

Novato Sanitary District
Novato, California



Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2018

&

June 30, 2017

**NOVATO SANITARY DISTRICT, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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

Prepared by:

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

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NOVATO SANITARY DISTRICT
Comprehensive Annual Financial Report
For the Years Ended June 30, 2018 and 2017

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal..... i

Board of Directors as of June 30, 2018viii

Organizational Chart ix

GFOA Award Certificate for June 30, 2017 x

FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT..... 1

MANAGEMENT’S DISCUSSION AND ANALYSIS..... 3

BASIC FINANCIAL STATEMENTS

Statements of Net Position 10

Statements of Revenues, Expenses and Changes in Net Position..... 11

Statements of Cash Flows..... 12

Statement of Fiduciary Net Position – Fiduciary Fund 14

Statement of Changes in Fiduciary Net Position – Fiduciary Fund 15

Notes to Basic Financial Statements..... 17

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Plan’s Proportionate Share of the Net Pension Liability and
Related Ratios as of the Measurement Date 48

Schedule of Contributions 49

Schedule of Changes in Net OPEB Liability and Related Ratios 50

Schedule of OPEB Contributions 51

Schedule of Investments Returns..... 51

NOVATO SANITARY DISTRICT
Comprehensive Annual Financial Report
For the Years Ended June 30, 2018 and 2017

Table of Contents (Continued)

STATISTICAL SECTION

Statistical Section – Table of Contents	55
Changes in Net Position and Net Position by Component – Last Ten Fiscal Years	57
Operating Revenues by Source – Last Ten Fiscal Years.....	58
Operating Expenses by Activity – Last Ten Fiscal Years	59
Assessed Value of Taxable Property – Last Ten Fiscal Years	60
Property Tax Levies and Collections – Last Ten Fiscal Years	61
Property Tax Levies and Collections – Last Ten Fiscal Years	62
Revenue Base – Equivalent Dwelling Units by Customer Type at Fiscal Year-End – Last Ten Fiscal Years	63
Revenue Base – Wastewater Service Charges – Last Ten Fiscal Years	64
Principal Customers – Current Fiscal Year and Ten Years Ago.....	65
Debt Coverage – Last Ten Fiscal Years.....	66
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	67
Demographic and Economic Statistics – Last Ten Calendar Years.....	68
Operating and Capacity Indicators – Total Employees – Last Ten Fiscal Years	69
Other Operating and Capacity Indicators – Last Ten Fiscal Years	70

Introductory Section

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November 27, 2018

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, 2018 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 unaudited ten-year historical financial, demographic, and statistical information relevant to the District's operations.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A is presented immediately after the Independent Auditor's 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. As 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, 2018 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, 2018 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's Novato Wastewater Treatment Plant (NWTP) is currently permitted for an average dry weather flow of 7.0 million gallons per day. The District provides wastewater service to the seweried areas of the City of Novato as well as developed areas outside the city limits. The District's seweried wastewater service area is currently about 25 square miles and serves a population of approximately 60,000. Wastewater from the District's service area is transported to the NWTP 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 800 acres of pastures in three separate sites adjacent to Highway 37. This acreage is irrigated with recycled water during the summer months, and is used for grazing cattle. 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 serves as a preserve for birds and other wildlife. A third feature of the reclamation facility is approximately 6 acres of treated biosolids storage ponds, and a dedicated land disposal (DLD) site of about 15 acres.

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

In addition, the District operates a Household Hazardous Waste (HHW) 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 District operates.

Local Economy

The District has a predominantly residential ratepayer base, with residential users accounting for approximately 75% of the equivalent dwelling units (EDUs) in its service area. The local economy also includes some 2,500 commercial businesses. No major industrial wastewater producers currently exist within the District's service area. This may change in the future from biopharmaceutical firms in the District's service area looking to expand their operations. However, generally speaking, 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 11.1% and 10.9% of the District's total revenue (including capital contributions) for FYE 2017 and 2018, 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 2016, the District commissioned its financial consultant, Bartle Wells Associates to initiate and complete the 2016 Wastewater Capacity Fee Study as well as the 2016 Sewer Rate Study. It is anticipated that future updates will be prepared as needed. Similarly, in FYE 2018, the District refinanced its 2011 Certificates of Participation (COPs) with the 2017 Revenue Refunding Bonds, which resulted in saving the District approximately \$2.3 million over a shorter debt term (from year 2032 to 2031).

RELEVANT FINANCIAL POLICIES

Reserve Policy

In 2011, the District 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 also established Policy No. 3510 for Capital and Operating Fund targets and minimum fund balances as of July 1st each year to meet 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: 1) safety, 2) liquidity, and 3) yield. The District's funds are invested in the State of California Local Agency Investment Fund (LAIF), in accordance with the 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 in 2011 and other upgrades through 2015. Financed by a California State Revolving Fund (SRF) loan, the 2011 effort upgraded and expanded the District's treatment facilities at the site of the Novato treatment plant. Debt service on the SRF loan will be paid annually through 2031 at an interest rate of 2.40%.

The upgraded and expanded treatment plant replaced two aging plants (the Ignacio treatment plant and portions of the old Novato plant) with the single new modernized Novato Treatment Plant. A major new pump station and pipeline replaced the old Ignacio plant. Upgrades at the Novato plant included efficient treatment processes that comply with current standards, re-use of the portions of the plant built since the 1980s that were still usable, and addition of backup facilities in case of equipment failure or emergencies.

In addition, the ground profile of the upgraded plant was raised by several feet to optimize energy usage, and address potential climate change impacts based on the best available sea level rise (SLR) information at that time.

- 2) The District initiated a Sewer System Plan more than a decade ago. Since then much progress has been made. A Collection System Improvement and Pump Station Rehabilitation Program is ongoing to replace aging sewer lines and pump stations. The program is designed to meet the District's needs over the next 25 to 50 years. Design and construction are ongoing and are expected to continue for the foreseeable future.

However, 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 up to \$5 million over the past decade or so in sewer and pump station upgrades to repair the wear and tear from past decades, and expects this to continue for the foreseeable future. A new Collection System Master Plan (CSMP) is expected in 2019, which should provide updated guidance for future sewer and pump station system upgrades and improvements.

- 3) The District's Lateral Replacement 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 2018 the District contributed \$36,000 for the replacement of eighteen damaged private laterals.
- 4) The District completed construction of a nominal 1.7 million gallons per day (MGD), 0.85 MGD firm capacity, Recycled Water Facility (RWF) in 2012. The project is part of an ongoing regional recycled water program of the North Bay Water Reuse Authority (NBWRA) of which the District is a founding member. Twenty-five percent of the cost was covered by a grant from the U.S. Bureau of Reclamation (USBR). Five percent was covered by a grant from the California Department of Water Resources. The recycled water is distributed by North Marin Water District (NMWD) to irrigate a golf course, landscaping, cemeteries, and playing fields in Northern and Eastern Novato. The RWF became operational in September 2012.

In FYE 2018, the District began an expansion of the firm capacity of the RWF from 0.85 MGD to 1.7 MGD. The projected completion date is January 2019. Again, twenty-five percent of the expansion cost is being covered by a USBR grant through the NBWRA program. The expanded RWF will support NMWD's recycled water system expansion to its central and south Novato service areas, including the golf course at the Marin County Club.

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, the District is responsible for meeting mandates of AB 939, the California Integrated Waste Management Act of 1989.

In 2017, the District's long-term franchisee Novato Disposal Service (NDS) was acquired by Recology, Inc., a San Francisco based solid waste management company. Recology, through its Recology Sonoma Marin (RSM) subsidiary, requested, and the District granted, a reassignment of the NDS franchise to RSM. RSM assumed the duties and responsibilities of the franchise in the District's service area in December 2017. This includes collaborating on the ongoing Zero Waste Program included within the franchise and which is intended to take recycling in the District's service area to the next level by significantly reducing material disposed to the landfill.

Specialized Staff Sharing. The District shares a single full-time safety officer with the Central Marin Sanitation Agency (CMSA). The District and North Marin Water District (NMWD) also have an Agreement to share highly skilled laboratory staff. In addition, the District is a signatory to a mutual aid agreement among the wastewater treatment agencies in the County.

Cost-Saving Management of Treatment Plant. The District contracts with a private entity, Veolia Water, to operate and maintain its treatment facilities, achieving both cost savings and environmental compliance.

Significant Funding from Collaborative Recycled Water Program. By working collaboratively with NMWD, NBWRA, and other neighboring and regional agencies, the District has obtained almost \$3 million to date in federal and state grant funding to initiate and expand recycled water use in Novato.

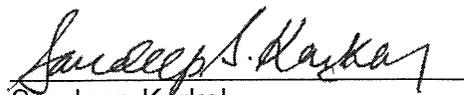
INDEPENDENT AUDIT

The State Government Code requires an annual audit of the District's financial records by a Certified Public Accountant. In 2012, the District selected, through a competitive process, the firm of Maze & Associates to conduct its audit. In 2017, consistent with industry best practices, the District re-engaged Maze & Associates with a change in engagement partner. 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, William Long and Jean Mariani, 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

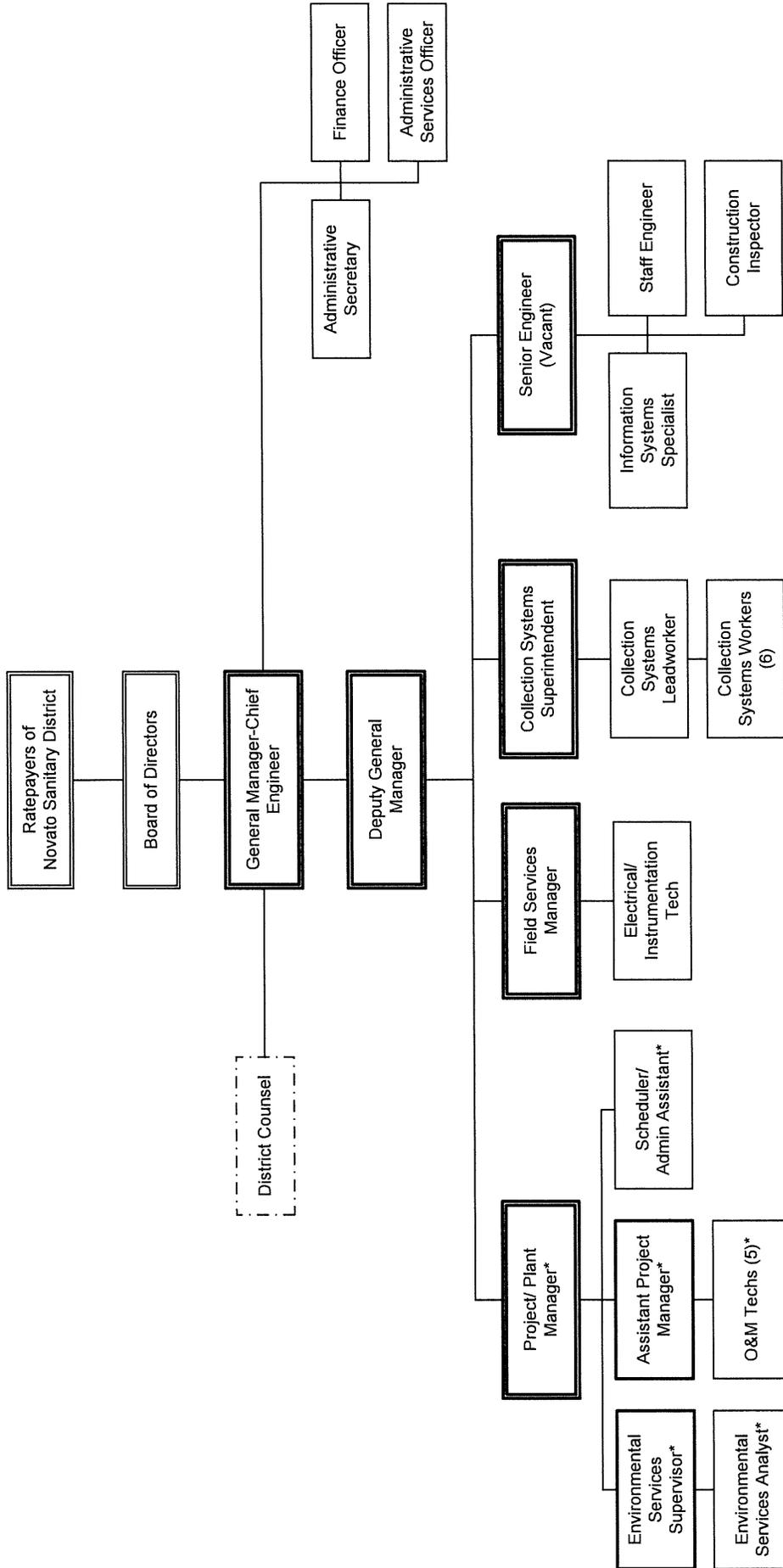
Novato Sanitary District provides wastewater collection, treatment, recycling and disposal services for the community of Novato, California. In addition, the District is responsible for refuse disposal, recycling, and greenwaste collection through its franchise collector, Recology, Inc.

Novato Sanitary District Board of Directors as of June 30, 2018

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>First Seated on Board</u>	<u>Current Term *</u>
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

Sandeep Karkal, P.E.
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*Transition terms, consolidated with statewide elections per Senate Bill SB415 (“California Voter Participation Rights Act”).



* denotes Veolia Water staff



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California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

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 business-type activities and the fiduciary fund of Novato Sanitary District (District), California, as of and for the years ended June 30, 2018 and 2017, 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 business-type activities and the fiduciary fund of the District as of June 30, 2018 and 2017, and changes in the financial position and; where applicable cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the fiscal year, the District identified amounts from fiscal year 2017 which required a restatement of net position as discussed in Note 1Q.

The emphasis of this matter does not constitute a modification to our opinion.

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, 2018 and required a prior period adjustment to the financial statements as discussed in Note 1P to the financial statements.

Statement 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. See Note 7 to the financial statements for relevant disclosures.

Statement 85 – *Omnibus 2017*. See Note 7 to the financial statements for relevant disclosures.

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

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, Statistical and Continuing Disclosure Sections 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, Statistical and Continuing Disclosure 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.

Mazze + Associates

Pleasant Hill, California
November 27, 2018



Management's Discussion & Analysis

The following Management's Discussion and Analysis (MD&A) of activities and financial performance provides an introduction to the financial statements of the Novato Sanitary District (District) for the fiscal year ended June 30, 2018 and June 30, 2017. The two-year presentation is provided for comparative purposes. Please read the information presented here, in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2018, the District's net position increased 1.1% or \$1,235,642 to \$113,032,962. In 2017, the District's net position increased 2.9% or \$3,249,815 to \$111,797,320.
- In 2018, the District operating revenues increased 4.3% or \$748,859 due to a rate increase of approximately 3.7% (approved in June of 2016). In 2017, the District's operating revenues increased 3.9% or \$676,487 due to a rate increase of approximately 3.8%.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position (page 10), Statement of Revenues, Expenses and Changes in Net Position (page 11) and Statement of Cash Flows (pages 12-13) 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 or regulation, such as changes in Federal and State wastewater standards and limits.

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 (Notes 1 to 12) can be found on pages 17 through 45.

Condensed Statements of Net Position

	2018	2017	Change	2016	Change
Assets:					
Current assets	\$ 27,304,405	\$ 23,977,767	3,326,638	\$ 21,838,663	2,139,104
Capital assets, net	172,437,386	176,068,809	(3,631,423)	180,012,797	(3,943,988)
Total assets	199,741,791	200,046,576	(304,785)	201,851,460	(1,804,884)
Deferred Outflow of Resources (Note 7&10)	1,806,372	1,247,025	559,347	397,387	849,638
Liabilities:					
Current liabilities	7,735,349	6,805,339	930,010	6,869,418	(64,079)
Non-current liabilities	79,906,596	81,812,368	(1,905,772)	85,878,494	(4,066,126)
Total liabilities	87,641,945	88,617,707	(975,762)	92,747,912	(4,130,205)
Deferred Inflows of Resources(Note 7&10)	874,606	878,574	(3,968)	953,430	(74,856)
Net Position (Note 8)					
Net investment in capital assets	97,939,722	96,965,159	974,563	96,235,211	729,948
Restricted	745,826	-	-	-	-
Unrestricted	14,347,414	14,832,161	(484,747)	12,312,294	2,519,867
Total net position	113,032,962	111,797,320	489,816	108,547,505	3,249,815

As noted earlier, net position may serve over time as a useful indicator of a government entity's financial position. In the District's case, the District's assets exceeded liabilities by \$113,032,962 and \$111,797,320 as of June 30, 2018 and June 30, 2017, respectively.

By far the largest portion of the District's net position (87% as of June 30, 2018 and June 30, 2017) 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 2018 and 2017, the District showed a positive balance in its unrestricted net position of \$14,347,414 and \$14,832,161 respectively, which may be utilized in future years, (see Note 8 for further discussion).

Statement of Revenues, Expenses and Changes in Net Position

	2018	2017	Change	2016	Change
Revenues:					
Operating revenues	\$ 18,344,975	17,596,116	748,859	16,919,629	676,487
Non-operating revenues	3,028,160	2,857,094	171,066	2,379,660	477,434
Total revenues	21,373,135	20,453,210	919,925	19,299,289	1,153,921
Expenses:					
Operating expenses	9,131,926	9,173,987	(42,061)	8,392,467	781,520
Depreciation and amortization	5,793,254	5,744,111	49,143	5,661,922	82,189
Non-operating expenses	2,390,042	2,513,064	(123,022)	2,533,440	(20,376)
Total expenses	17,315,222	17,431,162	(115,940)	16,587,829	843,333
Net income before capital contributions	4,057,913	3,022,048	1,035,865	2,711,460	310,588
Capital contributions	367,530	227,767	139,763	236,640	(8,873)
Change in net position	4,425,443	3,249,815	1,175,628	2,948,100	301,715
Net position, beginning of year	111,797,320	108,547,505	3,249,815	105,599,405	2,948,100
Prior period adjustment	(3,189,801)	-	(3,189,801)	-	-
Net position, end of year	\$ 113,032,962	111,797,320	1,235,642	108,547,505	3,249,815

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 2018, the District's total revenues increased by 4.5% or \$919,925. A significant portion of the increase resulted from the District's sewer service charge (SSC) revenues, which increased 4.8% or \$812,528 over the prior year, due to an approved rate increase of 3.7%. This rate increase was part of a five-year series of SSC increases adopted by the District Board in June 2016.
- In 2018, the District's total expenses decreased fractionally by 0.67% or \$115,940. In 2017, the District's total expenses increased 4.8% or \$843,333.
- In 2018, the District's net position increased by 1.1% or \$1,235,642. In 2017, the District's net position increased by 2.9% or \$3,249,815. The increases are due to a prior period adjustment from implementation of the new GASB 75 Standard. This results in a revision to the Other Post- Employment Benefits (OPEB) liability, increasing the District's liabilities by approximately \$3.2 million, (see Note 7 for further details).

Operating and Non-Operating Revenues

	2018	2017	Change	2016	Change
Operating revenues:					
Sewer service charges	\$ 17,655,740	\$ 16,843,212	812,528	16,222,876	620,336
Other service charges	147,410	193,006	(45,596)	207,416	(14,410)
Permit, inspection and other fees	27,141	28,479	(1,338)	46,283	(17,804)
Recycled water facility	138,258	177,285	(39,027)	100,433	76,852
AB939 – solid waste programs	376,426	354,134	22,292	342,621	11,513
Total operating revenues	18,344,975	17,596,116	748,859	16,919,629	676,487
Non-operating revenue:					
Property taxes	2,360,251	2,292,988	67,263	2,155,479	137,509
Franchise fees	54,358	52,485	1,873	51,059	1,426
Rental revenue	77,732	94,439	(16,707)	101,530	(7,091)
Interest earnings	312,886	136,595	176,291	71,592	65,003
Gain/(Loss) on sale/disposition of assets	(34,250)	1,627	(35,877)	-	1,627
Grant revenue	257,183	51,069	206,114	-	51,069
Other non-operating revenue	-	227,891	(227,891)	-	227,891
Total non-operating revenues	3,028,160	2,857,094	171,066	2,379,660	477,434
Total revenues	\$ 21,373,135	20,453,210	919,925	19,299,289	1,153,921

In summary, total revenues increased by \$919,925 and by \$1,153,921 in fiscal years 2018 and 2017, respectively.

Operating and Non-Operating Expenses

	2018	2017	Change	2016	Change
Operating expenses:					
Collection system	\$ 1,103,000	\$ 1,178,118	(75,118)	1,116,422	61,696
Treatment plant	2,909,669	2,824,699	84,970	2,734,327	90,372
Wastewater reclamation and disposal	456,134	493,926	(37,792)	337,887	156,039
Laboratory and monitoring	487,971	512,003	(24,032)	487,624	24,379
Pump Stations	735,079	731,684	3,395	641,965	89,719
Recycled water facility	138,239	105,327	32,912	92,028	13,299
AB939 – solid waste programs	350,937	341,580	9,357	325,068	16,512
Administrative and engineering	2,378,028	2,485,415	(107,387)	2,528,449	(43,034)
OPEB Expense	113,926	-	113,926	-	-
Pension Expense	458,943	501,235	(42,292)	128,697	372,538
Total operating expenses	9,131,926	9,173,987	(42,061)	8,392,467	781,520
Depreciation expense	5,793,254	5,744,111	49,143	5,661,922	82,189
Non-operating expenses:					
Interest expense	2,178,527	2,325,634	(147,107)	2,450,757	(125,123)
Other non-operating expenses	211,515	187,430	24,085	82,683	104,747
Total non-operating expenses	2,390,042	2,513,064	(123,022)	2,533,440	(20,376)
Total expenses	\$ 17,315,222	17,431,162	(115,940)	16,587,829	843,333

In summary, total expenses decreased by \$115,940 and increased by \$843,333 in fiscal years 2018 and 2017, respectively.

Capital Asset Administration

Changes in capital assets amounts for 2018 were as follows:				
	Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Capital assets:				
Non-depreciable assets	\$ 7,094,184	1,541,082	-	8,635,266
Depreciable assets	240,920,323	654,999	(61,699)	241,513,623
Accumulated depreciation	(71,945,698)	(5,793,254)	27,449	(77,711,503)
Total capital assets, net	\$ 176,068,809	(3,597,173)	(34,250)	172,437,386
Changes in capital assets amounts for 2017 were as follows:				
	Balance 2016	Additions	Transfers/ Deletions	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

At the end of fiscal year 2018 and 2017, the District's investment in capital assets amounted to \$172,437,386 and \$176,068,809 (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 2018 were as follows:				
	Balance 2017	Additions	Deletions	Balance 2018
Loan payable	\$ 63,322,682	-	(3,859,211)	59,463,471
2017 Waste water Revenue Bonds		14,355,000	(945,000)	13,410,000
2011 Certificates Of Participation	17,475,000	-	(17,475,000)	-
Total long-term debt	\$ 80,797,682	14,355,000	(22,279,211)	72,873,471
Changes in long-term debt amounts for 2017 were as follows:				
	Balance 2016	Additions	Deletions	Balance 2017
Long-term debt:				
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

In October 2017, the District retired its 2011 Certificates of Participation (COPs) with the issuance of the 2017 Wastewater Revenue Refunding Bonds, saving the District over \$2 million in debt service over the life of the new bonds. See Note 6 for further details on 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 (415) 892-1694 or 500 Davidson Street, Novato, California, 94945.

Basic Financial Statements

NOVATO SANITARY DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$25,733,311	\$21,606,012
Restricted - cash and investments (Note 2)	766,571	1,694,033
Accounts receivable, net (Note 3)	595,669	551,528
Accrued interest receivable	121,406	52,003
Prepaid expenses and other deposits	87,448	74,191
	<u>27,304,405</u>	<u>23,977,767</u>
NON-CURRENT ASSETS		
Capital assets - not being depreciated (Note 4)	8,635,264	7,094,184
Capital assets - being depreciated, net (Note 4)	163,802,122	168,974,625
	<u>172,437,386</u>	<u>176,068,809</u>
TOTAL ASSETS		
	<u>199,741,791</u>	<u>200,046,576</u>
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related (Note 7)	232,875	
Pension related (Note 10)	1,574,847	1,247,025
	<u>1,807,722</u>	<u>1,247,025</u>
TOTAL DEFERRED OUTFLOWS		
	<u>1,807,722</u>	<u>1,247,025</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,795,555	728,831
Customer deposits	2,000	2,000
Restricted - special assessment payable	172,595	180,710
Accrued interest payable	992,937	1,068,017
Long-term liabilities - due within one year:		
Compensated absences (Note 5)	30,428	41,569
State Revolving Fund Loan payable (Note 6)	3,951,834	3,859,212
Certificates of Participation (Note 6)		925,000
Wastewater Revenue Refunding Bonds (Note 6)	790,000	
	<u>7,735,349</u>	<u>6,805,339</u>
NON-CURRENT LIABILITIES		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 5)	91,283	124,708
State Revolving Fund Loan payable (Note 6)	55,511,637	59,463,471
Certificates of Participation (Note 6)		16,550,000
Wastewater Revenue Refunding Bonds (Note 6)	14,264,938	
Net OPEB liability/obligation (Note 7)	4,494,027	920,211
Net pension liability (Note 10)	5,544,711	4,753,978
	<u>79,906,596</u>	<u>81,812,368</u>
TOTAL LIABILITIES		
	<u>87,641,945</u>	<u>88,617,707</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related (Note 10)	874,606	878,574
	<u>874,606</u>	<u>878,574</u>
TOTAL DEFERRED INFLOWS OF RESOURCES		
	<u>874,606</u>	<u>878,574</u>
NET POSITION (Note 8)		
Net investment in capital assets	97,939,722	114,440,159
Restricted	745,826	
Unrestricted	14,347,414	(2,642,839)
	<u>\$113,032,962</u>	<u>\$111,797,320</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, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Sewer service charges	\$17,655,740	\$16,843,212
Other service charges	147,410	193,006
Permit, inspection and other fees	27,141	28,479
Recycled water facility	138,258	177,285
AB939 - solid waste programs	376,426	354,134
Total operating revenues	18,344,975	17,596,116
OPERATING EXPENSES		
Collection system	1,103,000	1,178,118
Treatment plant	2,909,669	2,824,699
Reclamation and disposal	456,134	493,926
Laboratory and monitoring	487,971	512,003
Pump stations	735,079	731,684
AB939 - solid waste programs	350,937	341,580
Recycled water	138,239	105,327
Administrative and engineering	2,378,028	2,485,415
OPEB expense (Note 7)	113,926	
Pension expense (Note 10)	458,943	501,235
Total operating expenses	9,131,926	9,173,987
Operating income before depreciation	9,213,049	8,422,129
Depreciation (Note 4)	(5,793,254)	(5,744,111)
OPERATING INCOME	3,419,795	2,678,018
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,360,251	2,292,988
Franchise fees	54,358	52,485
Rental revenue	77,732	94,439
Interest income	312,886	136,595
Interest expense	(2,178,527)	(2,325,634)
Gain on sale/disposition of capital assets	(34,250)	1,627
Grant revenue	257,183	51,069
Other non-operating revenue (expenses)	(211,515)	40,461
Total nonoperating revenues (expenses), net	638,118	344,030
Net income (loss) before capital contributions	4,057,913	3,022,048
CAPITAL CONTRIBUTIONS		
Connection fees	234,495	227,567
Capital contributions	133,035	200
Total capital contributions	367,530	227,767
CHANGES IN NET POSITION	4,425,443	3,249,815
NET POSITION, BEGINNING OF YEAR, AS RESTATED (Note 1P)	108,607,519	108,547,505
NET POSITION, END OF YEAR	\$113,032,962	\$111,797,320

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers for sewer service charges and services	\$18,521,206	\$18,027,399
Cash paid to or on behalf of employees for salaries, wages and benefits	(2,707,777)	(3,032,270)
Cash paid to vendors and suppliers for materials and services	(5,021,644)	(6,907,432)
Cash Flows from Operating Activities	10,791,785	8,087,697
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,360,251	2,292,988
Cash Flows from Noncapital Financing Activities	2,360,251	2,292,988
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,196,081)	(1,800,123)
Loss on sale of capital assets	(34,250)	1,627
Capital contributions	367,530	227,767
Net proceeds from issuance of debt	17,215,712	
Payment to bond escrow agent	(17,475,000)	
Principal payments on long-term debt	(6,019,986)	(4,673,762)
Interest payments on long-term debt	(2,253,607)	(2,385,942)
Cash Flows (used for) Capital and Related Financing Activities	(10,395,682)	(8,630,433)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	243,483	113,855
Cash Flows from Investing Activities	243,483	113,855
NET CASH FLOWS	2,999,837	1,864,107
Cash, beginning of year, as restated	23,500,045	21,435,938
Cash, end of year	\$26,499,882	\$23,300,045
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$25,733,311	\$21,606,012
Restricted - cash and cash equivalents	766,571	1,694,033
Total cash and cash equivalents	\$26,499,882	\$23,300,045

(Continued)

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$3,419,795	\$2,678,018
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,793,254	5,744,111
Other non-operating revenues	423,523	238,454
Other non-operating expenses	(211,515)	
Change in assets and liabilities:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable - sewer services	(44,141)	(233,290)
Prepaid expenses and other deposits	(13,257)	(18,967)
OPEB related deferred outflows of resources	(232,875)	
Pension related deferred outflows of resources	(327,822)	(849,638)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	1,066,724	(83,523)
Customer deposits		(34,556)
Restricted - special assessment payable	(8,115)	1,536
Compensated absences	(44,566)	9,291
Net OPEB liability	184,015	(514,612)
Collective net pension liability	790,733	1,225,729
Pension related deferred inflows of resources	(3,968)	(74,856)
Total adjustments	7,371,990	5,409,679
Net cash provided by operating activities	\$10,791,785	\$8,087,697
Schedule of Non-Cash Investing and Financing Activities:		
Capital contributions	\$133,035	\$200

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
 STATEMENTS OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 OTHER POST-EMPLOYMENT BENEFIT TRUST FUND
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Investments with Trustees:		
Cash and cash equivalents	\$126,520	\$102,568
Mutual funds - equity	118,233	95,850
Mutual funds - fixed income	626,902	508,221
Total investments	871,655	706,639
TOTAL ASSETS	871,655	706,639
NET POSITION		
Net position held in trust for OPEB benefits	\$871,655	\$706,639

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
OTHER POST-EMPLOYMENT BENEFIT TRUST FUND
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
ADDITIONS		
Contributions:		
District	\$162,786	\$700,000
Total contributions	162,786	700,000
Investment income:		
Interest, dividends and other	4,186	6,933
Less: investment expenses	(1,956)	(294)
Total net investment income	2,230	6,639
Total additions	165,016	706,639
Change in net position	165,016	706,639
NET POSITION		
NET POSITION, BEGINNING OF YEAR	706,639	
NET POSITION, END OF YEAR	\$871,655	\$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, 2018 and 2017

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Operations of the Reporting Entity*

The Novato Sanitary District (District) is a separate governmental unit established as a Special District of the State of California, created in 1925. The District provides sewage collection, treatment, reclamation, and disposal services to an area of about 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, 2018 and 2017**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 at the time of purchase 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, 2018 and 2017

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 does 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, 2018 and 2017**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018.

GASB Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions* -The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This pronouncement required the District to make a prior period adjustment. See Notes 1Q and 7 for additional information.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements* - This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 85 – *Omnibus 2017*- The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*- The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

Q. *Restatements of Net Position*

During fiscal year 2018, the District determined that investments in the PARS Pension Trust in the amount of \$200,000 from fiscal year 2017 had not been added to the District’s investment balance. Therefore, beginning net position has been increased and restated in that amount. In addition, as stated above in Note 1P, the District adopted the provisions of GASB Statement No. 75 in fiscal year 2018 which required the District to make a prior period adjustment. As a result, the beginning net position of the District was restated and reduced by \$3,389,801. See Note 7 for additional information.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

NOTE 2 – CASH AND INVESTMENTS

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

	2018	2017
Cash and cash equivalents	\$25,733,311	\$21,606,012
Restricted cash and investments	766,571	1,694,033
Total District Cash and Investments	26,499,882	23,300,045
Cash and investments held with OPEB trust	871,655	706,639
Total Cash and Investments	\$27,371,537	\$24,006,684

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

	2018	2017
<i>Held by District:</i>		
Cash on hand	\$2,386	\$624
Deposits with financial institutions	6,464	16,146
Local Agency Investment Fund	25,724,461	21,589,242
<i>Held by Fiscal Agent:</i>		
Deposits with financial institutions	20,745	1,694,033
<i>Held by OPEB Trust</i>		
Cash and investments	871,655	
<i>Held by Pension Trust</i>		
Cash and investments	745,826	706,639
Total Cash and Investments	\$27,371,537	\$24,006,684

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

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.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
State and Local Agency Bonds, Notes and Warrants	5 years		100%	None
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
California Local Agency Investment Fund	N/A		\$40 million 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, 2018 and 2017**

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:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality (per S&P)
Federal Securities		AA
U.S. Agency Securities		A
Interest Bearing Deposit Accounts, including Certificates of Deposit	360 days	A or fully insured by the FDIC
Commercial Paper	270 days	A or better by S&P and Moody's
Federal Funds or Bankers' Acceptances	1 year	Highest Rating Category
Money Market Funds		Highest short-term rating category
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 > \$500 million		A
Municipal Bonds or Notes		Two Highest Categories
Guaranteed Investment Agreements		AA or better from S&P
California Local Agency Investment Fund (LAIF)		

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, 2018 and 2017**

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, 2018 and 2017 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 contain 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, the greater is the 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, 2018 and 2017, these investments matured in an average of 193 and 194 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, 2018, and 2017, 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, 2018 and 2017, respectively.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

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	2018	2017
Sewer services	\$165,276	\$131,432
Franchise/Lease	115,635	132,060
Property tax	10,257	14,244
Recycling	52,416	33,924
Other, net of allowance	252,085	239,868
	<u>\$595,669</u>	<u>\$551,528</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 4 – CAPITAL ASSETS

A. Capital Assets Activity

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

	<u>Balance June 30, 2017</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2018</u>
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,172,275	\$133,035		2,305,310
Construction-in-process	2,148,402	1,408,045		3,556,447
Total non-depreciable assets	<u>7,094,184</u>	<u>1,541,080</u>		<u>8,635,264</u>
Depreciable assets:				
Sewer system improvements	160,994,465	12,529	(\$14,463)	160,992,531
Sewer collection and outfall system	53,246,171	56,478		53,302,649
Sewer facilities equipment	24,977,129	158,212	(47,233)	25,088,108
Equipment	1,702,558	427,782		2,130,340
Total depreciable assets	<u>240,920,323</u>	<u>655,001</u>	<u>(61,696)</u>	<u>241,513,628</u>
Accumulated depreciation:				
Sewer system improvements	(46,448,879)	(4,095,341)		(50,544,220)
Sewer collection and outfall system	(15,974,569)	(676,061)		(16,650,630)
Sewer facilities equipment	(8,354,345)	(919,547)	20,215	(9,253,677)
Equipment	(1,167,905)	(102,305)	7,231	(1,262,979)
Total accumulated depreciation	<u>(71,945,698)</u>	<u>(5,793,254)</u>	<u>27,446</u>	<u>(77,711,506)</u>
Total depreciable assets, net	<u>168,974,625</u>	<u>(5,138,253)</u>	<u>(34,250)</u>	<u>163,802,122</u>
Total capital assets, net	<u><u>\$176,068,809</u></u>	<u><u>(\$3,597,173)</u></u>	<u><u>(\$34,250)</u></u>	<u><u>\$172,437,386</u></u>

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

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 4 – CAPITAL ASSETS (Continued)

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

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance</u> <u>June 30, 2017</u>
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>

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>2018</u>	<u>2017</u>	<u>2016</u>
Collection system improvements	\$343,605	\$166,057	\$634,528
North Bay Water Reuse Authority	841,768	759,967	689,431
Hamilton Wetlands Outfall Monitoring	69,460	69,246	69,053
Novato Creek Watershed	100,835	100,834	100,443
Administrative building updates	759,538	759,538	753,953
RWF Expansion	1,232,073	215,590	59,553
Various other minor projects <\$50,000	209,168	77,170	75,241
Total	<u>\$3,556,447</u>	<u>\$2,148,402</u>	<u>\$2,382,202</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 5 – COMPENSATED ABSENCES

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

<u>Balance 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2018</u>	<u>Due Within One Year</u>
\$166,277	\$23,003	(\$67,569)	\$121,711	\$30,428

<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

NOTE 6 – LONG-TERM DEBT

A. Long-Term Debt Activity

Changes in long-term debt amounts for 2017-2018 were as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>	<u>Due within one year</u>
Long-term debt:					
2011 Wastewater Revenue Certificates of Participation	\$17,475,000		(\$17,475,000)		
2017 Wastewater Revenue Refunding Bonds		\$14,355,000	(945,000)	\$13,410,000	\$790,000
Add: Unamortized premium		2,860,712	(1,215,774)	1,644,938	
SRF Loan payable	63,322,683		(3,859,212)	59,463,471	3,951,834
Total long-term debt	<u>\$80,797,683</u>	<u>\$17,215,712</u>	<u>(\$23,494,986)</u>	<u>\$74,518,409</u>	<u>\$4,741,834</u>

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>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 6 – LONG-TERM DEBT (Continued)

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. On October 24, 2017, proceeds from the 2017 Wastewater Revenue Refunding Bonds (described below) were used to refund the Certificates of Participation.

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, 2018, 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>
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	4,345,086	1,033,870	5,378,956
2024-2028	23,340,627	3,554,153	26,894,780
2029-2031	15,392,201	744,666	16,136,867
Total	<u>\$59,463,471</u>	<u>\$10,462,958</u>	<u>\$69,926,429</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 6 – LONG-TERM DEBT (Continued)

D. 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. The refunding resulted in an economic gain of \$2,860,712. The following table summarizes the debt service maturity of the District for the bonds as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$790,000	\$670,500	\$1,460,500
2020	820,000	631,000	1,451,000
2021	850,000	590,000	1,440,000
2022	890,000	547,500	1,437,500
2023	920,000	503,000	1,423,000
2024-2028	5,305,000	1,779,000	7,084,000
2029-2031	3,835,000	389,500	4,224,500
Total	<u>\$13,410,000</u>	<u>\$5,110,500</u>	<u>\$18,520,500</u>

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE

The District follows the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-employment 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:

	<u>2018*</u>	<u>2017*</u>	<u>2016</u>
Active plan members	19	19	12
Retirees and beneficiaries receiving benefits	34	33	20
Total plan membership	<u>53</u>	<u>52</u>	<u>32</u>

*Beginning with FYE 2017, OPEB membership is restated to reflect GASB 75 requirements to include all eligible members (including active employees, retirees, and beneficiaries), and not just active employees and retirees (as in prior years).

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

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 2018 and 2017, this minimum amount was \$128 and \$120 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 employee's base monthly salary toward a Medical After Retirement Account (MARA) while employed.

C. Funding Policy

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 by making contributions to the Public Agencies Post-Employment Benefits Trust (see Note 7E for further details). The District determines the contributions annually based on the actuarial determined actuarial required contribution cost. The District contributes to this plan on a monthly basis.

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.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

D. Actuarial Assumptions

Net OPEB liability was measured as of June 30, 2018 and the total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions included (a) 4.85% investment rate of return, (b) 2.75% projected annual salary increase, (c) 2.50% inflation rate and (d) health care cost trend rate of 7.0% 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 liability is being amortized as a level percentage of projected payroll using a 20 year level dollar amortization period on a closed basis.

E. 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 6/30/18
Plan Type	Agent Multiple Employer
OPEB Trust	Yes
Special Funding Situation	No
Nonemployer Contributing Entity	No

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

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	<u>100%</u>	<u>2.75%</u>

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

Investment Rate of Return

For the year ended June 30, 2018, 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.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2018, were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	
Balance at June 30, 2017 (Valuation Date)	\$5,016,651	\$706,639	\$4,310,012
Changes Recognized for the Measurement Period:			
Service Cost	108,006		108,006
Interest on the total OPEB liability	256,099		256,099
Difference between expected and actual experience	1,787		1,787
Changes of assumptions	277,097		277,097
Contributions:			
Employer - District's contribution		\$382,482	(382,482)
Employer - implicit subsidy		74,262	(74,262)
Employee			
Net investment income		2,230	(2,230)
Benefit payments, including refunds of employee contributions	(226,479)	(226,479)	
Implicit rate subsidy fulfilled	(74,262)	(74,262)	
Net Changes during July 1, 2017 to June 30, 2018	342,248	158,233	184,015
Balance at June 30, 2018 (Measurement Date)	\$5,358,899	\$864,872	\$4,494,027

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions:

Measurement Date	June 30, 2018
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 2018
Inflation	2.50%
Assumed Rate of Payroll Growth	2.75%
Healthcare trend rates	7.00%, trending down to 3.84%
PEMHCA trend rate	3.00%
Rate of return on assets	4.85%
Mortality rate	CalPERS rates
Retirement rates	CalPERS rates
Other information	The ADC takes into account the implicit subsidy

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 4.85% as of June 30, 2018. 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 75, 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, 2018, calculated using the discount rate of 4.85%, 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:

Plan's Net OPEB Liability/(Asset)		
Discount Rate -1%	Current Discount	Discount Rate +1%
(3.85%)	Rate (4.85%)	(5.85%)
\$5,146,623	\$4,494,027	\$3,834,946

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:

Plan's Net OPEB Liability/(Asset)		
Discount Rate -1%	Healthcare Cost	Discount Rate +1%
Trend Rates (6.00	Trend Rates (7.00	Trend Rates (8.00
decreasing to 2.84%)	decreasing to 3.84%)	decreasing to 4.84%)
\$3,793,217	\$4,494,027	\$5,200,106

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$113,926. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$1,473	
Changes of assumptions	228,483	
Net difference between projected and actual earnings on OPEB plan investments	2,919	
Total	\$232,875	

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended June 30	Annual Amortization
2019	\$46,965
2020	46,965
2021	46,967
2022	57,734
Thereafter	34,244
	\$232,875

NOTE 8 – NET POSITION

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

	2018	2017
<i>Net investment in capital assets:</i>		
Capital assets - not being depreciated	\$8,635,264	\$7,094,184
Capital assets, net - being depreciated	163,802,122	168,974,625
SRF Loan Payable	(59,463,471)	(63,322,683)
Certificates of Participation	0	(17,475,000)
Wastewater Revenue Refunding Bonds	(15,054,938)	0
Unspent proceeds	20,745	1,694,033
Total net investment in capital assets	97,939,722	96,965,159
<i>Restricted net position:</i>		
Pension trust	745,826	0
Total restricted net position	745,826	0
<i>Unrestricted net position:</i>		
Non-spendable net position:		
Prepaid expenses and deposits	87,448	74,191
Total non-spendable net position	87,448	74,191
Spendable net position:		
Undesignated net position reserve	14,259,966	14,757,970
Total spendable net position	14,259,966	14,757,970
Total unrestricted net position	14,347,414	14,832,161
Total net position	\$113,032,962	\$111,797,320

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

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, 2018 and 2017 amounted to \$3,272,081 and \$3,301,319, 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.

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, 2018 and 2017 amounted to \$896,258 and \$967,798, 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 (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 District. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA, 95814.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

NOTE 10 – PENSION PLANS

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.

The Plan provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>Miscellaneous Tier I</u>
	<u>Prior to January 1, 2012</u>
Hire date	
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	8.880%

	<u>Miscellaneous Tier II</u>
	<u>Between January 1, 2012 through December 31, 2012</u>
Hire date	
Benefit formula	2% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.1% to 2.42%
Required employee contribution rates	7.00%
Required employer contribution rates	7.159%

	<u>Miscellaneous Tier III</u>
	<u>On or after January 1, 2013</u>
Hire date	
Benefit formula	2% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.0% to 2.5%
Required employee contribution rates	6.25%
Required employer contribution rates	6.555%

**NOVATO SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Years Ended June 30, 2018 and 2017**

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 the Pension Plan 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 2018, CalPERS collects employer contributions for the Pension 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 2018.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions - employer	\$327,385
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B. *Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

As of June 30, 2018, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share
	of Net Pension Liability
Total Net Pension Liability	\$5,544,711

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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, 2017, 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, 2016 rolled forward to June 30, 2017 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 the Pension Plan as of June 30, 2016 and 2017 was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.13685%
Proportion - June 30, 2017	0.14066%
Change - Increase (Decrease)	0.00381%

For the year ended June 30, 2018, the District recognized pension expense of \$458,943. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$327,385	
Differences between actual and expected experience	7,378	(\$105,709)
Changes in assumptions	915,487	(69,807)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	117,552	(280,767)
Net differences between projected and actual earnings on plan investments	207,045	
Adjustments due to differences in proportion		(418,323)
Total	\$1,574,847	(\$874,606)

The \$327,385 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, 2019. 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	Annual Amortization
2019	(\$153,303)
2020	418,047
2021	231,039
2022	(122,927)

**NOVATO SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Years Ended June 30, 2018 and 2017**

NOTE 10 – PENSION PLANS (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Tier I, II, and III
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
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, 2016 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 be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Pension 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 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% 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, 2018 and 2017

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	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
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 the Pension Plan, calculated using the discount rate for the 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	6.15%
Net Pension Liability	\$8,562,416
Current Discount Rate	7.15%
Net Pension Liability	\$5,544,711
1% Increase	8.15%
Net Pension Liability	\$3,045,393

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017**

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, 2018, 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, 2018, the District had a balance of \$745,826 in 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, 2018, 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, 2018 and 2017

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, 2018, 2017 and 2016. 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, 2018, 2017 and 2016.

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, 2018 and 2017 was \$710,000 and \$830,000, 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 \$1,518,485 of open construction contracts as of June 30, 2018.

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.

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Required Supplementary Information

NOVATO SANITARY DISTRICT
 Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 As of fiscal year ending June 30, 2018
 Last 10 Years *

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

Measurement Date:	District Miscellaneous Plan			
	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Plan's proportion of the Net Pension Liability (Asset)	0.13498%	0.12861%	0.13685%	0.14066%
Plan's proportion share of the Net Pension Liability (Asset)	\$3,335,896	\$3,528,248	\$4,753,977	\$5,544,711
Plan's Covered Employee Payroll	1,882,361	1,426,443	1,721,479	1,974,484
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	177.22%	247.35%	276.16%	284.71%
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%	74.73%
Plan's Proportionate Share of Aggregate Employer Contributions	441,326	551,726	578,932	620,318

*Note: Fiscal year 2015 was the first year presented and therefore, only 4 years are shown.

NOVATO SANITARY DISTRICT
Cost-Sharing Multiple Employer Defined Benefit Pension Plan
 As of fiscal year ending June 30, 2018
 Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

Fiscal Year	District Miscellaneous Plan			
	2015	2016	2017	2018
Actuarially determined contribution	\$197,269	\$173,410	\$281,175	\$323,786
Contributions in relation to the actuarially determined contributions	(197,269)	(208,489)	(301,285)	(323,786)
Contribution deficiency (excess)	\$0	(\$35,079)	(\$20,110)	\$0
Covered payroll	\$1,882,361	\$1,426,443	\$1,721,479	\$1,947,484
Contributions as a percentage of covered-employee payroll	10.48%	12.16%	16.33%	16.63%

Notes to Schedule

Valuation date: 6/30/2016

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

*Note: Fiscal year 2015 was the first year presented and therefore, only 4 years are shown.

**Novato Sanitary District
Schedule of Changes in Net OPEB Liability**

Last Ten Fiscal Years *

Other Post-Employment Benefits (OPEB) - Agent-Multiple Employer Plan

Measurement period	2017	2018
Total OPEB liability		
Service cost	\$104,860	\$108,006
Interest	251,406	256,099
Changes in benefit terms	-	-
Differences between expected and actual experience	-	(21,960)
Changes of assumptions	-	277,245
Benefit payments	(187,852)	(277,142)
Implicit rate subsidy fulfilled	(68,761)	-
Net change in total OPEB liability	99,653	342,248
Total OPEB liability - beginning	4,916,998	5,016,651
Total OPEB liability - ending (a)	<u>\$5,016,651</u>	<u>\$5,358,899</u>
OPEB fiduciary net position		
Net investment income	\$6,933	\$2,230
Contributions:		
Employer - contribution to PARS Trust	887,852	382,482
Employer - contribution to PARS Trust	68,761	74,262
Benefit payments from PARS Trust	(187,852)	(226,479)
Implicit rate subsidy fulfilled	(68,761)	(74,262)
Administrative expense	(294)	
Net change in plan fiduciary net position	706,639	158,233
Plan fiduciary net position - beginning	-	706,639
Plan fiduciary net position - ending (b)	706,639	864,872
Plan net OPEB liability - ending (a) - (b)	<u>\$4,310,012</u>	<u>\$4,494,027</u>
Plan fiduciary net position as a percentage of the total OPEB liability	14.09%	16.14%
Covered-employee payroll	\$1,933,573	\$1,991,580
District's total OPEB liability as a percentage of covered-employee payroll	<u>259.45%</u>	<u>269.08%</u>

* June 30, 2017 was the first year of implementation for GASB 74.

* June 30, 2018 was the first year of implementation for GASB 75.

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

	2016-17	2017-2018
Actuarially determined contribution	\$411,241	\$401,663
Contributions in relation to the actuarially determined contribution	956,613	456,744
Contribution deficiency (excess)	(\$545,372)	(\$55,081)
Covered-employee payroll	\$1,991,580	\$2,046,348
Contributions as a percentage of covered-employee payroll	48.03%	22.32%

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

The June 30, 2018 actuarial valuation provided the Actuarially Determined Contributions for fiscal years ending 06/30/18.

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	2.75%
Healthcare trend rate	7.00%, trending down to 3.84%
PEMHCA trend rate	3.00%
Rate of return on assets	4.85%
Mortality rate	CalPERS Rates
Retirement rates	CalPERS Rates
Other information	The ADC takes into account the implicit subsidy

* June 20, 2017 was the first year of implementation

Novato Sanitary District
SCHEDULE OF INVESTMENT RETURNS
Last Ten Fiscal Years *
Other Post-Employment Benefits (OPEB) - Agent-Multiple Employer Plan

	2017	2018
Annual money-weighted rate of return, net of investment expense	4.00%	0.28%

* June 20, 2017 was the first year of implementation

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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

	<u>Page No.</u>
Financial Trends	57-59
These schedules contain information to help the reader understand how the District's Financial performance and well-being have changed over time.	
Revenue Capacity	60-66
These schedules contain information to help the reader assess the District's most significant own-source revenue, sewer service charges.	
Debt Capacity	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.	
Demographic Information	69
This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	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.	

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

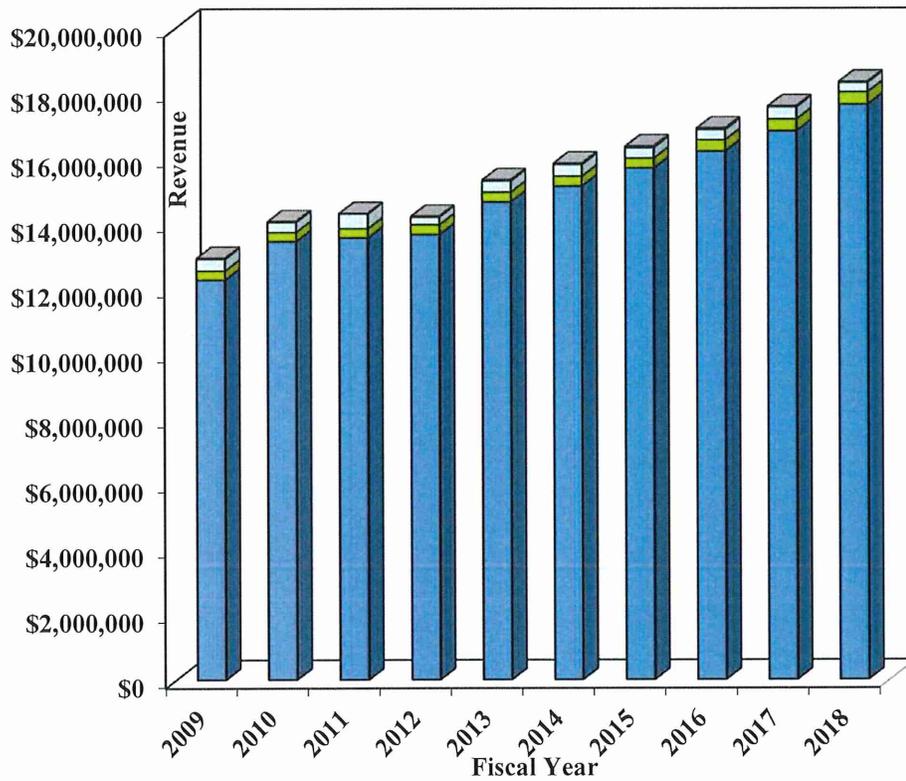
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Changes in net position:					Restated					
Operating revenues (see Schedule 2)	\$12,948,148	\$14,071,716	\$14,316,441	\$14,225,362	\$15,341,561	\$15,849,099	\$16,372,320	\$16,919,629	\$17,596,116	\$18,344,975
Operating expenses (see Schedule 3)	(7,685,390)	(9,654,452)	(8,464,043)	(9,766,764)	(8,103,790)	(8,322,651)	(7,894,306)	(8,392,467)	(9,173,987)	(9,131,926)
Depreciation and amortization	(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)	(5,793,254)
Operating income(loss)	3,035,131	2,128,372	3,545,848	1,219,883	2,635,418	2,434,093	3,276,563	2,865,240	2,678,018	3,419,795
Non-operating revenues(expenses)										
Property taxes	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	2,360,251
Interest	702,002	196,303	30,387	37,129	67,050	45,673	43,117	71,592	136,595	312,886
Interest expense	(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)	(2,178,527)
Special Equalization Charges(Note 1)	-	-	-	-	-	-	-	-	-	-
Franchise fees/Rental Income	127,517	45,000	95,000	26,099	113,416	127,708	142,597	152,589	146,924	132,090
Deferred Charges Amortization	(18,689)	(18,689)	(16,744)	(10,564)	-	-	-	-	-	-
Gain/(Loss) on sale/disposition of assets	(83,842)	(909,553)	(6,634,450)	(367,095)	2,529	(3,502,140)	13,364	-	1,627	(34,250)
Other revenue/(expense), net	(2,022)	(17,644)	42,623	229,306	(339,663)	(270,260)	(135,556)	(82,683)	40,461	(211,515)
Total non-operating revenues(expenses), net	1,350,903	(50,414)	(4,918,763)	(958,982)	(1,072,984)	(4,336,005)	(504,427)	(153,780)	292,961	380,935
Net income before capital contributions	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	3,800,730
Connection Fees	647,101	1,277,790	174,631	880,541	146,949	343,773	291,565	223,240	227,567	234,495
Capital contributions	395,702	446,867	101,818	5,732	-	202,530	250,725	13,400	200	133,035
Capital Grant	-	-	221,689	1,433,561	-	16,250	-	-	51,069	257,183
Prior Year restatement(GASB 65)	-	-	-	(64,004)	-	-	-	-	-	-
Changes in net position	\$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	\$4,425,443
Net position by component:										
Prior Year adjustment	\$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	97,939,722
Net Investment in capital assets	-	-	-	(\$64,004)	(\$6,774,168)	-	-	-	-	(\$3,189,801)
Restricted	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	17,537,215
Unrestricted	\$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	\$113,032,962

Note 1: Special equalization charges reclassified to other operating revenue.

Source: Novato Sanitary District Accounting Department

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

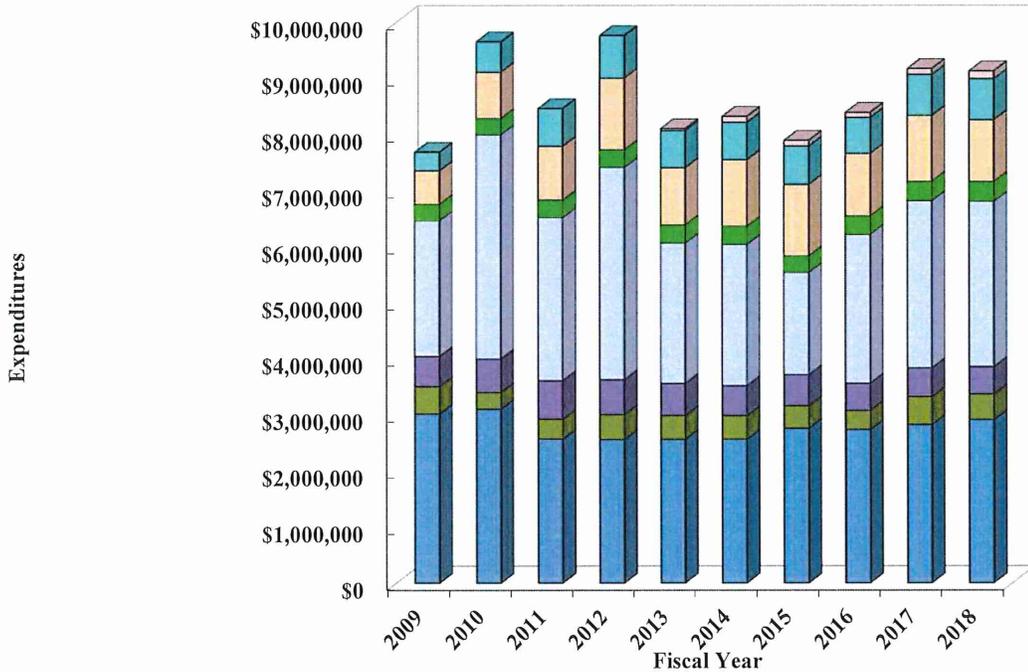
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2009	\$12,286,426	\$27,408	\$271,862	\$362,452	\$12,948,148
2010	13,462,437	23,163	277,299	308,817	14,071,716
2011	13,570,839	9,532	280,493	455,577	14,316,441
2012	13,671,131	21,441	297,586	235,204	14,225,362
2013	14,670,826	34,505	297,586	338,644	15,341,561
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
2018	17,655,740	27,141	376,426	285,669	18,344,975



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
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
2018	1,103,000	2,909,669	456,136	487,971	735,079	138,238	350,937	2,950,896	9,131,926



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**

Fiscal Year	Assessed Value	Percent Change
2009	\$9,580,325,664	
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%
2018	11,848,414,738	-0.01%

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	
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%
2018	2,363,323	5,987	2,357,336	2,363,323	5,987	2,357,336	99.75%

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

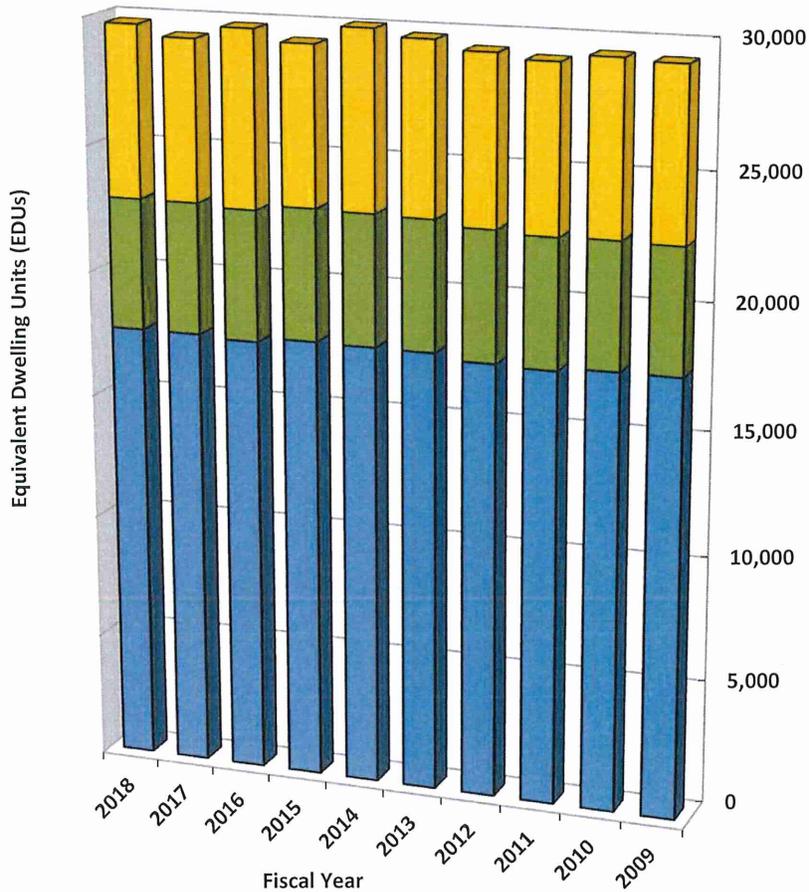
**Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years
Schedule 6**

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Current Taxes	Prior Year Tax Collections,	Percent of Current Taxes	Net Collections
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
2018	2,357,336	2,357,336	100.0%	5,987	0.3%	2,363,323

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⁽¹⁾
Last Ten Fiscal Years⁽²⁾
Schedule 7

Fiscal Year	Single Family Residential	Multi family Residential (3)	Commercial	Total
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
2018	17,656.80	5,219.00	6,824.43	29,700.23



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**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Rate per EDU per year (1)	\$ 462	\$ 462	\$ 462	\$ 462	\$ 493	\$ 512	\$ 531	\$ 552	\$ 573	\$ 594
Rate per EDU per month	\$ 38.50	\$ 38.50	\$ 38.50	\$ 38.50	\$ 41.08	\$ 42.67	\$ 44.25	\$ 46.00	\$ 47.75	\$ 49.50

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	\$ 0.25
Office	\$ 0.25
Retail	\$ 0.25
Public office	\$ 0.25
School classrooms/administration	\$ 0.25
Churches	\$ 0.25
Meeting halls with kitchens	\$ 0.25
Auto service stations	\$ 0.25
Supermarkets	\$ 0.25
Auditoriums theaters	\$ 0.25
Gymnasiums w/showers	\$ 0.25
Hotels/motels	\$ 0.25
Mortuary	\$ 0.25
Medical offices	\$ 0.32
Veterinary offices	\$ 0.32
Dental offices	\$ 0.32
Hospitals	\$ 0.32
Cafeteria/dining area	\$ 0.48
Restaurants/cafes	\$ 0.48
Bakeries	\$ 0.48
Ice Cream/yogurt shops	\$ 0.48
Delicatessens	\$ 0.48
Laundry and Laundromats	\$ 0.73
Warehouse or Storage not live/work	0.00

Notes:
'(1) Rates as of July 1 of each year
'(2) Rates as of July 1, 2017

Source: Novato Sanitary District Technical Services Department

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

Customer	2018		2009	
	EDU's	Percentage of Total	EDU's	Percentage of Total
BioMarin Pharmaceutical	415.85	1.40%	113.99	0.39%
Novato Unified School District	389.00	1.31%	448.26	1.53%
Fireman's Fund	352.09	1.19%	380.55	1.30%
Vintage Oaks Shopping Center (not including Costco or Target)	248.29	0.84%	270.20	0.92%
Hamilton Hangars (3-10)	170.28	0.57%	155.03	0.53%
Sutter Health	157.70	0.53%	56.29	0.19%
Nave Merchant Assoc	127.81	0.43%	109.09	0.37%
Buck Institute	104.36	0.35%	60.60	0.21%
Novato Fair Shopping Center	95.53	0.32%	96.96	0.33%
City Of Novato	93.50	0.31%	69.92	0.24%
Total EDUs: Principal customers	2,154.41	7.26%	1,760.89	6.00%
Total Equivalent Dwelling Units (EDUs)	29,700.23	100.00%	29,287.76	100.00%

Source: Novato Sanitary District Technical Services Department

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

Fiscal Year	Net Revenues	Operating Expenses ^{(1),(3)}	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
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
2018	21,271,967	(9,131,926)	12,140,041	4,804,212	2,178,527	6,982,739	1.739

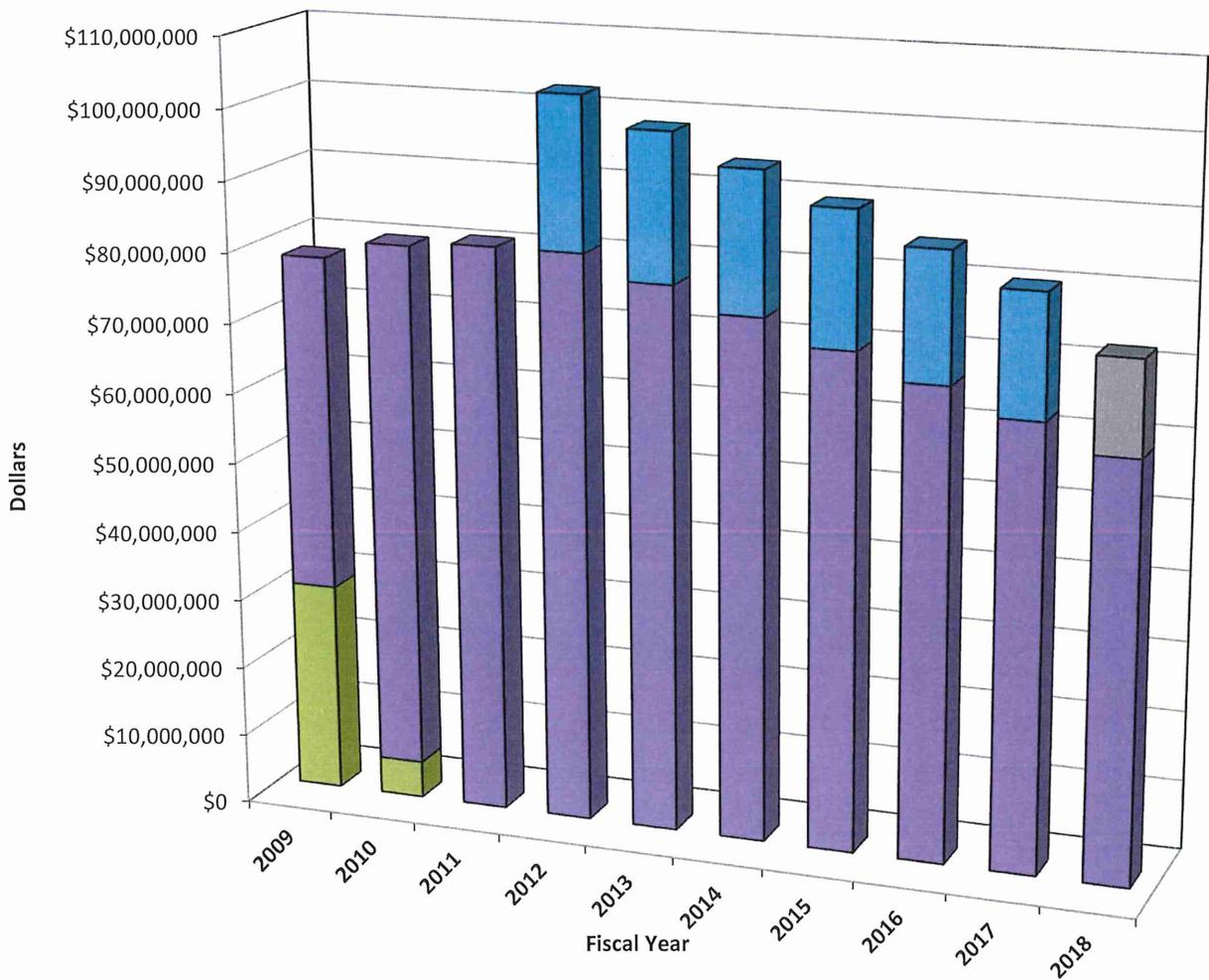
Notes:

- (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

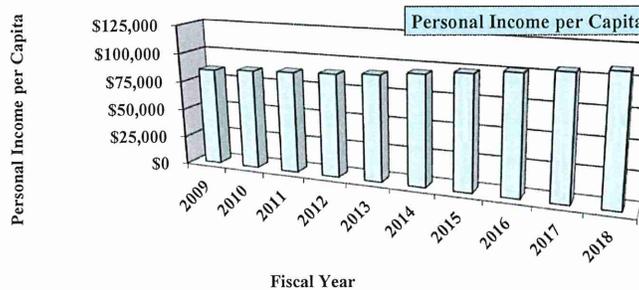
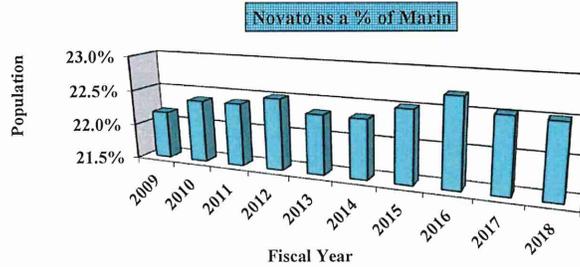
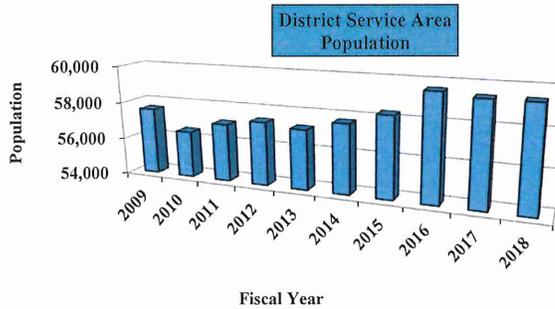
Fiscal Year	Credit Line	SRF Loan Payable	Certificates of Participation Bond Payable	Wastewater Revenue Bond Payable	Total		
					Debt	Per Capita	As a Share of Personal Income
2009	\$30,006,231	\$47,989,587			\$77,995,818	\$1,354.09	1.59%
2010	5,233,207	75,348,207			80,581,414	1,426.22	1.64%
2011		81,329,083			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	1.34%
2018		59,463,471		\$13,410,000	72,873,471	1,226.83	1.14%



Source: Novato Sanitary District Accounting Department

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

Year	District Service Area Population (1)	Novato as a % of Marin	County of Marin ⁽²⁾			
			Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
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%	3.0%	263,604	27,665,767	104,952
2018	59,400	22.5%	2.5%	263,886	28,512,618	108,049



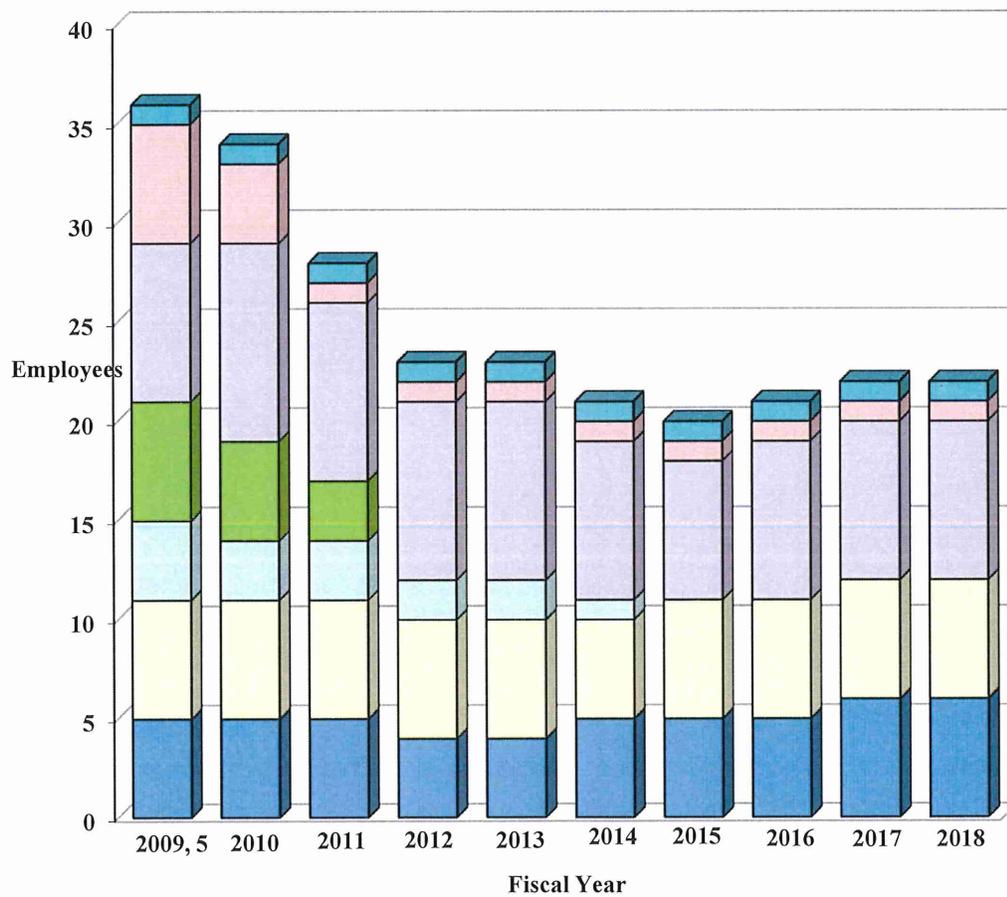
Notes:

- (1) Approximate values, as demographic data specific to the District's service area is not available.
- (2) Annual economic data specific to the District's service area is not available. However, it is available for Marin County as a whole from the below sources and may be considered as being broadly applicable to the District's service area.

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 and Bureau of Labor Statistics

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

Employees										
Department	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Administration	5	5	5	4	4	5	5	5	6	6
Engineering	6	6	6	6	6	5	6	6	6	6
Lab Services	4	3	3	2	2	1	0	0	0	0
Operations	6	5	3	0	0	0	0	0	0	0
Collections	8	10	9	9	9	8	7	8	8	8
Maintenance	6	4	1	1	1	1	1	1	1	1
Safety	1	1	1	1	1	1	1	1	1	1
Total	36	34	28	23	23	21	20	21	22	22



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	Annual Average Flow (1)	Permitted Capacity(MGD)	Total Annual Treatment (MG) (1)
2009	225	42	4.89	6.55	1,785
2010	226	42	5.35	7.00	1,789
2011	226	42	5.70	7.00	2,069
2012	226	42	4.67	7.00	1,709
2013	264	42	4.89	7.00	1,788
2014	264	42	4.12	7.00	1,501
2015	264	42	4.46	7.00	1,628
2016	264	42	4.34	7.00	1,589
2017	264	42	5.93	7.00	2,150
2018	264	42	4.27	7.00	1,559

Notes:

N/A - Data not available for these years

MG - Millions of Gallons

MGD - Millions of Gallons per Day

(1) Fiscal year basis.

(2) Approximate values; primarily sewers.

Source: Novato Sanitary District Operations and Accounting Departments.