

Novato Sanitary District
Novato, California



Annual Comprehensive Financial Report

For the Fiscal Years Ended
June 30, 2021
&
June 30, 2020

**NOVATO SANITARY DISTRICT, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**NOVATO SANITARY DISTRICT
500 Davidson Street
Novato, California 94945
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Prepared by:

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

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NOVATO SANITARY DISTRICT
Annual Comprehensive Financial Report
For the Years Ended June 30, 2021 and 2020

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Introductory Section

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December 13, 2021

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 Annual Comprehensive Financial Report (ACFR) of the Novato Sanitary District (District) for fiscal year ended June 30, 2021 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) require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A 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, 2021 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, 2021 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 sewered areas of the City of Novato as well as developed areas outside the city limits. The District's sewered 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 solid waste franchise.

Governance

The affairs of the District are directed by a five-member Board of Directors, with each Director elected by registered voters in each of the five (5) electoral Divisions of the District. The Directors are residents of the electoral Division they represent 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 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 statement of the Novato Sanitary District is:

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

The District's long-term vision statement is:

"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. The ongoing COVID-19 pandemic is obviously a large factor in any discussion of financial conditions and is discussed separately later in this section.

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. Sewer Service Charges (SSCs) are the major portion of the District's operating revenues (generally at about 84% of total revenues). In general, the District's operating revenues (including SSC revenue) tend to increase in periods of economic growth and moderate 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. However, the last 15 years or so have seen slow growth in residential connections and a corresponding decrease in capacity fees as a proportion of revenues. It is anticipated that capacity fee revenues will continue to grow slowly as the District approaches build out, absent significant densification or zoning changes.

Property taxes accounted for approximately 10.6% and 10.8% of the District's total revenue (including capital contributions) respectively for FYE 2020 and 2021. 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 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).

In FYE 2019, the District refinanced its 2011 State Revolving Fund (SRF) loan with debt service through 2031 and carried at an interest rate of 2.41%, with the 2019 Revenue Refunding Bonds with debt service through 2031 at an effective interest rate of 1.41%, and a resulting savings of about \$3.2 million. A side benefit of these two successful refinancing efforts was that the District has achieved a "AAA" credit rating from S&P Global Ratings, which is the highest possible rating awarded by the credit rating agency.

In October 2020, the District refinanced its CalPERS Net Pension Liability (NPL) of about \$6,467,000 (as of June 30, 2020) and carried at an interest rate of 7%, with the 2020 Taxable Revenue Refunding Loan at an all-inclusive interest rate of about 2.81%, for a resulting savings of about \$3.88 million through 2039.

Impact of COVID-19

Finances: For FYE 2021, the District's finances remained relatively unaffected from the COVID-19 pandemic. Subsequent to FYE 2020, the District Board enacted the District's Low-Income Sewer Rate Assistance Program (LISRAP) for residential customers. To meet Proposition 218 and state constitutional requirements, the LISRAP program is funded through the District's property tax revenues.

Going forward, it is anticipated there may be mild-to-moderate financial impacts to the District's finances depending on how COVID-19 continues to impact the local economy. As mentioned earlier, sewer service charges and property taxes constitute the majority of the District's revenues. Since these revenues are received twice/year (in December and April) after collection on the County of Marin tax rolls, any impacts will become clearer after about January 2022, and will be addressed as needed in future budget review and financial planning efforts.

Operations: The District successfully adjusted its operations into 2021 to reflect COVID-19 impacts consistent with guidance/requirements provided by local, state, and federal health authorities, ranging from adopting enhanced safety protocols to modifying work schedules in order to minimize potential COVID-19 impacts. Going forward, the District will continue to monitor the COVID-19 situation and respond appropriately to continuing guidance/requirements issued by local, state, and federal health authorities.

RELEVANT FINANCIAL POLICIES

Reserves Policy

The District's Reserves Policy (Policy No. 3500) anticipates and accounts for the fact that not all operating and capital expenses can be precisely forecast. The covenants of the 2017 Refunding Bonds and the 2019 Refinancing Bonds do not mandate the maintenance of reserve amounts for repayment of the bonds. However, the District will continue to maintain and fund the Wastewater Capital Reserve Fund previously mandated by covenants of the SRF loan, as a matter of financial prudence and reflective of its proactive asset management and replacement practices.

The District's major revenue sources, on an annualized basis over the last ten years, are its Sewer Service Charges (SCCs) (about 84%), and property taxes (about 11%), which are collected on the County tax rolls. Accordingly, the District's Policy No. 3510 sets 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, and to account for the fact that the District receives about 55% of its revenues in December and 45% in April each year, consistent with the County's tax collection process.

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 Note 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

Over the last decade, the District has initiated several major projects to upgrade infrastructure and ensure the adequacy of its facilities. Given the District's mission, and the nature of its business, these projects have long durations and life cycles, as reflected in the below discussion.

- 1) The District completed a major upgrade to its wastewater treatment facilities in 2011 and other needed 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. As noted earlier, this SRF loan was recently refinanced on favorable terms to the District.

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 transfer pump station and conveyance pipeline replaced the old Ignacio plant, and transmits flow from the former Ignacio plant's tributary area to the Novato Plant for treatment and disposal.

Upgrades at the Novato plant included efficient treatment processes that comply with current standards, re-use of 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.

In recent years, given the relative newness of the facility, the District's focus has been on maintaining its systems and structures, while implementing incremental improvements to maintain its long term viability.

- 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.

However, with about 250 miles of sewer pipelines, over 6,000 manholes, 39 wastewater pump stations, plus other critical facilities, many of which are 50 or 60 years old, there is more work to do. Design and construction are ongoing and are expected to continue for the foreseeable future. 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) was finalized in FYE 2020, to provide updated guidance for future sewer and pump station system upgrades and improvements, and the District continues to implement projects to implement them.

- 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. In FYE 2021 the District contributed \$44,000 for the replacement of twenty-two 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 and an increase in the nominal capacity to 2.55 MGD. The project was completed in February 2019. Again, twenty-five percent of the expansion cost was covered by a USBR grant through the NBWRA program. The expanded RWF supports NMWD's recycled water system expansion to its central and south Novato service areas, including the golf course at the Marin Country 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 transitioned its solid waste franchise from its long-term franchisee Novato Disposal Service (NDS) to Recology, Inc., a San Francisco based solid waste management company, and specifically its Recology Sonoma Marin (RSM) subsidiary. RSM assumed the duties and responsibilities of the franchise in the District's service area in December 2017 and continued to provide services through 2021, including collaboration on the ongoing Zero Waste Program element of the franchise 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 has a number of collaborative or mutual aid agreements in place with other local agencies across different areas of expertise, some of which are discussed below:

Safety: The District shares a single full-time safety professional with the Central Marin Sanitation Agency (CMSA). In addition, a portion of the District's Administrative/Risk Services/Safety Officer's time is allocated between the two agencies to provide functional supervision to the shared safety professional position.

Laboratory: The District and North Marin Water District (NMWD) also have an Agreement to share highly skilled laboratory staff.

Mutual Aid: The District is a signatory to a mutual aid agreement among the wastewater treatment agencies in the County, whereby the agencies can appropriately assist each other with staffing and equipment.

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 Benefits from Collaborative Recycled Water Program. By working collaboratively with NMWD, NBWRA, and other neighboring and regional agencies, the District has previously obtained almost \$3 million, and will continue to pursue additional federal and state grant funding to expand recycled water use in Novato, on an as-needed basis.

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, Jean Mariani and William Long, and the District's Board of Directors, for their continued support in the planning and implementation of the District's fiscal policies.

Respectfully submitted,



Sandeep Karkal, P.E.

General Manager-Chief Engineer

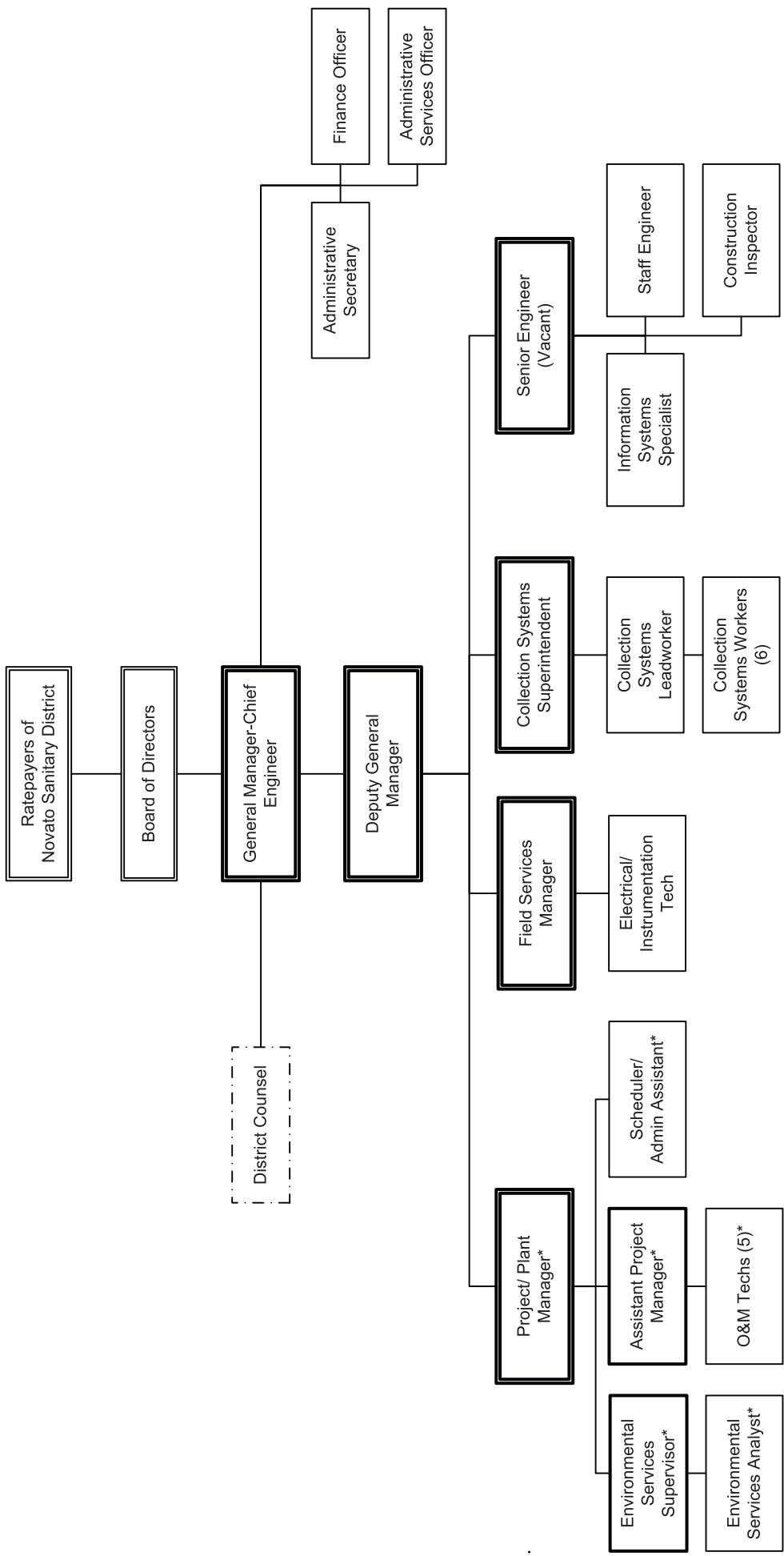
Leaders in Protecting the Environment

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, 2021

Name	Title	Elected/ Appointed	First Seated on Board	Current Term *
Carole Dillon-Knutson	President	Elected	12/2015	12/18-11/22
William C. Long	Director	Elected	12/2001	12/18-11/22
Timothy Fvette	Director	Elected	7/2019	11/20-11/22
Jean Mariani	Director	Elected	5/2011	11/20-11/24
A. Gerald Peters	Director	Elected	12/2011	11/20-11/24

Sandeep Karkal, P.E.
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* denotes Veolia Water staff



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**Novato Sanitary District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

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 of Novato Sanitary District (District), California, as of and for the years ended June 30, 2021 and 2020, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2021 and 2020, and changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

Management adopted the provisions of the following Governmental Accounting Standards Board Statement, which became effective during the year ended June 30, 2021 and had material effects on the financial statements as discussed in Note 1P to the financial statements:

Statement No. 84 – *Fiduciary Activities*

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

Other Matters

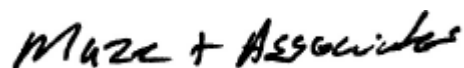
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Pleasant Hill, California
December 13, 2021



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 years ended June 30, 2021 and June 30, 2020. 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 2021, the District's net position increased 5.4% or \$6,720,283 to \$131,865,907. In 2020, the District's net position increased 4.7% or \$5,591,266 to \$125,145,624.
- In 2021, the District operating revenues increased 2.9% or \$581,199 primarily from a Sewer Service Charge (SSC) increase of approximately 3.3%. In 2020, the District operating revenues increased 4.0% or \$764,842 primarily from a Sewer Service Charge (SSC) increase of approximately 3.4%. Both rate increases are part of a five-year series of SCC increases initially adopted by District Resolution No. 120 (effective July 1, 2016) and approved by the District Board each subsequent year.
- In 2021, the District paid off its unfunded accrued liability with CalPERS. In October 2020, the District refinanced its Net Pension Liability (NPL), replacing the CalPERS 7% interest rate on this NPL debt with the 2020 Taxable Revenue Refunding Loan at an all-inclusive interest rate of about 2.81%, for a resulting savings of about \$3.88 million through 2039.
- The major event of 2021 is undoubtedly the continuing COVID-19 pandemic. While the District's operating activities were significantly impacted by COVID-19, its finances remained relatively unaffected (at least through Fiscal Year Ending (FYE) 2021). However, it is anticipated that COVID-19 may have a lagging effect on the District's finances. Given the District's collection of the majority of its revenues on the County tax rolls, these impacts will be clearer after about January 2022, and will be addressed as needed in future budget review and financial planning efforts. More discussion is provided herein in the section titled "Impact of COVID-19".

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 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 46.

Condensed Statements of Net Position

	2021	2020	Change	2019	Change
Assets:					
Current assets	\$ 39,765,604	\$ 33,871,350	5,894,254	\$ 30,086,371	3,784,979
Capital assets, net	164,141,926	167,722,819	(3,580,893)	169,827,409	(2,104,590)
Total assets	203,907,530	201,594,169	2,313,361	199,913,780	1,680,389
Deferred Outflow of Resources (Note 7&10)	8,297,935	1,680,904	6,617,031	1,852,264	(171,360)
Liabilities:					
Current liabilities	7,648,449	6,759,280	889,169	7,096,340	(337,060)
Non-current liabilities	71,132,932	69,942,386	1,190,546	73,495,699	(3,553,313)
Total liabilities	78,781,381	76,701,666	2,079,715	80,592,039	(3,890,373)
Deferred Inflows of Resources (Note 7&10)	1,558,177	1,427,783	130,394	1,619,647	(191,864)
Net Position (Note 8)					
Net investment in capital assets	104,218,071	103,012,579	1,205,492	100,177,367	2,835,212
Restricted	2,284,858	1,788,976	495,882	1,311,222	477,754
Unrestricted	25,362,978	20,344,069	5,018,909	18,065,769	2,278,300
Total net position	131,865,907	125,145,624	6,720,283	119,554,358	5,591,266

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 \$131,865,907 and \$125,145,624 as of June 30, 2021 and June 30, 2020, respectively.

By far the largest portion of the District's net position (79% and 83% as of June 30, 2021 and June 30, 2020, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2021 and 2020, the District showed a positive balance in its unrestricted net position of \$25,362,978 and \$20,344,069 respectively, which may be utilized in future years, (see Note 8 for further discussion).

Statement of Revenues, Expenses and Changes in Net Position

	2021	2020	Change	2019	Change
Revenues:					
Operating revenues	\$ 20,637,247	20,056,048	581,199	19,291,206	764,842
Non-operating revenues	3,073,327	3,247,090	(173,763)	3,327,763	(80,673)
Total revenues	23,710,574	23,303,138	407,436	22,618,969	684,169
Expenses:					
Operating expenses	9,881,753	10,221,539	(339,786)	8,457,722	1,763,817
Depreciation and amortization	6,314,427	6,119,229	195,198	5,917,189	202,040
Non-operating expenses	2,435,482	2,482,928	(47,446)	2,140,256	342,672
Total expenses	18,631,662	18,823,696	(192,034)	16,515,167	2,308,529
Net income before capital contributions	5,078,912	4,479,442	599,470	6,103,802	(1,624,360)
Capital contributions	1,641,371	1,111,824	529,547	417,594	694,230
Change in net position	6,720,283	5,591,266	1,129,017	6,521,396	(930,130)
Net position, beginning of year	125,145,624	119,554,358	5,591,266	113,032,962	6,521,396
Net position, end of year	\$ 131,865,907	125,145,624	6,720,283	119,554,358	5,591,266

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 2021, the District's total revenues increased by 1.8% or \$407,436. A significant portion of the increase resulted from the District's sewer service charge (SSC) revenues, which increased 2.8% or \$526,612 over the prior year, due to an approved SSC increase of 3.3%. As noted earlier, this SSC increase was part of a five-year series of SSC increases initially adopted by District Resolution No. 120 (effective July 1, 2016).
- In 2021, the District's total expenses decreased by 1% or \$192,034. In 2020, the District's total expenses increased by 13.9% or \$2,308,529. A significant portion of the increase is attributable to an accrual basis increase in pension expense resulting from a combination of cash contributions to CalPERS, and changes made by CalPERS to the District's actuarially derived CalPERS Net Pension Liability (NPL).
- In 2021, the District's net position increased by 5.4% or \$6,720,283. In 2020, the District's net position increased by 4.7% or \$5,591,266. The increases are due to a combination of an increase in overall revenues of 1.8%, an increase in capital contributions of 47.6% and the District's overall budget management throughout the fiscal year.

Operating and Non-Operating Revenues

		2021	2020	Change	2019	Change
Operating revenues:						
	Sewer service charges	\$ 19,637,938	\$ 19,111,326	526,612	\$ 18,509,333	601,993
	Other service charges	206,659	233,963	(27,304)	84,111	149,852
	Permit, inspection and other fees	88,715	41,583	47,132	55,607	(14,024)
	Recycled water facility	251,632	234,916	16,716	241,383	(6,467)
	AB939 – solid waste programs	452,303	434,260	18,043	400,772	33,488
	Total operating revenues	20,637,247	20,056,048	581,199	19,291,206	764,842
Non-operating revenue:						
	Property taxes	2,704,092	2,580,039	124,053	2,502,875	77,164
	Franchise fees	59,613	60,113	(500)	56,515	3,598
	Rental revenue	38,071	(24,429)	62,500	29,339	(53,768)
	Interest earnings	289,394	640,601	(351,207)	629,461	11,140
	Gain/(Loss) on sale/disposition of assets	(17,843)	(9,234)	(8,609)	(40,576)	31,342
	Grant revenue	-	-	-	150,149	(150,149)
	Total non-operating revenues	3,073,327	3,247,090	(173,763)	3,327,763	(80,673)
	Total revenues	\$ 23,710,574	23,303,138	407,436	22,618,969	684,169

In summary, total revenues increased by \$407,436 and by \$684,169 in fiscal years 2021 and 2020, respectively.

Operating and Non-Operating Expenses

		2021	2020	Change	2019	Change
Operating expenses:						
	Collection system	\$ 1,193,727	\$ 1,097,245	96,482	\$ 1,077,449	19,796
	Treatment plant	3,046,983	2,998,835	48,148	2,957,149	41,686
	Wastewater reclamation and disposal	476,033	442,917	33,116	458,191	(15,274)
	Laboratory and monitoring	543,942	554,456	(10,514)	543,373	11,083
	Pump Stations	787,008	723,498	63,510	715,265	8,233
	Recycled water facility	251,633	234,916	16,717	241,382	(6,466)
	AB939 – solid waste programs	382,985	318,882	64,103	332,294	(13,412)
	Administrative and engineering	2,092,253	2,022,473	69,780	1,407,194	615,279
	Non-Departmental	408,760	406,421	2,339	367,791	38,630
	OPEB Expense	(222,833)	280,715	(503,548)	106,971	173,744
	Pension Expense	921,262	1,141,181	(219,919)	250,663	890,518
	Total operating expenses	9,881,753	10,221,539	(339,786)	8,457,722	1,763,817
	Depreciation expense	6,314,427	6,119,229	195,198	5,917,189	202,040
Non-operating expenses:						
	Interest expense	1,878,218	2,051,555	(173,337)	1,907,209	144,346
	Other non-operating expenses	557,264	431,373	125,891	233,047	198,326
	Total non-operating expenses	2,435,482	2,482,928	(47,446)	2,140,256	342,672
	Total expenses	\$ 18,631,662	18,823,696	(192,034)	16,515,167	2,308,529

In summary, total expenses decreased by \$192,034 and increased by \$2,308,529 in fiscal years 2021 and 2020, respectively.

Capital Asset Administration

Changes in capital assets amounts for 2021 were as follows:				
	Balance		Transfers/	Balance
	2020	Additions	Deletions	2021
Capital assets:				
	Non-depreciable assets	\$ 7,592,934	1,920,433	(659,795) 8,853,572
	Depreciable assets	249,686,998	1,490,739	(162,269) 251,015,468
	Accumulated depreciation	(89,557,113)	(6,314,427)	144,426 (95,727,114)
	Total capital assets, net	\$ 167,722,819	(2,903,255)	(677,638) 164,141,926
Changes in capital assets amounts for 2020 were as follows:				
	Balance		Transfers/	Balance
	2019	Additions	Deletions	2020
Capital assets:				
	Non-depreciable assets	\$ 7,999,797	3,478,369	(3,885,232) 7,592,934
	Depreciable assets	245,269,455	4,430,736	(13,193) 249,686,998
	Accumulated depreciation	(83,441,843)	(6,119,229)	3,959 (89,557,113)
	Total capital assets, net	\$ 169,827,409	1,789,876	(3,894,466) 167,722,819

At the end of fiscal year 2021 and 2020, the District's investment in capital assets amounted to \$164,141,926 and \$167,722,819 (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 2021 were as follows:							
				Balance			Balance
				2020	Additions	Deletions	2021
	2017 Wastewater Revenue Bonds			\$ 11,800,000	-	(850,000)	10,950,000
	2019 Wastewater Revenue Bonds			\$ 42,665,000	-	(3,005,000)	39,660,000
	2020 Taxable Revenue Refunding Bonds				6,467,000	-	6,467,000
	Total long-term debt			\$ 54,465,000	6,467,000	(3,855,000)	57,077,000
Changes in long-term debt amounts for 2020 were as follows:							
				Balance			Balance
				2019	Additions	Deletions	2020
Long-term debt:							
	Loan payable			\$ 55,511,637	-	(55,511,637)	-
	2017 Wastewater Revenue Bonds			\$ 12,620,000	-	(820,000)	11,800,000
	2019 Wastewater Revenue Bonds			\$ -	46,145,000	(3,480,000)	42,665,000
	Total long-term debt			\$ 68,131,637	46,145,000	(59,811,637)	54,465,000

In October 2020, the District refinanced its NPL, replacing the CalPERS 7% interest rate on this NPL debt with the 2020 Taxable Revenue Refunding Loan at an all-inclusive interest rate of about 2.81%, for a resulting savings of about \$3.88 million through 2039. See Note 6 for further details.

Conditions Affecting Current Financial Position

Aside from potential COVID-19 impacts (discussed below), management is unaware of other significant 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.

Impact of COVID-19

Finances: For FYE 2021, the District's finances remained relatively unaffected from the COVID-19 pandemic. Also, in FYE 2021, the District Board enacted the District's Low-Income Sewer Rate Assistance Program (LISRAP) for residential customers. To meet Proposition 218 and state constitutional requirements related to the use of sewer service charges, the LISRAP program is funded solely through the District's property tax revenues.

Going forward, it is anticipated there may be mild-to-moderate financial impacts to the District's finances depending on how COVID-19 continues to impact the local economy. As mentioned earlier, sewer service charges and property taxes constitute the majority of the District's revenues. Since these revenues are received twice/year (typically in December and April) after collection on the County of Marin tax rolls, any impacts will become clearer after about January 2022, and will be addressed as needed in future budget review and financial planning efforts.

Operations: The District successfully adjusted its operations into 2021 to reflect continuing COVID-19 impacts, consistent with guidance/requirements provided by local, state, and federal health authorities, ranging from adopting enhanced safety protocols to modifying work schedules, in order to minimize potential COVID-19 impacts. Going forward, the District will continue to monitor the COVID-19 situation and respond appropriately to continuing guidance/requirements issued by local, state, and federal health authorities.

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.

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Basic Financial Statements

NOVATO SANITARY DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$37,057,078	\$31,693,807
Restricted - cash and investments (Note 2)	2,284,858	1,788,976
Accounts receivable, net (Note 3)	318,286	213,191
Accrued interest receivable	29,199	102,342
Prepaid expenses and other deposits	76,183	73,034
Total current assets	39,765,604	33,871,350
NON-CURRENT ASSETS		
Capital assets - not being depreciated (Note 4)	8,853,572	7,592,934
Capital assets - being depreciated, net (Note 4)	155,288,354	160,129,885
Total non-current assets	164,141,926	167,722,819
TOTAL ASSETS	203,907,530	201,594,169
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related (Note 7)	614,657	274,977
Pension related (Note 10)	7,683,278	1,405,927
TOTAL DEFERRED OUTFLOWS	8,297,935	1,680,904
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	2,050,214	1,574,077
Customer deposits	25,500	25,500
Restricted - special assessment payable	124,480	138,078
Accrued interest payable	1,120,750	1,114,313
Long-term liabilities - due within one year:		
Compensated absences (Note 5)	48,505	52,312
Wastewater Revenue Refunding Bonds (Note 6)	4,279,000	3,855,000
Total current liabilities	7,648,449	6,759,280
NON-CURRENT LIABILITIES		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 5)	145,514	156,937
Wastewater Revenue Refunding Bonds (Note 6)	62,111,855	60,855,240
Net OPEB liability (Note 7)	2,379,063	2,940,097
Net pension liability (Note 10)	6,496,500	5,990,112
Total non-current liabilities	71,132,932	69,942,386
TOTAL LIABILITIES	78,781,381	76,701,666
DEFERRED INFLOWS OF RESOURCES		
OPEB related (Note 7)	1,127,002	770,498
Pension Related (Note 10)	431,175	657,285
TOTAL DEFERRED INFLOWS OF RESOURCES	1,558,177	1,427,783
NET POSITION (Note 8)		
Net investment in capital assets	104,218,071	103,012,579
Restricted - Pension Trust	2,284,858	1,788,976
Unrestricted	25,362,978	20,344,069
TOTAL NET POSITION	\$131,865,907	\$125,145,624

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Sewer service charges	\$19,637,938	\$19,111,326
Other service charges	206,659	233,963
Permit, inspection and other fees	88,715	41,583
Recycled water facility	251,632	234,916
AB939 - solid waste programs	452,303	434,260
Total operating revenues	<u>20,637,247</u>	<u>20,056,048</u>
OPERATING EXPENSES		
Collection system	1,193,727	1,097,245
Treatment plant	3,046,982	2,998,835
Reclamation and disposal	476,034	442,917
Laboratory and monitoring	543,941	554,456
Pump stations	787,009	723,498
AB939 - solid waste programs	382,985	318,882
Recycled water	251,633	234,916
Administrative and engineering	2,092,252	2,022,473
Non-Departmental	408,761	406,421
OPEB expense (Note 7)	(222,833)	280,715
Pension expense (Note 10)	921,262	1,141,181
Total operating expenses	<u>9,881,753</u>	<u>10,221,539</u>
Operating income before depreciation	10,755,494	9,834,509
Depreciation (Note 4)	<u>(6,314,427)</u>	<u>(6,119,229)</u>
OPERATING INCOME	<u>4,441,067</u>	<u>3,715,280</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,704,092	2,580,039
Franchise fees	59,613	60,113
Rental revenue	38,071	(24,429)
Interest income	289,394	640,601
Interest expense	(1,878,218)	(2,051,555)
Loss on sale/disposition of capital assets	(17,843)	(9,234)
Other non-operating revenue (expenses)	<u>(557,264)</u>	<u>(431,373)</u>
Total nonoperating revenues (expenses), net	<u>637,845</u>	<u>764,162</u>
Net income (loss) before capital contributions	<u>5,078,912</u>	<u>4,479,442</u>
CAPITAL CONTRIBUTIONS		
Connection fees	1,417,471	837,884
Capital contributions	<u>223,900</u>	<u>273,940</u>
Total capital contributions	<u>1,641,371</u>	<u>1,111,824</u>
CHANGES IN NET POSITION	6,720,283	5,591,266
NET POSITION, BEGINNING OF YEAR	<u>125,145,624</u>	<u>119,554,358</u>
NET POSITION, END OF YEAR	<u><u>\$131,865,907</u></u>	<u><u>\$125,145,624</u></u>

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers for sewer service charges and services	\$20,629,836	\$20,155,097
Cash paid to or on behalf of employees for salaries, wages and benefits	(10,238,210)	(3,015,323)
Cash paid to vendors and suppliers for materials and services	(6,280,087)	(6,777,252)
Cash Flows from Operating Activities	4,111,539	10,362,522
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,704,092	2,580,039
Cash Flows from Noncapital Financing Activities	2,704,092	2,580,039
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,751,377)	(3,759,167)
Connection fees	1,417,471	837,884
Net proceeds from issuance of debt	6,467,000	55,736,955
Payment to bond escrow agent	(260,757)	(56,318,407)
Principal payments on long-term debt	(3,855,000)	(4,300,000)
Interest payments on long-term debt	(2,336,352)	(1,866,298)
Cash Flows (used for) Capital and Related Financing Activities	(1,319,015)	(9,669,033)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	362,537	654,313
Cash Flows from Investing Activities	362,537	654,313
NET CASH FLOWS	5,859,153	3,927,841
Cash, beginning of year	33,482,783	29,554,942
Cash, end of year	\$39,341,936	\$33,482,783
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$37,057,078	\$31,693,807
Restricted - cash and cash equivalents	2,284,858	1,788,976
Total cash and cash equivalents	\$39,341,936	\$33,482,783

(Continued)

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$4,441,067	\$3,715,280
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,314,427	6,119,229
Other non-operating revenues	115,527	44,918
Other non-operating expenses	(557,264)	(431,373)
Change in assets and liabilities:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable - sewer services	(105,095)	63,365
Prepaid expenses and other deposits	(3,149)	7,435
OPEB related deferred outflows of resources	(339,680)	83,235
Pension related deferred outflows of resources	(6,277,351)	88,125
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	476,137	496,558
Customer deposits		(1,500)
Restricted - special assessment payable	(13,598)	(21,540)
Compensated absences	(15,230)	63,369
Net OPEB liability	(561,034)	(193,949)
Collective net pension liability	506,388	521,234
OPEB related deferred inflows of resources	356,504	(187,367)
Pension related deferred inflows of resources	(226,110)	(4,497)
Total adjustments	(329,528)	6,647,242
Net cash provided by operating activities	\$4,111,539	\$10,362,522
Schedule of Non-Cash Investing and Financing Activities:		
Capital contributions	\$223,900	\$273,940
Loss on disposition of capital assets	(17,843)	(9,234)

See accompanying notes to financial statements

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NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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

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

C. *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.

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.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

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, 2021.

GASB 84 – *Fiduciary Activities* – The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The District implemented the provisions of this Statement during the year ended June 30, 2021. As a result, the District determined that the activities of the Other Post-Employment Benefit Trust should no longer be reported in the Other Post-Employment Benefit Trust Fund, since the District does not have control of the assets of the PARS OPEB Plan as a whole. Therefore, the Other Post-Employment Benefit Trust Fund is no longer reported in the financial statements as of July 1, 2020.

Q. Prior-Period Comparative Financial Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

NOTE 2 – CASH AND INVESTMENTS

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

	2021	2020
Cash and cash equivalents	\$37,057,078	\$31,693,807
Restricted cash and investments	2,284,858	1,788,976
Total Cash and Investments	\$39,341,936	\$33,482,783

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

	2021	2020
<i>Held by District:</i>		
Cash on hand	\$701	\$851
Deposits with financial institutions	13,616	79,695
Local Agency Investment Fund	37,042,761	31,613,261
<i>Held by Fiscal Agent:</i>		
Deposits with financial institutions	3,123	23,204
<i>Held by Pension Trust</i>		
Mutual funds	2,281,735	1,765,772
Total Cash and Investments	\$39,341,936	\$33,482,783

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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	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
	N/A		\$75 million per account	None
California Local Agency Investment Fund				
Passbook Savings Account Demand	N/A		100%	None

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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:

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, 2021 and 2020 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.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)
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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, 2021 and 2020, these investments matured in an average of 291 and 191 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, 2021, and 2020, 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, 2021 and 2020, respectively.

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.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)

The District's investment in the Local Agency Investment Fund is exempt from the fair value measurement hierarchy.

NOTE 3 – ACCOUNTS RECEIVABLE

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

Description	2021	2020
Sewer services	\$161,472	\$102,380
Franchise/Lease	30,925	13,145
Property tax	12,237	10,859
Recycling	83,015	62,039
Other, net of allowance	30,637	24,768
	\$318,286	\$213,191

NOTE 4 – CAPITAL ASSETS

A. Capital Assets Activity

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

	Balance June 30, 2020	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2021
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,663,610	\$223,900		2,887,510
Construction-in-process	2,155,817	1,696,533	(\$659,795)	3,192,555
Total non-depreciable assets	7,592,934	1,920,433	(659,795)	8,853,572
Depreciable assets:				
Sewer system improvements	165,095,883	337,613		165,433,496
Sewer collection and outfall system	56,255,306	720,751		56,976,057
Sewer facilities equipment	25,689,219	346,646	(180,600)	25,855,265
Equipment	2,646,590	85,729	18,331	2,750,650
Total depreciable assets	249,686,998	1,490,739	(162,269)	251,015,468
Accumulated depreciation:				
Sewer system improvements	(58,941,593)	(4,306,901)		(63,248,494)
Sewer collection and outfall system	(18,110,514)	(844,972)		(18,955,486)
Sewer facilities equipment	(11,126,574)	(978,546)	139,476	(11,965,644)
Equipment	(1,378,432)	(184,008)	4,950	(1,557,490)
Total accumulated depreciation	(89,557,113)	(6,314,427)	144,426	(95,727,114)
Total depreciable assets, net	160,129,885	(4,823,688)	(17,843)	155,288,354
Total capital assets, net	\$167,722,819	(\$2,903,255)	(\$677,638)	\$164,141,926

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, 2021 and 2020

NOTE 4 – CAPITAL ASSETS (Continued)

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

	Balance June 30, 2019	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2020
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,389,670	\$273,940		2,663,610
Construction-in-process	2,836,620	3,204,429	(\$3,885,232)	2,155,817
Total non-depreciable assets	7,999,797	3,478,369	(3,885,232)	7,592,934
Depreciable assets:				
Sewer system improvements	163,712,774	1,383,109		165,095,883
Sewer collection and outfall system	53,929,921	2,325,385		56,255,306
Sewer facilities equipment	25,566,160	136,252	(13,193)	25,689,219
Equipment	2,060,600	585,990		2,646,590
Total depreciable assets	245,269,455	4,430,736	(13,193)	249,686,998
Accumulated depreciation:				
Sewer system improvements	(54,702,549)	(4,239,044)		(58,941,593)
Sewer collection and outfall system	(17,343,664)	(766,850)		(18,110,514)
Sewer facilities equipment	(10,169,409)	(961,124)	3,959	(11,126,574)
Equipment	(1,226,221)	(152,211)		(1,378,432)
Total accumulated depreciation	(83,441,843)	(6,119,229)	3,959	(89,557,113)
Total depreciable assets, net	161,827,612	(1,688,493)	(9,234)	160,129,885
Total capital assets, net	\$169,827,409	\$1,789,876	(\$3,894,466)	\$167,722,819

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

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:

Projects	2021	2020	2019
Collection System Improvements	\$601,705	\$504,863	\$465,307
North Bay Water Reuse Authority	935,252	935,115	921,034
Hamilton Wetlands Outfall Monitoring	105,787	82,982	70,323
Novato Creek Watershed	100,834	100,834	100,834
Administrative Building Updates			1,099,733
Cogeneration	358,279	164,950	61,744
Pump Station Improvements	295,475	138,346	
Treatment Plant Improvements	52,660	175,256	
NTP Corrosion Control - Headworks	68,152	53,471	
Equipment In Process	657,876		
Various Other Minor Projects <\$50,000	16,535		117,645
Total	\$3,192,555	\$2,155,817	\$2,836,620

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 5 – COMPENSATED ABSENCES

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

Balance 2020	Additions	Deletions	Balance 2021	Due Within One Year
\$209,249	\$6,449	(\$21,679)	\$194,019	\$48,505

Balance 2019	Additions	Deletions	Balance 2020	Due Within One Year
\$145,880	\$71,035	(\$7,666)	\$209,249	\$52,312

NOTE 6 – LONG-TERM DEBT

A. Long-Term Debt Activity

Changes in long-term debt amounts for 2020-2021 were as follows:

	Balance June 30, 2020	Additions	Retirements	Balance June 30, 2021	Due within one year
Long-term debt:					
2017 Wastewater Revenue Refunding Bonds	\$11,800,000		(\$850,000)	\$10,950,000	\$890,000
Add: Unamortized premium	1,391,870		(126,533)	1,265,337	
2019 Wastewater Revenue Refunding Bonds	42,665,000		(3,005,000)	39,660,000	3,155,000
Add: Unamortized premium	8,853,370		(804,852)	8,048,518	
2020 Wastewater Revenue Refunding Bonds		\$6,467,000		6,467,000	234,000
Total long-term debt	\$64,710,240	\$6,467,000	(\$4,786,385)	\$66,390,855	\$4,279,000

Changes in long-term debt amounts for 2019-2020 were as follows:

	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020	Due within one year
Long-term debt:					
2017 Wastewater Revenue Refunding Bonds	\$12,620,000		(\$820,000)	\$11,800,000	\$850,000
Add: Unamortized premium	1,518,404		(126,534)	1,391,870	
2019 Wastewater Revenue Refunding Bonds		\$46,145,000	(3,480,000)	42,665,000	3,005,000
Add: Unamortized premium		9,658,222	(804,852)	8,853,370	
SRF Loan payable	55,511,638		(55,511,638)		
Total long-term debt	\$69,650,042	\$55,803,222	(\$60,743,024)	\$64,710,240	\$3,855,000

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 6 – LONG-TERM DEBT (Continued)

B. 2019 Wastewater Revenue Refunding Bonds

The District issued \$46,145,000 in Wastewater Revenue Refunding Bonds on August 7, 2019 to refund the State Water Resources Control Board Loan and pay issuance costs. The Bonds are payable from net revenues of the District and bear an interest rate of 5%. Interest payments are due February 1 and August 1 of each year, commencing on February 1, 2020. Principal payments are due February 1 of each year commencing February 1, 2020 through 2031. The refunding resulted in an economic gain of \$2,976,526. The aggregate difference in debt service between the refunding debt and the refunded debt was \$4,014,589. 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>
2022	\$3,155,000	\$1,934,100	\$5,089,100
2023	3,310,000	1,776,350	5,086,350
2024	3,475,000	1,610,850	5,085,850
2025	3,650,000	1,437,100	5,087,100
2026	3,835,000	1,254,600	5,089,600
2027-2031	<u>22,235,000</u>	<u>3,199,000</u>	<u>25,434,000</u>
Total	<u>\$39,660,000</u>	<u>\$11,212,000</u>	<u>\$50,872,000</u>

The District's bond covenants contain events of default that require the net revenue of the District to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: default on debt service payments; the failure to pay any installment of the principal of any bonds when due; the failure to pay any installment of interest on the bonds when due; the failure of the District to observe or perform the conditions, covenants, or agreement terms of the debt; bankruptcy filing by the District; or if any court or competent jurisdiction shall assume custody or control of the District. The District's bonds also contain a subjective acceleration clause that allows the trustees or holders, who hold the majority of the aggregate principal amount of the notes, to accelerate payment of the entire principal amount outstanding and interest accrued to become immediately due if they determine that a material adverse change occurs. Management believes that the District is in compliance with all applicable bond covenants.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 6 – LONG-TERM DEBT (Continued)

C. 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 aggregate difference in debt service between the refunding debt and the refunded debt was \$4,409,109. The following table summarizes the debt service maturity of the District for the bonds as follows:

Fiscal Year	Principal	Interest	Total
2022	\$890,000	\$547,500	\$1,437,500
2023	920,000	503,000	1,423,000
2024	965,000	457,000	1,422,000
2025	1,010,000	408,750	1,418,750
2026	1,060,000	358,250	1,418,250
2027-2031	6,105,000	944,500	7,049,500
Total	<u>\$10,950,000</u>	<u>\$3,219,000</u>	<u>\$14,169,000</u>

The District's bond covenants contain events of default that require the net revenue of the District to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: default on debt service payments; the failure to pay any installment of the principal of any bonds when due; the failure to pay any installment of interest on the bonds when due; the failure of the District to observe or perform the conditions, covenants, or agreement terms of the debt; bankruptcy filing by the District; or if any court or competent jurisdiction shall assume custody or control of the District. The District's bonds also contain a subjective acceleration clause that allows the trustees or holders, who hold the majority of the aggregate principal amount of the notes, to accelerate payment of the entire principal amount outstanding and interest accrued to become immediately due if they determine that a material adverse change occurs. Management believes that the District is in compliance with all applicable bond covenants.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 6 – LONG-TERM DEBT (Continued)

D. 2020 Wastewater Revenue Refunding Bonds

The District issued \$6,467,000 in Wastewater Revenue Refunding Bonds on October 15, 2020 to prepay the District's unfunded accrued pension liability with CalPERS. The Bonds are payable from net revenues of the District and bear an interest rate of 2.38% for Fiscal Year (FY) 2022 through FY 2036 and 2.98% for FY2037 through FY2039. Interest payments are due February 1 and August 1 of each year, commencing on August 1, 2021. Principal payments are due February 1 of each year commencing on February 1, 2022. 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>
2022	\$234,000	\$208,201	\$442,201
2023	301,000	154,342	455,342
2024	308,000	147,143	455,143
2025	316,000	139,765	455,765
2026	324,000	132,197	456,197
2027-2031	1,734,000	541,257	2,275,257
2032-2036	1,953,000	323,332	2,276,332
2037-2039	1,297,000	275,760	1,572,760
Total	<u>\$6,467,000</u>	<u>\$1,921,997</u>	<u>\$8,388,997</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>2021*</u>	<u>2020*</u>	<u>2019*</u>
Active plan members	18	18	18
Retirees and beneficiaries receiving benefits	<u>35</u>	<u>36</u>	<u>38</u>
Total plan membership	<u>53</u>	<u>54</u>	<u>56</u>

* OPEB membership includes all eligible members (including active employees, retirees, and beneficiaries) per GASB 75 requirements.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)
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B. Agent Multiple 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 2021 and 2020, this minimum amount was \$143 and \$139 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.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

C. *Funding Policy*

The District pays 100% of the cost of the post-employment benefit plan for those employees hired prior to July 1, 2008, and who 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. 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.

D. *Actuarial Assumptions*

The District's Net OPEB liability was measured as of June 30, 2021 and the total OPEB liability was determined by an actuarial valuation as of June 30, 2020. The actuarial assumptions included (a) 4.64% investment rate of return, (b) 2.75% projected annual salary increase, (c) 1.75% inflation rate and (d) health care cost trend rate of 5.5%-6.5% 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 biannually 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*

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 6/30/21
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, 2021 and 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)
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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 for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	65%
Domestic Equity	25%
Cash	5%
International Equity	4%
Real Estate	1%
Total	100%

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, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 4.64%. 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, 2021 and 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2021, were as follows:

	Increase (Decrease)	
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)
		Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2020 (Measurement Date)	\$4,550,371	\$2,940,097
Changes Recognized for the Measurement Period:		
Service Cost	67,131	67,131
Interest on the total OPEB liability	246,435	246,435
Difference between expected and actual experience	(607,392)	(607,392)
Changes of assumptions	537,362	537,362
Contributions:		
Employer - District's contribution		(581,377)
Employer - implicit subsidy		(28,799)
Net investment income		(205,474)
Benefit payments, including refunds of employee contributions	(195,746)	(195,746)
Implicit rate subsidy fulfilled	(28,799)	(28,799)
Administrative Expense		11,080
Net Changes during July 1, 2020 to June 30, 2021	18,991	(561,034)
Balance at June 30, 2021 (Measurement Date)	\$4,569,362	\$2,379,063

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions:

Measurement Date	June 30, 2021
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 2021
Inflation	1.75%
Assumed Rate of Payroll Growth	2.75%
Healthcare trend rates	6.50%, trending down to 4.04%
PEMHCA trend rate	3.00%
Rate of return on assets	4.64%
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, 2021 and 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 4.64% as of June 30, 2021. 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, 2021, calculated using the discount rate of 4.64%, 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		
Discount Rate -1%	Current Discount	Discount Rate +1%
(3.64%)	Rate (4.64%)	(5.64%)
\$2,803,472	\$2,379,063	\$1,653,104

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		
Discount Rate -1%	Healthcare Cost	Discount Rate +1%
Trend Rates (5.50%	Trend Rates (6.50%	Trend Rates (7.50%
decreasing to 3.04%)	decreasing to 4.04%)	decreasing to 5.04%)
\$1,620,454	\$2,379,063	\$2,851,082

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

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

For the year ended June 30, 2021, the District recognized OPEB expense of (\$222,833). At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$91,912	(\$507,569)
Changes of assumptions	522,745	(532,147)
Net difference between projected and actual earnings on OPEB plan investments		(87,286)
Total	<u>\$614,657</u>	<u>(\$1,127,002)</u>

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

<u>Measurement Period Ended June 30</u>	<u>Annual Amortization</u>
2022	(\$159,429)
2023	(182,920)
2024	(131,028)
2025	(37,593)
2026	(1,375)
	<u>(\$512,345)</u>

F. OPEB Trust Fund

The District implemented the provisions of Governmental Accounting Standards Board Statement No. 84 – *Fiduciary Activities* during the year ended June 30, 2021. As a result, the District determined that the activities of the PARS Public Agencies Post-Retirement Health Care Plan should no longer be reported in the Other Post-Employment Benefits Plan Trust Fund, since the District does not have control of the assets of the PARS Public Agencies Post-Retirement Health Care Plan as a whole. Therefore, the Other Post-Employment Benefits Plan Trust Fund is no longer reported in the financial statements as of July 1, 2020 as discussed in Note 1P.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 8 – NET POSITION

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

	<u>2021</u>	<u>2020</u>
<i>Net investment in capital assets:</i>		
Capital assets - not being depreciated	\$8,853,572	\$7,592,934
Capital assets, net - being depreciated	155,288,354	160,129,885
Wastewater Revenue Refunding Bonds	(59,923,855)	(64,710,240)
Total net investment in capital assets	<u>104,218,071</u>	<u>103,012,579</u>
<i>Restricted net position:</i>		
Pension trust	<u>2,284,858</u>	<u>1,788,976</u>
Total restricted net position	<u>2,284,858</u>	<u>1,788,976</u>
<i>Unrestricted net position:</i>		
Non-spendable net position:		
Prepaid expenses and deposits	<u>76,183</u>	<u>73,034</u>
Total non-spendable net position	<u>76,183</u>	<u>73,034</u>
Spendable net position:		
Undesignated net position reserve	<u>25,286,795</u>	<u>20,271,035</u>
Total spendable net position	<u>25,286,795</u>	<u>20,271,035</u>
Total unrestricted net position	<u>25,362,978</u>	<u>20,344,069</u>
Total net position	<u><u>\$131,865,907</u></u>	<u><u>\$125,145,624</u></u>

NOTE 9 – DEFERRED COMPENSATION SAVINGS PLAN

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Fair value of all Program assets held in trust by the District's two deferred compensation programs at June 30, 2021 and 2020 amounted to \$4,066,980 and \$3,318,704 respectively.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 9 – DEFERRED COMPENSATION SAVINGS PLAN (Continued)
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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, 2021 and 2020 amounted to \$1,414,926 and \$1,189,616, 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.

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 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each Plan are applied as specified by the Public Employees' Retirement Law.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 10 – PENSION PLANS (Continued)

The Plan provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Tier I
	<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	11.031%
	Miscellaneous Tier II
	<u>Between January 1, 2012</u>
	<u>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	1.09% to 2.42%
Required employee contribution rates	7.00%
Required employer contribution rates	8.794%
	Miscellaneous Tier III
	<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	6.75%
Required employer contribution rates	7.732%

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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 2019, 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 \$6,335,060 in fiscal year 2021.

For the year ended June 30, 2021, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions - employer	<u>\$6,950,014</u>
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B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2021, 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	<u>\$6,496,500</u>

The District’s net pension liability for the 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, 2020, 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, 2019 rolled forward to June 30, 2020 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, 2019 and 2020 was as follows:

	Miscellaneous
Proportion - June 30, 2019	0.14958%
Proportion - June 30, 2020	<u>0.15402%</u>
Change - Increase (Decrease)	0.00444%

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 10 – PENSION PLANS (Continued)

For the year ended June 30, 2021, the District recognized pension expense of \$921,262. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$6,950,014	
Differences between actual and expected experience	334,784	
Changes in assumptions		(\$46,336)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	205,491	
Net differences between projected and actual earnings on plan investments	192,989	
Adjustments due to differences in proportion		(384,839)
Total	<u><u>\$7,683,278</u></u>	<u><u>(\$431,175)</u></u>

The \$6,950,014 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Annual Amortization</u>
2021	(\$36,758)
2022	125,251
2023	121,033
2024	<u>92,563</u>
Total	<u><u>\$302,089</u></u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 10 – PENSION PLANS (Continued)
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Actuarial Assumptions – The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous Tier I, II, and III</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50%

(1) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2019 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015, 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, 2021 and 2020

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 (1)	New Strategic Allocation	Real Return Years 1 - 10 (2)	Real Return Years 11+ (3)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	-	-0.92%
Total	100%		

(1) In the CalPERS' Comprehensive Annual Financial Report, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% 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	\$9,710,030
Current Discount Rate	7.15%
Net Pension Liability	\$6,496,500
1% Increase	8.15%
Net Pension Liability	\$3,841,261

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 10 – PENSION PLANS (Continued)
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Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

C. *PARS Trust*

During the fiscal year ended June 30, 2017, the District joined the Public Agencies Post-Employment Benefits Trust, a multiple employer trust administered by Public Agency Retirement Services (PARS) for the purpose of pre-funding pension obligations. At June 30, 2021, the District had a balance of \$2,281,735 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.

D. *Reduction of CalPERS Discount Rate*

In July 2021, CalPERS reported a preliminary 21.3% net return on investments for the 12-month period that ended June 30, 2021. Under the Funding Risk Mitigation Policy, approved by the CalPERS Board of Administration in 2015, the 21.3% net return will trigger a reduction in the discount rate used to calculate employer and Public Employees' Pension Reform Act (PEPRA) member contributions. The Funding Risk Mitigation Policy seeks to reduce CalPERS funding risk over time, in which CalPERS investment performance that significantly outperforms the discount rate will trigger adjustments to the discount rate, expected investment return, and strategic asset allocation targets. This is the first time it has been triggered. The discount rate, or assumed rate of return, will drop to 6.8%, from its current level of 7%.

Based on these preliminary fiscal year returns, the CalPERS has announced the funded status of the overall Public Employees Retirement Fund (PERF) is an estimated 82%. This estimate is based on a 7% discount rate. Under the new 6.8% discount rate, however, CalPERS indicated the funded status of the overall PERF drops to 80%. This is because existing assets are assumed to grow at a slightly slower rate annually into the future. As intended under the Funding Risk Mitigation Policy, the lower discount rate increases the likelihood that CalPERS can reach its target over the longer term. The CalPERS Board of Administration will continue to review the discount rate through its Asset Liability Management process during the rest of the calendar year.

CalPERS' final fiscal year 2021 investment performance will be calculated based on audited figures and will be reflected in contribution levels for contracting cities, counties, and special districts in fiscal year 2024.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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, 2021, 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 \$15,500,000 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 \$10,000,000 self-insured layer to \$15,500,000 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.
- Special form property coverage up to \$145,792,372 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 \$1,056,594 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, 2021, 2020 and 2019. 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, 2021, 2020 and 2019.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 12 – COMMITMENTS AND CONTINGENCIES
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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, 2021 and 2020 was \$300,000 and \$435,000 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 \$3,650,851 of open construction contracts as of June 30, 2021.

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.

Required Supplementary Information

NOVATO SANITARY DISTRICT
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
As of fiscal year ending June 30, 2021
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						
	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020
Plan's proportion of the Net Pension Liability (Asset)	0.05361%	0.05140%	0.05494%	0.05591%	0.05675%	0.05846%	0.05971%
Plan's proportion share of the Net Pension Liability (Asset)	\$3,335,896	\$3,528,248	\$4,753,977	\$5,544,711	\$5,468,878	\$5,990,112	\$6,496,500
Plan's Covered Payroll	1,882,361	1,426,443	1,721,479	1,947,484	1,889,243	2,044,398	2,180,962
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	177.22%	247.35%	276.16%	284.71%	289.47%	293.00%	297.87%
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%	75.85%	74.38%	73.10%
Plan's Proportionate Share of Aggregate Employer Contributions	441,326	551,726	578,932	620,318	654,101	720,545	788,670

*Note: Fiscal year 2015 was the first year presented and therefore, only 7 years are shown. Additional years will be displayed as they become available.

NOVATO SANITARY DISTRICT
Cost-Sharing Multiple Employer Defined Benefit Pension Plan
As of fiscal year ending June 30, 2021
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

Fiscal Year	District Miscellaneous Plan						
	2015	2016	2017	2018	2019	2020	2021
Actuarially determined contribution	\$173,410	\$281,175	\$323,786	\$327,385	\$446,594	\$535,865	\$6,950,014
Contributions in relation to the actuarially determined contributions	(208,489)	(301,285)	(323,786)	(327,385)	(446,594)	(535,865)	(402,745)
Additional contributions to the Unfunded Liability							(6,547,269)
Contribution deficiency (excess)	(\$35,079)	(\$20,110)	\$0	\$0	\$0	\$0	\$0
Covered payroll	\$1,426,443	\$1,721,479	\$1,947,484	\$1,889,243	\$2,044,398	\$2,180,962	\$2,261,938
Contributions as a percentage of covered payroll	14.62%	17.50%	16.63%	17.33%	21.84%	24.57%	307.26%

Notes to Schedule

Valuation date: 6/30/2019

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	2.50%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.15% (1)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

(1) Net of pension plan investment expenses, including inflation.

*Note: Fiscal year 2015 was the first year presented and therefore, only 7 years are shown.

Novato Sanitary District
Schedule of Changes in Net OPEB Liability and Related Ratios
Last Ten Fiscal Years *
Other Post-Employment Benefits (OPEB) - Agent-Multiple Employer Plan

Measurement period	2017	2018	2019	2020	2021
Total OPEB liability					
Service cost	\$104,860	\$108,006	\$117,613	\$61,293	\$67,131
Interest	251,406	256,099	244,664	272,505	246,435
Changes in benefit terms	-	-	-	-	-
Differences between expected and actual experience	-	(21,960)	201,040	(31,710)	(607,392)
Changes of assumptions	-	277,245	(1,170,724)	13,340	537,362
Benefit payments	(187,852)	(277,142)	(217,800)	(202,135)	(195,746)
Implicit rate subsidy fulfilled	(68,761)	-	(73,458)	(23,156)	(28,799)
Net change in total OPEB liability	99,653	342,248	(898,665)	90,137	18,991
Total OPEB liability - beginning	4,916,998	5,016,651	5,358,899	4,460,234	4,550,371
Total OPEB liability - ending (a)	<u>\$5,016,651</u>	<u>\$5,358,899</u>	<u>\$4,460,234</u>	<u>\$4,550,371</u>	<u>\$4,569,362</u>
OPEB fiduciary net position					
Net investment income	\$6,933	\$2,230	\$75,128	\$90,034	\$205,474
Contributions:					
Employer - District's Contribution	887,852	382,482	606,729	403,796	581,377
Employer - Implicit Subsidy	68,761	74,262	73,458	23,156	28,799
Benefit payments from PARS Trust	(187,852)	(226,479)	(217,800)	(202,135)	(195,746)
Implicit rate subsidy fulfilled	(68,761)	(74,262)	(73,458)	(23,156)	(28,799)
Administrative expense	(294)	-	(2,741)	(7,609)	(11,080)
Net change in plan fiduciary net position	706,639	158,233	461,316	284,086	580,025
Plan fiduciary net position - beginning	-	706,639	864,872	1,326,188	1,610,274
Plan fiduciary net position - ending (b)	<u>706,639</u>	<u>864,872</u>	<u>1,326,188</u>	<u>1,610,274</u>	<u>2,190,299</u>
Plan net OPEB liability - ending (a) - (b)	<u>\$4,310,012</u>	<u>\$4,494,027</u>	<u>\$3,134,046</u>	<u>\$2,940,097</u>	<u>\$2,379,063</u>
Plan fiduciary net position as a percentage of the total OPEB liability	14.09%	16.14%	29.73%	35.39%	47.93%
Covered payroll	\$1,933,573	\$1,991,580	\$1,636,626	\$1,681,633	\$2,129,440
District's total OPEB liability as a percentage of covered payroll	<u>259.45%</u>	<u>269.08%</u>	<u>272.53%</u>	<u>270.59%</u>	<u>214.58%</u>

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

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

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Actuarially determined contribution	\$411,241	\$401,663	\$441,931	\$126,101	\$304,864
Contributions in relation to the actuarially determined contribution	956,613	456,744	680,187	426,952	610,176
Contribution deficiency (excess)	(\$545,372)	(\$55,081)	(\$238,256)	(\$300,851)	(\$305,312)
Covered payroll	\$2,046,348	\$1,991,580	\$1,636,626	\$1,681,633	\$2,129,440
Contributions as a percentage of covered payroll	46.75%	22.93%	41.56%	25.39%	28.65%

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, 2020 actuarial valuation provided the Actuarially Determined Contributions for fiscal years ending June 30, 2021.

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
Inflation	1.75%
Assumed rate of payroll growth	2.75%
Healthcare trend rate	6.50%, trending down to 4.04%
PEMHCA trend rate	3.00%
Rate of return on assets	4.64%
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	2019	2020	2021
Annual money-weighted rate of return, net of investment expense	4.00%	0.28%	7.10%	6.33%	11.43%

* June 20, 2017 was the first year of implementation

Statistical Information Section

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**Novato Sanitary District
Statistical Section**

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

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	<u>Page No.</u>
Financial Trends	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	60-65
These schedules contain information to help the reader assess the District's most significant own-source revenue, sewer service charges.	
Debt Capacity	66-67
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	68
This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	69-70
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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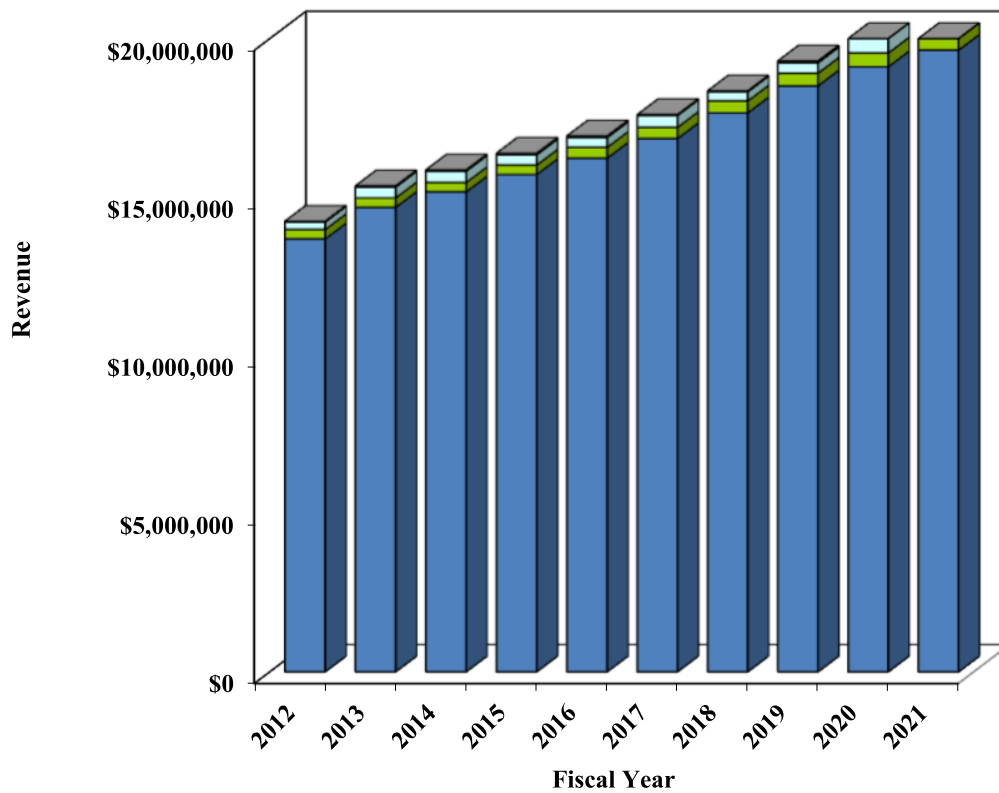
Novato Sanitary District Changes in Net Position and Net Position by Component Last Ten Fiscal Years Schedule 1										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Restated										
Changes in net position:										
Operating revenues (see Schedule 2)	\$ 14,225,362	15,341,561	15,849,099	16,372,320	16,919,629	17,596,116	18,344,975	19,291,206	20,056,048	20,637,247
Operating expenses (see Schedule 3)	(9,766,764)	(8,103,790)	(8,322,651)	(8,452,039)	(8,392,467)	(9,173,987)	(9,131,926)	(8,457,722)	(10,221,539)	(9,881,753)
Depreciation and amortization	(3,238,715)	(4,602,353)	(5,092,355)	(5,201,451)	(5,661,922)	(5,744,111)	(5,793,254)	(5,917,189)	(6,119,229)	(6,314,427)
Operating income(loss)	1,219,883	2,635,418	2,434,093	2,718,830	2,865,240	2,678,018	3,419,795	4,916,295	3,715,280	4,441,067
Non-operating revenues(expenses)										
Property taxes	1,795,489	1,795,781	1,941,241	1,999,816	2,155,479	2,292,988	2,360,251	2,502,875	2,580,039	2,704,092
Interest	37,129	67,050	45,673	43,117	71,592	136,595	312,886	629,461	640,601	289,394
Interest expense	(2,669,346)	(2,712,097)	(2,678,227)	(2,567,765)	(2,450,757)	(2,325,634)	(2,178,527)	(1,907,209)	(2,982,940)	(2,809,604)
Franchise fees/Rental Income	26,099	113,416	127,708	142,597	152,589	146,924	132,090	85,854	35,684	97,685
Bond Premium Amortization*	(10,564)	-	-	-	-	-	-	-	931,385	931,385
Gain/(Loss) on sale/disposition of assets	(367,095)	2,529	(3,502,140)	13,364	-	1,627	(34,250)	(40,576)	(9,234)	(17,843)
Other revenue/(expense), net	229,306	(339,663)	(270,260)	(135,556)	(82,683)	40,461	(211,515)	(233,047)	(431,373)	(557,264)
Total non-operating revenues(expenses), net	(958,982)	(1,072,984)	(4,336,005)	(504,427)	(153,780)	292,961	380,935	1,037,358	764,162	637,845
Net income before capital contributions	260,901	1,562,434	(1,901,912)	2,214,403	2,711,460	2,970,979	3,800,730	5,953,653	4,479,442	5,078,912
Connection Fees	880,541	146,949	343,773	291,565	223,240	227,567	234,495	319,240	837,884	1,417,471
Capital contributions	5,732	-	202,530	250,725	13,400	200	133,035	98,354	273,940	223,900
Capital Grant	1,433,561	-	16,250	-	-	51,069	257,183	150,149	-	-
Prior Year restatement(GASB 65)	(64,004)									
Changes in net position	\$ 2,516,731	1,709,383	(1,339,359)	2,756,693	2,948,100	3,249,815	4,425,443	6,521,396	5,591,266	6,720,283
Net position by component:										
Prior Year adjustment	(64,004)	(6,774,168)	-	(4,299,128)	-	-	(3,189,801)			
Net Investment in capital assets	\$ 105,262,788	104,411,068	94,531,379	94,572,835	96,235,212	96,965,159	97,939,722	100,177,367	103,012,579	104,218,071
Restricted							745,826	1,311,222	1,788,976	2,284,858
Unrestricted	7,789,467	10,286,566	12,052,728	15,325,698	12,312,293	14,832,161	17,537,215	18,065,769	20,344,069	25,362,978
Total net position	\$ 112,988,251	107,923,466	106,584,107	105,599,405	108,547,505	111,797,320	113,032,962	119,554,358	125,145,624	131,865,907

Source: Novato Sanitary District Accounting Department

* Beginning in FY2020

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

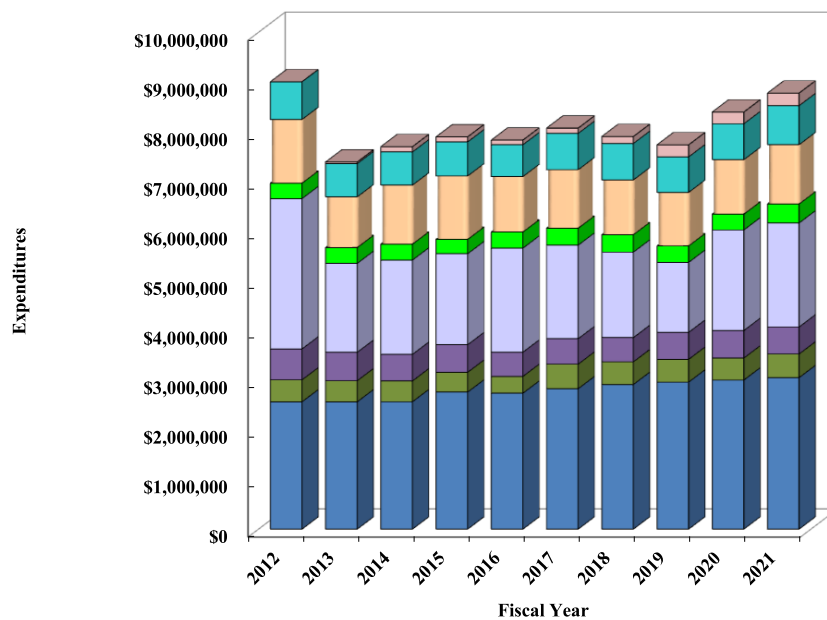
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2012	13,671,131	21,441	297,586	235,204	14,225,362
2013	14,670,826	34,505	297,586	338,644	15,341,561
2014	15,157,903	39,023	297,586	354,587	15,849,099
2015	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
2019	18,509,333	55,607	400,772	325,495	19,291,206
2020	19,111,326	41,583	434,260	468,879	20,056,048
2021	19,637,938	88,715	452,303	458,291	20,637,247



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	Non-Departmental	Total Operating Expenses
2012	1,283,228	2,560,633	442,266	621,758	758,564	0	310,890	3,025,805	763,620	9,766,764
2013	1,022,006	2,561,301	423,670	572,718	668,427	31,301	318,616	1,788,438	717,313	8,103,790
2014	1,188,408	2,562,314	418,748	534,959	668,841	104,837	320,938	1,896,860	626,746	8,322,651
2015	1,277,022	2,757,514	398,118	555,215	686,789	100,354	289,586	1,829,708	557,733	8,452,039
2016	1,116,422	2,734,327	337,887	487,624	641,965	92,028	325,068	2,093,124	564,022	8,392,467
2017	1,178,118	2,824,699	493,926	512,003	731,684	105,327	341,580	1,881,777	1,104,873	9,173,987
2018	1,103,000	2,909,669	456,136	487,971	735,079	138,238	350,937	1,718,907	1,231,989	9,131,926
2019	1,077,449	2,957,149	458,191	543,373	715,265	241,382	332,294	1,407,194	725,425	8,457,722
2020	1,097,245	2,998,835	442,917	554,456	723,498	234,916	318,882	2,022,473	1,828,317	10,221,539
2021	1,193,727	3,046,982	476,034	543,941	787,009	251,633	382,985	2,092,252	1,107,190	9,881,753



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
2012	9,248,463,186	
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	12,417,349,541	4.79%
2019	12,924,772,155	4.09%
2020	13,447,249,891	4.04%
2021	13,942,486,550	3.68%

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		Total	Tax Collections		Current Year % Collected
		Prior Year	Current Year		Prior Year	Current Year	
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	2,360,251	5,987	2,354,264	2,360,251	5,987	2,354,264	99.75%
2019	2,502,875	1,538	2,501,337	2,502,875	1,538	2,501,337	99.94%
2020	2,582,919	1,649	2,581,270	2,582,919	1,649	2,581,270	99.94%
2021	2,704,092	1,297	2,702,795	2,704,092	1,297	2,702,795	99.95%

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

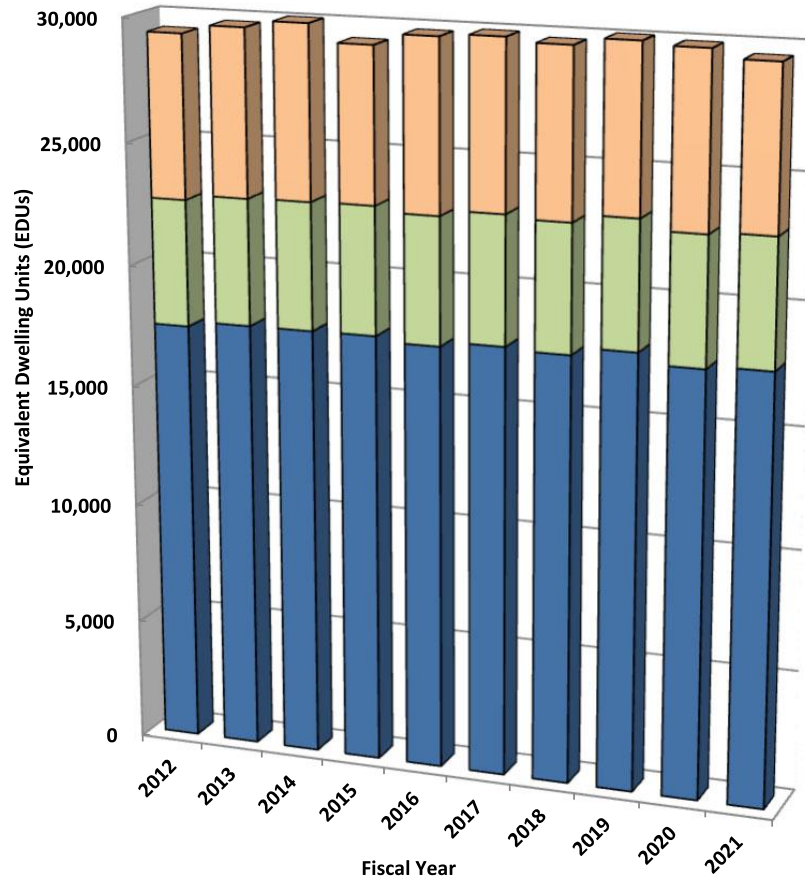
**Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years
Schedule 6**

Fiscal Year	Current Tax Levy	Current Tax Collections	Current Taxes Collected	Tax Collections net	Current Taxes Collected	Net Collections
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	2,354,264	2,354,264	100.0%	5,987	0.3%	\$ 2,360,251
2019	2,501,337	2,501,337	100.0%	1,538	0.1%	\$ 2,502,875
2020	2,581,270	2,581,270	100.0%	1,649	0.1%	\$ 2,582,919
2021	2,702,795	2,702,795	100.0%	1,297	0.0%	\$ 2,704,092

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
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	17,761.00	5,252.00	6,865.00	29,878.00
2018	17,656.80	5,219.00	6,824.43	29,700.23
2019	17,992.80	5,231.00	7,019.30	30,243.10
2020	17,567.00	5,237.80	7,053.22	29,858.02
2021	17,709.60	5,209.80	6,575.08	29,494.48



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										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Rate per EDU per year (1)	\$ 462	\$ 493	\$ 512	\$ 531	\$ 552	\$ 573	\$ 594	\$ 615	\$ 636	\$ 657
Rate per EDU per month	\$ 38.50	\$ 41.08	\$ 42.67	\$ 44.25	\$ 46.00	\$ 47.75	\$ 49.50	\$ 51.25	\$ 53.00	\$ 54.75
EDUs (2)	<i>EDU Factors</i>									
Single Family	1									
Apartments, Condominiums, Duplexes & Townhouses	1									
Motor Home or Trailer Park	1									
Guest House with kitchen and bedroom	1									
Guest House without kitchen	0									
Non Residential (2)	<i>Flow factor</i>	<i>Charge per Sq.Ft.</i>	<i>Strength factor</i>	<i>Charge per HCF*</i>						
Base Charge/ Unspecified	1.0	\$ 0.27	1.0	\$ 3.57						
Office	1.0	\$ 0.27	1.0	\$ 3.57						
Retail	1.0	\$ 0.27	1.0	\$ 3.57						
Public office	1.0	\$ 0.27	1.0	\$ 3.57						
School classrooms/administration	1.0	\$ 0.27	1.0	\$ 3.57						
Churches	1.0	\$ 0.27	1.0	\$ 3.57						
Meeting halls with kitchens	1.0	\$ 0.27	1.4	\$ 5.00						
Auto service stations	1.0	\$ 0.27	1.0	\$ 3.57						
Supermarkets	1.0	\$ 0.27	2.2	\$ 3.57						
Auditoriums, theaters	1.0	\$ 0.27	1.0	\$ 3.57						
Gymnasiums w/showers	1.0	\$ 0.27	1.0	\$ 3.57						
Hotels/motels	1.0	\$ 0.27	1.0	\$ 3.57						
Mortuary	1.0	\$ 0.27	2.2	\$ 7.76						
Medical offices	1.3	\$ 0.36	1.0	\$ 3.57						
Veterinary offices	1.3	\$ 0.36	1.0	\$ 3.57						
Dental offices	1.3	\$ 0.36	1.0	\$ 3.57						
Hospitals	1.3	\$ 0.36	1.0	\$ 3.57						
Cafeteria/dining area	2.0	\$ 0.54	2.2	\$ 7.76						
Restaurants/cafes	2.0	\$ 0.54	2.2	\$ 7.76						
Bakeries	2.0	\$ 0.54	2.2	\$ 7.76						
Ice Cream/yogurt shops	2.0	\$ 0.54	2.2	\$ 7.76						
Delicatessens	2.0	\$ 0.54	2.2	\$ 7.76						
Laundry and Laundromats	3.0	\$ 0.81	1.4	\$ 5.00						
Warehouse or Storage not live/work	0.0	0.00	0.0	0.00						
Notes:										
'(1) Rates as of July 1 of each year										
'(2) Rates as of July 1, 2021										

Source: Novato Sanitary District Technical Services Department

*HCF= Hundred Cubic Feet of water use

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

Customer	2021		2012	
	EDU's	Percentage of Total	EDU's	Percentage of Total
Novato Unified School District	437.22	1.48%	397.00	1.35%
Fireman's Fund	326.11	1.11%	367.00	1.25%
Vintage Oaks Shopping Center (not including Costco or Target)	227.07	0.77%	285.00	0.97%
BioMarin Pharmaceutical	210.50	0.71%	197.00	0.67%
Hamilton Hangars (3-10)	149.47	0.51%	173.00	0.59%
Buck Institute	117.36	0.40%	67.63	0.23%
Nave Merchant Assoc	113.30	0.38%	164.00	0.56%
City Of Novato	100.74	0.34%	57.00	0.19%
Novato Fair Shopping Center	98.66	0.33%	118.00	0.40%
Marin Community College District	96.26	0.33%	72.68	0.25%
Total EDUs: Principal customers	1,876.69	6.37%	1,898.31	6.46%
Total Equivalent Dwelling Units (EDUs)	29,494.48	100.00%	29,334.08	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	
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	(8,452,039)	10,525,909	4,449,171	2,567,765	7,016,936	1.500
2016	19,453,246	(8,392,467)	11,060,779	4,565,431	2,450,757	7,016,188	1.576
2017	20,493,547	(9,173,987)	11,319,560	4,673,762	2,325,634	6,999,396	1.617
2018	21,529,150	(9,131,926)	12,397,224	4,804,212	2,178,527	6,982,739	1.775
2019	22,803,516	(8,457,722)	14,345,794	4,741,834	1,907,209	6,649,043	2.158
2020	24,914,974	(10,221,539)	14,693,435	4,300,000	2,982,940	7,282,940	2.018
2021	25,726,067	(9,881,753)	15,844,314	3,855,000	2,809,604	6,664,604	2.377

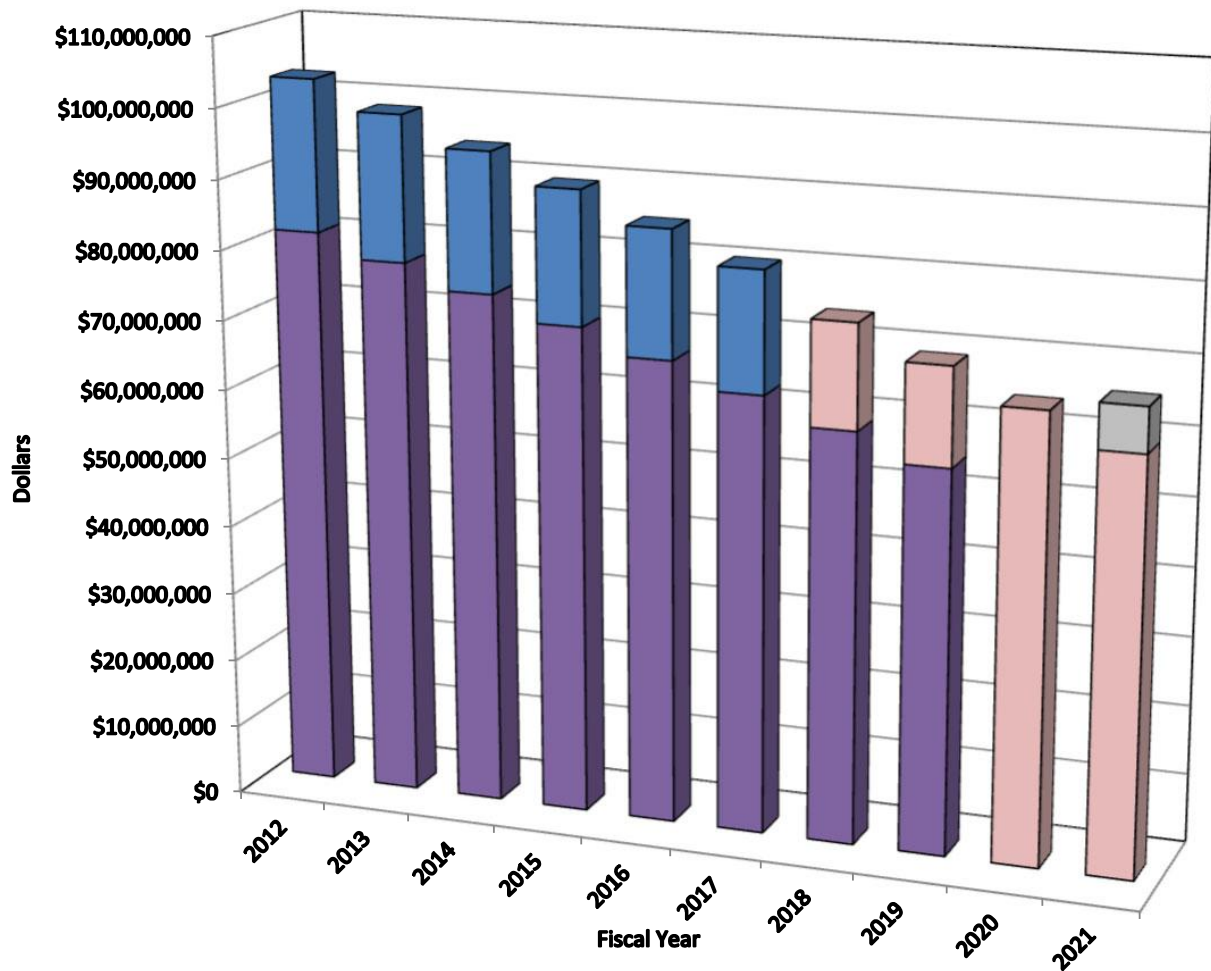
Notes:

- (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

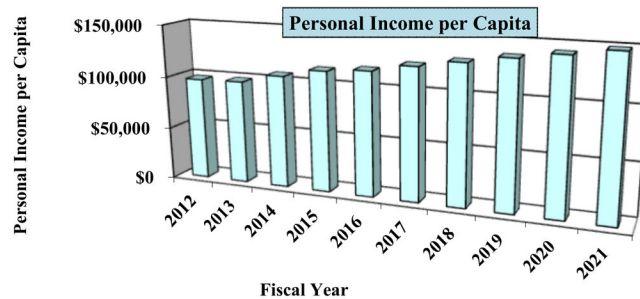
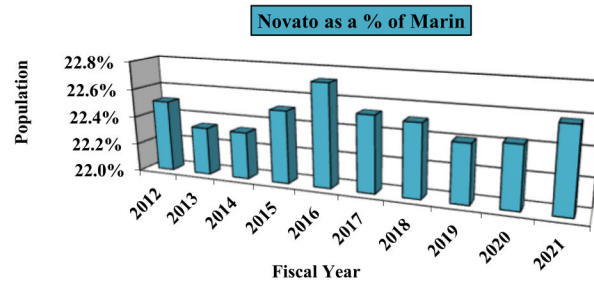
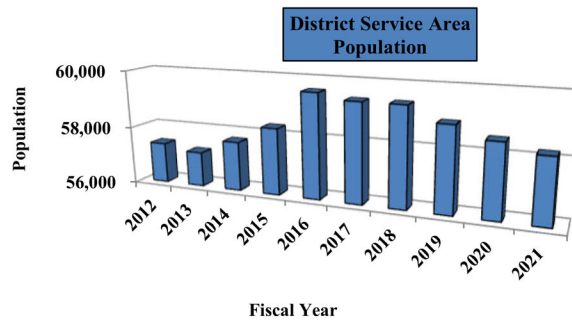
Fiscal Year	SRF Loan Payable	Certificates of Participation Bond Payable	2017 & 2019 Wastewater Revenue Bonds Payable	2020 Revenue Refunding Bonds Payable	Total		
					Debt	Per Capita	As a Share of Personal Income
2012	81,307,947	21,750,000			103,057,947	1,795.43	1.85%
2013	77,878,980	20,950,000			98,828,980	1,727.78	1.76%
2014	74,366,047	20,120,000			94,486,047	1,637.54	1.54%
2015	70,771,876	19,265,000			90,036,876	1,544.37	1.45%
2016	67,091,444	18,380,000			85,471,444	1,434.08	1.25%
2017	63,322,683	17,475,000			80,797,683	1,360.23	1.16%
2018	59,463,471	-	15,054,938		74,518,409	1,254.52	1.01%
2019	55,511,638	-	14,138,404		69,650,042	1,182.51	0.90%
2020	-	-	64,710,240		64,710,240	1,106.16	0.81%
2021	-	-	59,923,855	6,467,000	66,390,855	1,140.74	0.77%



Source: Novato Sanitary District Accounting Department

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

			County of Marin ⁽²⁾			
Year	District Service Area Population (1)	Novato as a % of Marin	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2012	57,400	22.5%	7.9%	255,031	24,807,885	97,274
2013	57,200	22.3%	6.0%	256,069	25,146,744	98,203
2014	57,700	22.3%	4.8%	258,365	27,528,274	106,548
2015	58,300	22.5%	3.9%	258,972	29,640,640	114,455
2016	59,600	22.7%	4.3%	262,274	30,830,833	117,552
2017	59,400	22.5%	3.0%	263,604	32,832,405	124,552
2018	59,400	22.5%	2.5%	263,886	34,510,906	130,780
2019	58,900	22.4%	2.4%	262,879	36,098,171	137,319
2020	58,500	22.4%	10.1%	260,831	38,739,605	142,811
2021	58,200	22.6%	4.8%	257,774	38,285,568	148,524



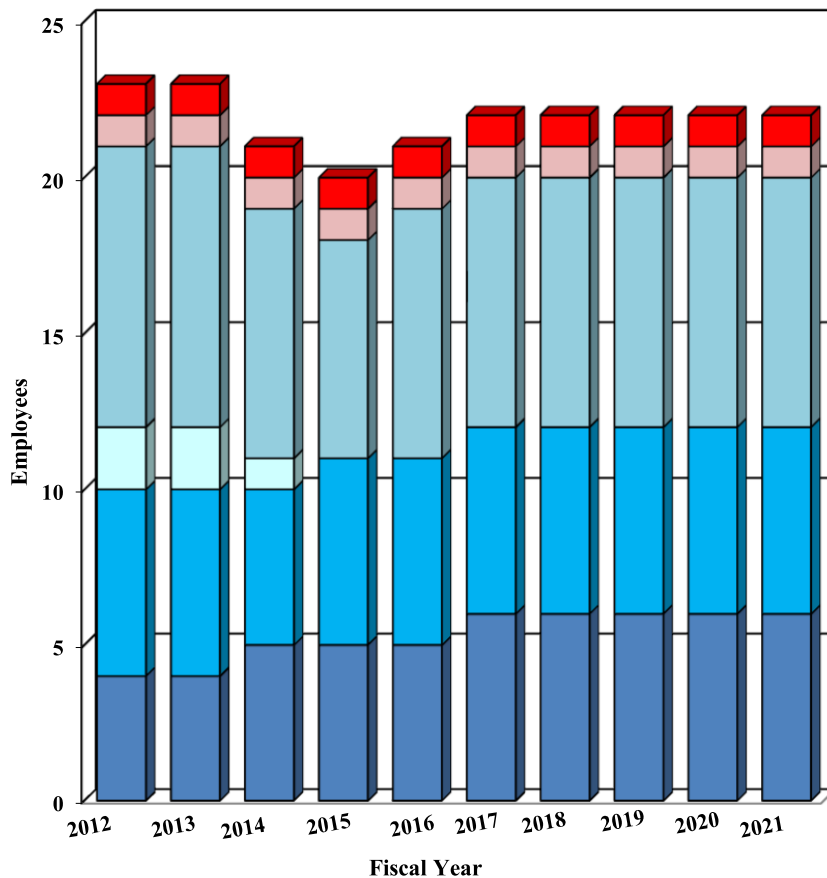
Notes:

- (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, Federal Reserve Economic Data(FRED)
<http://fred.stlouisfed.org> and Bureau of Labor Statistics

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

Employees										
Department	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Administration	4	4	5	5	5	6	6	6	6	6
Engineering	6	6	5	6	6	6	6	6	6	6
Lab Services	2	2	1	0	0	0	0	0	0	0
Operations	0	0	0	0	0	0	0	0	0	0
Collections	9	9	8	7	8	8	8	8	8	8
Maintenance	1	1	1	1	1	1	1	1	1	1
Safety	1	1	1	1	1	1	1	1	1	1
Total	23	23	21	20	21	22	22	22	22	22



Notes:

The Treatment Plant Operations were contracted out to Veolia Water beginning in 2009.

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)
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
2019	264	42	5.52	7.00	1,998
2020	264	42	4.23	7.00	1,548
2021	266	42	3.65	7.00	1,333

Notes:

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.