



***Novato Sanitary District  
Novato, CA***



***Comprehensive Annual Financial Report***

***For the Fiscal Years Ended***

***June 30, 2017***

***and***

***June 30, 2016***

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**NOVATO SANITARY DISTRICT, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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

**Prepared by:**

*Sandeep Karkal, General Manager – Chief Engineer  
Laura Creamer, Finance Officer*

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# **Introductory Section**

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**NOVATO SANITARY DISTRICT**  
**Comprehensive Annual Financial Report**  
**For the Years Ended June 30, 2017 and 2016**

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December 1, 2017

To: The Honorable President, Members of the Board of Directors, and Rate Payers 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, 2017 is hereby submitted as required. Maze & Associates, a firm of licensed certified public accountants, has audited the 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 purpose of additional analysis. The Statistical section presents un-audited ten-year historical financial, demographic, and statistical information relevant to the District's operations.

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

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

The goal of the independent audit was to provide reasonable assurance that the financial statements of the Novato Sanitary District for the fiscal year ended June 30, 2017 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 unmodified opinion that the Novato Sanitary District's financial statements for the fiscal year ended June 30, 2017 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

## **PROFILE OF THE DISTRICT**

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

The District has an upgraded and expanded treatment plant currently permitted for an average dry weather flow of 7.0 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's wastewater service area currently encompasses about 25 square miles and serves a population of approximately 60,000. Wastewater from the District's service area is transported to the Novato Wastewater Treatment Plant where it is treated to federally and state mandated standards to protect the public health.

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

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

In addition, the District operates a Household Hazardous Waste program and is responsible for refuse, recycling and green-waste collection through its oversight of a franchise.

## **Governance**

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

## **Mission and Vision**

The mission of the Novato Sanitary District is as follows:

*Novato Sanitary District provides responsible environmental and economical wastewater and solid waste resource management for Novato.*

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

*Creating worth from all of Novato's waste.*

## **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 generally zoned very low density residential, although this is always subject to change by the planning agencies, i.e. City of Novato and County of Marin.

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 strong revenues from capacity fees. It is anticipated that capacity fee revenues will slow dramatically as the District approaches build out, absent significant densification or zoning changes.

Property taxes accounted for approximately 11.0% and 11.1% of the District's total revenue (including capital contributions) for FYE 2016 and 2017, respectively. Under current conditions in the housing market, property tax revenues are expected to increase moderately in the near future with increases 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 financial policies and planning documents to effectively meet the District's anticipated future needs. The District utilizes the information of these policies and planning documents to anticipate future expense obligations and to develop programs to ensure these expense obligations are fully funded. For example, in FYE 16, the District commissioned its financial consultant, Bartle Wells Associates to initiate and complete the 2016 Wastewater Capacity Fee Study and 2016 Sewer Rate Study. It is anticipated that future updates will be prepared as needed.

## **RELEVANT FINANCIAL POLICIES**

### ***Reserve Policy***

The District has established a Reserves Policy (Policy No. 3500) to anticipate and prepare for unforeseen events, and to establish and maintain the required reserves of its State Revolving Fund loan and 2011 Certificates of Participation. The District has also established Policy No. 3510 for Capital and Operating Fund targets and minimum fund balances as of July 1<sup>st</sup> each year to provide sufficient cash flow for expenses in that fiscal year.

### ***Investment Policy***

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

## **INTERNAL CONTROLS**

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

## MAJOR INITIATIVES

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

- 1) The District completed a major upgrade to its wastewater treatment facilities by 2011. 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 upgraded treatment plant replaced two aging facilities with a single new modernized plant. A major new pump station and pipeline replaced an aging and obsolete 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 will be paid annually through 2031 at an interest rate of 2.40%.
- 2) A Collection System Improvement and Pump Station Rehabilitation Program is ongoing to replace aging sewer lines and pump stations that are reaching the end of their useful lives. The program is designed to meet the District's needs over the next 25 to 50 years. Construction is ongoing and is expected to continue for the foreseeable future.
- 3) The District initiated a Sewer System Plan more than a decade ago. Since then much progress has been made. With about 250 miles of sewer pipelines, over 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 annually invested between \$1 million to \$5 million over the past decade or so in sewer upgrades to repair the wear and tear from past decades, and expects this to continue for the foreseeable future.
- 4) Due to the success of the District's Lateral Replacement Program over the past year, the program will continue to provide incentives for ratepayers to replace their private laterals. The program reimburses ratepayers up to \$2,000 for complete lateral replacement. During the FYE 2017 the District contributed \$48,500 for the replacement of twenty-six damaged private laterals.
- 5) The District completed construction of the nominal 1.7 million gallons per day (MGD), 0.85 MGD firm capacity, Recycled Water Treatment Facility in 2012. The project is part of a regional recycled water program – North Bay Water Reuse Authority. Twenty-five percent of the cost was covered by a grant from the U.S. Bureau of Reclamation. Five percent was covered by a grant from the California Department of Water Resources. The recycled water is distributed by North Marin Water District to irrigate a golf course, landscaping, cemeteries, and playing fields in Northern and Eastern Novato. The Facility became operational in September 2012. In FYE 18 and FYE 19, the District anticipates expanding the firm capacity of this facility from 0.85 MGD to 1.7 MGD.

## COLLABORATIVE PARTNERSHIPS

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

**Zero Waste Program.** In addition to franchising garbage collection and disposal with Novato Disposal Service (NDS), the District is responsible for meeting mandates of AB 939, the California Integrated Waste Management Act of 1989. In addition, the District and NDS collaboratively developed a Zero Waste Program which is anticipated to take recycling in the District's service area to the next level by dramatically reducing what goes to the landfill.

**Specialized Staff Sharing.** The District shares a single full-time safety officer with the Central Marin Sanitation Agency. 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 a private entity, Veolia Water, to operate its treatment facilities, achieving both cost savings and environmental compliance.

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

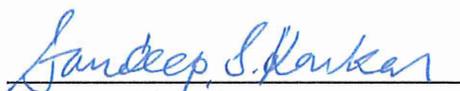
## INDEPENDENT AUDIT

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

## ACKNOWLEDGEMENTS

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

Respectfully submitted,



Sandeep Karkal  
General Manager-Chief Engineer

## *Leaders in Protecting the Environment*

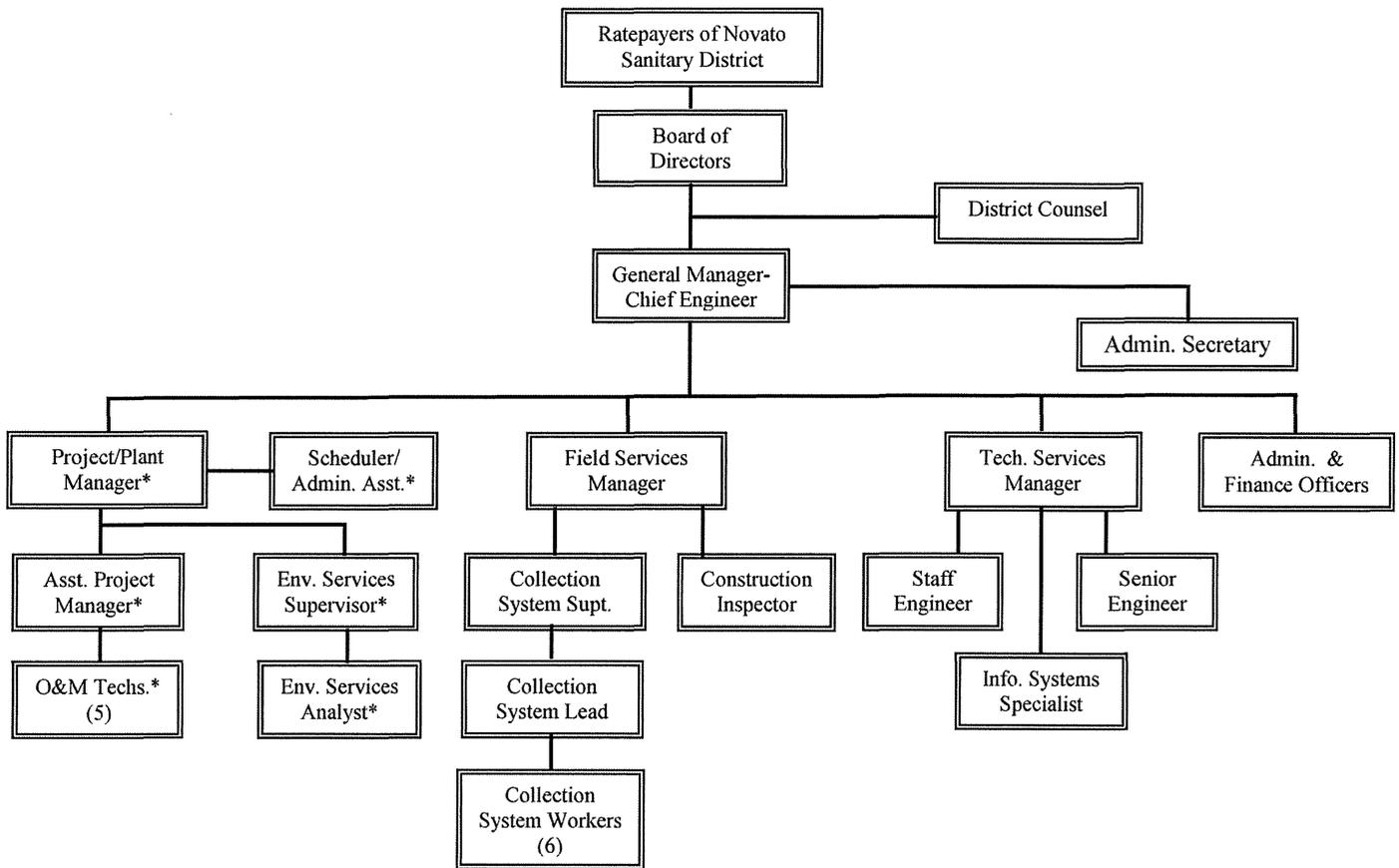
Novato Sanitary District provides wastewater collection, treatment, recycling and disposal services for the community of Novato, California. In addition, the District is responsible for refuse disposal, recycling, and greenwaste collection through its franchise collector, Novato Disposal Service.

### **Novato Sanitary District Board of Directors as of June 30, 2017**

<b>Name</b>	<b>Title</b>	<b>Elected/ Appointed</b>	<b>First Seated on Board</b>	<b>Current Term *</b>
Gerald Peters	President	Elected	12/2011	12/15-11/20
Carole Dillon-Knutson	Director	Appointed	12/2015	12/15-11/18
William C. Long	Director	Elected	12/2001	12/13-11/18
Jean Mariani	Director	Elected	5/2011	12/15-11/20
Brant Miller	Director	Elected	12/2013	12/13-11/18

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General Manager - Chief Engineer  
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\*Transition terms, consolidated with statewide elections per Senate Bill SB415 (“California Voter Participation Rights Act”).



\*denotes Veolia Water staff.

**NOVATO SANITARY DISTRICT – ORGANIZATIONAL CHART**



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Novato Sanitary District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

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# **Financial Section**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Novato Sanitary District  
Novato, California

### *Report on Financial Statements*

We have audited the accompanying financial statements of the Novato Sanitary District (District), California, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2017 and 2016, and changes in the financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principles***

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2017 as discussed in Note 1P to the financial statements:

Statement No. 74 – *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*

Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*

The emphasis of these matters does not constitute a modification to our opinions.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Introductory Section and Statistical Section and Continuing Disclosure listed in the Table of Contents are presented for purposes of additional analysis and are not a required part 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.

*Maze + Associates*

Pleasant Hill, California  
December 11, 2017



## **Management Discussion & Analysis**

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, 2017 and June 30, 2016. The two-year presentation is provided for comparative purposes. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

### **Financial Highlights**

- In 2017, the District's net position increased 2.9% or \$3,249,815 to \$111,797,320. In 2016, the District's net position increased 2.8% or \$2,948,100 to \$108,547,505.
- In 2017, the District's operating revenues increased 3.9% or \$676,487 due to a rate increase of approximately 3.8% (approved in June of 2016). In 2016, the District's operating revenues increased 3.3% or \$547,309.

### **Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position 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 Position 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 Position. 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 that can be 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 Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the District 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.

These two statements report the District's *net position* and changes therein. One can think of the District's net position – 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 position are one indicator of whether its *financial health* is improving or deteriorating. However, one also needs 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 15 through 39.

## Condensed Statements of Net Position

	2017	2016	Change	2015	Change
<b>Assets:</b>					
Current assets	\$ 23,977,767	\$ 21,838,663	2,139,104	20,225,134	1,613,529
Capital assets, net	176,068,809	180,012,797	(3,943,988)	182,916,368	(2,903,571)
<b>Total assets</b>	<b>200,046,576</b>	<b>201,851,460</b>	<b>(1,804,884)</b>	<b>203,141,502</b>	<b>(1,290,042)</b>
Deferred Outflow of Resources (Note 10)	1,247,025	397,387	849,638	285,901	111,486
<b>Liabilities:</b>					
Current liabilities	6,805,339	6,869,418	(64,079)	6,757,802	111,616
Non-current liabilities	81,812,368	85,878,494	(4,066,126)	90,164,596	(4,286,102)
<b>Total liabilities</b>	<b>88,617,707</b>	<b>92,747,912</b>	<b>(4,130,205)</b>	<b>96,922,398</b>	<b>(4,174,486)</b>
Deferred Inflows of Resources(Note 10)	878,574	953,430	(74,856)	905,600	47,830
<b>Net Position (Note 8)</b>					
Net investment in capital assets	96,965,159	96,235,211	729,948	94,572,835	1,662,376
Unrestricted	14,832,161	12,312,294	2,519,867	11,026,570	1,285,724
<b>Total net position</b>	<b>111,797,320</b>	<b>108,547,505</b>	<b>3,249,815</b>	<b>105,599,405</b>	<b>2,948,100</b>

As noted earlier, net position may serve over time as a useful indicator of a government entity's financial position. In the case of the District, assets of the District exceeded liabilities by \$111,797,320 and \$108,547,505 as of June 30, 2017 and June 30, 2016, respectively.

By far the largest portion of the District's net position (87% and 89% as of June 30, 2017 and June 30, 2016, 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 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$14,832,161 and \$12,312,294 respectively, which may be utilized in future years. See Note 8 for further discussion.

**Statement of Revenues, Expenses and Changes in Net Position**

	2017	2016	Change	2015	Change
<b>Revenues:</b>					
Operating revenues	\$ 17,596,116	16,919,629	676,487	16,372,320	547,309
Non-operating revenues	2,857,094	2,379,660	477,434	2,198,894	180,766
<b>Total revenues</b>	<b>20,453,210</b>	<b>19,299,289</b>	<b>1,153,921</b>	<b>18,571,214</b>	<b>728,075</b>
<b>Expenses:</b>					
Operating expenses	9,173,987	8,392,467	781,520	7,894,306	498,161
Depreciation and amortization	5,744,111	5,661,922	82,189	5,201,451	460,471
Non-operating expenses	2,513,064	2,533,440	(20,376)	2,703,321	(169,881)
<b>Total expenses</b>	<b>17,431,162</b>	<b>16,587,829</b>	<b>843,333</b>	<b>15,799,078</b>	<b>788,751</b>
<b>Net income before capital contributions</b>	<b>3,022,048</b>	<b>2,711,460</b>	<b>310,588</b>	<b>2,772,136</b>	<b>(60,676)</b>
Capital contributions	227,767	236,640	(8,873)	542,290	(305,650)
<b>Change in net position</b>	<b>3,249,815</b>	<b>2,948,100</b>	<b>301,715</b>	<b>3,314,426</b>	<b>(366,326)</b>
<b>Net position, beginning of year</b>	<b>108,547,505</b>	<b>105,599,405</b>	<b>2,948,100</b>	<b>106,584,107</b>	<b>(984,702)</b>
Prior period adjustment	-	-	-	(4,299,128)	4,299,128
<b>Net position, end of year</b>	<b>\$ 111,797,320</b>	<b>108,547,505</b>	<b>3,249,815</b>	<b>105,599,405</b>	<b>2,948,100</b>

The statement of revenues, expenses and changes of net position shows how the District’s net position changed during the fiscal years. A closer examination of the sources of changes in net position reveals that:

- In 2017, the District’s sewer service charges increased 3.8% or \$620,336 primarily due to the rate increase of approximately 3.8%. This rate increase was part of a five-year series of rate increases approved by the District Board in June 2016.
- In 2017, the District’s non-operating revenues increased 20.1% or \$477,434 primarily due to a one time settlement of \$225k from the resolution of the Bayside Subdivision matter.
- In 2017, the District’s total expenses increased 4.8% or \$843,333. In 2016, the District’s total expenses increased 4.7% or \$788,751 which is relatively stable on a year over year basis.
- In 2017, the District’s net position increased by 2.9% or \$3,249,815. In 2016, the District’s net position increased by 2.7% or \$2,948,100.

## Operating and Non-Operating Revenues

	2017	2016	Change	2015	Change
<b>Operating revenues:</b>					
Sewer service charges	\$ 16,843,212	16,222,876	620,336	15,706,704	516,172
Other service charges	193,006	207,416	(14,410)	231,594	(24,178)
Permit, inspection and other fees	28,479	46,283	(17,804)	44,494	1,789
Recycled water facility	177,285	100,433	76,852	91,942	8,491
AB939 – solid waste programs	354,134	342,621	11,513	297,586	45,035
<b>Total operating revenues</b>	<b>17,596,116</b>	<b>16,919,629</b>	<b>676,487</b>	<b>16,372,320</b>	<b>547,309</b>
<b>Non-operating revenue:</b>					
Property taxes	2,292,988	2,155,479	137,509	1,999,816	155,663
Franchise fees	52,485	51,059	1,426	49,768	1,291
Rental revenue	94,439	101,530	(7,091)	92,829	8,701
Interest earnings	136,595	71,592	65,003	43,117	28,475
Gain/(Loss) on sale/disposition of assets	1,627	-	1,627	13,364	(13,364)
Grant revenue	51,069	-	51,069	-	-
Other non-operating revenue	227,891	-	227,891	-	-
<b>Total non-operating revenues</b>	<b>2,857,094</b>	<b>2,379,660</b>	<b>477,434</b>	<b>2,198,894</b>	<b>180,766</b>
<b>Total revenues</b>	<b>\$ 20,453,210</b>	<b>19,299,289</b>	<b>1,153,921</b>	<b>18,571,214</b>	<b>728,075</b>

Total revenues increased by \$1,153,921 and by \$728,075 2017 and 2016, respectively.

## Operating and Non-Operating Expenses

	2017	2016	Change	2015	Change
<b>Operating expenses:</b>					
Collection system	\$ 1,178,118	1,116,422	61,696	1,277,022	(160,600)
Treatment plant	2,824,699	2,734,327	90,372	2,757,514	(23,187)
Wastewater reclamation and disposal	493,926	337,887	156,039	398,118	(60,231)
Laboratory and monitoring	512,003	487,624	24,379	555,215	(67,591)
Pump Stations	731,684	641,965	89,719	686,789	(44,824)
Recycled water facility	105,327	92,028	13,299	100,354	(8,326)
AB939 – solid waste programs	341,580	325,068	16,512	289,586	35,482
Administrative and engineering	2,485,415	2,528,449	(43,034)	2,173,241	355,208
Pension Expense	501,235	128,697	372,538	(343,533)	472,230
<b>Total operating expenses</b>	<b>9,173,987</b>	<b>8,392,467</b>	<b>781,520</b>	<b>7,894,306</b>	<b>498,161</b>
<b>Depreciation expense</b>	<b>5,744,111</b>	<b>5,661,922</b>	<b>82,189</b>	<b>5,201,451</b>	<b>460,471</b>
<b>Non-operating expenses:</b>					
Interest expense	2,325,634	2,450,757	(125,123)	2,567,765	(117,008)
Other non-operating expenses	187,430	82,683	104,747	135,556	(52,873)
<b>Total non-operating expenses</b>	<b>2,513,064</b>	<b>2,533,440</b>	<b>(20,376)</b>	<b>2,703,321</b>	<b>(169,881)</b>
<b>Total expenses</b>	<b>\$ 17,431,162</b>	<b>16,587,829</b>	<b>843,333</b>	<b>15,799,078</b>	<b>788,751</b>

Total expenses increased by \$843,333 and by \$788,751 in fiscal years 2017 and 2016, respectively.

## Capital Asset Administration

Changes in capital assets amounts for 2017 were as follows:					
	Balance 2016	Additions	Transfers/ Deletions	Reclassifications/ Restatements	Balance 2017
Capital assets:					
Non-depreciable assets	\$ 7,327,784	416,142	(649,742)		7,094,184
Depreciable assets	238,964,323	2,033,723	(77,723)		240,920,323
Accumulated depreciation	(66,279,310)	(5,744,111)	77,723		(71,945,698)
Total capital assets ,net	\$ 180,012,797	(3,294,246)	(649,742)	-	176,068,809
Changes in capital assets amounts for 2016 were as follows:					
	Balance 2015	Additions	Transfers/ Deletions	Reclassifications/ Restatements	Balance 2016
Capital assets:					
Non-depreciable assets	\$ 11,514,846	1,685,586	(5,872,648)		7,327,784
Depreciable assets	232,047,480	7,183,417	(266,574)		238,964,323
Accumulated depreciation	(60,645,958)	(5,661,922)	28,570		(66,279,310)
Total capital assets ,net	\$ 182,916,368	3,207,081	(6,110,652)	-	180,012,797

At the end of fiscal year 2017 and 2016, the District's investment in capital assets amounted to \$176,068,809 and \$180,012,797 (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 asset additions during the year include improvements to portions of the District's sewer collection and treatment system and pump stations (see Note 4 for further details).

## Debt Administration

Changes in long-term debt amounts for 2017 were as follows:				
	Balance 2016	Additions	Deletions	Balance 2017
Loan payable	\$ 67,091,444	-	(3,768,762)	63,322,682
2011 Certificates Of Participation	18,380,000	-	(905,000)	17,475,000
Total long-term debt	\$ 85,471,444	-	(4,673,762)	80,797,682
Changes in long-term debt amounts for 2016 were as follows:				
	Balance 2015	Additions	Deletions	Balance 2016
Long-term debt:				
Loan payable	\$ 70,771,876	-	(3,680,432)	67,091,444
2011 Certificates Of Participation	19,265,000	-	(885,000)	18,380,000
Total long-term debt	\$ 90,036,876	-	(4,565,432)	85,471,444

See Note 6 for further details of the District's long-term debt.

## 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 position, or operating results based on past, present and future anticipated 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-Chief Engineer, or the District's Finance Officer, at 500 Davidson Street, Novato, California, 94945.

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# **Basic Financial Statements**

NOVATO SANITARY DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	\$21,606,012	\$19,742,079
Restricted - cash and investments (Note 2)	1,694,033	1,693,859
Accounts receivable, net (Note 3)	551,528	318,238
Accrued interest receivable	52,003	29,263
Prepaid expenses and other deposits	74,191	55,224
	<u>23,977,767</u>	<u>21,838,663</u>
<b>NON-CURRENT ASSETS</b>		
Capital assets - not being depreciated (Note 4)	7,094,184	7,327,784
Capital assets - being depreciated, net (Note 4)	168,974,625	172,685,013
	<u>176,068,809</u>	<u>180,012,797</u>
<b>TOTAL ASSETS</b>		
	<u>200,046,576</u>	<u>201,851,460</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related (Note 10)	1,247,025	397,387
	<u>1,247,025</u>	<u>397,387</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	728,831	812,354
Customer deposits	2,000	36,556
Restricted - special assessment payable	180,710	179,174
Accrued interest payable	1,068,017	1,128,325
Long-term liabilities - due within one year:		
Compensated absences (Note 5)	41,569	39,246
State Revolving Fund Loan payable (Note 6)	3,859,212	3,768,763
Certificates of Participation (Note 6)	925,000	905,000
	<u>6,805,339</u>	<u>6,869,418</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 5)	124,708	117,740
State Revolving Fund Loan payable (Note 6)	59,463,471	63,322,682
Certificates of Participation (Note 6)	16,550,000	17,475,000
Other post-employment benefits payable (Note 7)	920,211	1,434,823
Collective net pension liability (Note 10)	4,753,978	3,528,249
	<u>81,812,368</u>	<u>85,878,494</u>
<b>TOTAL LIABILITIES</b>		
	<u>88,617,707</u>	<u>92,747,912</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Related (Note 10)	878,574	953,430
	<u>878,574</u>	<u>953,430</u>
<b>NET POSITION (Note 8)</b>		
Net investment in capital assets	96,965,159	96,235,211
Unrestricted	14,832,161	12,312,294
	<u>\$111,797,320</u>	<u>\$108,547,505</u>

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
<b>OPERATING REVENUES</b>		
Sewer service charges	\$16,843,212	\$16,222,876
Other service charges	193,006	207,416
Permit, inspection and other fees	28,479	46,283
Recycled water facility	177,285	100,433
AB939 - solid waste programs	354,134	342,621
Total operating revenues	17,596,116	16,919,629
<b>OPERATING EXPENSES</b>		
Collection system	1,178,118	1,116,422
Treatment plant	2,824,699	2,734,327
Reclamation and disposal	493,926	337,887
Laboratory and monitoring	512,003	487,623
Pump stations	731,684	641,966
AB939 - solid waste programs	341,580	325,068
Recycled water	105,327	92,028
Administrative and engineering	2,485,415	2,528,449
Pension expense (Note 10)	501,235	128,697
Total operating expenses	9,173,987	8,392,467
Operating income before depreciation	8,422,129	8,527,162
Depreciation (Note 4)	(5,744,111)	(5,661,922)
<b>OPERATING INCOME</b>	<b>2,678,018</b>	<b>2,865,240</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	2,292,988	2,155,479
Franchise fees	52,485	51,059
Rental revenue	94,439	101,530
Interest income	136,595	71,592
Interest expense	(2,325,634)	(2,450,757)
Gain on sale/disposition of capital assets	1,627	
Grant revenue	51,069	
Other non-operating revenue (expenses)	40,461	(82,683)
Total nonoperating revenues (expenses), net	344,030	(153,780)
Net income (loss) before capital contributions	3,022,048	2,711,460
<b>CAPITAL CONTRIBUTIONS</b>		
Connection fees	227,567	223,240
Capital contributions	200	13,400
Total capital contributions	227,767	236,640
<b>CHANGES IN NET POSITION</b>	<b>3,249,815</b>	<b>2,948,100</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>108,547,505</b>	<b>105,599,405</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$111,797,320</b>	<b>\$108,547,505</b>

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers for sewer service charges and services	\$18,027,399	\$17,127,470
Cash paid to or on behalf of employees for salaries, wages and benefits	(3,032,270)	(2,241,977)
Cash paid to vendors and suppliers for materials and services	(6,907,432)	(5,849,896)
Cash Flows from Operating Activities	8,087,697	9,035,597
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,292,988	2,155,479
Cash Flows from Noncapital Financing Activities	2,292,988	2,155,479
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,800,123)	(2,744,951)
Proceeds from sale of capital assets	1,627	
Capital contributions	227,767	223,240
Principal payments on long-term debt	(4,673,762)	(4,565,431)
Interest payments on long-term debt	(2,385,942)	(2,509,673)
Cash Flows (used for) Capital and Related Financing Activities	(8,630,433)	(9,596,815)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	113,855	46,031
Cash Flows from Investing Activities	113,855	46,031
NET CASH FLOWS	1,864,107	1,640,292
Cash, beginning of year	21,435,938	19,795,646
Cash, end of year	\$23,300,045	\$21,435,938
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$21,606,012	\$19,742,079
Restricted - cash and cash equivalents	1,694,033	1,693,859
Total cash and cash equivalents	\$23,300,045	\$21,435,938

(Continued)

NOVATO SANITARY DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$2,678,018	\$2,865,240
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,744,111	5,661,922
Other non-operating revenues	238,454	152,589
Other non-operating expenses		(82,683)
Change in assets and liabilities:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable - sewer services	(233,290)	55,252
Prepaid expenses and other deposits	(18,967)	(2,928)
Pension related deferred outflows of resources	(849,638)	(111,486)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(83,523)	63,257
Customer deposits	(34,556)	(6,450)
Restricted - special assessment payable	1,536	(367)
Compensated absences	9,291	23,041
Other post-employment benefits payable	(514,612)	178,027
Collective net pension liability	1,225,729	192,353
Pension related deferred inflows of resources	(74,856)	47,830
Total adjustments	5,409,679	6,170,357
Net cash provided by operating activities	\$8,087,697	\$9,035,597
Schedule of Non-Cash Investing and Financing Activities:		
Capital contributions	\$200	\$13,400

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
OTHER POST-EMPLOYMENT BENEFIT TRUST FUND  
JUNE 30, 2017

	2017
ASSETS	
Investments with Trustees:	
Cash and cash equivalents	\$102,568
Mutual funds - equity	95,850
Mutual funds - fixed income	508,221
Total investments	706,639
TOTAL ASSETS	706,639
NET POSITION	
Net position held in trust for OPEB benefits	\$706,639

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
OTHER POST-EMPLOYMENT BENEFIT TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	2017
ADDITIONS	
Contributions:	
District	\$700,000
Total contributions	700,000
Investment income:	
Interest, dividends and other	6,933
Less: investment expenses	(294)
Total net investment income	6,639
Total additions	706,639
Change in net position	706,639
NET POSITION	
NET POSITION, BEGINNING OF YEAR	
NET POSITION, END OF YEAR	\$706,639

See accompanying notes to financial statements

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**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

<b>NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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**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 34 square miles in and around the City of Novato in Marin County, California. Revenues are derived principally from sewer service charges collected from commercial and residential customers within the District's service area. The District is governed by a five-member Board of Directors who serve four year terms.

**B.     *Basis of Accounting and Measurement Focus***

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

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

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

The District reports its Other Post-Employment Benefits Trust Fund (OPEB Trust Fund) as a fiduciary fund. The Fund consists of the Public Agencies Post-Retirement Health Care Plan, which was established in 2017. The fundamental purpose of the trust is to fund post-employment benefits (other than pension benefits), such as medical, dental, vision, life insurance, long-term care and similar benefits. The OPEB Trust Fund is an irrevocable trust fund used to account for assets held by the District as Trustee for other postemployment benefits as further described in Note 7.

**C.     *Use of Estimates***

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

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

<b>NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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**D.     *Cash and Cash Equivalents***

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

**E.     *Investments***

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

**F.     *Accounts Receivable and Allowance for Uncollectible Accounts***

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

**G.     *Property Taxes and Sewer Assessments***

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

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

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

**H.     *Prepaid Expenses***

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

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

<b>NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
---

**I.     *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 acquisition value. 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

**J.     *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.

**K.     *Sewer Service Charges***

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

**L.     *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.

**M.     *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016

<b>NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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**N. Net Position**

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

- **Net Investment in Capital Assets** - This component of net position 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 Position** - This component of net position consists of constraints placed on net position 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 Position** - This component of net position consists of net position that do not meet the definition of *restricted* or *net investment in capital assets*.

**O. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016

<b>NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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**P. New GASB Pronouncements**

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2017.

**GASB Statement No. 74 – *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*** - The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The District implemented this Statement during the current fiscal year.

**GASB Statement No. 80 – *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*** - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units of all states and local governments. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This Statement had no effect on the financial statements.

**GASB Statement No. 82 - *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*** - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement had no effect on the financial statements.

**Q. New Fund**

During the current fiscal year, the District added a new fiduciary fund, Other Post-Employment Benefits (OPEB) Trust Fund, as required by the implementation of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 2 – CASH AND INVESTMENTS**

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

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$21,606,012	\$19,742,079
Restricted cash and investments	<u>1,694,033</u>	<u>1,693,859</u>
Total District Cash and Investments	<u>23,300,045</u>	<u>21,435,938</u>
Cash and investments held with OPEB trust	<u>706,639</u>	
Total Cash and Investments	<u><u>\$24,006,684</u></u>	<u><u>\$21,435,938</u></u>

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

	<u>2017</u>	<u>2016</u>
<i>Held by District:</i>		
Cash on hand	\$624	\$923
Deposits with financial institutions	16,146	41,137
Local Agency Investment Fund	21,589,242	19,700,019
<i>Held by Fiscal Agent:</i>		
Deposits with financial institutions	1,694,033	1,693,859
<i>Held by OPEB Trust</i>		
Cash and investments	<u>706,639</u>	
Total Cash and Investments	<u><u>\$24,006,684</u></u>	<u><u>\$21,435,938</u></u>

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

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

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

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

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**B. Investments Authorized by the District's Debt Issues**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality (per S&amp;P)</u>
Federal Securities		
U.S. Agency Securities		A
Interest Bearing Deposit Accounts, including Certificates of Deposit		A or fully insured by the FDIC
Commercial Paper	180 days	Highest Short-Term Rating
Federal Funds or Bankers' Acceptances	1 year	Highest Rating Category
Money Market Funds		AAAm-G, AAAm or Aam
Obligations the interest on which is excludable from gross income pursuant to IRS Tax Code Section 103		A
Obligations issued by any corporation organized and operating within the U.S. with assets		A
Municipal Bonds or Notes		Two Highest Categories
Guaranteed Investment Agreements (LAIF)		A

**C. Custodial Credit Risk**

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

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

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, 2017 and 2016 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

**D. Interest Rate Risk**

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

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2017 and 2016, these investments matured in an average of 194 and 167 days, respectively.

**E. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2017 and 2016, the Local Agency Investment Fund was not rated.

**F. Concentration of Credit Risk**

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of total District's investments at June 30, 2017 and 2016, respectively.

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**G. Fair Value Hierarchy**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District's investment in the Local Agency Investment Fund is exempt from the fair value measurement hierarchy. The District's investment in the OPEB trust is reported at cost from the fair value measurement hierarchy.

**NOTE 3 – ACCOUNTS RECEIVABLE**

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

Description	2017	2016
Sewer services	\$131,432	\$149,414
Franchise/Lease	132,060	54,370
Property tax	14,244	7,507
Recycling	33,924	36,988
Other, net of allowance	239,868	69,959
	<u>\$551,528</u>	<u>\$318,238</u>

**NOTE 4 – CAPITAL ASSETS**

**A. Capital Assets Activity**

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

	Balance June 30, 2016	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2017
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,172,075	\$200		2,172,275
Construction-in-process	2,382,202	415,942	(\$649,742)	2,148,402
Total non-depreciable assets	<u>7,327,784</u>	<u>416,142</u>	<u>(649,742)</u>	<u>7,094,184</u>
Depreciable assets:				
Sewer system improvements	160,750,335	244,130		160,994,465
Sewer collection and outfall system	51,645,722	1,600,449		53,246,171
Sewer facilities equipment	24,834,788	142,341		24,977,129
Equipment	1,733,478	46,803	(77,723)	1,702,558
Total depreciable assets	<u>238,964,323</u>	<u>2,033,723</u>	<u>(77,723)</u>	<u>240,920,323</u>
Accumulated depreciation:				
Sewer system improvements	(42,360,611)	(4,088,268)		(46,448,879)
Sewer collection and outfall system	(15,322,244)	(652,325)		(15,974,569)
Sewer facilities equipment	(7,583,962)	(770,383)		(8,354,345)
Equipment	(1,012,493)	(233,135)	77,723	(1,167,905)
Total accumulated depreciation	<u>(66,279,310)</u>	<u>(5,744,111)</u>	<u>77,723</u>	<u>(71,945,698)</u>
Total depreciable assets, net	<u>172,685,013</u>	<u>(3,710,388)</u>		<u>168,974,625</u>
Total capital assets, net	<u>\$180,012,797</u>	<u>(\$3,294,246)</u>	<u>(\$649,742)</u>	<u>\$176,068,809</u>

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 4 – CAPITAL ASSETS**

Major capital assets additions during the year include improvements to portions of the District's sewer collection and treatment system and pump stations.

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

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2016</u>
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,169,875	\$2,200		2,172,075
Construction-in-process	6,571,464	1,683,386	(\$5,872,648)	2,382,202
Total non-depreciable assets	<u>11,514,846</u>	<u>1,685,586</u>	<u>(5,872,648)</u>	<u>7,327,784</u>
Depreciable assets:				
Sewer system improvements	172,549,501	4,678,099	(16,477,265)	160,750,335
Sewer collection and outfall system	49,463,562	2,182,160		51,645,722
Sewer facilities equipment	8,304,515	310,187	16,220,086	24,834,788
Equipment	1,729,902	12,971	(9,395)	1,733,478
Total depreciable assets	<u>232,047,480</u>	<u>7,183,417</u>	<u>(266,574)</u>	<u>238,964,323</u>
Accumulated depreciation:				
Sewer system improvements	(39,766,966)	(4,062,184)	1,468,539	(42,360,611)
Sewer collection and outfall system	(14,723,552)	(598,692)		(15,322,244)
Sewer facilities equipment	(5,227,519)	(907,079)	(1,449,364)	(7,583,962)
Equipment	(927,921)	(93,967)	9,395	(1,012,493)
Total accumulated depreciation	<u>(60,645,958)</u>	<u>(5,661,922)</u>	<u>28,570</u>	<u>(66,279,310)</u>
Total depreciable assets, net	<u>171,401,522</u>	<u>1,521,495</u>	<u>(238,004)</u>	<u>172,685,013</u>
<b>Total capital assets, net</b>	<u><u>\$182,916,368</u></u>	<u><u>\$3,207,081</u></u>	<u><u>(\$6,110,652)</u></u>	<u><u>\$180,012,797</u></u>

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

**B. Construction-In-Process**

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

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

<u>Projects</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Wastewater treatment plant upgrade			\$4,332,365
Collection system improvements	\$166,057	\$634,528	1,497,782
Pump station rehabilitation			56,979
North Bay Water Reuse Authority	759,967	689,431	435,945
Hamilton Wetlands Outfall Monitoring	69,246	69,053	68,254
Novato Creek Watershed	100,834	100,443	100,000
Administrative building updates	759,538	753,953	54,622
RWF Expansion	215,590	59,553	
Various other minor projects <\$50,000	77,170	75,241	25,517
Total	<u><u>\$2,148,402</u></u>	<u><u>\$2,382,202</u></u>	<u><u>\$6,571,464</u></u>

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 5 – COMPENSATED ABSENCES**

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

<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2017</u>	<u>Due Within One Year</u>
\$156,986	\$29,415	(\$20,124)	\$166,277	\$41,569

<u>Balance 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2016</u>	<u>Due Within One Year</u>
\$133,945	\$31,620	(\$8,579)	\$156,986	\$39,246

**NOTE 6 – LONG-TERM DEBT**

**A. Long-Term Debt Activity**

Changes in long-term debt amounts for 2016-2017 were as follows:

	<u>Balance June 30, 2016</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Due within one year</u>
Long-term debt:				
2011 Wastewater Revenue Certificates of Participation	\$18,380,000	(\$905,000)	\$17,475,000	\$925,000
SRF Loan payable	67,091,445	(3,768,762)	63,322,683	3,859,212
Total long-term debt	<u>\$85,471,445</u>	<u>(\$4,673,762)</u>	<u>\$80,797,683</u>	<u>\$4,784,212</u>

Changes in long-term debt amounts for 2015-2016 were as follows:

	<u>Balance June 30, 2015</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Due within one year</u>
Long-term debt:				
2011 Wastewater Revenue Certificates of Participation	\$19,265,000	(\$885,000)	\$18,380,000	\$905,000
SRF Loan payable	70,771,876	(3,680,431)	67,091,445	3,768,763
Total long-term debt	<u>\$90,036,876</u>	<u>(\$4,565,431)</u>	<u>\$85,471,445</u>	<u>\$4,673,763</u>

**B. 2011 Wastewater Revenue Certificates of Participation**

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

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 6 – LONG-TERM DEBT (Continued)**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$925,000	\$739,548	\$1,664,548
2019	945,000	702,548	1,647,548
2020	970,000	664,548	1,634,548
2021	1,000,000	625,948	1,625,948
2022	1,035,000	585,948	1,620,948
2023-2027	5,740,000	2,280,534	8,020,534
2028-2032	6,860,000	966,016	7,826,016
Total	<u>\$17,475,000</u>	<u>\$6,565,090</u>	<u>\$24,040,090</u>

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

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

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

As of June 30, 2017, the District has received \$81,329,083 from the SRF loan program. Interest accrues on the obligation at a rate of 2.40% compounded annually. The first debt service payment was paid on December 31, 2011 and each December 31st thereafter through fiscal year 2031. The following table summarizes the debt service maturity of the District for this loan as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$3,859,212	\$1,519,744	\$5,378,956
2019	3,951,834	1,427,123	5,378,957
2020	4,046,677	1,332,279	5,378,956
2021	4,143,798	1,235,159	5,378,957
2022	4,243,248	1,135,708	5,378,956
2023-2027	22,793,581	4,101,199	26,894,780
2028-2031	20,284,333	1,231,490	21,515,823
Total	<u>\$63,322,683</u>	<u>\$11,982,702</u>	<u>\$75,305,385</u>

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE**

The District follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). Required disclosures are presented below.

**A. Plan Description – Eligibility**

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

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

	2017	2016	2015
Active plan members	11	12	14
Retirees and beneficiaries receiving benefits	20	20	20
Total plan membership	31	32	34

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

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

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

For all other employees, hired on or after July 1, 2008, who retire after age 50 with at least 5 years of service, the District will pay the minimum CalPERS medical benefit. In 2017 and 2016, this minimum amount was \$128 and \$125 per month, respectively. This benefit is paid for as long as the retiree or spouse is living, provided he/she is covered under the CalPERS medical plans.

In addition, for employees hired after July 1, 2008, the District contributes 1.5% of the employees base monthly salary toward a Medical After Retirement Account (MARA) while employed.

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)**

**C.     *Funding Policy***

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 34.02% of the annual covered payroll.

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

For employees hired after July 1, 2008, the District contributions to the MARA are not included in OPEB accounting, but are accrued each year as an operating expense as they are contributed.

**D.     *Actuarial Assumptions***

The annual required contribution (ARC) was determined as part of a July 1, 2015 actuarial valuation using the entry age normal cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4.0% investment rate of return, (b) 0.0% projected annual salary increase, (c) 4.0% inflation rate and (d) health care cost trend rate of 5.0% for medical benefits. Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation as well as the historical pattern of sharing benefit costs between the employer and plan members. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least triennially as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year level dollar amortization period on a closed basis.

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)**

**E. Funding Progress and Funded Status**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$466,332	\$452,506	\$425,357
Interest on net OPEB obligation	57,393	50,272	43,361
Adjustment to annual required contribution	<u>(96,577)</u>	<u>(82,429)</u>	<u>(69,391)</u>
Total annual OPEB expense	427,148	420,349	399,327
Change in net OPEB payable obligation:			
Contributions to Trust	(700,000)		
Age adjusted contributions made	<u>(241,760)</u>	<u>(242,322)</u>	<u>(226,567)</u>
Total change in net OPEB obligation	(514,612)	178,027	172,760
OPEB obligation - beginning of year	<u>1,434,823</u>	<u>1,256,796</u>	<u>1,084,036</u>
OPEB obligation - end of year	<u><u>\$920,211</u></u>	<u><u>\$1,434,823</u></u>	<u><u>\$1,256,796</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2017 amounted to \$6,313,211 per the actuarial study dated July 1, 2015.

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

***Three-Year History of Net OPEB Obligation***

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Age Adjusted Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation Payable</b>
2017	\$427,148	\$941,760	220.48%	\$920,211
2016	420,349	242,322	57.65%	1,434,823
2015	399,327	226,567	56.74%	1,256,796

The Schedule of Funding Progress below, and the required supplementary information immediately following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the last actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2015	\$0	\$6,313,211	\$6,313,211	0.00%	\$1,620,211	389.654%

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)**

***F. OPEB Trust Fund***

Plan Administration

During the fiscal year ended June 30, 2017, the District joined the Public Agencies Post-Employment Benefits trust, a multiple employer trust administered by Public Agency Retirement Services (PARS) for the purpose of pre-funding other post-employment benefit obligations. This trust is not considered a component unit by the District and has been excluded from these financial statements. Separately issued financial statements for PARS may be obtained from PARS at 4350 Von Karman Ave., Suite 200, Newport Beach, CA 92660.

	Fiscal Year Ended 6/30/17
Plan Type	Agent Multiple Employe
OPEB Trust	Yes
Special Funding Situation	No
Nonemployer Contributing Entity	No

Investment Policy

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Large Cap	7.0%	5.39%
US Small/Mid	3.9%	5.73%
Non-US Eq - Developed	3.3%	5.52%
Non-US Eq - Emerging	0.0%	6.61%
Short-term Bonds	11.6%	2.09%
Intermediate-term Bonds	66.9%	2.37%
Real Estate Investment Trusts	0.8%	4.25%
US Treasuries (cash equivalents)	6.5%	0.65%
Total	100%	2.75%

The District Board voted to use the discretionary investment approach for the investments held in the PARS OPEB Trust.

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)**

Investment Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 5.25%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2017, were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2016 (Valuation Date)	\$4,916,998		\$4,916,998
Changes Recognized for the Measurement Period:			
Service Cost	104,860		104,860
Interest on the total OPEB liability	251,406		251,406
Difference between expected and actual experience			
Contributions:			
Employer - District's contribution		\$700,000	(700,000)
Employer - benefit payments outside of Trust		187,852	(187,852)
Employer - implicit subsidy		68,761	(68,761)
Employee			
Net investment income		6,933	(6,933)
Benefit payments, including refunds of employee contributions	(187,852)	(187,852)	
Implicit rate subsidy fulfilled	(68,761)	(68,761)	
Administrative expenses		(294)	294
Net Changes during July 1, 2016 to June 30, 2017	99,653	706,639	(606,986)
Balance at June 30, 2017 (Measurement Date)	<u>\$5,016,651</u>	<u>\$706,639</u>	<u>\$4,310,012</u>

During fiscal year 2016-17, the District implemented GASB Statement No. 74, as discussed in Note 1P, which required additional footnote disclosures and the reporting of the Fiduciary Fund Assets in the OPEB Trust Fund. GASB Statement No. 75 will be effective for fiscal year 2017-18 and will require the District to record the Total Unfunded OPEB Liability on the Statement of Net Position.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions:

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)**

Measurement Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay
Amortization method	Closed period, level percent of pay
Amortization period	20 years
Asset valuation method	Market value as of fiscal year-end 2017
Inflation	2.50%
Assumed Rate of Payroll Growth	3.00%
Healthcare trend rates	7.00%, trending down to 3.9%
PEMHCA trend rate	3.00%
Rate of return on assets	5.25%
Mortality rate	CalPERS rates
Retirement rates	CalPERS rates
Other information	The ADC takes into account the implicit subs

Discount Rate

The discount rate used to measure the total OPEB liability was 5.25% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

In accordance with GASB 74, regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following table presents the net OPEB liability of the Plan as of June 30, 2017, calculated using the discount rate of 5.25%, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current rate:

<b>Plan's Net OPEB Liability/(Asset)</b>		
<b>Discount Rate -1%</b>	<b>Current Discount</b>	<b>Discount Rate +1%</b>
<b>(4.25%)</b>	<b>Rate (5.25%)</b>	<b>(6.25%)</b>
\$4,969,629	\$4,310,012	\$3,767,560

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<b>Plan's Net OPEB Liability/(Asset)</b>		
<b>Discount Rate -1%</b>	<b>Healthcare Cost</b>	<b>Discount Rate +1%</b>
<b>Trend Rates (6.00</b>	<b>Trend Rates (7.00</b>	<b>Trend Rates (8.00</b>
<b>decreasing to 2.9%)</b>	<b>decreasing to 3.9%)</b>	<b>decreasing to 4.9%)</b>
\$3,728,683	\$4,310,012	\$5,018,962

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 8 – NET POSITION**

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

	<u>2017</u>	<u>2016</u>
<i>Net investment in capital assets:</i>		
Capital assets - not being depreciated	\$7,094,184	\$7,327,784
Capital assets, net - being depreciated	168,974,625	172,685,013
SRF Loan Payable	(63,322,683)	(67,091,445)
Certificates of Participation	(17,475,000)	(18,380,000)
Unspent proceeds	1,694,033	1,693,859
	<u>96,965,159</u>	<u>96,235,211</u>
<i>Unrestricted net position:</i>		
Non-spendable net position:		
Prepaid expenses and deposits	74,191	55,224
	<u>74,191</u>	<u>55,224</u>
Spendable net position:		
Undesignated net position reserve	14,757,970	12,257,070
	<u>14,757,970</u>	<u>12,257,070</u>
	<u>14,832,161</u>	<u>12,312,294</u>
	<u>\$111,797,320</u>	<u>\$108,547,505</u>

**NOTE 9 – 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, 2017 and 2016 amounted to \$2,394,062 and \$2,930,400, 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 position.

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 9 – DEFERRED COMPENSATION SAVINGS PLAN (Continued)**

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 General Manager-Chief Engineer. The District's contribution for the General Manager-Chief Engineer is equivalent to the maximum of a 457 plan's annual contribution. Employee 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, 2017 and 2016 amounted to \$967,798 and \$826,483, respectively.

**NOTE 10 – PENSION PLANS**

**A. General Information about the Pension Plans**

**Plan Descriptions** – The District 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.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 10 – PENSION PLANS (Continued)**

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Miscellaneous Tier I</u>
Hire date	Prior to January 1, 2012
Benefit formula	2% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.43% to 2.42%
Required employee contribution rates	7.00%
Required employer contribution rates	8.512%
	 <u>Miscellaneous Tier II</u>
	Between January 1, 2012 through December 31, 2012
Hire date	2% @ 60
Benefit formula	5 years service
Benefit vesting schedule	monthly for life
Benefit payments	50 - 67
Retirement age	1.1% to 2.42%
Monthly benefits, as a % of eligible compensation	7.00%
Required employee contribution rates	6.709%
Required employer contribution rates	
	 <u>Miscellaneous Tier III</u>
	On or after January 1, 2013
Hire date	2% @ 62
Benefit formula	5 years service
Benefit vesting schedule	monthly for life
Benefit payments	50 - 67
Retirement age	1.0% to 2.5%
Monthly benefits, as a % of eligible compensation	6.25%
Required employee contribution rates	6.237%
Required employer contribution rates	

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 10 – PENSION PLANS (Continued)**

**Contributions** – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Beginning in fiscal year 2017, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The District’s required contribution for the unfunded liability was \$171,434 in fiscal year 2017.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions - employer	\$530,977
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**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
	\$4,753,978
Total Net Pension Liability	\$4,753,978

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 10 – PENSION PLANS (Continued)**

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.12866%
Proportion - June 30, 2016	0.13685%
Change - Increase (Decrease)	0.00819%

For the year ended June 30, 2017, the District recognized pension expense of \$501,234. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$530,977	
Differences between actual and expected experience	10,048	(\$2,302)
Changes in assumptions		(95,067)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	211,208	(416,012)
Net differences between projected and actual earnings on plan investments	494,792	
Adjustments due to differences in proportion		(365,193)
Total	<u>\$1,247,025</u>	<u>(\$878,574)</u>

The \$530,977 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2018	(\$279,055)
2019	(229,829)
2020	218,200
2021	128,158

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 10 – PENSION PLANS (Continued)**

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Tier I, II, and III
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
<b>Actuarial Assumptions:</b>	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.2% - 12.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 10 – PENSION PLANS (Continued)**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous All Tiers
1% Decrease	6.65%
Net Pension Liability	\$7,487,026
Current Discount Rate	7.65%
Net Pension Liability	\$4,753,978
1% Increase	8.65%
Net Pension Liability	\$2,495,248

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 10 – PENSION PLANS (Continued)**

*Pension Plan Fiduciary Net Position* – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

**C. PARS Trust**

During the fiscal year ended June 30, 2017, the District joined the Public Agencies Post-Employment Benefits Trust, a multiple employer trust administered by Public Agency Retirement Services (PARS) for the purpose of pre-funding pension obligations. At June 30, 2017, the District contributed \$200,000 to an irrevocable trust administered by PARS, managed by an appointed board not under the control of the District’s Board. This trust is not considered a component unit by the District and has been excluded from these financial statements. Separately issued financial statements for PARS may be obtained from PARS at 4350 Von Karman Ave., Suite 200, Newport Beach, CA 92660.

**NOTE 11 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Sanitation Risk Management Authority (CSRMA), an intergovernmental risk sharing joint powers authority currently operating as a common risk management and loss prevention program for sixty California sanitation districts. The District pays an annual premium to CSRMA for its public liability and workers compensation risk coverage. The Agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. At June 30, 2017, the District participated in the self-insurance programs of the CSRMA as follows:

- General and automotive liability, including errors and omissions and employment practices liability (EPL): The District is self-insured through the CSRMA up to \$15,000,000 with a \$25,000 deductible (\$25,000 for EPL, \$25,000 for sewer backup, and \$2,500 for E&O) per occurrence. Excess liability insurance is purchased above the \$15,000,000 self-insured layer to \$25,000,000 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:

- Master crime policy coverage up to \$2,000,000 for all lines including \$1,000,000 for public employee dishonesty, forgery or alteration, computer fraud, coverage of up to \$100,000 for faithful performance and coverage up to \$10,000 for theft, with a deductible of \$10,000 per claim.

**NOVATO SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 11 – RISK MANAGEMENT (Continued)**

- Special form property coverage up to \$116,166,840 with a deductible of \$25,000 per claim. Included in this coverage are a public entity pollution liability policy for up to \$25,000,000 and a cyber liability policy for up to \$2,000,000.
- Public entity physical damage up to \$767,000 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, 2017, 2016 and 2015. 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, 2017, 2016 and 2015.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

**A. *Local Improvement District Bonds***

Within the District's boundaries, there exists Assessment District No. 2001 (Novato Heights) which was formed for the sole purpose of financing sewer system improvements. The District is not liable for repayment of any bonds issued to finance these local improvements. The District acts as the agent for the property owners within the assessment district by collecting assessments, forwarding collections to bondholders, and initiating foreclosure procedures if appropriate. The outstanding balance on these bonds as of June 30, 2017 and 2016 was \$830,000 and \$945,000, respectively.

**B. *Construction Contracts***

The District has a variety of agreements with developers and private parties relating to the installation, improvement or modification of transmission facilities and distribution systems within its service area. The financing of such improvements is provided primarily from advances for construction and the District's capital replacement reserve. The District has committed to approximately \$303,667 of open construction contracts as of June 30, 2017.

**C. *Grant Awards***

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

**D. *Litigation***

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

**NOVATO SANITARY DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Years Ended June 30, 2017 and 2016**

**NOTE 13 – SUBSEQUENT EVENT**

*2017 Wastewater Revenue Refunding Bonds*

The District issued \$14,355,000 in Wastewater Revenue Refunding Bonds on October 24, 2017 to refund the 2011 Wastewater Revenue Certificates of Participation and pay issuance costs. The Bonds are payable from net revenues of the District and bear an interest rate of 2.03%. Interest payments are due February 1 and August 1 of each year, commencing on February 1, 2018. Principal payments are due February 1 of each year commencing February 1, 2018 through 2031.

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## **Required Supplementary Information**

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**NOVATO SANITARY DISTRICT**  
 Cost-Sharing Multiple-Employer Defined Benefit Pension Plan  
 As of fiscal year ending June 30, 2017  
 Last 10 Years\*

**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE  
 NET PENSION LIABILITY AND RELATED RATIOS AS OF  
 THE MEASUREMENT DATE**

<b>Measurement Date:</b>	District Miscellaneous Plan		
	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>
Plan's proportion of the Net Pension Liability (Asset)	0.13498%	0.12861%	0.13685%
Plan's proportion share of the Net Pension Liability (Asset)	\$3,335,896	\$3,528,248	\$4,753,977
Plan's Covered Employee Payroll	1,882,361	1,546,259	1,630,028
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	177.22%	247.35%	276.16%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	81.89%	76.58%
Plan's Proportionate Share of Aggregate Employer Contributions	441,326	551,726	578,932

**NOVATO SANITARY DISTRICT**  
 Cost-Sharing Multiple Employer Defined Benefit Pension Plan  
 As of fiscal year ending June 30, 2017  
 Last 10 Years\*  
**SCHEDULE OF CONTRIBUTIONS**

	District Miscellaneous Plan		
	2014	2015	2016
Actuarially determined contribution	\$197,269	\$173,410	\$281,175
Contributions in relation to the actuarially determined contributions	(197,269)	(208,489)	(301,285)
Contribution deficiency (excess)	\$0	(\$35,079)	(\$20,110)
Covered payroll	\$1,882,361	\$1,546,259	\$1,630,028
Contributions as a percentage of covered-employee payroll	10.48%	12.16%	16.33%

**Notes to Schedule**

Valuation date: 6/30/2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	(1)
Investment rate of return	7.65% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

**Novato Sanitary District**  
**Schedule of Funding Status – Other Post-Employment Benefits Obligation**  
**As of Fiscal Year Ending June 30, 2017**

***Funded Status and Funding Progress of the Plan***

*Required Supplemental Information - Schedule of Funding Progress*

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2015	\$0	\$6,313,211	\$6,313,211	0.00%	\$1,620,211	389.654%
7/1/2012	0	5,347,276	5,347,276	0.00%	1,973,900	270.899%
7/1/2010	0	6,112,283	6,112,283	0.00%	2,000,000	305.610%

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$6,313,211. 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, 2017 was estimated at \$1,819,053. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 347%.

***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, 2015
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
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increase	0.00%
Inflation rate	4.00%
Health care cost trend rates	5.00%

**Novato Sanitary District**  
**Schedule of Changes in Net OPEB Liability**  
**Last Ten Fiscal Years \***  
**Other Post-Employment Benefits (OPEB)**

Measurement period	2017
<b>Total OPEB liability</b>	
Service cost	\$104,860
Interest	251,406
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(187,852)
Implicit rate subsidy fulfilled	(68,761)
<b>Net change in total OPEB liability</b>	99,653
<b>Total OPEB liability - beginning</b>	4,916,998
<b>Total OPEB liability - ending (a)</b>	\$5,016,651
<b>OPEB fiduciary net position</b>	
Net investment income	\$6,933
Contributions:	
Employer - contribution to PARS Trust	700,000
Employer - contribution to PARS Trust	187,852
Employer - contribution to PARS Trust	68,761
Employee	-
Benefit payments from PARS Trust	-
Benefit payments from general fund	(187,852)
Implicit rate subsidy fulfilled	(68,761)
Administrative expense	(294)
<b>Net change in plan fiduciary net position</b>	706,639
<b>Plan fiduciary net position - beginning</b>	-
<b>Plan fiduciary net position - ending (b)</b>	706,639
<b>Plan net OPEB liability - ending (a) - (b)</b>	\$4,310,012
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	14.09%
<b>Covered-employee payroll</b>	\$1,933,573
<b>District's total OPEB liability as a percentage of covered-employee payroll</b>	259.45%

\* June 20, 2017 was the first year of implementation

**Novato Sanitary District**  
**SCHEDULE OF OPEB CONTRIBUTIONS**  
**Last Ten Fiscal Years**  
**Other Post-Employment Benefits (OPEB)**

	2016-17
Actuarially determined contribution	\$404,698
Contributions in relation to the actuarially determined contribution	956,613
Contribution deficiency (excess)	(\$551,915)
Covered-employee payroll	\$1,933,573
Contributions as a percentage of covered-employee payroll	49.47%

GASB 75 requires this information for plans funding with OPEB trusts be reported in the employer's Required Supplemental Information for 10 years or as many years as are available upon implementation.

The June 30, 2017 actuarial valuation provided the Actuarially Determined Contributions for fiscal years ending 06/30/

**Notes to Schedule:**

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal, level percent of pay
Amortization method	Closed period, level percent of pay
Remaining amortization	20 years
Asset valuation method	Market value as of fiscal year-end 2017
Inflation	2.50%
Assumed rate of payroll growth	3.00%
Healthcare trend rate	7.00%, trending down to 4.94%
PEMHCA trend rate	3.00%
Rate of return on assets	5.25%
Mortality rate	CalPERS Rates
Retirement rates	CalPERS Rates
Other information	The ADC takes into account the implicit subsidy

**SCHEDULE OF INVESTMENT RETURNS**

	2017
Annual money-weighted rate of return, net of investment expense	4.00%

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## **Statistical Information Section**

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**Novato Sanitary District  
Statistical Section**

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

**Table of Contents**

	<b><u>Page No.</u></b>
<b>Financial Trends</b>	58-60
These schedules contain information to help the reader understand how the District’s Financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	61-66
These schedules contain information to help the reader assess the District’s most significant own-source revenue, sewer service charges.	
<b>Debt Capacity</b>	67-68
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.	
<b>Demographic Information</b>	69
This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	
<b>Operating Information</b>	70-71
This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	

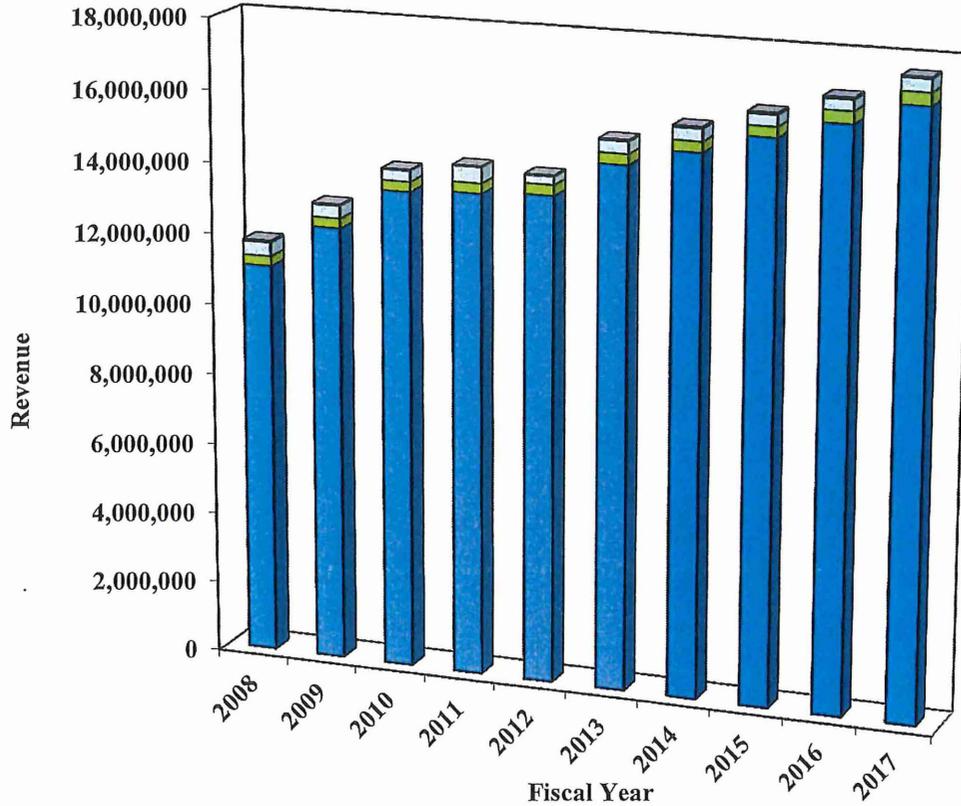
**Novato Sanitary District**  
**Changes in Net Position and Net Position by Component**  
**Last Ten Fiscal Years**  
**Schedule 1**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Changes in net position:</b>						<b>Restated</b>				
Operating revenues (see Schedule 2)	\$ 11,768,650	12,948,148	14,071,716	14,316,441	14,225,286	15,341,529	15,849,099	16,372,320	16,919,629	17,596,116
Operating expenses (see Schedule 3)	(7,464,243)	(7,685,390)	(9,654,452)	(8,464,043)	(9,766,764)	(8,103,790)	(8,322,651)	(7,894,306)	(8,392,467)	(9,173,987)
Depreciation and amortization	(1,326,027)	(2,227,627)	(2,288,892)	(2,306,550)	(3,238,715)	(4,602,353)	(5,092,355)	(5,201,451)	(5,661,922)	(5,744,111)
<b>Operating income(loss)</b>	2,978,380	3,035,131	2,128,372	3,545,848	1,219,807	2,635,386	2,434,093	3,276,563	2,865,240	2,678,018
<b>Non-operating revenues(expenses)</b>										
Property taxes	1,995,120	1,928,207	1,866,049	1,773,877	1,795,489	1,795,781	1,941,241	1,999,816	2,155,479	2,292,988
Interest	1,081,073	702,002	196,303	30,387	37,129	67,050	45,673	43,117	71,592	136,595
Interest expense	(1,305,067)	(1,302,270)	(1,211,880)	(209,456)	(2,669,346)	(2,712,097)	(2,678,227)	(2,567,765)	(2,450,757)	(2,325,634)
Special Equalization Charges	2,908	-	76	-	-	32	-	-	-	-
Franchise fees/Rental Income	127,517	127,517	45,000	95,000	26,099	113,416	127,708	142,597	152,589	146,924
Deferred Charges Amortization	-	(18,689)	(18,689)	(16,744)	(10,564)	-	-	-	-	-
Gain/(Loss) on sale/disposition of assets	(221,920)	(83,842)	(909,553)	(6,634,450)	(367,095)	2,529	(3,302,140)	13,364	-	1,627
Other revenue/(expense), net	-	(2,022)	(17,644)	42,623	229,306	(339,663)	(270,260)	(135,556)	(82,683)	40,461
<b>Total non-operating revenues(expenses), net</b>	1,679,631	1,350,903	(50,414)	(4,918,763)	(958,906)	(1,072,952)	(4,336,005)	(504,427)	(153,780)	292,961
<b>Net income before capital contributions</b>	4,658,011	4,386,034	2,077,958	(1,372,915)	260,901	1,562,434	(1,901,912)	2,772,136	2,711,460	2,970,979
Connection Fees	316,609	647,101	1,277,790	174,631	880,541	146,949	343,773	291,565	223,240	227,567
Capital contributions	338,915	395,702	446,867	101,818	5,732	-	202,530	250,725	13,400	200
Capital Grant	-	-	-	221,689	1,433,561	-	16,250	-	-	-
Prior Year restatement(GASB 65)	-	-	-	-	(64,004)	-	-	-	-	-
<b>Changes in net position</b>	\$ 5,313,535	5,428,837	3,802,615	(874,777)	2,516,731	1,709,383	(1,339,359)	3,314,426	2,948,100	3,249,815
<b>Net position by component:</b>										
Prior Year adjustment	-	-	-	-	(64,004)	(6,774,168)	-	(4,299,128)	-	-
<b>Net Investment in capital assets</b>	\$ 83,754,794	79,067,990	102,065,015	106,497,126	105,262,788	104,411,068	94,531,379	94,572,835	96,235,212	96,965,159
Unrestricted	29,620,974	28,475,692	9,281,282	3,974,394	7,789,467	10,286,566	12,052,728	15,325,698	12,312,293	14,832,161
<b>Total net position</b>	\$ 113,375,768	107,543,682	111,346,297	110,471,520	112,988,251	107,923,466	106,584,107	105,599,405	108,547,505	111,797,320

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District  
Operating Revenue By Source  
Last Ten Fiscal Years  
Schedule 2**

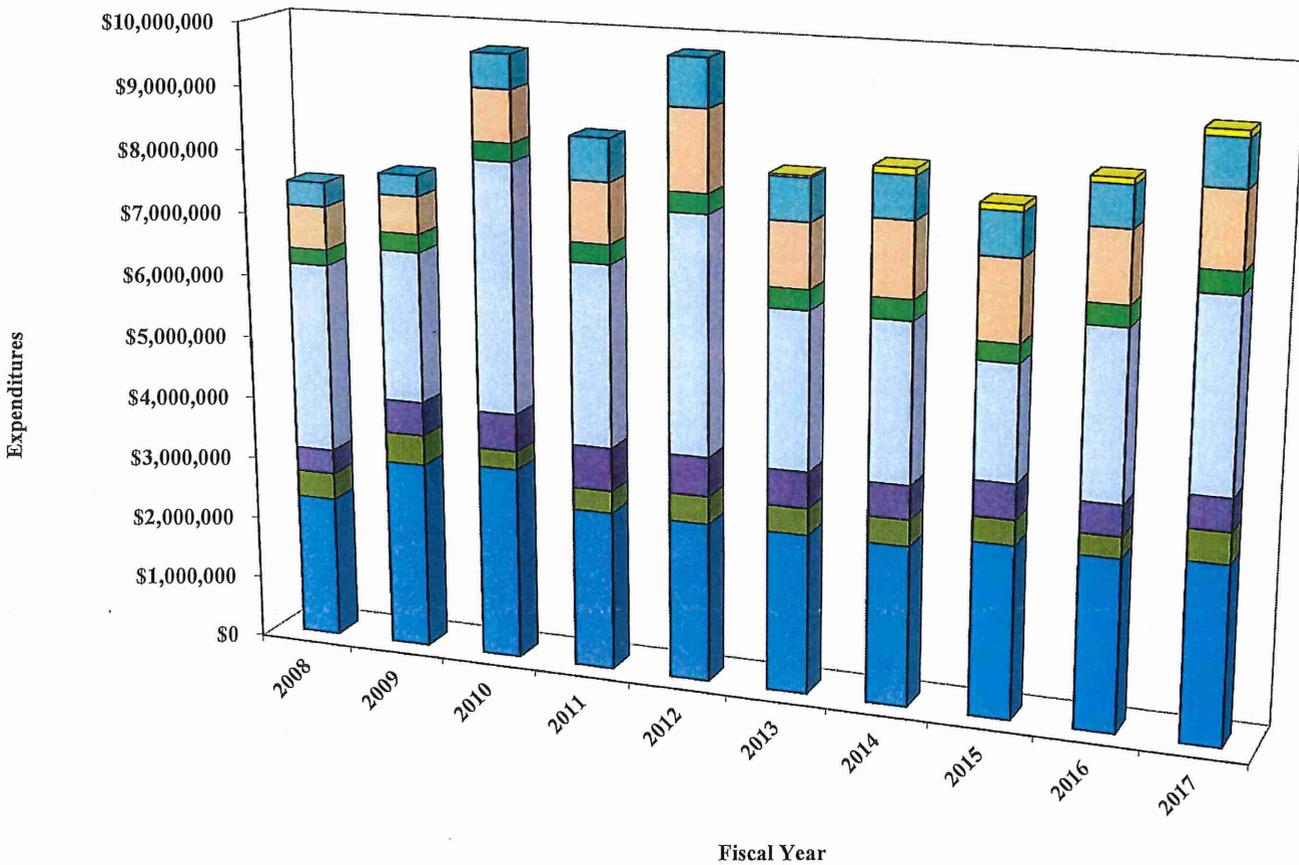
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2008	\$11,063,829	39,291	271,862	393,668	11,768,650
2009	12,286,426	27,408	271,862	362,452	12,948,148
2010	13,462,437	23,163	277,299	308,817	14,071,716
2011	13,570,839	9,532	280,493	455,577	14,316,441
2012	13,671,131	21,441	297,586	235,128	14,225,286
2013	14,670,826	34,505	297,586	338,612	15,341,529
2014	15,157,903	39,023	297,586	354,587	15,849,099
2015	15,706,704	44,494	297,586	323,536	16,372,320
2016	16,222,876	46,283	342,621	307,849	16,919,629
2017	16,843,212	28,479	354,134	370,291	17,596,116



Source: Novato Sanitary District Accounting Department

**Novato Sanitary District  
Operating Expenses by Activity  
Last Ten Fiscal Years  
Schedule 3**

Fiscal Year	Collection System	Wastewater Treatment	Reclamation/Disposal	Laboratory & Monitoring	Pump Stations	Recycled Water Facility	AB939 Solid Waste Programs	Administration & Engineering	Total Operating Expenses
2008	\$694,147	2,289,718	426,492	389,036	383,503		249,797	3,031,550	7,464,243
2009	599,787	3,017,245	486,514	537,069	332,808		286,682	2,425,285	7,685,390
2010	828,832	3,102,119	296,268	597,743	540,641		284,999	4,003,850	9,654,452
2011	963,487	2,566,139	355,218	688,238	673,344		307,137	2,910,480	8,464,043
2012	1,283,228	2,560,633	442,266	621,758	758,564		310,890	3,789,425	9,766,764
2013	1,022,006	2,561,301	423,670	572,718	668,427	31,301	318,616	2,505,751	8,103,790
2014	1,188,408	2,562,314	418,748	534,959	668,841	104,837	320,938	2,523,606	8,322,651
2015	1,277,022	2,757,514	398,118	555,215	686,789	100,354	289,586	1,829,708	7,894,306
2016	1,116,422	2,734,327	337,887	487,624	641,965	92,028	325,068	2,657,146	8,392,467
2017	1,178,118	2,824,699	493,926	512,003	731,684	105,327	341,580	2,986,650	9,173,987



**Notes:**  
Beginning in 2007, Collection and Pump Stations were separate departments previously classified under the Sewer and Pump Stations department.  
Beginning in 2012, the Recycled Water Facility began operations.

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District  
Assessed Value of Taxable Property  
Last Ten Years  
Schedule 4**

<b>Fiscal Year</b>	<b>Assessed Value</b>	<b>Percent Change</b>
2008	\$9,829,812,081	
2009	9,580,325,664	-2.54%
2010	9,432,410,765	-1.54%
2011	9,349,746,271	-0.88%
2012	9,248,463,186	-1.08%
2013	9,618,666,723	4.00%
2014	10,091,742,535	4.92%
2015	10,706,043,851	6.09%
2016	11,261,143,408	5.18%
2017	11,849,431,595	5.22%

Source: From information provided by the County of Marin Assessor-Recorder-Clerk's Office.

**Novato Sanitary District  
Property Tax Levies and Collections  
Last Ten Fiscal Years  
Schedule 5**

Year	Total	Tax Levy		Tax Collections			Current Year % Collected
		Prior Year	Current Year	Total	Prior Year	Current Year	
2008	\$2,002,026	2,202	1,999,824	2,002,026	2,202	1,999,824	99.89%
2009	1,928,207	1,701	1,926,506	1,928,207	1,701	1,926,506	99.91%
2010	1,725,949	1,752	1,724,197	1,725,949	1,752	1,724,197	99.90%
2011	1,773,877	2,696	1,771,181	1,773,877	2,696	1,771,181	99.85%
2012	1,795,167	2,066	1,793,101	1,795,167	2,066	1,793,101	99.88%
2013	1,795,782	1,562	1,794,220	1,795,765	1,545	1,794,220	99.91%
2014	1,941,094	1,321	1,939,773	1,941,094	1,321	1,939,773	99.93%
2015	1,999,816	2,696	1,997,120	1,999,816	2,696	1,997,120	99.87%
2016	2,155,479	1,346	2,154,133	2,155,479	1,346	2,154,133	99.94%
2017	2,292,988	1,480	2,291,508	2,292,988	1,480	2,291,508	99.94%

Source: From information provided by the County of Marin Assessor-Recorder-Clerk's Office.

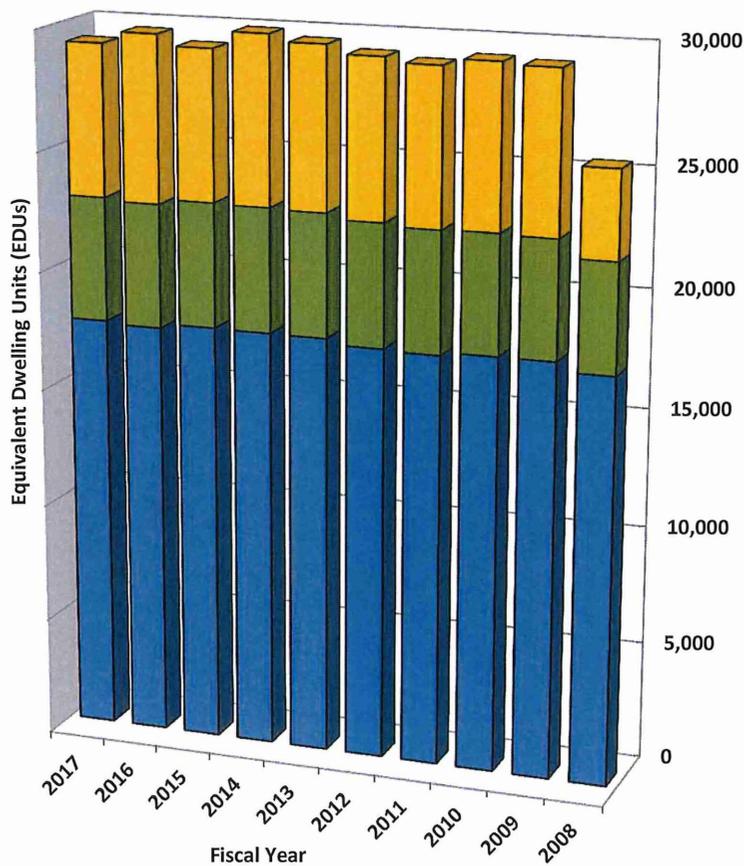
**Novato Sanitary District  
Property Tax Levies and Collections  
Last Ten Fiscal Years  
Schedule 6**

<b>Fiscal Year</b>	<b>Current Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Current Taxes</b>	<b>Prior Year Tax Collections,</b>	<b>Percent of Current Taxes</b>	<b>Net Collections</b>
2008	\$1,999,824	1,999,824	100.0%	2,202	0.1%	\$ 2,002,026
2009	1,926,506	1,926,506	100.0%	1,701	0.1%	\$ 1,928,207
2010	1,724,197	1,724,197	100.0%	1,752	0.1%	\$ 1,725,949
2011	1,773,877	1,771,181	99.8%	2,696	0.2%	\$ 1,773,877
2012	1,793,101	1,793,101	100.0%	2,066	0.1%	\$ 1,795,167
2013	1,794,220	1,794,220	100.0%	1,562	0.1%	\$ 1,795,782
2014	1,939,773	1,939,773	100.0%	1,321	0.1%	\$ 1,941,094
2015	1,997,120	1,997,120	100.0%	2,696	0.1%	\$ 1,999,816
2016	2,154,133	2,154,133	100.0%	1,346	0.1%	\$ 2,155,479
2017	2,291,508	2,291,508	100.0%	1,480	0.1%	\$ 2,292,988

Source: From information provided by the County of Marin Assessor-Recorder-Clerk's Office.

**Novato Sanitary District**  
**Equivalent Dwelling Units by Customer Type at Fiscal Year-End<sup>(1)</sup>**  
**Last Ten Fiscal Years<sup>(2)</sup>**  
**Schedule 7**

Fiscal Year	Single Family Residential	Multi family Residential (3)	Commercial	Total
2008	17,193.00	4,608.20	3,681.99	25,483.19
2009	17,572.20	4,969.60	6,745.96	29,287.76
2010	17,568.60	5,016.80	6,811.97	29,397.37
2011	17,407.40	5,130.40	6,576.55	29,114.35
2012	17,474.40	5,182.60	6,677.08	29,334.08
2013	17,705.80	5,184.20	6,814.04	29,704.04
2014	17,717.00	5,220.20	7,101.90	30,039.10
2015	17,741.20	5,234.20	6,312.95	29,288.35
2016	17,542.20	5,210.40	7,003.00	29,755.60
2017	17,657.40	5,219.00	6,384.00	29,260.40



**Notes:**

- (1) The District charges its customers sewer service charges (SSC) on an equivalent dwelling unit(EDU) basis, and the charges appear on the customers' annual property tax bills.
- (2) EDUs as of June 30 of fiscal year.
- (3) Multi family residential includes apartments and condominiums.

Source: Novato Sanitary District Technical Services Department

**Novato Sanitary District  
Wastewater Service Charges  
Last Ten Fiscal Years  
Schedule 8**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Rate per EDU per year (1)	\$ 422	\$ 462	\$ 462	\$ 462	\$ 462	\$ 493	\$ 512	\$ 531	\$ 552	\$ 573
Rate per EDU per month	\$ 35.17	\$ 38.50	\$ 38.50	\$ 38.50	\$ 38.50	\$ 41.08	\$ 42.67	\$ 44.25	\$ 46.00	\$ 47.75

EDUs (2)	EDU Factors
Single Family	1
Apartments, Condominiums, Duplexes & Townhouses	1 per living unit
Motor Home or Trailer Park	1 per space
Guest House with kitchen and bedroom	1 per living unit
Guest House without kitchen	0 per living unit

**Non Residential (2)**

*Charge per HCF  
water use*

Base Charge/ Unspecified	\$ 0.24	\$ 3.11
Office	\$ 0.24	\$ 3.11
Retail	\$ 0.24	\$ 3.11
Public office	\$ 0.24	\$ 3.11
School classrooms/administration	\$ 0.24	\$ 3.11
Churches	\$ 0.24	\$ 3.11
Meeting halls with kitchens	\$ 0.24	\$ 3.11
Auto service stations	\$ 0.24	\$ 3.11
Supermarkets	\$ 0.24	\$ 3.11
Auditoriums theaters	\$ 0.24	\$ 3.11
Gymnasiums w/showers	\$ 0.24	\$ 3.11
Hotels/motels	\$ 0.24	\$ 3.11
Mortuary	\$ 0.24	\$ 6.77
Medical offices	\$ 0.31	\$ 3.11
Veterinary offices	\$ 0.31	\$ 3.11
Dental offices	\$ 0.31	\$ 3.11
Hospitals	\$ 0.31	\$ 3.11
Cafeteria/dining area	\$ 0.48	\$ 6.77
Restaurants/cafes	\$ 0.48	\$ 6.77
Bakeries	\$ 0.48	\$ 6.77
Ice Cream/yogurt shops	\$ 0.48	\$ 6.77
Delicatessens	\$ 0.48	\$ 6.77
Laundry and Laundromats	\$ 0.72	\$ 4.36
Warehouse or Storage not live/work	\$ -00	\$ -00

**Notes:**

'(1) Rates as of July 1 of each year

'(2) Rates as of July 1, 2016

Source: Novato Sanitary District Technical Services Department

**Novato Sanitary District  
Principal Customers  
Current Fiscal Year and Ten Years Ago  
Schedule 9**

<b>Customer</b>	<b>2017</b>		<b>2008</b>	
	<b>EDU's</b>	<b>Percentage of Total</b>	<b>EDU's</b>	<b>Percentage of Total</b>
Novato Unified School District	391.00	1.34%	154.00	0.60%
BioMarin Pharmaceutical	390.00	1.33%	202.00	0.79%
Fireman's Fund	352.00	1.20%	371.00	1.46%
Hamilton Hangars (3-10)	170.00	0.58%	114.00	0.45%
Sutter Health	158.00	0.54%	151.00	0.59%
Vintage Oaks Shopping Center (not including Costco or Target)	112.00	0.38%	278.00	1.09%
Nave Merchant Assoc	110.00	0.38%	117.00	0.46%
Buck Institute	104.00	0.36%	54.00	0.21%
Novato Fair Shopping Center	93.00	0.32%	93.00	0.36%
City Of Novato	93.00	0.32%	40.00	0.16%
<b>Total EDUs: Principal customers</b>	<b>1,973.00</b>	<b>6.75%</b>	<b>1,574.00</b>	<b>6.17%</b>
<b>Total Equivalent Dwelling Units (EDUs)</b>	<b>29,260.40</b>	<b>100.00%</b>	<b>25,483.19</b>	<b>100.00%</b>

Source: Novato Sanitary District Technical Services Department

**Novato Sanitary District  
Debt Coverage  
Last Ten Fiscal Years  
Schedule 10**

Fiscal Year	Net Revenues	Operating Expenses <sup>(1),(3)</sup>	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2008	\$15,069,957	(7,464,243)	7,605,714	-	1,305,067	1,305,067	5.83
2009	16,248,422	(7,685,390)	8,563,032	-	1,302,270	1,302,270	6.58
2010	16,510,972	(9,654,452)	6,856,520	24,773,024	1,211,880	25,984,904	0.264
2011	10,003,454	(8,464,043)	1,539,411	5,233,207	209,456	5,442,663	0.283
2012	18,185,824	(9,766,764)	8,419,060	21,136	2,669,346	2,690,482	3.129
2013	17,127,623	(8,103,790)	9,023,833	4,231,967	2,712,097	6,944,064	1.300
2014	14,753,874	(8,322,651)	6,431,223	4,339,933	2,678,227	7,018,160	0.916
2014 (2)	18,256,014	(8,322,651)	9,933,363	4,339,933	2,678,227	7,018,160	1.415
2015	18,977,948	(7,894,306)	11,083,642	4,449,171	2,567,765	7,016,936	1.580
2016	19,453,246	(8,392,467)	11,060,779	4,565,431	2,450,757	7,016,188	1.576
2017	20,442,478	(9,173,987)	11,268,491	4,673,762	2,325,634	6,999,396	1.610

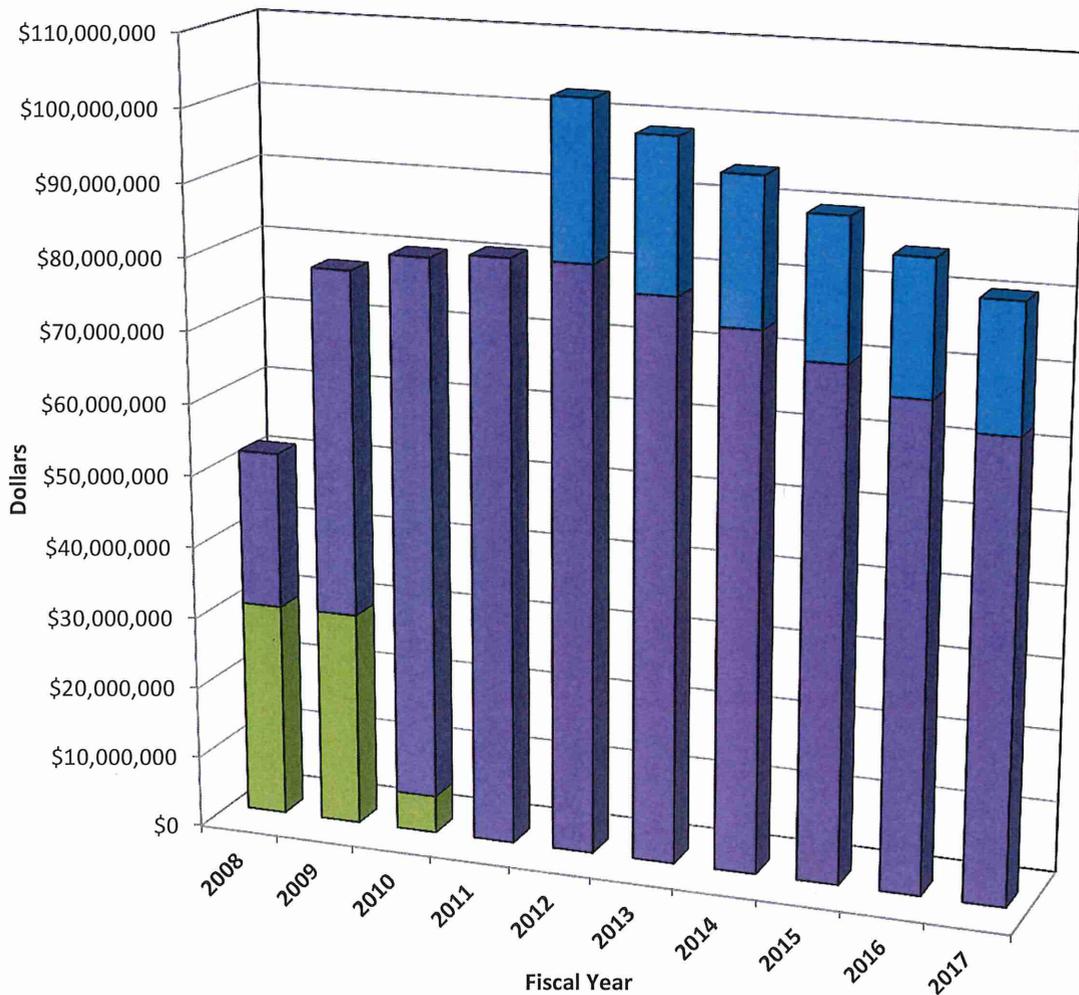
**Notes:**

- (1) Operating expenses exclude depreciation expense.
- (2) Net revenues calculated without the non-cash adjustment for the capital asset disposal/write down of \$3.5M in FY2014.
- (3) Information in this table is based on GAAP(Generally Accepted Accounting Principles) which is accrual basis accounting. Therefore, debt coverage ratios in this table will be different than those in the District's annual budget documents, which use cash basis accounting.

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years  
Schedule 11**

Fiscal Year	Credit Line	SRF Loan Payable	Certificates of Participation Bond Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2008	\$30,006,231	21,691,826		51,698,057	903.81	0.99%
2009	30,006,231	47,989,587		77,995,818	1,354.09	1.59%
2010	5,233,207	75,348,207		80,581,414	1,426.22	1.64%
2011	-	81,329,083		81,329,083	1,424.33	1.61%
2012	-	81,307,947	21,750,000	103,057,947	1,795.43	2.00%
2013	-	77,878,980	20,950,000	98,828,980	1,727.78	1.88%
2014	-	74,366,047	20,120,000	94,486,047	1,637.54	1.72%
2015	-	70,771,876	19,265,000	90,036,876	1,544.37	1.62%
2016	-	67,091,444	18,380,000	85,471,444	1,434.08	1.46%
2017	-	63,322,683	17,475,000	80,797,683	1,360.23	1.30%

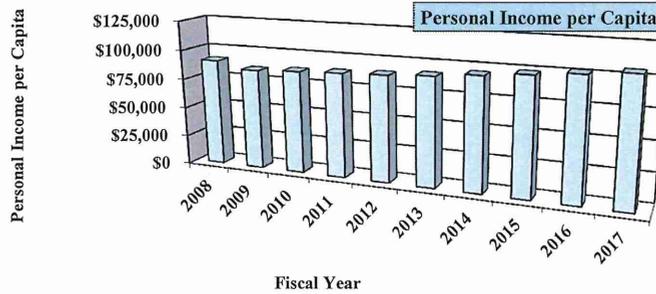
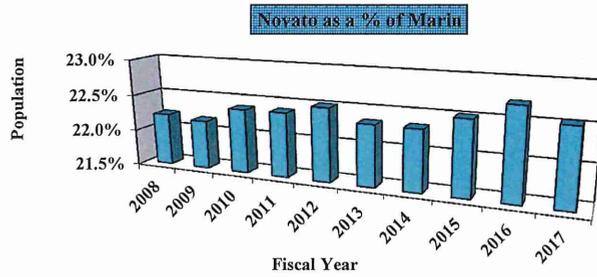
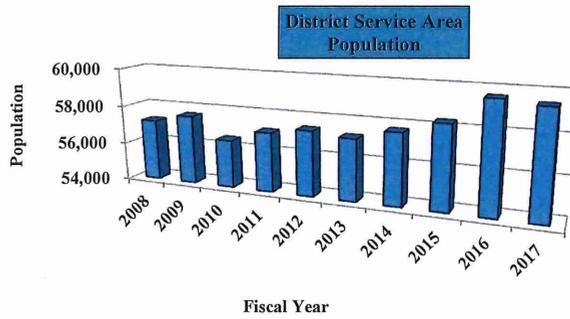


Source: Novato Sanitary District Accounting Department

**Novato Sanitary District  
Demographics and Economic Statistics  
Last Ten Calendar Years  
Schedule 12**

County of Marin<sup>(2)</sup>

Year	(1) District Service Area Population	Novato as a % of Marin	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2008	57,200	22.2%	5.5%	257,406	23,400,007	90,907
2009	57,600	22.2%	9.4%	259,772	22,103,220	85,087
2010	56,500	22.4%	9.8%	252,409	21,943,681	86,937
2011	57,100	22.4%	9.5%	255,015	22,523,180	88,321
2012	57,400	22.5%	7.9%	255,031	22,869,650	89,674
2013	57,200	22.3%	6.0%	256,069	23,492,282	91,742
2014	57,700	22.3%	4.8%	258,365	24,571,803	95,105
2015	58,300	22.5%	3.9%	258,972	25,484,658	98,407
2016	59,600	22.7%	4.3%	262,274	26,682,445	101,735
2017	59,400	22.5%	3.1%	263,604	27,665,767	104,952



**Notes:**

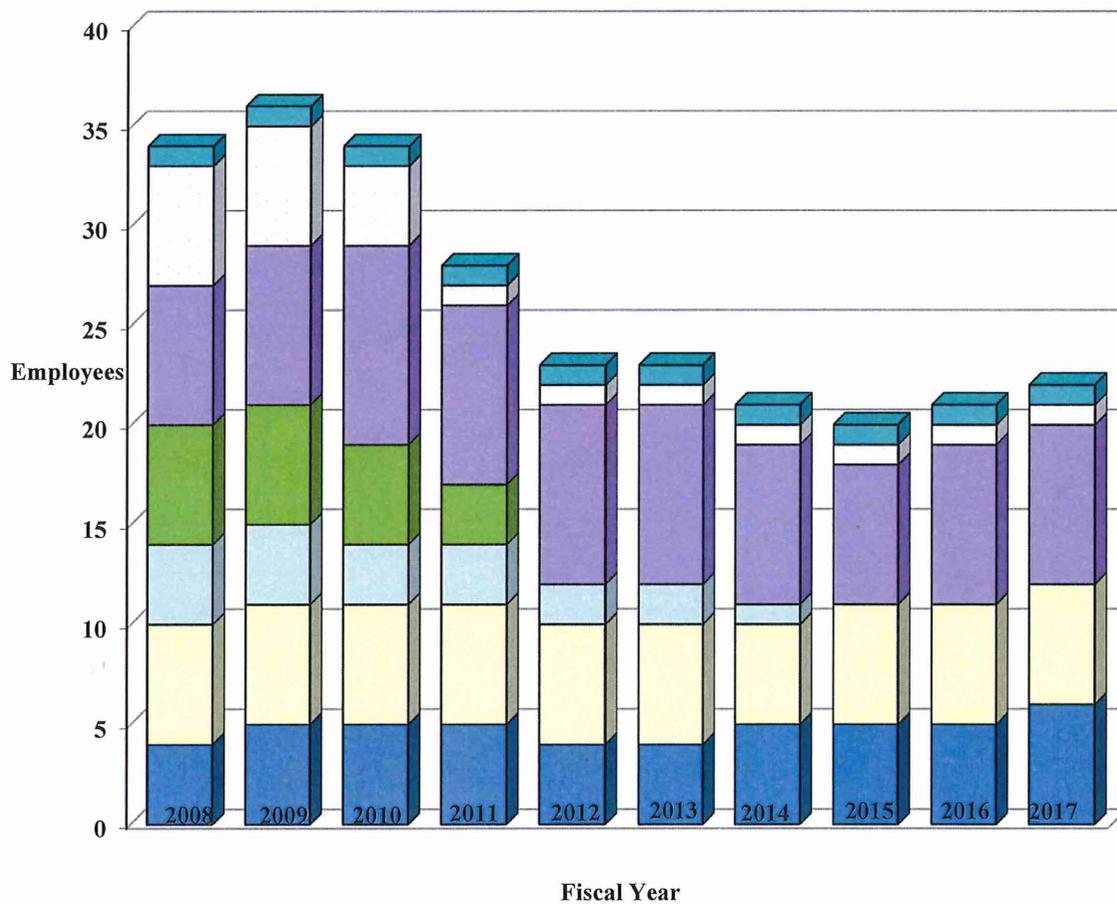
(1) Approximate population of Novato Sanitary District service area is 60,000 residents.

(2) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District.

Sources: California Department of Finance, North Marin Water District, County of Marin Economic Forecast at [http://www.dot.ca.gov/hq/tpp/offices/eab/socio\\_economic\\_files/2013/Marin.pdf](http://www.dot.ca.gov/hq/tpp/offices/eab/socio_economic_files/2013/Marin.pdf)

**Novato Sanitary District  
Operating and Capacity Indicators  
Last Ten Fiscal Years  
Schedule 13**

Employees										
Department	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administration	4	5	5	5	4	4	5	5	5	6
Engineering	6	6	6	6	6	6	5	6	6	6
Lab Services	4	4	3	3	2	2	1	0	0	0
Operations	6	6	5	3	0	0	0	0	0	0
Collections	7	8	10	9	9	9	8	7	8	8
Maintenance	6	6	4	1	1	1	1	1	1	1
Safety	1	1	1	1	1	1	1	1	1	1
<b>Total</b>	<b>34</b>	<b>36</b>	<b>34</b>	<b>28</b>	<b>23</b>	<b>23</b>	<b>21</b>	<b>20</b>	<b>21</b>	<b>22</b>



**Notes:**

The decrease in operations staff (from 2010-2012) occurred with the transition of Treatment Plant Operations to Veolia Water. The Safety resource is a Central Marin Sanitation Agency (CMSA) employee and is a shared service position with CMSA.

Source: Novato Sanitary District Records

**Novato Sanitary District  
Other Operating and Capacity Indicators  
Last Ten Fiscal Years  
Schedule 14**

Fiscal Year	Miles of Pipe Lines (2)	Number of Pump Stations	Treatment Capacity (MGD)		Total Annual Treatment (MG)		
			Novato	Ignacio	Novato	Ignacio	
2008 (1)	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	7.00	0	1,789
2011	226	42	4.20	0.000	7.00	0	2,069
2012	226	42	4.00	0.000	7.00	0	1,709
2013	264	42	3.88	0.000	7.00	0	1,788
2014	264	42	3.45	0.000	7.00	0	1,501
2015	264	42	3.33	0.000	7.00	0	1,628
2016	264	42	3.25	0.000	7.00	0	1,589
2017	264	42	3.46	0.000	7.00	0	2,150

**Notes:**

N/A - Data not available for these years

MG - Millions of Gallons

MGD - Millions of Gallons per Day

(1) In 2008, the Ignacio Treatment Plant was transitioned to a transfer pump station (Ignacio Transfer Pump Station), and all wastewater treatment capability was consolidated at the Novato Treatment Plant site.

(2) Approximate values; primarily sewers.

Source: Novato Sanitary District Operations and Accounting Departments.

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**Continuing Disclosures Section  
2017 Wastewater Revenue Refunding Bonds**

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<b>Novato Sanitary District Historical Average Daily Flow Table 1</b>			
<b>12-Mo. Ending Dec. 31,</b>	<b>Total Volume Processed (million gal)</b>	<b>Average Dry Weather Flow (MGD)</b>	<b>Peak Wet Weather Flow (MGD)</b>
<b>2011</b>	1,950	4.20	19.97
<b>2012</b>	1,875	4.00	20.27
<b>2013</b>	1,546	3.88	6.51
<b>2014</b>	1,655	3.37	28.04
<b>2015</b>	1,397	3.25	14.22
<b>2016</b>	1,726	3.46	16.51

Source: Novato Sanitary District Treatment Operations Department.

<b>Novato Sanitary District Equivalent Dwelling Units (EDU's) by Customer Type Table 2</b>				
<b>FYE 6/30</b>	<b>Single-Family</b>	<b>Multi-Family</b>	<b>Non-Residential</b>	<b>Total</b>
<b>2008</b>	17,193	4,608	3,682	<b>25,483</b>
<b>2009</b>	17,572	4,970	6,746	<b>29,288</b>
<b>2010</b>	17,569	5,017	6,812	<b>29,397</b>
<b>2011</b>	17,407	5,130	6,577	<b>29,114</b>
<b>2012</b>	17,474	5,183	6,677	<b>29,334</b>
<b>2013</b>	17,706	5,184	6,814	<b>29,704</b>
<b>2014</b>	17,717	5,220	7,102	<b>30,039</b>
<b>2015</b>	17,741	5,234	6,313	<b>29,288</b>
<b>2016</b>	17,542	5,210	7,003	<b>29,756</b>
<b>2017</b>	17,657	5,219	6,384	<b>29,260</b>

Source: Novato Sanitary District Technical Services Department

<b>Novato Sanitary District Top 10 Customers, FYE 2017 Table 3</b>			
	<b>EDU's</b>	<b>Service Charges</b>	<b>% of Total</b>
<b>Novato Unified School District</b>	391	224,043	1.3%
<b>BioMarin Pharmaceutical</b>	390	223,470	1.3%
<b>Fireman's Fund</b>	352	201,696	1.2%
<b>Hamilton Hangars (3-10)</b>	170	97,198	0.6%
<b>Sutter Health</b>	158	90,534	0.5%
<b>Vintage Oaks Shopping Center*</b>	112	64,176	0.4%
<b>Nave Merchant Assoc</b>	110	63,030	0.4%
<b>Buck Institute</b>	104	59,592	0.4%
<b>Novato Fair Shopping Center</b>	93	53,289	0.3%
<b>City of Novato</b>	93	53,289	0.3%
<b>Total Service Charges, Top 10 Customers</b>	<b>1,973</b>	<b>1,130,317</b>	<b>6.7%</b>
<b>Total Service Charges, All Customers</b>	<b>29,260</b>	<b>16,843,212</b>	<b>100.0%</b>

*\* excludes Costco and Target*

Source: Novato Sanitary District Technical Services Department

**Novato Sanitary District  
Historical Assessed Value  
Table 4**

<b>FYE 6/30</b>	<b>Secured</b>	<b>Utility</b>	<b>Unsecured</b>	<b>Total</b>	<b>% Change</b>
<b>2009</b>	9,475,459,643	925,353	197,262,188	9,673,647,184	3.4%
<b>2010</b>	9,228,309,897	925,353	232,080,671	9,461,315,921	-2.2%
<b>2011</b>	9,114,069,426	925,353	255,159,280	9,370,154,059	-1.0%
<b>2012</b>	8,989,905,897	1,420,159	242,951,967	9,234,278,023	-1.5%
<b>2013</b>	8,867,520,980	799,300	235,901,173	9,104,221,453	-1.4%
<b>2014</b>	9,211,068,163	799,300	227,152,020	9,439,019,483	3.7%
<b>2015</b>	9,684,095,984	799,300	239,404,757	9,924,300,041	5.1%
<b>2016</b>	10,326,418,363	799,300	252,692,227	10,579,909,890	6.6%
<b>2017</b>	10,895,749,646	799,300	243,976,289	11,140,525,235	5.3%
<b>2018</b>	11,464,405,252	799,300	249,454,456	11,714,659,008	5.2%

Source: California Municipal Statistics

<b>Novato Sanitary District Historical Property Tax Levy, Collections &amp; Delinquencies Table 5</b>			
<b>FYE 6/30</b>	<b>Current Tax Levy</b>	<b>Total Collections<sup>1</sup></b>	<b>Collection Rate</b>
<b>2008</b>	1,999,824	2,002,026	100.11%
<b>2009</b>	1,926,506	1,928,207	100.09%
<b>2010</b>	1,724,197	1,725,949	100.10%
<b>2011</b>	1,771,181	1,773,877	100.15%
<b>2012</b>	1,793,101	1,795,167	100.12%
<b>2013</b>	1,794,220	1,795,765	100.09%
<b>2014</b>	1,939,773	1,941,094	100.07%
<b>2015</b>	1,997,120	1,999,816	100.13%
<b>2016</b>	2,154,133	2,155,479	100.06%
<b>2017</b>	2,291,508	2,292,988	100.06%

<sup>(1)</sup> *includes prior year collections*

Source: From information provided by the County of Marin Assessor-Recorder-Clerk's Office.

<b>Novato Sanitary District Historical Revenues, Expenses and Debt Service Coverage Table 6</b>						
<i>Fiscal Year Ending June 30,</i>	<b>2012 Audit</b>	<b>2013 Audit</b>	<b>2014 Audit</b>	<b>2015 Audit</b>	<b>2016 Audit</b>	<b>2017 Draft Audit</b>
<b>Operating Revenues:</b>						
Sewer service charges	13,671,131	14,670,826	15,157,903	15,706,704	16,222,876	16,843,212
Other service charges	227,067	305,154	254,797	231,594	207,416	193,006
Permit, inspection and other fees	21,441	34,505	39,023	44,494	46,283	28,479
Recycled water facility	8,060	33,458	99,790	91,942	100,433	177,285
AB 939 - solid waste programs	297,586	297,586	297,586	297,586	342,621	354,134
<b>Total</b>	<b>14,225,285</b>	<b>15,341,529</b>	<b>15,849,099</b>	<b>16,372,320</b>	<b>16,919,629</b>	<b>17,596,116</b>
<b>Operating Expenses (excl depr):</b>						
Collection system	1,274,730	1,022,006	1,188,408	1,277,022	1,116,422	1,178,118
Treatment plant	2,560,633	2,561,301	2,562,314	2,757,514	2,734,327	2,824,699
Reclamation and disposal	442,266	423,670	418,748	398,118	337,887	493,926
Laboratory and monitoring	621,758	572,718	534,959	555,215	487,623	512,003
Pump stations	758,563	668,427	668,841	686,789	641,966	731,684
AB 939 - solid waste programs	310,890	318,616	320,938	289,586	325,068	341,580
Recycled water	0	31,301	104,837	100,354	92,028	105,327
Administrative and engineering	3,789,425	2,505,751	2,523,606	2,173,241	2,528,449	2,485,415
Pension expense	0	0	0	(343,533)	128,697	501,235
<b>Total</b>	<b>9,758,265</b>	<b>8,103,790</b>	<b>8,322,651</b>	<b>7,894,306</b>	<b>8,392,467</b>	<b>9,173,987</b>
<b>Non-Operating Revenue</b>						
Property taxes	1,795,489	1,795,781	1,941,241	1,999,816	2,155,479	2,292,988
Franchise fees	45,000	46,170	51,019	49,768	51,059	52,485
Rental revenue	(18,901)	67,246	76,689	92,829	101,530	94,439
Interest income	37,129	67,050	45,673	43,117	71,592	136,596
Other	210,320	(339,631)	(270,260)	(135,556)	(83,683)	227,891
<b>Total</b>	<b>2,069,037</b>	<b>1,636,616</b>	<b>1,844,362</b>	<b>2,049,974</b>	<b>2,295,977</b>	<b>2,804,399</b>
<b>Connection Fees</b>	<b>880,541</b>	<b>146,949</b>	<b>343,773</b>	<b>291,565</b>	<b>223,240</b>	<b>227,567</b>
<b>NET REVENUE(1)</b>	<b>7,416,598</b>	<b>9,021,304</b>	<b>9,714,583</b>	<b>10,819,553</b>	<b>11,046,379</b>	<b>11,454,095</b>
<b>Debt Service Expense</b>						
SRF Loan Interest	1,963,381	1,946,989	1,869,024	1,784,785	1,698,525	1,610,195
SRF Loan Principal	3,274,949	3,431,967	3,509,933	3,594,171	3,680,431	3,768,762
2011 COP Interest	268,170	885,698	861,698	836,798	811,148	775,748
2011 COP Principal	0	800,000	830,000	855,000	885,000	905,000
<b>Total</b>	<b>5,506,499</b>	<b>7,064,654</b>	<b>7,070,655</b>	<b>7,070,754</b>	<b>7,075,104</b>	<b>7,059,704</b>
<b>Debt Service Coverage</b>	<b>1.35</b>	<b>1.28</b>	<b>1.37</b>	<b>1.53</b>	<b>1.56</b>	<b>1.62</b>
<b>Net Cash Flow</b>	<b>1,910,099</b>	<b>1,956,651</b>	<b>2,643,929</b>	<b>3,748,799</b>	<b>3,971,275</b>	<b>4,394,391</b>
	2,231,551	2,832,687	2,730,722	2,621,583	2,509,673	2,385,942

Note (1): Net revenues do not include gains/(losses) from asset disposition or grant revenue.

Note (2): Debt Service Expense is cash basis rather than accrual basis.

Source: Novato Sanitary District Accounting Department

<b>Novato Sanitary District Residential Rates Table 7</b>			
<b>Effective July 1,</b>	<b>Annual Service Charge Per EDU</b>	<b>Annual Dollar Increase</b>	<b>Annual Percent Increase</b>
<b>2016</b>	573.00	21.00	3.8%
<b>2017</b>	594.00	21.00	3.7%
<b>2018</b>	615.00	21.00	3.5%
<b>2019</b>	636.00	21.00	3.4%
<b>2020</b>	657.00	21.00	3.3%

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