inc				
	10/13/2011	2648	65150 · Repairs & Maintenance	2,942.00
Total Cantarutti Electric, Inc				2,942.00
CDW Government, Inc.				
	10/17/2011	ZZX7783	61000-4 · Water/Permits/Telephone	139.75
Total CDW Government, Inc.				139.75
Central Marin Sanitation District				
	10/18/2011	12-8020	66123 · O/S Contractual	15,257.10
Total Central Marin Sanitation District				15,257.10
Charles Z. Fedak & Company Corp.				
	10/31/2011	October 2011	66121 · Accounting & Auditing	960.00
Total Charles Z. Fedak & Company Corp.				960.00
Cintas Corporation				
	10/31/2011	October 2011	64100 · Operating Supplies	187.10
	10/31/2011	October 2011	66100 · Engineering Supplies	406.39
	10/31/2011	October 2011	60100 · Operating Supplies	447.64
Total Cintas Corporation				1,041.13
Claremont EAP, Inc.				
	10/19/2011	25210	66123 · O/S Contractual	295.00
Total Claremont EAP, Inc.				295.00
Comet Building Maintenance, Inc.				
	10/21/2011	85630	66150 · Repairs & Maintenance	1,242.50
Total Comet Building Maintenance, Inc.				1,242.50
Control Systems West, Inc.				
	10/19/2011	2814-7862	65150 · Repairs & Maintenance	3,919.00
Total Control Systems West, Inc.				3,919.00
Cook Paging				
	11/01/2011	8493359	61000-4 · Water/Permits/Telephone	24.00
	11/01/2011	8493359	65193 · Telephone	22.52
	11/01/2011	8493359	60193 · Telephone	11.47
Total Cook Paging				57.99
CWEAmembers				
	10/25/2011	O'Connor Certifi	66080 · Memberships	88.00
	10/31/2011	Sandoval Cert 2	66080 · Memberships	83.00
	10/31/2011	Foged Cert 201	66080 · Memberships	78.00
	10/31/2011	Ingemansson C	66080 · Memberships	78.00
Total CWEAmembers				327.00
David Jenkins & Associates				

Novato Sanitary District Check Register Detail

	Date	Num	Account	Debit
	10/02/2011	54	66123 · O/S Contractual	1,250.00
Total David Jenkins & Associates				1,250.00
Dearborn National				
	10/14/2011	November 2011	66020 · Employee Benefits (Life Ins/Disability)	2,812.99
Total Dearborn National				2,812.99
Don Johnsons Pool Service				
	10/31/2011	153898	65100 · Operating Supplies	75.94
Total Don Johnsons Pool Service				75.94
Drive Line Service				
	10/12/2011	91542	65150 · Repairs & Maintenance	284.74
Total Drive Line Service				284.74
EOA, Inc.				
	10/20/2011	ND08-0911	64160 · Research & Monitoring	391.91
Total EOA, Inc.				391.91
Federal Express				
	10/21/2011	7-668-42587	66090 · Office Expense	59.99
Total Federal Express				59.99
Frontier Analytical Laboratory, Inc.				
	11/04/2011	15586	64160 · Research & Monitoring	1,000.00
Total Frontier Analytical Laboratory, Inc.				1,000.00
Golden Gate Petroleum, Corp				
	10/18/2011	586195	61000-5 · Gas & Electricity	1,995.61
Total Golden Gate Petroleum, Corp				1,995.61
Grainger				
	10/25/2011	9669320559	65152 · Small Tools	79.31
	11/03/2011	9677840978	66100 · Engineering Supplies	19.48
Total Grainger				98.79
Hertz Corporation				
	10/17/2011	25889182-001	67500 · Household Hazardous Waste	477.36
Total Hertz Corporation				477.36
IEDA, INC				
	11/01/2011	November 2011	66123 · O/S Contractual	1,020.00
Total IEDA, INC				1,020.00
Johnson, Dee				
	11/01/2011	DLJ53 Corrected	67400 · Consulting Services	2,460.06
	11/01/2011	DLJ122	67530 · Used Oil Program	155.42
	11/01/2011	DLJ151	67400 · Consulting Services	8,398.42
Total Johnson, Dee				11,013.90
Koffler Electrical Mech, Inc.				
	10/24/2011	63415-IN	63150 · Repairs & Maintenance	2,020.20
	10/28/2011	63491-IN	65150 · Repairs & Maintenance	15,299.30
Total Koffler Electrical Mech, Inc.				17,319.50
LeBallister's Inc				

Novato Sanitary District Check Register Detail

	Date	Num	Account	Debit
	10/19/2011	23613	63150 · Repairs & Maintenance	815.00
Total LeBallister's Inc				815.00
Leonardi Automotive & Electric, Inc.				
	10/21/2011	57545	60150 · Repairs & Maintenance	830.20
Total Leonardi Automotive & Electric, Inc.				830.20
Levy, Larry				
	10/28/2011	Oct 25, 2011	66123 · O/S Contractual	350.00
Total Levy, Larry				350.00
Long, William C.				
	10/29/2011	CSDA Oct 2011	66170 · Travel, Meetings & Training	547.62
Total Long, William C.				547.62
MarinScope Inc.				
	10/25/2011	G 29706	67500 · Household Hazardous Waste	456.75
Total MarinScope Inc.				456.75
McMaster-Carr Supply Co.				
	10/19/2011	98452460	65150 · Repairs & Maintenance	180.06
Total McMaster-Carr Supply Co.				180.06
Meyers, Nave, Riback, Silver & Wilson				
	09/30/2011	102711	66122 · Attorney Fees	4,851.00
Total Meyers, Nave, Riback, Silver & Wilson				4,851.00
Nextel Communications				
	10/20/2011	506571524-091	66193 · Telephone	242.51
	10/20/2011	506571524-091	60193 · Telephone	163.18
	10/20/2011	506571524-091	65193 · Telephone	87.86
	10/20/2011	506571524-091	66193 · Telephone	213.57
Total Nextel Communications				707.12
North Marin Auto Parts				
	10/24/2011	556556	60150 · Repairs & Maintenance	118.56
Total North Marin Auto Parts				118.56
North Marin Water District				
	10/27/2011	11/21/2011	61000-4 · Water/Permits/Telephone	1,013.33
	10/27/2011	11/21/2011	65192 · Water	413.13
	11/01/2011	12072	64010 · Salaries & Wages	1,302.00
Total North Marin Water District				2,728.46
Northern Safety Co., Inc.				
	10/13/2011	P31401630001	60100 · Operating Supplies	84.24
Total Northern Safety Co., Inc.				84.24
Pacific, Gas & Electric				
	10/19/2011	8/2/11-8/12/11	65191 · Gas & Electricity	300.49
	10/28/2011	8/26/11-9/29/11	65191 · Gas & Electricity	8,523.77
	10/28/2011	8/26/11-9/29/11	63191 · Gas & Electricity	14,900.45
	10/28/2011	8/26/11-9/29/11	61000-5 · Gas & Electricity	50,607.60
Total Pacific, Gas & Electric				74,332.31

Novato Sanitary District Check Register Detail

	Date	Num	Account	Debit
Pareto Co.				
	10/24/2011	645	63150 · Repairs & Maintenance	85.00
Total Pareto Co.				85.00
Petty Cash				
	11/09/2011	110911	66090 · Office Expense	40.57
	11/09/2011	110911	66170 · Travel, Meetings & Training	106.48
	11/09/2011	110911	66193 · Telephone	34.70
Total Petty Cash				181.75
Pini Hardware				
	10/31/2011	October 2011	60100 · Operating Supplies	26.96
	10/31/2011	October 2011	63150 · Repairs & Maintenance	41.55
	10/31/2011	October 2011	65100 · Operating Supplies	195.77
	10/31/2011	October 2011	65150 · Repairs & Maintenance	49.46
	10/31/2011	October 2011	65152 · Small Tools	15.26
Total Pini Hardware				329.00
Preferred Benefit				
	11/01/2011	CS21535	66020 · Employee Benefits	3,360.24
	11/01/2011	CS21535	21074 · Health Insurance Payable	196.32
Total Preferred Benefit				3,556.56
Rauch Communication Consultants. Inc.				
	10/17/2011	Oct-1103	66123 · O/S Contractual	6,802.50
	10/17/2011	Oct-1103	67500 · Household Hazardous Waste	3,085.87
Total Rauch Communication Consultants. Inc.				9,888.37
RMC Water & Environment, Inc.				
	10/26/2011	13338	64160 · Research & Monitoring	1,000.00
Total RMC Water & Environment, Inc.				1,000.00
Roy's Sewer Service, Inc.				
	10/20/2011	174592	65150 · Repairs & Maintenance	900.00
Total Roy's Sewer Service, Inc.				900.00
Siemens Industry, Inc.				
	10/12/2011	900420897	64150 · Repairs & Maintenance	75.00
	10/13/2011	900421879	64150 · Repairs & Maintenance	364.00
Total Siemens Industry, Inc.				439.00
Staples Business Adv Inc.				
	10/22/2011	8020010809	66090 · Office Expense	32.25
	10/29/2011	8020070474	66090 · Office Expense	25.86
Total Staples Business Adv Inc.				58.11
T-Mobile				
	10/17/2011	9/15/11-10/14/1	65193 · Telephone	45.68
Total T-Mobile				45.68
Thomas & Associates, Inc.				
	10/27/2011	26002	65150 · Repairs & Maintenance	493.58
	10/27/2011	26000	65150 · Repairs & Maintenance	531.95

Novato Sanitary District Check Register Detail

	Date	Num	Account	Debit
	10/27/2011	26001	65150 · Repairs & Maintenance	531.95
Total Thomas & Associates, Inc.				1,557.48
U.S. Bank Card (1)(Bev)				
	11/01/2011	11/28/11	66170 · Travel, Meetings & Training	109.92
	11/01/2011	11/28/11	66060 · Gasoline & Oil	26.99
Total U.S. Bank Card (1)(Bev)				136.91
U.S. Bank Card (2)(June)				
	10/31/2011	Nov 28, 2011	65150 · Repairs & Maintenance	996.80
	10/31/2011	Nov 28, 2011	66170 · Travel, Meetings & Training	349.00
	10/31/2011	Nov 28, 2011	65150 · Repairs & Maintenance	149.50
	10/31/2011	Nov 28, 2011	66170 · Travel, Meetings & Training	200.00
	10/31/2011	Nov 28, 2011	66071 · Insurance Claim Expense	1,480.35
	10/31/2011	Nov 28, 2011	66090 · Office Expense	56.92
	10/31/2011	Nov 28, 2011	66193 · Telephone	31.08
Total U.S. Bank Card (2)(June)				3,263.65
United Parcel Service				
	10/29/2011	608Y9A441	66090 · Office Expense	31.12
Total United Parcel Service				31.12
Veolia Water North America, Inc.				
	10/01/2011	7534	61000-1 · Fixed Fee	153,063.95
	10/19/2011	8081	61000-2 · Insurance & Bonds	4,035.60
Total Veolia Water North America, Inc.				157,099.55
Verizon				
	10/28/2011	EQ11584106-1165193	· Telephone	1,795.20
Total Verizon				1,795.20
Verizon California				
	10/22/2011	0193512921769	61000-4 · Water/Permits/Telephone	63.23
	10/22/2011	0193512921769	65193 · Telephone	567.77
	10/25/2011	0119351195245	65193 · Telephone	317.07
	10/25/2011	0119351195261	61000-4 · Water/Permits/Telephone	157.34
	10/25/2011	0119351195261	66193 · Telephone	472.01
	10/25/2011	0119351233293	66193 · Telephone	66.96
Total Verizon California				1,644.38
Vision Service Plan				
	10/20/2011	November 2011	66020 · Employee Benefits	604.41
Total Vision Service Plan				604.41
VWR International Inc.				
	10/19/2011	47316334	64100 · Operating Supplies	63.47
	10/19/2011	47316334	64100 · Operating Supplies	746.64
Total VWR International Inc.				810.11
Water Environment Research Foundation				
	10/07/2011	U-21005909-11	66075 · Agency Dues	1,936.00
Total Water Environment Research Foundation				1,936.00

Novato Sanitary District Check Register Detail

	<u>Date</u>	<u>Num</u>	<u>Account</u>	<u>Debit</u>
Waterman Industries, GNI Waterman, LLC				
	10/18/2011	118612	63150 · Repairs & Maintenance	<u>217.17</u>
Total Waterman Industries, GNI Waterman, LLC				<u>217.17</u>
				<u><u>348,555.53</u></u>

11/10/11

Novato Sanitary District Capital Projects Check Register

November 14, 2011

Date	Num	Name	Credit
Nov 14, 11			
11/14/2011	53562	RMC Water & Environment, I...	41,758.70
11/14/2011	2210	RMC Water & Environment, I...	16,277.00
11/14/2011	53555	Custom Tractor Service	13,607.50
11/14/2011	53564	WECO	12,510.72
11/14/2011	53565	Western Energy Systems	3,889.76
11/14/2011	53560	Nute Engineering Inc.	2,891.50
11/14/2011	53561	Pareto Co.	1,750.00
11/14/2011	53556	Lateral-Gut	1,500.00
11/14/2011	53557	Lateral-Leonard	1,500.00
11/14/2011	53558	Lateral-McMahon	1,500.00
11/14/2011	53559	Lateral-Moens	1,500.00
11/14/2011	53554	Control Systems West, Inc.	865.00
11/14/2011	53552	CDW Government, Inc.	543.08
11/14/2011	53563	U.S. Bank Card (2)(June)	441.50
11/14/2011	53553	Comet Building Maintenance,...	152.50
Nov 14, 11			100,687.26

Novato Sanitary District Capital Projects Check Detail

	Date	Num	Account	Amount
CDW Government, Inc.				
	10/13/2011	ZZK6082	72403 · Pump Station Rehabilitation	543.08
Total CDW Government, Inc.				<u>543.08</u>
Comet Building Maintenance, Inc.				
	10/21/2011	85630	73002 · WWTP Up - Cont D - Rec- ARRA Fu	152.50
Total Comet Building Maintenance, Inc.				<u>152.50</u>
Control Systems West, Inc.				
	10/19/2011	2814-78	72111 · SCADA Phase II	865.00
Total Control Systems West, Inc.				<u>865.00</u>
Custom Tractor Service				
	10/23/2011	1293	72804 · Annual Reclamation Fac Imp	13,607.50
Total Custom Tractor Service				<u>13,607.50</u>
Lateral-Gut				
	10/30/2011		Lateral R Reimburse lateral repair	1,500.00
Total Lateral-Gut				<u>1,500.00</u>
Lateral-Leonard				
	10/30/2011		Lateral R Reimburse lateral repair	1,500.00
Total Lateral-Leonard				<u>1,500.00</u>
Lateral-McMahon				
	10/30/2011		Lateral R Reimburse lateral repair	1,500.00
Total Lateral-McMahon				<u>1,500.00</u>
Lateral-Moens				
	10/30/2011		Lateral R Reimburse lateral repair	1,500.00
Total Lateral-Moens				<u>1,500.00</u>
Nute Engineering Inc.				
	10/19/2011	11604	72804 · Annual Reclamation Fac Imp	2,891.50
Total Nute Engineering Inc.				<u>2,891.50</u>
Pareto Co.				
	10/28/2011	646	72805 · Annual Trtmt Plnt/Pump St Impr	1,750.00
Total Pareto Co.				<u>1,750.00</u>
RMC Water & Environment, Inc.				
	10/18/2011	13276	73001 · WWTP Upgrade - Contract C	10,290.49
	10/20/2011	13306	72609 · WWTP Upgrade - Contract B	16,277.00
	10/24/2011	13325	73002 · WWTP Up - Cont D - Rec- ARRA Fu	31,468.21
Total RMC Water & Environment, Inc.				<u>58,035.70</u>
U.S. Bank Card (2)(June)				
	10/31/2011	Nov 28, ;	72111 · SCADA Phase II	341.05
	10/31/2011	Nov 28, ;	72805 · Annual Trtmt Plnt/Pump St Impr	100.45
Total U.S. Bank Card (2)(June)				<u>441.50</u>

Novato Sanitary District Capital Projects Check Detail

	Date	Num	Account	Amount
WECO				
	08/26/2011	0025726	72803 · Annual Collection Sys Repairs	12,510.72
Total WECO				<u>12,510.72</u>
Western Energy Systems				
	10/31/2011	2948805	72805 · Annual Trtmt Plnt/Pump St Impr	3,889.76
Total Western Energy Systems				<u>3,889.76</u>
				<u><u>100,687.26</u></u>

11/10/11

Novato Sanitary District Board Check Register for October

November 10, 2011

Date	Num	Name	Credit
Nov 10, 11			
11/10/2011	3121	Di Giorgio, Michael	1,121.04
11/10/2011	3123	Welsh, Dennis J	854.44
11/10/2011	3122	Mariani, Jean M	776.15
11/10/2011	1816	Long, William C	768.96
Nov 10, 11			3,520.59



Novato Sanitary District
Novato, California
Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2011 and 2010

DRAFT



Leaders in Protecting the Environment

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

Novato Sanitary District Board of Directors as of June 30, 2011

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

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

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

DRAFT

NOVATO SANITARY DISTRICT

500 Davidson Street
Novato, California 94945

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

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

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Introductory Section

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September 30, 2011

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

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Novato Sanitary District (District) for fiscal year ended June 30, 2011 is hereby submitted as required. Charles Z. Fedak & Company, CPA's, a firm of licensed certified public accountants, has audited the Novato Sanitary District's financial statements.

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

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

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

The goal of the independent audit is to provide reasonable assurance that the financial statements of the Novato Sanitary District for the fiscal year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Novato Sanitary District's financial statements for the fiscal year ended June 30, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

PROFILE OF THE DISTRICT

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

The District has an upgraded and expanded treatment plant designed for average dry weather flow of 7.1 million gallons per day, providing wastewater service to the sewered areas of the City of Novato as well as developed areas outside the city limits. The District encompasses 25 square miles and serves approximately 51,000 residents. Wastewater from the District's service area is transported to the Novato Wastewater Treatment Plant where it is treated to federally mandated standards to protect the public health.

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

In cooperation with the North Marin Water District, 0.5 million gallons per day of Title 22 recycled water is produced for use as irrigation of the Stonetree Golf Course in Novato.

Governance

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

Mission and Vision

The mission of the Novato Sanitary District is:

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

The District's long-term vision is:

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

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

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

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

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

Property taxes accounted for approximately 10.1% and 11.3% of the District's total revenue for fiscal year 2010 and 2011, respectively. Due to the current conditions in the housing market, property tax revenues are not expected to increase at prior years historical rates and may remain flat or decrease in the near future due to reduction in values and reassessments.

Long-Term Financial Planning

The District's Board of Directors is aware of the need to ensure the District's financial stability. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The corner-stone of these policies is the District's 2011 Comprehensive Financial Plan that forecasts the District's expenditures and revenue needs for the next 4 years. The District utilizes this information to anticipate future expense obligations and to develop programs to ensure these expense obligations are fully funded.

RELEVANT FINANCIAL POLICIES

Reserve Policy

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

Investment Policy

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

INTERNAL CONTROLS

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

MAJOR INITIATIVES

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

- 1) The District recently completed a major upgrade to its wastewater treatment facilities. Financed by a California State Revolving Fund loan the District upgraded and expanded its Novato Treatment Plant to treat the combined flow of two wastewater treatment plants. The new treatment plant replaces two aging facilities with a single new modernized plant. One aging and obsolete plant was replaced by a major new pump station, and its wastewater flow is carried by a new pipeline to the upgraded plant. Improvements include efficient treatment processes that comply with all current standards, re-use of the portions of the plant built since the 1980's that are still usable, and addition of backup facilities in case of equipment failure or emergencies. Debt service payments are paid semi-annually through 2031 at an interest rate of 2.40%.
- 2) A Collection System Improvement and Pump Station Rehabilitation Program is underway to replace aging sewer lines that are reaching the end of their useful lives. The program is designed to meet the District's needs for the next 25 to 50 years. Construction is ongoing and is expected to take several more years to complete.
- 3) The District developed a sewer system Plan more than a decade ago. Since then much progress has been made. With about 220 miles of sewer pipelines, 6,000 manholes, plus other critical facilities, many of which are 50 or 60 years old, there is more work to do. The District has been investing up to \$5 million each year in sewer upgrades to repair the wear and tear from past decades.
- 4) The District completed its 2011 Comprehensive Financial Plan Update which projects the likely future financial condition of the District to provide guidance in the decision making process.
- 5) The District has undertaken a pilot Lateral Replacement Program to repair or replace damaged private laterals. The program reimburses ratepayers up to \$1,500 for lateral replacement installation. The goal of this program is to provide an incentive to District customers to maintain their private laterals. During the fiscal year 2011 the District contributed \$13,174 for the replacement and repair of nine damaged private laterals.
- 6) The District is constructing a 1.7 million gallons per day Recycled Water Treatment Facility. The project is part of a regional recycled water program – North Bay Water Reuse Authority. Twenty-five percent of the cost is covered by a grant from the U.S. Bureau of Reclamation. Five percent is covered by a grant from the California Department of Water Resources. The recycled water will be distributed by North Marin Water District to irrigate landscaping, cemeteries, and playing fields in Northern and Central Novato.

COLLABORATIVE PARTNERSHIPS

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

Zero Waste Program

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

Specialized Staff Sharing

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

Cost-Saving Management of Treatment Plant

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

Millions in Funding from Collaborative Recycled Water Program

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

RISK MANAGEMENT

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

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

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

INDEPENDENT AUDIT

The Government Code requires an annual audit of the District's financial records by a Certified Public Accountant. The District selected, through a competitive process, the firm of Charles Z. Fedak & Company, CPA's, An Accountancy Corporation, to conduct the audit. The auditor's report on the financial statements is included in the financial section of this report.

AWARDS

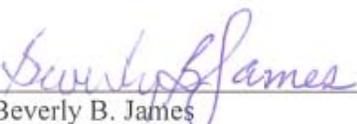
This is the first year that the District is submitting its Comprehensive Annual Financial Report (CAFR) for the Government Finance Officers Association of the United States and Canada's (GFOA) *Certificate of Achievement for Excellence in Financial Reporting*. To be awarded a Certificate of Achievement,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

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

ACKNOWLEDGEMENTS

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

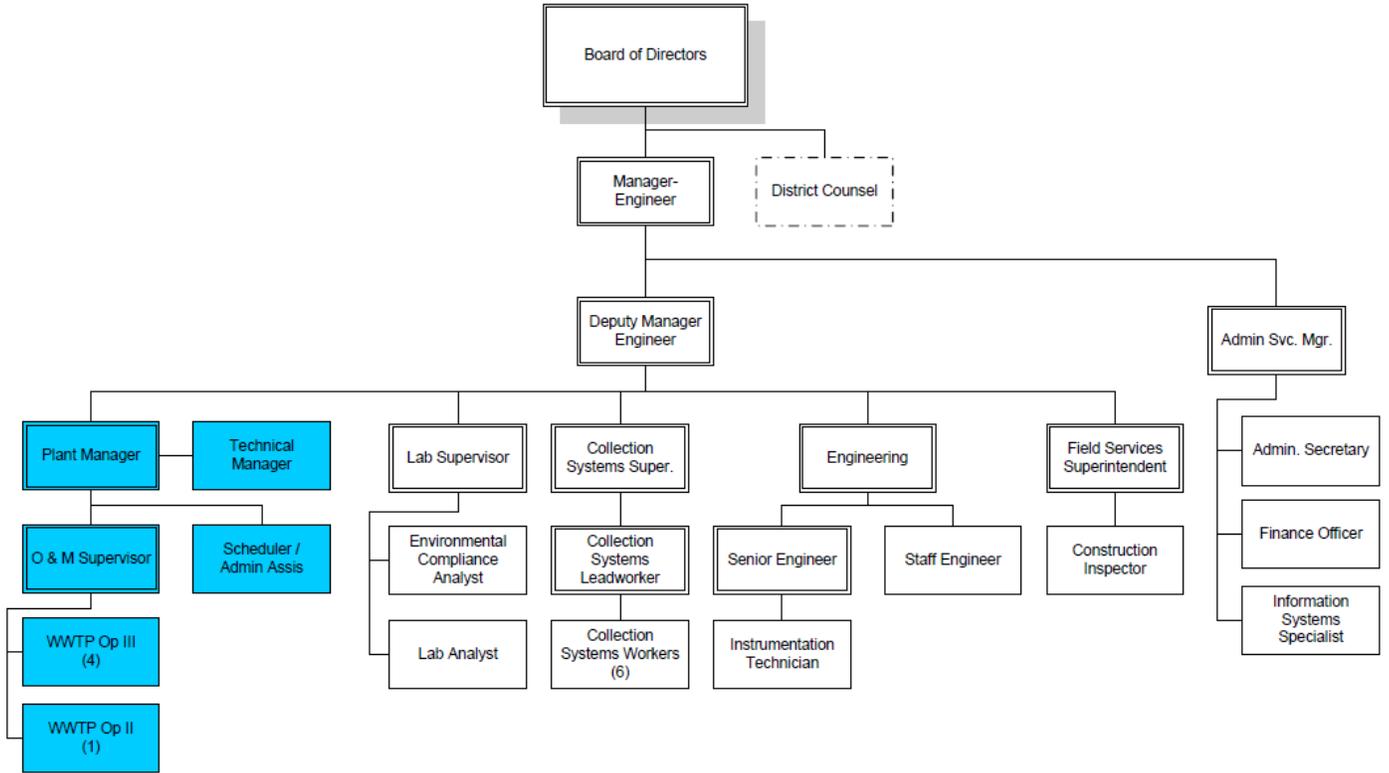
Respectfully submitted,



Beverly B. James
General Manager

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Novato Sanitary District Organizational Chart



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Financial Section

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Independent Auditor's Report

Board of Directors
Novato Sanitary District
Novato, California

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 52.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 and the required supplementary information on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report, continued

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 7 and the statistical section on pages 37 through 51 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

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

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Novato Sanitary District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2011 and 2010. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2011, the District's net assets decreased 0.8% or \$874,777 to \$110,471,520. In 2010, the District's net assets increased 3.4% or \$3,802,615 to \$111,346,297.
- In 2011, the District's operating revenues increased 1.7% or \$244,725 due to increased revenue from sewer service charges and other service charges. In 2010, the District's operating revenues increased 8.7% or \$1,123,568 due primarily from the 2009 fiscal year sewer service charge increase of \$40 per year per account which yielded a \$1,176,011 increase in the sewer service charge revenue.
- In 2011, the District's operating expenses before depreciation decreased 12.3% or \$1,190,409 due to the EPA concluding its investigation in fiscal year 2010 and a decrease of \$535,980 in treatment plant operating costs due to the Veolia contract. Also, in fiscal year 2011 the legal fees associated with the EPA investigation decreased by approximately \$1.0 million dollars. In 2010, the District's operating expenses before depreciation increased 25.6% or \$1,969,062 primarily due to the increase in legal fees incurred for the EPA investigation between May 2009 and August 2010. (See note 14 for further information)

Required Financial Statements

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

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

Financial Analysis of the District

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

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

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19 through 35.

Statement of Net Assets

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

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$110,471,520 and \$111,346,297 as of June 30, 2011 and June 30, 2010, respectively.

By far the largest portion of the District's net assets (92% and 74% as of June 30, 2011 and 2010, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2011 and 2010, the District showed a positive balance in its unrestricted net assets of \$3,974,394 and \$9,281,282, respectively, which may be utilized in future years. See note 9 for further discussion.

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

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

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

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets decreased by \$874,777 and increased \$3,802,615 for the fiscal years ended June 30, 2011 and 2010, respectively.

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

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

In 2011, the District's operating expenses before depreciation decreased 12.3% or \$1,190,409 due to the EPA concluding its investigation in fiscal year 2010 and a decrease of \$535,980 in treatment plant operating costs due to the Veolia contract. In 2010, the District's operating expenses before depreciation increased 25.6% or \$1,969,062 primarily due to the increase in legal fees incurred for the EPA investigation between May 2009 and August 2010. (See note 14 for further information)

Operating and Non-Operating Revenues

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

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

Operating and Non-Operating Revenues, continued

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

Operating and Non-Operating Expenses

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

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

Capital Asset Administration

Changes in capital assets amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 84,690,638	9,603,701	(84,580,577)	9,713,762
Depreciable assets	140,462,261	89,097,656	(14,083,003)	215,476,914
Accumulated depreciation and amortization	(42,506,470)	(2,306,550)	7,448,553	(37,364,467)
Total capital assets ,net	<u>\$ 182,646,429</u>	<u>96,394,807</u>	<u>(91,215,027)</u>	<u>187,826,209</u>

Changes in capital assets amounts for 2010 were as follows:

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

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

Capital Asset Administration, continued

At the end of fiscal year 2011 and 2010, the District's investment in capital assets amounted to \$187,826,209 and \$182,646,429 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land improvements, sewer collection and outfall system, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets additions during the year include improvements to portions of the District's sewer collection and treatment system. (See note 5 for further details)

Debt Administration

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

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

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

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

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

Subsequent Events

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

Conditions Affecting Current Financial Position

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

Requests for Information

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

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Basic Financial Statements

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

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

See accompanying notes to the basic financial statements

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

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

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See accompanying notes to the basic financial statements

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

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

Continued on next page

See accompanying notes to the basic financial statements

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

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

See accompanying notes to the basic financial statements

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

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

B. Basis of Accounting and Measurement Focus

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

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

C. Financial Reporting

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

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

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

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

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

D. Assets, Liabilities and Net Assets

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments

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

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

5. Property Taxes and Sewer Assessments

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

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

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

6. Prepaid Expenses

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

7. Deferred Charges

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

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

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

D. Assets, Liabilities and Net Assets, continued

8. Capital Assets

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

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

9. Compensated Absences

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

10. Sewer Service Charges

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

11. Capital Contributions

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

12. Budgetary Policies

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

13. Net Assets

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

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

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

(2) Cash and Investments

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

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

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

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

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

	<u>2011</u>	<u>2010</u>
Deposits held with the California Local Agency Investment Fund	237 days	203 days

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
State and local agency bonds, notes and warrants	5 years	None	None
Registered State bonds, notes and warrants	5 years	None	None
U.S. treasury obligations	5 years	None	None
Federal agency securities	5 years	None	None
Banker's acceptances	270 days	40%	30%
Prime commercial paper	180 days	25%	10%
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92/30 days	20% of base	None
Medium-term notes	5 years	30%	None
Money market mutual funds	N/A	15%	10%
Mortgage pass-through securities	N/A	30%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
Passbook savings account demand deposits	N/A	None	None

Investment in State Investment Pool

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

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

(2) Cash and Investments

Custodial Credit Risk

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 at June 30, 2011 and 2010 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

Credit Risk

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

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of total District's investments at June 30, 2011 and 2010, respectively.

(3) Accounts Receivable – Sewer Services

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

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

(4) Deferred Charges

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

The balance at June 30, consists of the following:

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

(5) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2010	Additions/	Deletions/ Transfers	Balance 2011
Non-depreciable assets:				
Land and land rights	\$ 2,774,742	-	-	2,774,742
Easements	1,617,174	495,189	-	2,112,363
Construction-in-process	80,298,722	9,108,512	(84,580,577)	4,826,657
Total non-depreciable assets	84,690,638	9,603,701	(84,580,577)	9,713,762
Depreciable assets:				
Sewer system improvements	52,887,597	88,703,074	(8,906,245)	132,684,426
Sewer collection and outfall system	46,495,989	19,630	-	46,515,619
Buildings and structures	27,193,680	-	-	27,193,680
Sewer facilities equipment	12,115,109	256,908	(5,172,376)	7,199,641
Equipment	1,769,886	118,044	(4,382)	1,883,548
Total depreciable assets	140,462,261	89,097,656	(14,083,003)	215,476,914
Accumulated depreciation:				
Sewer system improvements	(15,489,096)	(997,762)	3,434,666	(13,052,192)
Sewer collection and outfall system	(12,205,397)	(479,483)	-	(12,684,880)
Buildings and structures	(5,212,447)	(321,971)	-	(5,534,418)
Sewer facilities equipment	(8,754,123)	(410,727)	4,009,505	(5,155,345)
Equipment	(845,407)	(96,607)	4,382	(937,632)
Total accumulated depreciation	(42,506,470)	(2,306,550)	7,448,553	(37,364,467)
Total depreciable assets, net	97,955,791	86,791,106	(6,634,450)	178,112,447
Total capital assets, net	\$ 182,646,429	96,394,807	(91,215,027)	187,826,209

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

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

(5) Capital Assets, continued

Changes in capital assets for the year were as follows:

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

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

Construction-In-Process

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

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

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

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

(6) Compensated Absences

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

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

(7) Long-Term Debt

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

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

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

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

Note Payable – Revolving Credit Line

On May 10, 2006, the District secured a revolving credit line with Zions National Bank. Under the terms of the agreement for the revolving credit line the District may borrow up to \$30 million to provide interim financing for the acquisition and construction of improvements to the wastewater collection, treatment, and disposal facilities of the District. The District has applied for and has received a loan from the California State Water Resources Control Board's State Revolving Fund (SRF) loan program to provide long-term financing for the construction projects noted above. The District's long-term financing plan calls for the repayment of the revolving credit line obligation from the proceeds of the SRF loan program or from other long-term financing arrangements.

The revolving credit line is secured by a pledge of and lien against the net revenues of the District's wastewater system. The maturity date of the revolving credit line obligation was April 1, 2011. The revolving credit line obligation accrues interest at a variable rate, defined in the agreement as a rate of interest equal to 85% of the one-year Seattle Federal Home Loan Bank rate which was 0.75% as of June 30, 2010. Interest is payable semi-annually on October 1 and April 1. The outstanding note payable balance of \$5,233,207 was repaid by the District before April 1, 2011.

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

(7) Long-Term Debt, continued

Loan Payable – State Water Resources Control Board Loan

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

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

As of June 30, 2011, the District has received or requested \$81,329,083 from the SRF loan program. Interest accrues on the obligation at a rate of 2.40% compounded annually. As of June 30, 2011, interest expense on the SRF loan has accrued to the amount of \$4,230,160. The first debt service payment is due on December 31, 2011 and each December 31st thereafter through fiscal year 2031. The following table summarizes the debt service maturity of the District for this loan as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	6,064,321	6,064,321
2013	3,471,166	1,951,898	5,423,064
2014	3,554,474	1,868,590	5,423,064
2015	3,639,781	1,783,282	5,423,063
2016	3,727,136	1,695,928	5,423,064
2017-2021	20,021,165	7,094,154	27,115,319
2022-2026	22,541,829	4,573,490	27,115,319
2027-2031	24,373,532	1,735,478	26,109,010
Total	\$ <u>81,329,083</u>	<u>26,767,141</u>	<u>108,096,224</u>

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

(8) Post Employment Benefits Payable

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

Plan Description – Eligibility

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

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

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

Plan Description – Benefits

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

The District contributes toward post-retirement benefits for employees who retire after age 50 with at least 5-years of service. For those employed prior to July 1, 2008, who retire after age 55 with at least 10-years of service, the District will pay the full monthly premiums for medical coverage for the retired employee, but not more than the Kaiser Northern California amount. If the retiree is at least age 60 with at least 15-years of service, the premium for the employee's one eligible dependent is paid. Also, if the retiree is at least age 55 with at least 25-years of service, the premium for the employee's one eligible dependent is paid. Coverage is for the lives of the retired employee and one eligible dependent. Medical coverage is provided under any plans offered by CalPERS.

Plan Description – Benefits – Two-Tier Plan

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

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 21.2% of the annual covered payroll.

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

(8) Post Employment Benefits Payable, continued

Funding Policy, continued

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

Annual Cost

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

The balance at June 30, consists of the following:

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

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

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

* The information for this year is unavailable.

GASB No. 45 was implemented in fiscal year 2010.

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

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

(9) Net Assets

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

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

(10) Property Taxes and Sale of a Receivable

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

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

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

(11) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all Program assets held in trust by the District's two deferred compensation programs at June 30, 2011 and 2010 amounted to \$1,810,005 and \$1,686,941, respectively.

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

The District also offers a 401(a) Plan (Plan) to management and confidential employees. The District contributes 2.5% of base salary for all qualified employees, with the exception of the Manager-Engineer. The District's contribution for the Manager-Engineer is equivalent to the maximum of a 457 plan's annual contribution. Employees contributions to this Plan are mandatory for qualified employees. Market value of all Plan assets held in trust by the District's 401(a) Plan at June 30, 2011 amounted to \$320,381.

(12) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2011, 2010 and 2009 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2011, 2010 and 2009, the District's annual contributions for the CalPERS plan were equal to the Agency's required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2008-2009	\$ 330,422	100%	-	12.430%
2009-2010	301,129	100%	-	13.033%
2010-2011	251,631	100%	-	12.937%

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

(13) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Sanitation Risk Management Authority (CSRMA), an intergovernmental risk sharing joint powers authority currently operating as a common risk management and loss prevention program for 60 California sanitation districts. The District pays an annual premium to CSRMA for its public liability and workers compensation risk coverage. The Agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. At June 30, 2011, the District participated in the self-insurance programs of the CSRMA as follows:

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

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

- Employee dishonesty coverage up to \$1,000,000 per loss includes public employee dishonesty, forgery or alteration, theft, computer fraud, and faithful performance coverage with a deductible of \$1,000 per claim.
- Special form property coverage up to \$62,749,159 with a deductible of \$25,000 per claim.
- Public entity physical damage up to \$1,408,089 total value, with a \$2,000/\$5,000 deductible.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2011, 2010 and 2009. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2011, 2010 and 2009.

(14) Commitments and Contingencies

Local Improvement District Bonds

Within the District's boundaries, there exists Assessment District No. 2001 (Novato Heights) which was formed for the sole purpose of financing sewer system improvements. The District is not liable for repayment of any bonds issued to finance these local improvements. The District acts as the agent for the property owners within the assessment district by collecting assessments, forwarding collections to bondholders, and initiating foreclosure procedures if appropriate. The outstanding balance on these bonds was \$1,440,000, as of June 30, 2011.

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

(14) Commitments and Contingencies, continued

Construction Contracts

The District has a variety of agreements with developers and private parties relating to the installation, improvement or modification of transmission facilities and distribution systems within its service area. The financing of such improvements is provided primarily from advances for construction and the District's capital replacement reserve. The District has committed to approximately \$7,143,334 of open construction contracts as of June 30, 2011.

Grant Awards

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

Litigation

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

EPA Investigation

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

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

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

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

On April 19, 2011, SWRCB enforcement officials indicated that they were seeking civil penalties in the amount of \$700,000 relating to alleged violations in 2007. The District met with the SWRCB on October 7, 2011 to rebut the factual and legal bases for those civil penalties. That meeting was part of the District's ongoing effort to engage in settlement discussions with the SWRCB with the goals of (1) minimizing penalties relating to this and other events that are the subject of civil enforcement by the SWRCB, and (2) obtaining a global settlement of all pending civil enforcement. The meeting was productive; however, at this time, it is not possible to reliably predict the amount of civil penalties that will ultimately be assessed relating to the 2007 events, if any. Therefore the District has not accrued for a settlement loss on the accompanying financial statements due to the uncertainty of the amount of civil penalties the District may incur, if any, by a SWRCB enforcement action.

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

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

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

Governmental Accounting Standards Board Statement No. 60

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

Governmental Accounting Standards Board Statement No. 61

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

Governmental Accounting Standards Board Statement No. 63

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

Governmental Accounting Standards Board Statement No. 64

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

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

(16) Subsequent Events

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

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

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

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Required Supplementary Information

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

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$ -	6,112,283	6,112,283	0.00%	\$ 2,000,000	305.61%
7/1/2009	-	5,554,000	5,554,000	0.00%	\$ 2,350,000	236.34%

The most recent valuation (dated July 1, 2010) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$6,112,283. There are no plan assets because the District funds on a pay-as-you-go basis. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2011 was estimated at \$2,000,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 305.61%.

Actuarial Methods and Assumptions

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

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

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

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Statistical Information Section

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**Novato Sanitary District
Statistical Section**

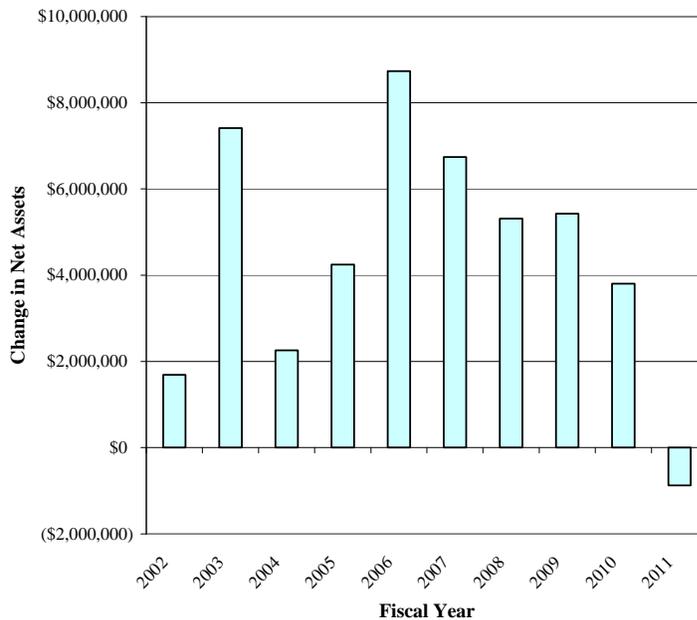
This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

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	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	38-41
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, sewer service charges.	42-46
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	47-48
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	49
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	50-51

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

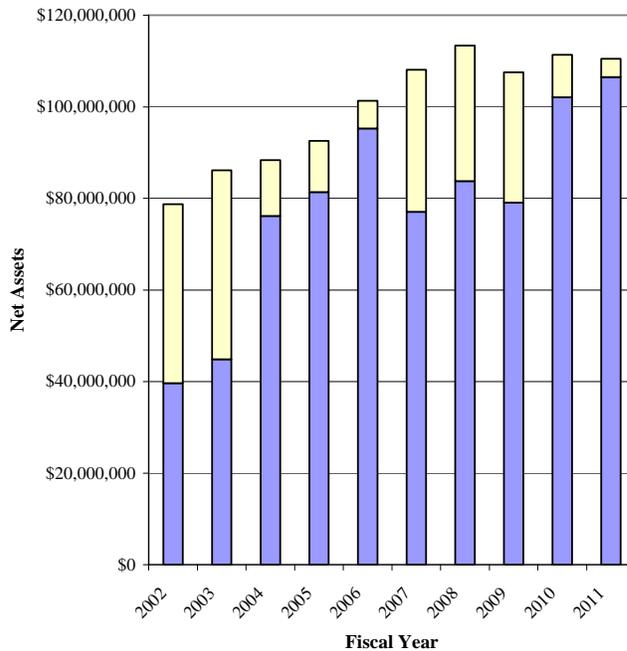
	Fiscal Year				
	2002	2003	2004	2005	2006
Changes in net assets:					
Operating revenues (see Schedule 2)	\$ 3,591,017	4,803,853	4,626,891	8,339,963	9,937,511
Operating expenses (see Schedule 3)	(4,430,976)	(4,865,811)	(5,220,170)	(5,656,823)	(5,848,165)
Depreciation and amortization	(875,810)	(754,664)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



Source: Novato Sanitary District Accounting Department

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

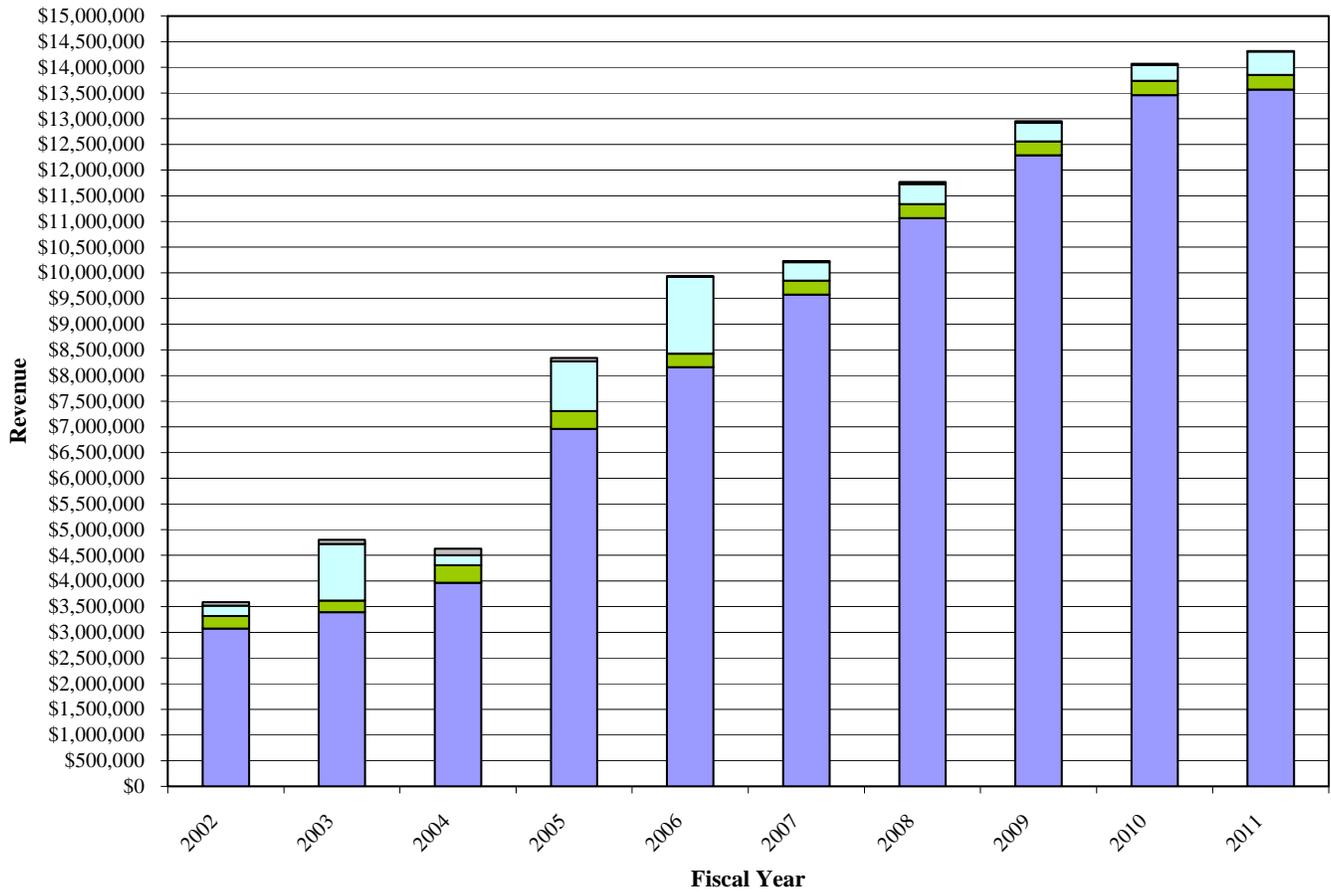
Fiscal Year				
2007	2008	2009	2010	2011
10,226,728	11,768,650	12,948,148	14,071,716	14,316,441
(6,919,638)	(7,464,243)	(7,685,390)	(9,654,452)	(8,464,043)
(967,449)	(1,326,027)	(2,227,627)	(2,288,892)	(2,306,550)
<u>2,339,641</u>	<u>2,978,380</u>	<u>3,035,131</u>	<u>2,128,372</u>	<u>3,545,848</u>
1,796,003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



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Novato Sanitary District Operating Revenues by Source Last Ten Fiscal Years

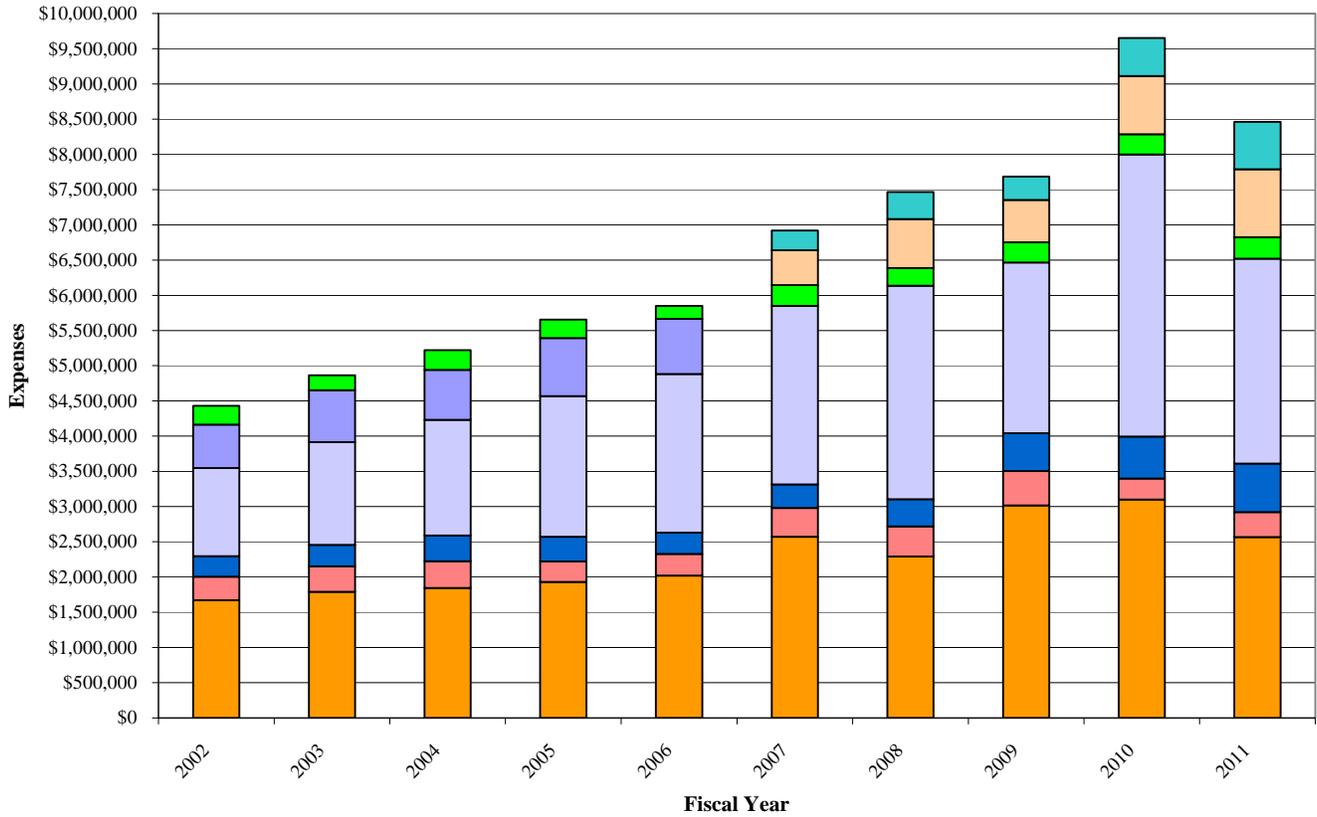
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2002	3,076,304	73,062	240,162	201,489	3,591,017
2003	3,390,898	81,702	229,866	1,101,387	4,803,853
2004	3,966,670	127,888	341,509	190,824	4,626,891
2005	6,961,866	61,562	345,215	971,320	8,339,963
2006	8,161,755	15,146	264,378	1,496,232	9,937,511
2007	9,573,338	20,063	271,378	361,949	10,226,728
2008	11,063,829	39,291	271,862	393,668	11,768,650
2009	12,286,426	27,408	271,862	362,452	12,948,148
2010	13,462,437	23,163	277,299	308,817	14,071,716
2011	13,570,839	9,532	280,493	455,577	14,316,441



Source: Novato Sanitary District Accounting Department

Novato Sanitary District Operating Expenses by Activity Last Ten Fiscal Years

Fiscal Year	Collection System	Wastewater Treatment	Wastewater Reclamation	Laboratory & Monitoring	Pump Stations	Sewer and Pump Stations	AB939 -Solid Waste Programs	Admin & Engineering	Total Operating Expenses
2002		1,670,202	332,940	294,576		616,553	266,011	1,250,694	4,430,976
2003		1,791,250	360,607	304,278		737,685	214,267	1,457,724	4,865,811
2004		1,843,595	380,532	366,882		709,261	278,422	1,641,478	5,220,170
2005		1,930,880	290,195	350,754		821,807	266,646	1,996,541	5,656,823
2006		2,020,955	307,605	303,287		784,996	181,886	2,249,436	5,848,165
2007	493,029	2,569,632	411,564	331,627	280,028		297,396	2,536,362	6,919,638
2008	694,147	2,289,718	426,492	389,036	383,503		249,797	3,031,550	7,464,243
2009	599,787	3,017,245	486,514	537,069	332,808		286,682	2,425,285	7,685,390
2010	828,832	3,102,119	296,268	597,743	540,641		284,999	4,003,850	9,654,452
2011	963,487	2,566,139	355,218	688,238	673,344		307,137	2,910,480	8,464,043



Source: Novato Sanitary District Accounting Department

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

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

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Percent Change</u>
2002	6,058,519,237	
2003	6,472,321,272	6.83%
2004	7,093,625,831	9.60%
2005	7,910,248,923	11.51%
2006	8,838,973,455	11.74%
2007	9,491,627,231	7.38%
2008	9,829,812,081	3.56%
2009	9,580,325,664	-2.54%
2010	9,432,410,765	-1.54%
2011	9,349,746,271	-0.88%

Source: County of Marin Tax Assessor

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

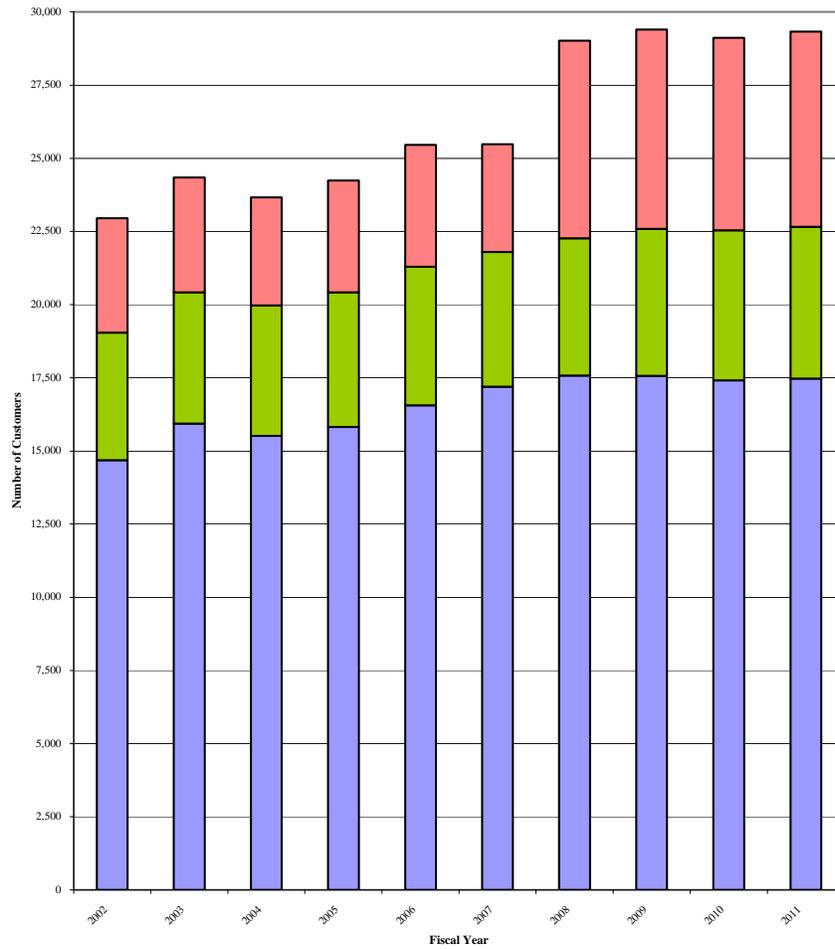
Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Current Taxes	Prior Year Tax Collections,	Percent of Current Taxes	Net Collections
2002	\$ 1,174,367	\$ 1,174,367	100.0%	\$ 49,616	4.2%	\$ 1,223,983
2003	1,301,929	1,301,929	100.0%	2,148	0.2%	\$ 1,304,077
2004	1,369,201	1,369,201	100.0%	1,016	0.1%	\$ 1,370,217
2005	1,274,602	1,274,602	100.0%	2,460	0.2%	\$ 1,277,062
2006	1,436,617	1,436,617	100.0%	1,096	0.1%	\$ 1,437,713
2007	1,760,488	1,760,488	100.0%	1,745	0.1%	\$ 1,762,233
2008	1,999,824	1,999,824	100.0%	2,202	0.1%	\$ 2,002,026
2009	1,926,506	1,926,506	100.0%	1,701	0.1%	\$ 1,928,207
2010	1,724,197	1,724,197	100.0%	1,752	0.1%	\$ 1,725,949
2011	1,773,877	1,771,181	99.8%	2,696	0.2%	\$ 1,773,877

Source: Novato Sanitary District Accounting Department

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

Fiscal Year	Customer Type			Total
	Single Family Residential	Multi family Residential	Commercial	
2002	14,683.00	4,357.20	3,913.81	22,954.01
2003	15,933.20	4,484.80	3,924.74	24,342.74
2004	15,519.20	4,457.00	3,690.88	23,667.08
2005	15,816.80	4,598.60	3,820.10	24,235.50
2006	16,559.00	4,735.60	4,165.15	25,459.75
2007	17,193.00	4,608.20	3,681.99	25,483.19
2008	17,572.20	4,696.60	6,745.96	29,014.76
2009	17,568.60	5,016.20	6,811.97	29,396.77
2010	17,407.40	5,133.40	6,576.55	29,117.35
2011	17,471.40	5,186.20	6,677.08	29,334.68



Notes:

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

Source: Novato Sanitary District Operations Department

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Price per EDU per year	\$ 135	\$ 155	\$ 262	\$ 302	\$ 342	\$ 382	\$ 422	\$ 462	\$ 462	\$ 462
Price per EDU per month	\$ 11.25	\$ 12.92	\$ 21.83	\$ 25.17	\$ 28.50	\$ 31.83	\$ 35.17	\$ 38.50	\$ 38.50	\$ 38.50

EDUs

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

EDU Factors

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

Non Residential

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

Notes:

Rates as of July 1 of each year

Source: Novato Sanitary District Records.

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

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

EDU's = Equivalent Dwelling Units

Source: Novato Sanitary District Engineering Department

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

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

Notes:

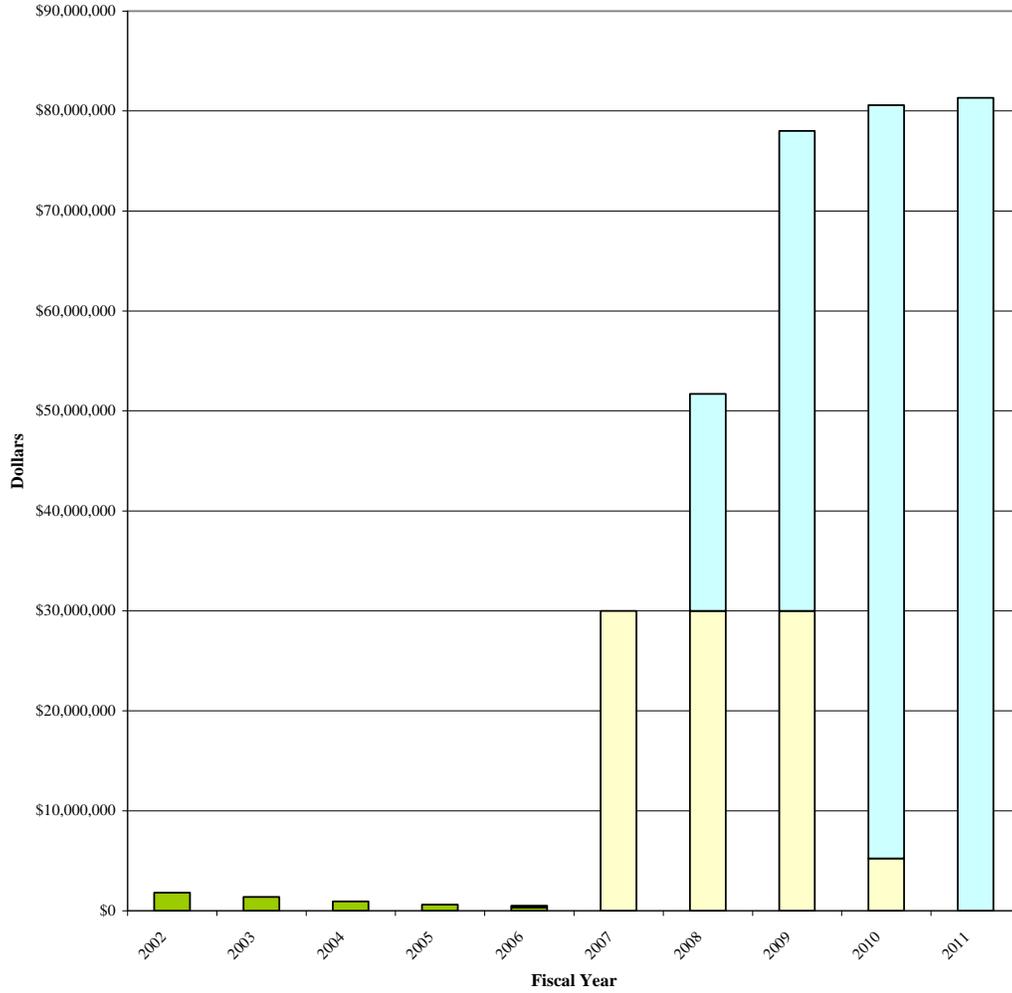
(1) Operating expenses exclude depreciation expense.

Source: Novato Sanitary District Accounting Department

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

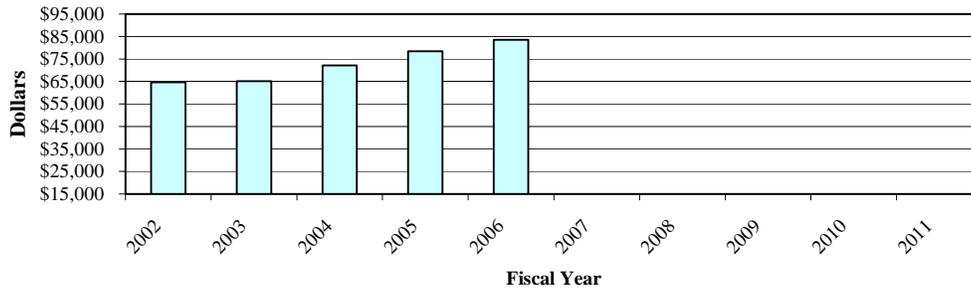
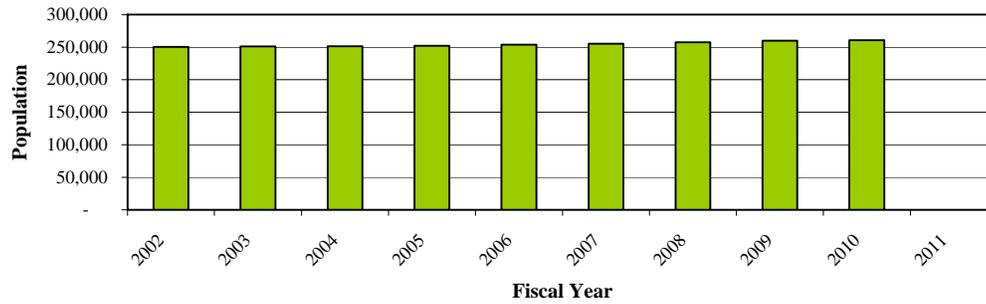
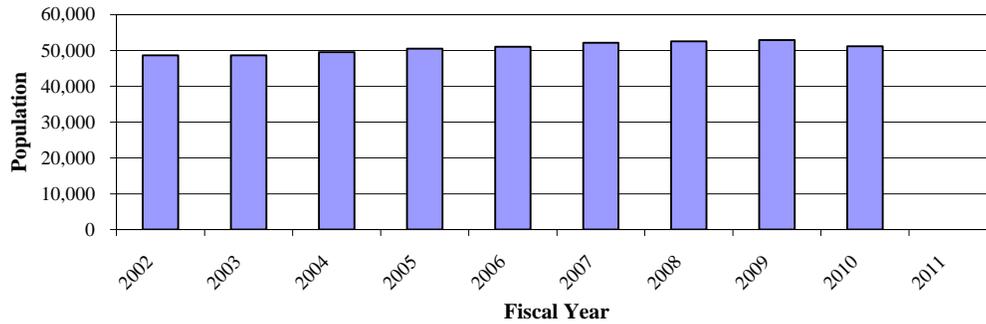
Fiscal Year	General Obligation Bonds Payable	Credit Line	SRF Loan Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2002	1,800,000			1,800,000	36.99	0.06%
2003	1,375,000			1,375,000	28.25	0.04%
2004	925,000			925,000	18.67	0.03%
2005	625,000	-	-	625,000	12.39	0.02%
2006	325,000	191,500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



Source: Novato Sanitary District Accounting Department

Novato Sanitary District Demographic and Economic Statistics Last Ten Fiscal Years

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



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

Notes:

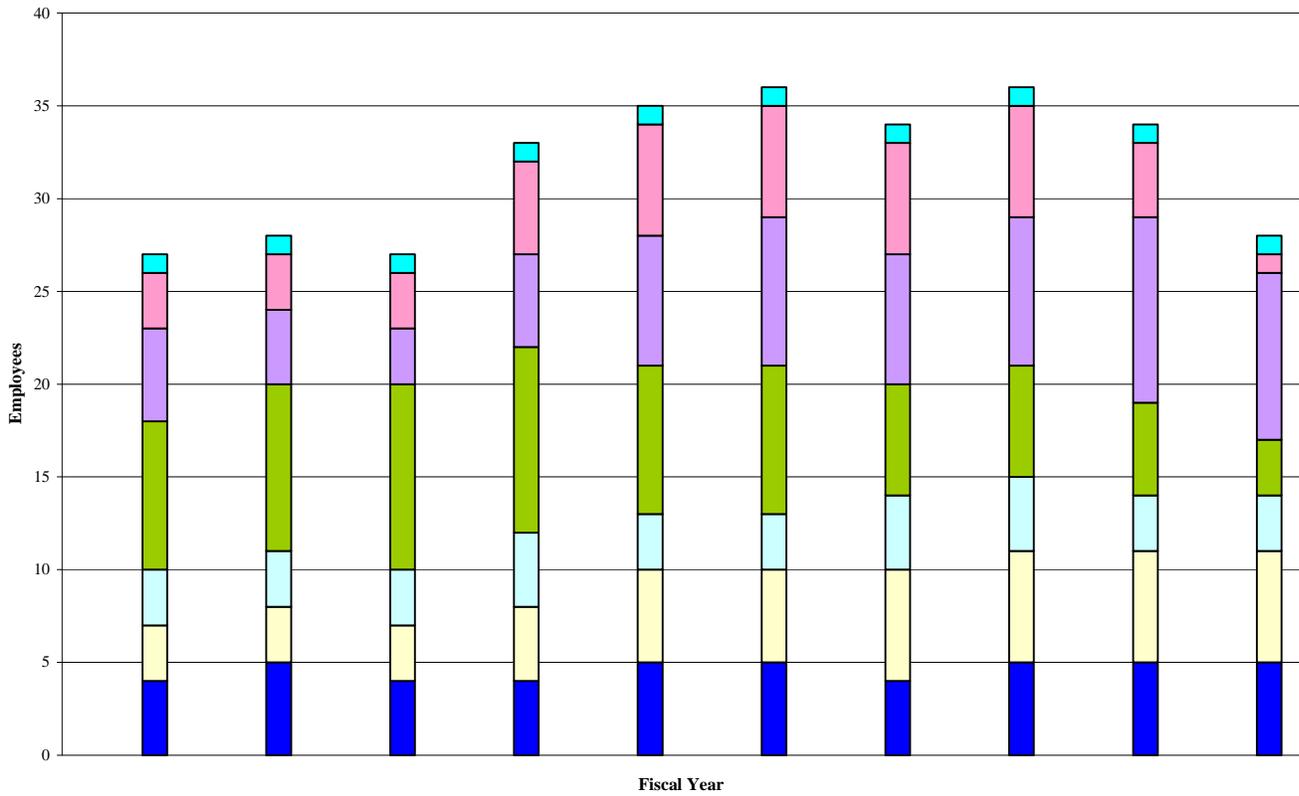
- (1) Approximate population of Novato Sanitary District
- (2) Only County data is updated annually. Therefore, the District has chose to use its data since the District believes that the County data is representative of the conditions and experience of the District.

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

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

Employees

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



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

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

Note(2) The Safety resource is a Central Marin Sanitation Employee and is a shared service position among several public utilities.

Source: Novato Sanitary District Records

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

Other Operating and Capacity Indicators

Fiscal Year	Miles of Sewer Lines	Number of Pump Stations	Average Dry Weather Flow (MGD)		Treatment Capacity (MGD)		Total Annual Treatment (MG)
			Novato	Ignacio	Novato	Ignacio	
2002	189	37	3.60	1.681	4.53	2.02	1,929
2003	213	37	2.87	1.66	4.53	2.02	1,653
2004	220	38	2.53	1.81	4.53	2.02	1,584
2005	220	40	3.55	1.64	4.53	2.02	1,894
2006	222	41	3.54	1.470	4.53	2.02	1,829
2007	225	42	3.47	1.340	4.53	2.02	1,756
2008 *	225	42	4.04	0.000	6.55	0	1,475
2009	225	42	4.89	0.000	6.55	0	1,785
2010	226	42	4.23	0.000	7.05	0	1,544
2011	N/A	N/A	N/A	N/A	7.05	0	N/A

N/A - Data not available for these years

MG - Millions of Gallons

MGD - Millions of Gallons per Day

*In 2008, the District constructed the Ignacio Transfer Pump Station at the site of the Ignacio Treatment Plant along with the Ignacio Conveyance Force Main to convey flow from the Ignacio Transfer Pump Station to the Novato Treatment Plant.

Sources: Novato Sanitary District Operations and Accounting Departments

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Report on Internal Controls and Compliance

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

Board of Directors
Novato Sanitary District
Novato, California

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

Novato Sanitary District

Management Report

June 30, 2011

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Novato Sanitary District

Management Report

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CONFIDENTIAL

Board of Directors
Novato Sanitary District
Novato, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of Novato Sanitary District (District) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our consideration on internal control was for the limited period described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

Summary of Current Year Comments and Recommendations

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the District are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the District's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the District's accounting system to close-out the District's year-end trial balance in the prior year.

* * * * *

We believe that the implementation of these recommendations will provide the District with a stronger system of internal control while also making its operations more efficient and its financial reporting more accurate.

This report is intended solely for the information and use of management and the Board of Directors of the District. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

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

APPENDIX

Novato Sanitary District

Audit/Finance Committee Letter

June 30, 2011

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Board of Directors
Novato Sanitary District
Novato, California

We have audited the basic financial statements of the Novato Sanitary District (District) for the year ended June 30, 2011 and have issued our report thereon dated September 30, 2011. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the District's basic financial statements.

Auditor's Responsibility under United States Generally Accepted Auditing Standards

As stated in our Audit Engagement Letter dated April 20, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Board are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Board or management of its responsibilities of oversight in the District's external financial reporting process or any other processes.

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

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

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing requirements previously communicated in our Audit Engagement Letter Dated April 20, 2011.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the basic financial statements.

We noted no transactions entered into by the District during fiscal year 2011 for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Management's Judgments, Accounting Estimates and Financial Disclosures

Accounting estimates play an integral part in the preparation of basic financial statements by management and are based upon management's knowledge, experience and current judgment(s) about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the position in the basic financial statements is (are):

Management's estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other post-employment benefits payable is based on an actuarial evaluation of this liability that was conducted by a third-party actuary. We evaluated the basis, actuarial methods and assumptions used by the actuary to calculate the annual required contribution for the District to determine that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the basic financial statements are neutral, consistent and clear. Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the basic financial statements is (are):

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of capital assets, net in Note 5 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of the District's other post-employment benefits payable in Note 8 to the basic financial statements is based on actuarial assumptions which could differ from actual costs.

Corrected and Uncorrected Misstatements

Generally Accepted Auditing Standards require us to accumulate all known and likely misstatements identified during the audit, except those that are considered trivial, and communicate them to the appropriate level of management as follows:

There were four audit adjustments and/or reclassifications proposed by the auditor to the original trial balance presented to us to begin our audit. The four audit adjustments and/or reclassification entries are presented at the end of this report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principal to the District's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit processes and testwork.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit of the District.

Management Representations

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated September 30, 2011.

Conclusion

We appreciate the cooperation extended us by Beverly James, Manager-Engineer; June Brown, Administrative Services Manager; and Laura Creamer, Finance Officer, in the performance of our audit testwork.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

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

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

Novato Sanitary District
June 30, 2011
Schedule of Audit Adjusting Journal Entries

Entry #	Status	Account	Description	Debit	Credit
AJE 1	Posted	21025	Other Current Liability	16,500.31	
		66071	Insurance Claim Expense		16,500.31
CPE - Adjust Claims Payable					
AJE 2	Posted	41142	Loss on disposal of assets	3,750.00	
		51070	Other Revenue		3,750.00
		66071	Insurance Claim Expense	69,668.42	
		51070	Other Revenue		69,668.42
		51070	Other Revenue	108,948.00	
		41141	Contributed assets		108,948.00
RJE - Reclass for Financial Reporting					
AJE 3	Posted	11410	SRF Loan Receivable	2,129,975.00	
		22100	SRF-LOAN		2,129,975.00
CPE - Record Remaining SRF Loan Receivable					
AJE 4	Posted	11400	Other Receivables	221,689.00	
		41141	Contributed assets		221,689.00
AJE - To Record Contributed Capital from SCWA for the Recycled Waterline Project					
TOTALS				2,550,530.73	2,550,530.73

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Novato Sanitary District

Single-Audit Report

For the Fiscal Year Ended June 30, 2011

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**Novato Sanitary District
Single Audit Report
For the Fiscal Year Ended June 30, 2011**

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

Board of Directors
Novato Sanitary District
Novato, California

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

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

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**Independent Auditor's Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal
Control over Compliance Required by OMB Circular A-133**

Board of Directors
Novato Sanitary District
Novato, California

Compliance

We have audited the compliance of the Novato Sanitary District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2011. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

**Independent Auditor's Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal
Control over Compliance Required by OMB Circular A-133, continued**

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the District as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011, which contained an unqualified opinion on those basic financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

**Novato Sanitary District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011**

	Federal CFDA Number	Amount Receivable June 30, 2010	Grant Expenditures	Grant Funds Received by June 30, 2011	Amount Receivable June 30, 2011
Federal Grantor/Program Title:					
Environmental Protection Agency					
Major Program:					
Capitalization Grants for Clean Water – State Revolving Fund – (ARRA)					
Passed through State Water Resources Control Board					
C-06-4903-110		\$ 2,627,431	5,980,876	6,478,332	2,129,975
Total for CFDA No.	66.458	\$ 2,627,431	5,980,876	6,478,332	2,129,975

Notes to Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Novato Sanitary District (District) and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Reconciliation of the Schedule of Expenditures of Federal Awards to the Financial Statements

Statement of Net Assets:

Long-term debt:

Increase in 2008 State Water Resources Control Board Loan	\$ <u>5,980,876</u>
Total Federal awards	5,980,876
Add – Accounts receivable – loan proceeds – June 30, 2010	2,627,431
Less – Accounts receivable – loan proceeds – June 30, 2011	<u>(2,129,975)</u>
Federal receipts or revenues recognized per Schedule	<u>\$ 6,478,332</u>

**Novato Sanitary District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

<i>Section I—Summary of Auditor’s Results</i>	<i>Response</i>
Financial Statements	
Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No
<i>Federal Awards</i>	
Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-13	No
Identification of major programs:	
Environmental Protection Agency	
Capitalization Grants for Clean Water – CFDA No. 66.458	
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

No matters were reported.

NOVATO SANITARY DISTRICT

POLICY HANDBOOK

POLICY TITLE: Board President
POLICY NUMBER: 4040

4040.1 The President of the Board of Directors shall serve as chairperson at all Board meetings. He/she shall have the same rights as the other members of the Board in voting, introducing motions, resolutions and ordinances, and any discussion of questions that follow said actions.

4040.2 In the absence of the President, the President Pro-Tem of the Board of Directors shall serve as chairperson over all meetings of the Board. If the President and President Pro-Tem of the Board are both absent, the remaining members present shall select one of themselves to act as chairperson of the meeting.

4040.3 The President shall act as spokesperson for the Board of Directors.

QUARTERLY INVESTMENT REPORT -- For Quarter Ended September 2011

INVESTMENT	ACTIVITY	July	August	September	QTR TOTAL
STATE TREASURER'S INVESTMENT FUND	Total deposits/transfers in	280,944	0	1,338,000	1,618,944
	Total transfers out	1,197,000	1,616,000	1,757,000	4,570,000
	Minimum daily balance	6,122,400	4,506,400	4,087,400	4,087,400
Current Yield 0.38%	Maximum daily balance	7,038,457	6,122,400	4,506,400	7,038,457
	Interest earned			5,388	5,388
<p>The LAIF Pooled Money Investment Account Report is attached as specified in California Government Code Section 53646(e)</p>					
CHECKING ACCOUNTS					
Interest Rate	Regular Warrants Account				
0.05%	Total deposits & transfers in	1,597,314	2,272,196	2,539,839	6,409,349
	Total checks & transfers out	1,222,730	2,365,972	2,779,515	6,368,217
	Minimum daily balance	17,238	48,787	49,939	17,238
	Maximum daily balance	1,035,493	964,723	1,401,141	1,401,141
	Interest earned	7	17	20	44
	Payroll Account				
	Total transfers in	131,700	134,500	136,000	402,200
	Total checks & transfers out	131,453	134,967	135,386	401,806
	Minimum daily balance	593	375	375	375
	Maximum daily balance	126,462	132,460	125,436	132,460
	Project Account				
	Total transfers in	193,500	19,700	73,600	286,800
	Total checks & transfers out	181,922	81,083	59,040	322,045
	Minimum daily balance	5,084	5,039	5,065	5,039
	Maximum daily balance	110,584	20,939	56,678	110,584
	Interest earned	1	1	1	3
	ARRA Grant Project Account				
	Total transfers in			221,690	221,690
	Total checks & transfers out			0	0
	Minimum daily balance			0	0
	Maximum daily balance			221,690	221,690
	Interest earned				

NOTES: (1) The above investments are consistent with the annual Statement of Investment Policy submitted to the District Board of Directors on July 21, 2011

The District has the ability to meet six months cash needs.

(2) LAIF interest rate is currently .38% which is a slight decrease from .48% in June 2011, .51% in March 2011, .462% in December of 2010 and .48% in September of 2010.

Bill Lockyer, State Treasurer

Inside the State Treasurer's Office

Local Agency Investment Fund (LAIF)



PMIA Performance Report

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
10/17/2011	0.39	0.39	239
10/18/2011	0.39	0.39	236
10/19/2011	0.39	0.39	233
10/20/2011	0.39	0.39	235
10/21/2011	0.39	0.39	237
10/22/2011	0.39	0.39	237
10/23/2011	0.39	0.39	237
10/24/2011	0.39	0.39	235
10/25/2011	0.39	0.39	234
10/26/2011	0.39	0.39	233
10/27/2011	0.38	0.39	228
10/28/2011	0.38	0.39	240
10/29/2011	0.38	0.39	240
10/30/2011	0.38	0.39	240

*Daily yield does not reflect capital gains or losses

LAIF Performance Report

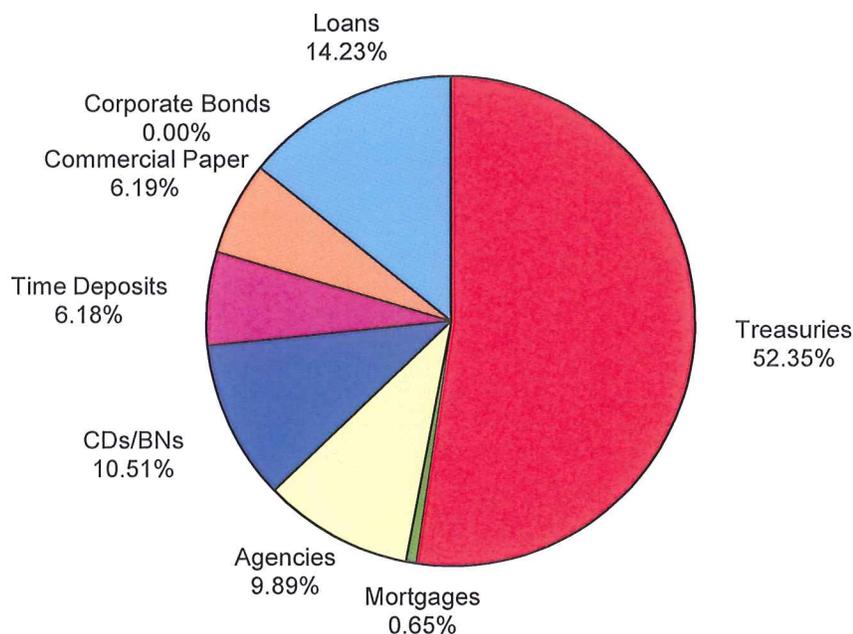
Quarter ending 09/30/2011

Apportionment Rate: 0.38%
 Earnings Ratio: .00001042339247730
 Fair Value Factor: 1.001847592
 Daily: 0.37%
 Quarter To Date: 0.39%
 Average Life: 236

PMIA Average Monthly Effective Yields

SEP 2011 0.378%
 AUG 2011 0.408%
 JUL 2011 0.381%

Pooled Money Investment Account Portfolio Composition \$66.2 Billion 09/30/11



**State of California
Pooled Money Investment Account
Market Valuation
9/30/2011**

Description	Carrying Cost Plus		Fair Value	Accrued Interest
	Accrued Interest	Purch. Amortized Cost		
United States Treasury:				
Bills	\$ 22,800,252,375.07	\$ 22,827,667,444.55	\$ 22,842,245,500.00	NA
Notes	\$ 11,849,418,843.39	\$ 11,848,596,177.11	\$ 11,919,996,500.00	\$ 23,544,525.00
Federal Agency:				
SBA	\$ 531,261,033.00	\$ 531,261,033.00	\$ 530,762,331.31	\$ 565,112.89
MBS-REMICs	\$ 430,068,338.80	\$ 430,068,338.80	\$ 467,663,708.91	\$ 2,040,680.67
Debentures	\$ 1,376,078,433.27	\$ 1,376,071,322.15	\$ 1,376,591,250.00	\$ 3,536,315.25
Debentures FR	\$ -	\$ -	\$ -	\$ -
Discount Notes	\$ 4,341,750,166.58	\$ 4,344,729,583.36	\$ 4,348,491,500.00	NA
GNMA	\$ 35,793.20	\$ 35,793.20	\$ 36,569.96	\$ 352.44
IBRD Deb FR	\$ 300,000,000.00	\$ 300,000,000.00	\$ 300,402,000.00	\$ 270,866.67
CDs and YCDs FR	\$ 600,000,000.00	\$ 600,000,000.00	\$ 600,000,000.00	\$ 285,269.11
Bank Notes	\$ -	\$ -	\$ -	\$ -
CDs and YCDs	\$ 6,360,015,094.92	\$ 6,360,015,094.92	\$ 6,354,916,983.41	\$ 1,849,916.67
Commercial Paper	\$ 4,097,472,486.09	\$ 4,099,395,437.44	\$ 4,099,089,138.89	NA
Corporate:				
Bonds FR	\$ -	\$ -	\$ -	\$ -
Bonds	\$ -	\$ -	\$ -	\$ -
Repurchase Agreements	\$ -	\$ -	\$ -	\$ -
Reverse Repurchase	\$ -	\$ -	\$ -	\$ -
Time Deposits	\$ 4,089,140,000.00	\$ 4,089,140,000.00	\$ 4,089,140,000.00	NA
AB 55 & GF Loans	\$ 9,417,191,533.16	\$ 9,417,191,533.16	\$ 9,417,191,533.16	NA
TOTAL	\$ 66,192,684,097.48	\$ 66,224,171,757.69	\$ 66,346,527,015.64	\$ 32,093,038.70

Fair Value Including Accrued Interest

\$ 66,378,620,054.34

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).

The value of each participating dollar equals the fair value divided by the amortized cost (1.001847592). As an example: if an agency has an account balance of \$20,000,000.00, then the agency would report its participation in the LAIF valued at \$20,036,951.84 or \$20,000,000.00 x 1.001847592.

PAR VALUES MATURING BY DATE AND TYPE
Maturities in Millions of Dollars

ITEM	1 day to 30 days	31 days to 60 days	61 days to 90 days	91 days to 120 days	121 days to 150 days	151 days to 180 days	181 days to 210 days	211 days to 270 days	271 days to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 year/out
TREASURY	\$ 1,000	\$ 3,100	\$ 3,100		\$ 400	\$ 3,850	\$ 4,200	\$ 2,350	\$ 7,250	\$ 5,700	\$ 3,750		
REPO													
TDs	\$ 1,882	\$ 744	\$ 1,247	\$ 138		\$ 78							
AGENCY	\$ 1,681	\$ 150	\$ 503	\$ 200	\$ 100	\$ 200	\$ 700	\$ 3,500	\$ 264		\$ 775	\$ 333	\$ 0
BAs													
CP	\$ 2,625	\$ 775	\$ 300	\$ 400									
CDs + BNs	\$ 3,200	\$ 910	\$ 200					\$ 2,100	\$ 550				
CORP BND													
TOTAL													
\$ 58,255	\$ 10,389	\$ 5,679	\$ 5,349	\$ 738	\$ 500	\$ 4,128	\$ 4,900	\$ 7,950	\$ 8,064	\$ 5,700	\$ 4,525	\$ 333	\$ 0
PERCENT	17.8%	9.7%	9.2%	1.3%	0.9%	7.1%	8.4%	13.6%	13.8%	9.8%	7.8%	0.6%	0.0%

Notes:

1. SBA Floating Rate Securities are represented at coupon change date.
2. Mortgages are represented at current book value.
3. Figures are rounded to the nearest million.
4. Does not include AB55 and General Fund loans.

November 10, 2011

MEMORANDUM

TO: District Board of Directors

FROM: Beverly B. James, Manager-Engineer
June Penn Brown, Administrative Services Manager
Laura M. Creamer, Finance Officer

SUBJECT: Revenue and Expenditure Report for Quarter Ended September 2011

This memo presents a summary of revenues and expenditures for the operating and capital funds through the third quarter of Fiscal Year 2011-12 (see attached detail). The report also presents a brief analysis of items that vary significantly from the final budget.

OPERATING FUND

OPERATING REVENUE

	YTD Balance Received	Annual Budget	Budget Remaining	Pct. Received
Total Operating Revenues	\$200,680	\$8,954,956	\$8,754,276	2.2%

Discussion

Overall, operating revenues are approximately 2.2% of the total budget amount with 25% of the year complete. The operating income accounts are within normal range for this time of year. We will receive our first half of property tax and sewer service revenue in December.

OPERATING EXPENDITURES

	YTD Balance	Annual Budget	Budget Unused	Pct. Used
Total Operating Expenses	\$ 2,017,146	\$10,104,048	\$8,086,902	20.0%

Discussion

Overall, operating expenses are approximately 20% of budget at 25% of the year complete. The following explains significant variances in expense accounts.

Collection System (21.5%)

Repairs & Maintenance 78.2%. Significant variance is due to a water pump replacement on a collection truck due to excessive maintenance and failure of the existing pump. This repair was ordered on June 21, 2011 and expected to be applied to last year's budget. However due to a lack of availability of the replacement pump the work was not completed until well into the first quarter of the fiscal year resulting in the overage. We will monitor this budget for possible amendment in the future.

Treatment Facilities - Contract Operations (22.5%)

Insurance & Bonds 32.8%. Significant variance due to invoice for May 2011 received after year end, and paid in current year and thus included in current year expenditures.

Water/Permits/Telephone 62.1%. Significant variance due to annual permit of \$11k due to Bay Area Water Quality at the beginning of the year; account expected to stay within budget for current year.

Reclamation/Disposal Facilities (31.7%)

Repairs & Maintenance 36.6%. Account has been reviewed, no significant items noted, expected to stay within budget.

Gas & Electricity 40.4%. The Reclamation facility operates between April 1st and October 31st every year. Majority of expenditures occur during the first and fourth quarters of the budget year. Electricity expected to stay within budget.

Water - Reclamation 44.3%. Majority of expenditures occur during the first quarter of the fiscal year and the expenditures are for the fresh water at Reclamation. The billing has not yet been completed for this first quarter for reimbursement of some of these expenses by the rancher, thus the significant overage. In addition in September and October the District experienced a large leak at Site 7, a partial refund will be requested for this leak from the North Marin Water District to offset this expense.

Laboratory/Monitoring (22.0%)

Pollution Prevention/Public Outreach 56.2%. Majority of expenditures are for community outreach programs. Central Marin Sanitation Agency bills us for our share of these costs and we received a billing for our portion of last year's costs late in the first quarter of this fiscal year, thus the overage at this time. However, we will continue to monitor this item and expect the account to stay within budget.

Pump Stations (19.6%)

Water. 32.9% Per review of account, no significant items noted.

Administration and Engineering (16.3%)

Agency Dues. 49.1%. Half of our agency dues have been paid for this fiscal year, thus the variance is reasonable for this time of year.

Accounting & Auditing. 66.2%. Most of the audit work has been completed in the first quarter of the fiscal year, and is expected to stay within budget for the fiscal year.

O/S Contractual. 31.7%. No significant items were noted during review of this budget item. This budget item is expected to stay within budget for the current fiscal year.

Travel, Meetings & Training. 38.8%. No significant items were noted during review of this budget item. This budget item is expected to stay within budget for the current fiscal year.

CAPITAL FUND

CAPITAL REVENUE

Capital Revenue	YTD Balance Received	Annual Budget	Over/(Under)Budget	Pct. Received
Sewer Service Charges	\$14,009	\$5,472,815	(\$5,458,806)	0.3%
Property Taxes	\$184	\$1,775,000	(\$1,774,816)	0.0%
Connection Charges	\$747,550	\$681,600	\$65,950	109.7%
Total Revenue	\$765,438	\$9,593,415	(\$8,827,977)	8.0%

CAPITAL EXPENDITURES

	YTD Balance	Annual Budget	Budget Unused	Pct. Used
Capital Expenditures	\$1,789,403	\$18,392,321	\$16,602,918	9.7%

The list of capital projects is shown in the attached report. Overall expenses are 9.7% of budget.

11/09/11
Accrual Basis

Novato Sanitary District Revenues & Expenditures Budget vs. Actual July through September 2011

	Jul - Sep 11	Budget	\$ Over Budget	% of Bud...
Ordinary Income/Expense				
Income				
41000 · OPERATING INCOME				
41010 · Sewer Service Charges	190,479.61	8,210,842.00	(8,020,362.39)	2.3%
41030 · Plan Check & Inspection Fee	0.00	500.00	(500.00)	0.0%
41040 · Permit & Inspection Fee	1,880.00	7,500.00	(5,620.00)	25.1%
41060 · Interest Income	2,737.98	15,000.00	(12,262.02)	18.3%
41080 · Engineering & Admin Charges	0.00	200,000.00	(200,000.00)	0.0%
41090 · Non-domestic Permit Fees	0.00	4,000.00	(4,000.00)	0.0%
41100 · Garbage Franchise Fees	0.00	46,575.00	(46,575.00)	0.0%
41105 · AB 939 Collector Fees	0.00	297,586.00	(297,586.00)	0.0%
41107 · Oil/Bev/Tire Grants	0.00	54,953.00	(54,953.00)	0.0%
41130 · Ranch Income	0.00	60,000.00	(60,000.00)	0.0%
41135 · Recycle Water Facility Revenue	0.00	8,000.00	(8,000.00)	0.0%
41140 · Other Revenue	5,582.17	40,000.00	(34,417.83)	14.0%
41142 · Loss on disposal of assets	0.00	10,000.00	(10,000.00)	0.0%
Total 41000 · OPERATING INCOME	200,679.76	8,954,956.00	(8,754,276.24)	2.2%
Total Income	200,679.76	8,954,956.00	(8,754,276.24)	2.2%
Gross Profit	200,679.76	8,954,956.00	(8,754,276.24)	2.2%
Expense				
60000 · COLLECTION SYSTEM				
60010 · Salaries & Wages	138,229.08	562,400.00	(424,170.92)	24.6%
60020 · Employee Benefits	69,610.99	251,857.00	(182,246.01)	27.6%
60060 · Gas, Oil & Fuel	3,094.35	25,000.00	(21,905.65)	12.4%
60091 · Software Maint	1,250.00	25,000.00	(23,750.00)	5.0%
60100 · Operating Supplies	2,861.04	27,000.00	(24,138.96)	10.6%
60150 · Repairs & Maintenance	31,273.04	40,000.00	(8,726.96)	78.2%
60152 · Small Tools	0.00	1,000.00	(1,000.00)	0.0%
60153 · Outside Services	900.00	75,000.00	(74,100.00)	1.2%
60192 · Water	947.92	5,000.00	(4,052.08)	19.0%
60193 · Telephone	251.13	2,000.00	(1,748.87)	12.6%
60200 · Other(Garbage Coll)	50.10	2,000.00	(1,949.90)	2.5%
60201 · Permits & Fees	0.00	100,000.00	(100,000.00)	0.0%
60290 · Vehicle Replacement	0.00	40,000.00	(40,000.00)	0.0%
Total 60000 · COLLECTION SYSTEM	248,467.65	1,156,257.00	(907,789.35)	21.5%
61000 · TREATMENT FACILITIES				
61000-0 · Contract Operations				
61000-1 · Fixed Fee	459,191.85	1,880,000.00	(1,420,808.15)	24.4%
61000-2 · Insurance & Bonds	16,991.33	51,750.00	(34,758.67)	32.8%
61000-3 · Major Repair/Replacement	0.00	104,000.00	(104,000.00)	0.0%
61000-4 · Water/Permits/Telephone	9,936.79	16,000.00	(6,063.21)	62.1%
61000-5 · Gas & Electricity	107,192.50	581,000.00	(473,807.50)	18.4%
Total 61000-0 · Contract Operations	593,312.47	2,632,750.00	(2,039,437.53)	22.5%
Total 61000 · TREATMENT FACILITIES	593,312.47	2,632,750.00	(2,039,437.53)	22.5%
63000 · RECLAMATION/DISPOSAL				
63010 · Salaries & Wages	7,389.75	29,945.00	(22,555.25)	24.7%
63020 · Employee Benefits	4,608.14	13,342.00	(8,733.86)	34.5%
63060 · Gasoline & Oil	990.19	8,000.00	(7,009.81)	12.4%
63091 · Software Maintenance	0.00	2,500.00	(2,500.00)	0.0%
63100 · Operating Supplies	300.39	3,000.00	(2,699.61)	10.0%
63115 · Sludge Disposal	68,230.00	148,000.00	(79,770.00)	46.1%
63150 · Repairs & Maintenance	31,135.69	85,000.00	(53,864.31)	36.6%

11/09/11
 Accrual Basis

Novato Sanitary District Revenues & Expenditures Budget vs. Actual July through September 2011

	Jul - Sep 11	Budget	\$ Over Budget	% of Bud...
63151 · Unusual Equipment Maintenance	0.00	50,000.00	(50,000.00)	0.0%
63152 · Small Tools	0.00	1,000.00	(1,000.00)	0.0%
63157 · Ditch/Dike Maintenance	0.00	18,000.00	(18,000.00)	0.0%
63191 · Gas & Electricity	38,341.01	95,000.00	(56,658.99)	40.4%
63192 · Water - Reclamation	3,544.61	8,000.00	(4,455.39)	44.3%
63201 · Permits & Fees	1,995.00	25,000.00	(23,005.00)	8.0%
63290 · Vehicle Replacement	0.00	7,000.00	(7,000.00)	0.0%
Total 63000 · RECLAMATION/DISPOSAL	156,534.78	493,787.00	(337,252.22)	31.7%
64000 · LABORATORY/MONITORING				
64010 · Salaries & Wages	51,129.25	214,893.00	(163,763.75)	23.8%
64020 · Employee Benefits	26,132.50	98,315.00	(72,182.50)	26.6%
64060 · Gasoline & Oil	433.21	4,000.00	(3,566.79)	10.8%
64091 · Software Maintenance	0.00	13,000.00	(13,000.00)	0.0%
64100 · Operating Supplies	7,170.86	40,000.00	(32,829.14)	17.9%
64150 · Repairs & Maintenance	2,033.78	11,000.00	(8,966.22)	18.5%
64160 · Research & Monitoring	47,315.02	275,400.00	(228,084.98)	17.2%
64170 · Pollution Prevention/Public Ed	17,985.10	32,000.00	(14,014.90)	56.2%
64201 · Permits & Fees	0.00	3,000.00	(3,000.00)	0.0%
64290 · Vehicle Replacement	0.00	1,400.00	(1,400.00)	0.0%
Total 64000 · LABORATORY/MONITORING	152,199.72	693,008.00	(540,808.28)	22.0%
65000 · PUMP STATIONS				
65010 · Salaries & Wages	67,127.26	328,917.00	(261,789.74)	20.4%
65020 · Employee Benefits	35,694.42	145,231.00	(109,536.58)	24.6%
65060 · Gasoline & Oil	618.87	2,500.00	(1,881.13)	24.8%
65091 · Software Maintenance	0.00	10,000.00	(10,000.00)	0.0%
65100 · Operating Supplies	2,361.55	9,000.00	(6,638.45)	26.2%
65101 · Operating Chemicals	3,582.88	24,000.00	(20,417.12)	14.9%
65150 · Repairs & Maintenance	27,101.89	135,000.00	(107,898.11)	20.1%
65152 · Small Tools	211.55	2,500.00	(2,288.45)	8.5%
65191 · Gas & Electricity	15,754.18	100,000.00	(84,245.82)	15.8%
65192 · Water	1,645.32	5,000.00	(3,354.68)	32.9%
65193 · Telephone	4,910.01	21,000.00	(16,089.99)	23.4%
65201 · Permits & Fees	470.00	21,000.00	(20,530.00)	2.2%
65290 · Vehicle Replacement	0.00	10,000.00	(10,000.00)	0.0%
Total 65000 · PUMP STATIONS	159,477.93	814,148.00	(654,670.07)	19.6%
66000 · ADMIN/ENGINEERING				
66010 · Salaries & Wages	246,331.96	961,482.00	(715,150.04)	25.6%
66020 · Employee Benefits	130,405.11	1,648,770.00	(1,518,364.89)	7.9%
66021 · Retiree Health Benefits	54,207.41	230,485.00	(176,277.59)	23.5%
66030 · Director's Fees	9,675.00	40,000.00	(30,325.00)	24.2%
66040 · Election Expense	0.00	60,000.00	(60,000.00)	. 0.0%
66060 · Gasoline & Oil	1,117.75	5,000.00	(3,882.25)	22.4%
66070 · Insurance	24,783.01	195,600.00	(170,816.99)	12.7%
66071 · Insurance Claim Expense	0.00	55,600.00	(55,600.00)	0.0%
66075 · Agency Dues	19,647.21	40,000.00	(20,352.79)	49.1%
66080 · Memberships	469.00	7,200.00	(6,731.00)	6.5%
66090 · Office Expense	4,118.22	28,000.00	(23,881.78)	14.7%
66100 · Engineering Supplies	2,660.94	10,000.00	(7,339.06)	26.6%
66121 · Accounting & Auditing	14,565.00	22,000.00	(7,435.00)	66.2%
66122 · Attorney Fees	25,198.95	190,000.00	(164,801.05)	13.3%
66123 · O/S Contractual	72,587.44	228,760.00	(156,172.56)	31.7%
66124 · IT/Misc Electrical	3,125.94	40,000.00	(36,874.06)	7.8%
66130 · Printing & Publications	4,273.42	17,000.00	(12,726.58)	25.1%
66150 · Repairs & Maintenance	9,564.08	40,000.00	(30,435.92)	23.9%
66170 · Travel, Meetings & Training	17,455.48	45,000.00	(27,544.52)	38.8%

11/09/11
 Accrual Basis

Novato Sanitary District
Revenues & Expenditures Budget vs. Actual
 July through September 2011

	Jul - Sep 11	Budget	\$ Over Budget	% of Bud...
66193 · Telephone	3,357.88	14,000.00	(10,642.12)	24.0%
66202 · County Fees - Property Taxes	0.00	31,000.00	(31,000.00)	0.0%
66203 · County Fees - Sewer Service Chg	0.00	29,000.00	(29,000.00)	0.0%
66250 · Service Charge Sys Exp	0.00	9,000.00	(9,000.00)	0.0%
66290 · Vehicle Replacement	0.00	5,600.00	(5,600.00)	0.0%
Total 66000 · ADMIN/ENGINEERING	643,543.80	3,953,497.00	(3,309,953.20)	16.3%
67000 · AB 939 SOLID WASTE PROGRAMS				
67400 · Consulting Services	15,677.47	105,064.00	(89,386.53)	14.9%
67500 · Household Hazardous Waste	44,814.10	218,000.00	(173,185.90)	20.6%
67520 · Permanent HHW Facility	0.00	9,000.00	(9,000.00)	0.0%
67530 · Used Oil Program	1,175.61	13,537.00	(12,361.39)	8.7%
67600 · Other	1,942.25	5,000.00	(3,057.75)	38.8%
67610 · City AB 939 Admin Services	0.00	10,000.00	(10,000.00)	0.0%
Total 67000 · AB 939 SOLID WASTE PROGR...	63,609.43	360,601.00	(296,991.57)	17.6%
Total Expense	2,017,145.78	10,104,048.00	(8,086,902.22)	20.0%
Net Ordinary Income	(1,816,466.02)	(1,149,092.00)	(667,374.02)	158.1%
Net Income	(1,816,466.02)	(1,149,092.00)	(667,374.02)	158.1%

**Novato Sanitary District
Revenues & Expenditures - Capital**

Accrual Basis

July through September 2011

	<u>Jul - Sep 11</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of B...</u>
Ordinary Income/Expense				
Income				
51000 · CAPITAL IMPROVEMENT INCOME				
51010 · Sewer Service Charges	14,008.98	5,472,815.00	(5,458,806.02)	0.3%
51015 · Property Taxes	183.75	1,775,000.00	(1,774,816.25)	0.0%
51020 · Connection Charges	747,549.78	681,600.00	65,949.78	109.7%
51030 · Collector Sewer Charges	0.00	4,000.00	(4,000.00)	0.0%
51040 · Special Equalization Charge	0.00	6,000.00	(6,000.00)	0.0%
51060 · Interest	2,696.11	25,000.00	(22,303.89)	10.8%
51070 · Other Revenue	999.00	1,629,000.00	(1,628,001.00)	0.1%
Total 51000 · CAPITAL IMPROVEMENT INCO...	<u>765,437.62</u>	<u>9,593,415.00</u>	<u>(8,827,977.38)</u>	<u>8.0%</u>
Total Income	<u>765,437.62</u>	<u>9,593,415.00</u>	<u>(8,827,977.38)</u>	<u>8.0%</u>
Gross Profit	<u>765,437.62</u>	<u>9,593,415.00</u>	<u>(8,827,977.38)</u>	<u>8.0%</u>
Expense				
72000 · CAPITAL IMPROVEMENT PROJECTS				
72111 · SCADA Phase II	304.31	20,000.00	(19,695.69)	1.5%
72403 · Pump Station Rehabilitation	574,389.90	1,500,000.00	(925,610.10)	38.3%
72508 · N. Bay Water Recycling Auth	49,901.67	50,000.00	(98.33)	99.8%
72509 · NTP Soil & Groundwater Inv	0.00	5,000.00	(5,000.00)	0.0%
72604 · Laboratory Improvements	2,033.00	60,000.00	(57,967.00)	3.4%
72607 · WWTP Upgrade-Contract A1	0.00	15,000.00	(15,000.00)	0.0%
72608 · WWTP Upgrade - Contract A2	0.00	10,000.00	(10,000.00)	0.0%
72609 · WWTP Upgrade - Contract B	144,930.04	400,000.00	(255,069.96)	36.2%
72611 · Bayside Sewer	0.00	10,000.00	(10,000.00)	0.0%
72612 · Southgate Sewer-	0.00	3,000.00	(3,000.00)	0.0%
72706 · 2008 Collection System Improv	24,151.51	2,000,000.00	(1,975,848.49)	1.2%
72707 · Hamilton Wetlands/Outfall Monit	0.00	5,000.00	(5,000.00)	0.0%
72708 · Cogeneration	0.00	50,000.00	(50,000.00)	0.0%
72801 · Annual Minor Projects	0.00	25,000.00	(25,000.00)	0.0%
72802 · Annual Sewer Adj. for City Proj	724.00	25,000.00	(24,276.00)	2.9%
72803 · Annual Collection Sys Repairs	25,266.75	200,000.00	(174,733.25)	12.6%
72804 · Annual Reclamation Fac Imp	98,321.76	400,000.00	(301,678.24)	24.6%
72805 · Annual Trtmt Plnt/Pump St Impr	72,794.33	150,000.00	(77,205.67)	48.5%
72808 · Strategic Plan Update	0.00	50,000.00	(50,000.00)	0.0%
73001 · WWTP Upgrade - Contract C	7,115.83	800,000.00	(792,884.17)	0.9%
73002 · WWTP Up - Cont D - Rec- ARRA Fu	784,008.04	6,500,000.00	(5,715,991.96)	12.1%
73003 · Admin Building Upgrades	5,461.43	50,000.00	(44,538.57)	10.9%
78500 · Interest - Zions Bank	0.00	6,064,321.00	(6,064,321.00)	0.0%
Total 72000 · CAPITAL IMPROVEMENT PROJ...	<u>1,789,402.57</u>	<u>18,392,321.00</u>	<u>(16,602,918.43)</u>	<u>9.7%</u>
Total Expense	<u>1,789,402.57</u>	<u>18,392,321.00</u>	<u>(16,602,918.43)</u>	<u>9.7%</u>
Net Ordinary Income	<u>(1,023,964.95)</u>	<u>(8,798,906.00)</u>	<u>7,774,941.05</u>	<u>11.6%</u>
Net Income	<u>(1,023,964.95)</u>	<u>(8,798,906.00)</u>	<u>7,774,941.05</u>	<u>11.6%</u>

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Accounts Receivable Aging Summary	MEETING DATE: November 14, 2011 AGENDA ITEM NO.:
RECOMMENDED ACTION: Information Only	
SUMMARY AND DISCUSSION: <p>A monthly Accounts Receivable Aging Summary will be included with the agenda packet at the first Board meeting of each month.</p> <p>The attached A/R summary shows the following receivables:</p> <p><u>Current - \$168,461.99:</u> Billed this month and not delinquent.</p> <p><u>31 - 60 days - \$33,135.08:</u> \$32,993.73 is for semi-annual sewer service charges for non-taxed properties billed by the District. \$21,023.31 will be received during the week of November 14th, and the remaining two accounts have received reminders.</p> <p><u>61 – 90 days - \$1,864.17:</u> This is an outstanding balance for a septic tank hauler. Monthly payments have been promised.</p> <p><u>90+ days - \$36,048.55:</u> \$26,851.00 is for outstanding ranch lease payment. The rancher is experiencing cash flow problems but will clear the debt as soon as possible. \$6,720.16 is for septic tank hauling fees. Septic tank dumping by this hauler has been discontinued until the debt is cleared. The remaining balance in this category is expected to be received in the near future.</p> <p><u>Summary:</u> Receivables over 31 days old amount to \$71,046.80. \$21,023.31 will be received the week of November 14th, leaving a balance of \$50,024.49. This represents 0.56% of the District's total budgeted operating revenue of \$8,954,956 for fiscal year 2011/12.</p>	
ALTERNATIVES: N/A – Information only.	
BUDGET INFORMATION: N/A	
DEPT.MGR.:	MANAGER:

**Novato Sanitary District
A/R Aging Summary
As of November 8, 2011**

Name	Description	Current	31 - 60	61 - 90	> 90	TOTAL
Hayden, Ron	Ranch Lease	0.00	0.00	0.00	26,851.00	26,851.00
Homeward Bound	Sewer Service Charges	0.00	5,363.82 (1)	0.00	0.00	5,363.82
Joel Farmers Septic	Septic Tank Hauling	0.00	0.00	1,864.17	6,720.16	8,584.33
Novato Community Hospital	Sewer Service Charges	0.00	21,023.31 (1)	0.00	0.00	21,023.31
Novato Disposal	50% of Annual AB 939 Fees	148,793.00	0.00	0.00	0.00	148,793.00
Novato Fire Protection	Sewer Service Charges	0.00	6,606.60 (1)	0.00	0.00	6,606.60
Optical Metal Services	Non-Domestic User Permit	0.00	0.00	0.00	729.47	729.47
Petaluma Septic	Septic Tank Hauling	142.56	0.00	0.00	0.00	142.56
Quality Septic Systems	Septic Tank Hauling	652.30	0.00	0.00	0.00	652.30
Roto Rooter	Septic Tank Hauling	278.85	0.00	0.00	0.00	278.85
Roy's Sewer Service, Inc.	Septic Tank Hauling	622.16	0.00	0.00	0.00	622.16
State of California - Fuel Tax	Annual Use Fuel Tax Refund	0.00	0.00	0.00	943.92	943.92
United Site Services	Septic Tank Hauling	1,487.64	0.00	0.00	0.00	1,487.64
United States Coast Guard	Monthly Sewer Service Charges	11,973.50	0.00	0.00	0.00	11,973.50
Veolia Water	Reimbursable charges	4,391.86 (2)	0.00	0.00	0.00	4,391.86
Vineyard Septic	Septic Tank Hauling	120.12	141.35	0.00	804.00	1,065.47
TOTAL		168,461.99	33,135.08	1,864.17	36,048.55	239,509.79

(1) These invoices are for semi-annual sewer charges for our non-tax roll customers.
Reminder statements were sent out on Friday November 4th.

(2) Auto lease, phone, pagers, potable water, gasoline, data charge .

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Upcoming Board Meeting Dates	MEETING DATE: November 14, 2011 AGENDA ITEM NO.:
RECOMMENDED ACTION: Approve schedule for upcoming meetings outlined below.	
SUMMARY AND DISCUSSION: Proposed meeting schedule for upcoming regular board meetings: – November 28 th , December 12 th , January 9 th and 23 rd . There is only one meeting scheduled in December due to the fact the second board meeting falls on December 26 th , which is a District holiday.	
ALTERNATIVES: n/a	
BUDGET INFORMATION: Savings of \$1,125 in board fees.	
DEPT.MGR.:	MANAGER:

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Wastewater Facility Upgrade Project: Odor Control Rework	MEETING DATE: November 14, 2011 AGENDA ITEM NO. :
RECOMMENDED ACTION: Information only	
SUMMARY AND DISCUSSION: At their meeting on October 10, 2011, the Board of Directors directed staff to prepare a timeline for the re-work of the odor control system as an urgent matter to address the odors impacting the Lea Drive neighborhood. As discussed at the meeting the design team is taking responsibility for the re-work and is committed to completing the work as expeditiously as possible. A brief timeline was presented at the meeting on October 24 th and a more detailed summary of the recommendations and implementation schedule is attached. In brief, the District, with Veolia, will be adding an enzyme and bioxide to the sewage to reduce odor generation starting Nov. 4 th . We expect construction of the remaining facilities to be complete by the end of January 2012. In addition to the re-work of the odor control biofilters the District is proposing to construct a fence or screen to help disperse the odors from the aeration basin and to visually screen the treatment plant from the neighborhood.	
ALTERNATIVES: NA	
BUDGET INFORMATION: NA	
DEPT. MGR. :	MANAGER'S APPROVAL:

Novato Sanitary District

Odor Control Implementation Plan

Findings	Recommendations	Implementation
Biological treatment is appropriate for use at a wastewater treatment plant for odor control. Activated carbon and chemical treatment would not remove odors as effectively.	Only biological treatment is recommended as other alternatives such as activated carbon or chemical treatment leave some odor in the airstream. For that reason, Bay Area Air Quality Management District also recommends them for this purpose.	See below.
The odors coming from the headworks and primary clarifier are primarily hydrogen sulfides. No mercaptans or disulfides were detected.	Add enzymes and bioxide to the sewage flows to reduce the generation of hydrogen sulfide by giving the bacteria an alternate oxygen source.	<ol style="list-style-type: none"> 1. Nov 2nd: Feed enzyme at headworks. 2. Nov 14th: Feed bioxide at pump stations.
Sand is an appropriate media for odor control beds, but in this case, organic media would increase the allowable airflow, allowing greater odor capture.	Replace the sand with organic media and increase media depth to 3 - 3.5 feet.	<ol style="list-style-type: none"> 3. Oct 19 – Nov 17, Design Group prepares design. 4. Nov 17 – Nov 23, Get quote from Gateway Pacific for Change Order. 5. Nov 28 – Request Board authorization for Construction Change Order. 6. Dec 1 – Jan 31 Construction.
The primary cause of the low air flow is the plugged geotextile liner.	Remove the geofabric interface between the rock plenum below and the media above.	Part of the Construction project: Complete by Jan 31, 2012
The secondary cause for odor escaping the plant is insufficient depth of the P-traps on the biofilter drains.	Replace the P-traps in the drainage piping with deeper drain traps.	Part of the Construction project: Complete by Jan 31, 2012

Odor Control Implementation Plan continued

Findings	Recommendations	Implementation
A third source of escaping odors is the leaking shaft seal and housings for the fans serving Primary Clarifier No. 1	Replace the neoprene shaft seal and seal the housings.	Part of the Construction project: Complete by Jan 31, 2012
Air flow capacities as designed and constructed are adequate for the processes they are intended to control. Most of the odors escaping the plant are due to below-design airflows to the odor control biofilters	<ol style="list-style-type: none"> 1. Remove geotextile fabric and change the media as noted above. 2. Adjust the speed of each odor control fan to deliver the air-flow rates specified in the original design 	Adjust speed after construction is complete and media is changed.
Aeration Basin odors typically disperse quickly. The low vegetation corridor between the basins and the neighborhood may be responsible for this low intensity odor to persist off-site	<ol style="list-style-type: none"> 3. Plant vegetation. 4. Operate the plant with the lowest Solids Retention Time and Mixed Liquor Suspended Solids possible. 5. Evaluate walls and shields to better disperse odors. 	<ol style="list-style-type: none"> 1. Nov. 4: Planting of large trees complete. 2. Nov 7: Plant fast-growing vines along perimeter fence facing Lea Drive. 3. Nov 15 – 30: Prepare design of a fence/screen to better disperse odors and to visually screen the plant and better disperse odors. 4. Dec 1 – 14: Install sample fence/screens to judge visual impact. 5. Dec 15 – Jan 31: install fence/screen.

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Annual Collection System Repairs – Michele Circle Sewer Project; Project 72803-11-02	MEETING DATE: November 14, 2011 AGENDA ITEM NO.:												
RECOMMENDED ACTION: Review bids received, accept the lowest responsive bid and authorize the Manager-Engineer to execute the Contract.													
SUMMARY AND DISCUSSION: <p>Using the informal bid provisions of the Uniform Public Construction Cost Accounting Act (UPCCAA), as adopted by the Board of Directors in 2006, District staff requested bids for the installation of 479 feet of sewer main on Michele Circle, Sutro Avenue and Erica Court. The purpose of this project is to prevent the sewer main on Michele Circle from overflowing to a nearby creek when the downstream sewer experiences a stoppage.</p> <p>On October 27, 2011, 6 bids were received as follows:</p> <table style="margin-left: 40px; border: none;"> <tr><td>1. WR Forde:</td><td style="text-align: right;">\$107,039.00</td></tr> <tr><td>2. Team Ghilotti:</td><td style="text-align: right;">\$110,478.00</td></tr> <tr><td>3. Ranger Pipeline:</td><td style="text-align: right;">\$113,836.00</td></tr> <tr><td>4. Argonaut Constructors:</td><td style="text-align: right;">\$121,060.00</td></tr> <tr><td>5. Ghilotti Brothers:</td><td style="text-align: right;">\$138,679.00</td></tr> <tr><td>6. Maggiora & Ghilotti:</td><td style="text-align: right;">\$147,147.00</td></tr> </table> <p>WR Forde of Richmond submitted the lowest responsive bid of \$107,039.00, \$3,439.00 (3%) below the next highest bidder. The Engineer’s Estimate of Probable Cost was \$165,000.00. WR Forde’s bid documents have been reviewed and they are in order. Staff contacted WR Forde to discuss their bid and they are comfortable and confident with their bid.</p> <p>The FY11-12 budget includes \$2,000,000 for the Collection System Improvements. To date, \$25,630.00 has been expended. Accordingly, at this time, it is recommended that the Board award the Michele Circle Sewer Project of the Collection System Improvements to WR Forde with a bid of \$107,039.00.</p>		1. WR Forde:	\$107,039.00	2. Team Ghilotti:	\$110,478.00	3. Ranger Pipeline:	\$113,836.00	4. Argonaut Constructors:	\$121,060.00	5. Ghilotti Brothers:	\$138,679.00	6. Maggiora & Ghilotti:	\$147,147.00
1. WR Forde:	\$107,039.00												
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4. Argonaut Constructors:	\$121,060.00												
5. Ghilotti Brothers:	\$138,679.00												
6. Maggiora & Ghilotti:	\$147,147.00												
ALTERNATIVES: N/A.													
BUDGET INFORMATION: The FY 11-12 Budget for Account No. 72706 includes a budget amount of \$2,000,000.													
DEPT.MGR.:	MANAGER:												

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Staff Report: North Bay Watershed Association Meeting	MEETING DATE: November 14, 2011
	AGENDA ITEM NO.:
RECOMMENDED ACTION: Information Only	
SUMMARY AND DISCUSSION: The North Bay Watershed Association met at the Novato Sanitary District office on November 4, 2011. There were presentations by Napa, Sonoma, and Marin County on progress on the TMDL's for the north bay streams. All of the counties are working on implementing "Slow it, Spread it, Sink it" for stormwater and are working on streambank restoration projects. Harry Seraydarian reported on the plans for the conference scheduled for April 13, 2012 at the Petaluma Sheraton. The topic will Climate Change Adaptation. They are looking for sponsors.	
ALTERNATIVES: N/A – Information only.	
BUDGET INFORMATION: N/A	
DEPT.MGR.:	MANAGER:

NOVATO SANITARY DISTRICT BOARD AGENDA ITEM SUMMARY

TITLE: Staff Report: Marin Association of Realtors Government Affairs Committee Meeting	MEETING DATE: November 14, 2011 AGENDA ITEM NO.:
RECOMMENDED ACTION: Information Only	
SUMMARY AND DISCUSSION: The Marin Association of Realtors invited Manager-Engineer Beverly James to speak to the committee about the Novato Sanitary District rate structure. They have been approached by owners of apartment buildings asking them to support lower sewer rates for apartments. She presented the attached report. The committee voted to support sewer service charges based directly on water use.	
ALTERNATIVES: N/A – Information only.	
BUDGET INFORMATION: N/A	
DEPT.MGR.:	MANAGER:

Marin Association of Realtors Government Affairs Committee

November 4, 2011

Novato Sanitary District Revenue Sources

Novato Sanitary District revenues come primarily from sewer service charges and property taxes. Our combined charges for sewer service and property tax are the lowest in Marin County and among the lowest in the Bay Area. Property taxes are based on assessed valuation and constitute about 11% of total revenues. Sewer Service Charges divided into three tiers based on winter water use and constitute about 82% of total revenues. The remaining revenues include connection charges, solid waste fees, interest, and rental income.

How are Sewer Service Charge rates calculated?

The District makes an effort to develop rates based on the cost of providing service to the customer. Sewerage facilities need to be sized to treat the sewage under the worst possible conditions and still meet requirements. This means that the controlling parameters for sizing and operating systems are wet weather flows and sewage strength. Neither of these correlates well with anything that is possible to measure on a customer-by-customer basis for residential properties. For this reason approximately 70% of sewer service providers in California charge the same rate per dwelling unit.

The Novato Sanitary District is among the 30% that take into account water use in calculating the sewer service charge. The District has a three-tiered rate structure. Each dwelling unit is assigned 0.6, 1.0 or 1.8 service units based on its average actual or estimated water usage for an approximate four-month period during the previous winter season. If more than one dwelling unit is on one water meter the average use/dwelling unit is calculated. The residential water use is calculated each year based on the records for all District customers. Residential users whose water use was less than 25% of the average are charged for 0.6 service units. Residential users whose water use was between 25% and 200% of the average water use are charged 1.0 service unit. Users whose water use exceeds 200% of the average are charge 1.8 service units.

Multi-family vs. Single Family Water Use

The District defines a “multi-family unit” as one that shares a water meter with other units. All dwellings that have their own water meter are counted as single-family units.

In the winter of 2010-11 in Novato the average residential water use was 12.82 hcf/unit. The average for multi-family units was 10.52 (82% of the average). 2.5% of the multi-family units qualified for the low rate, 96.1% qualified for the average rate, and 1.4% qualified for the high rate. In the single-family units: 5.6% qualified for the low rate, 86.5% qualified for the average rate, and 7.9% qualified for the high rate.

District Plans

The District Board will be reviewing the rates and rate structure this spring and will be taking into account the comments received from constituents.