

Novato Sanitary District
Novato, California



Annual Comprehensive Financial Report

For the Fiscal Years Ended
June 30, 2022
&
June 30, 2021

This Page Left Intentionally Blank

NOVATO SANITARY DISTRICT, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021)

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

Prepared by:

Sandeep Karkal, General Manager – Chief Engineer
Elena Kurakina, Finance Officer

This Page Left Intentionally Blank

NOVATO SANITARY DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2022

Table of Contents

INTRODUCTORY SECTION

Page

Letter of Transmittal	i
Board of Directors as of June 30, 2022.....	x
Organizational Chart.....	xi
GFOA Award Certificate for June 30, 2021	xii

FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT	1
---	----------

MANAGEMENT’S DISCUSSION AND ANALYSIS.....	5
--	----------

BASIC FINANCIAL STATEMENTS

Statements of Net Position.....	12
Statements of Revenues, Expenses and Changes in Net Position.....	13
Statements of Cash Flows	14
Notes to Basic Financial Statements	17

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Plan’s Proportionate Share of the Net Pension Liability (Asset) and Related Ratios as of the Measurement Date	48
Schedule of Contributions	49
Schedule of Changes in Net OPEB Liability and Related Ratios	50
Schedule of OPEB Contributions	51

NOVATO SANITARY DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2022

Table of Contents (Continued)

STATISTICAL SECTION

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

Introductory Section

This Page Left Intentionally Blank



November 14, 2022

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 the fiscal year ended June 30, 2022, 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, 2022 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, 2022 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, and increasingly the heightened global inflationary environment are obviously major (or macro) factors in any discussion of financial conditions and are discussed separately later in this letter.

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 11.6% and 11.4% of the District's total revenue (including capital contributions) respectively for FYE 2022 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. At the time, it was anticipated that future updates would be prepared as needed, and accordingly, in FYE 2022, the District retained Hildebrand Consulting to prepare a new Sewer Rate Study. Upon completing the appropriate Proposition 218 process, and after a duly noticed public hearing on May 9, 2022, the District Board approved the 2022 Sewer Rate Study, and adopted District Ordinance No. 123 adopting schedules of sewer service charges for each year from FY 2022-23 through FY 2026-27. (Note however, at a Special Meeting of August 5, 2022, the Board adopted Resolution No 3169, which noted that maintaining the FY 2020-21 sewer service charge rates for FY 22-23 would not negatively impact the financial health or stability of the District; and proceeded to set FY 22-23 rates to maintain the FY 20-21 rates, thereby setting a third consecutive year of charges at the FY 20-21 rates).

Also, over the years the District has strategically taken advantage of capital market conditions to lower its debt costs. For example, 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).

Similarly, 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.

This was followed in FYE 2021 by a refinancing of the District's 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.

In FYE 2022, the District was faced with an increasingly inflationary environment, and lower interest income on reserve funds invested in its Local Agency Investment Fund (LAIF) account relative to comparable US Treasury securities. Accordingly, the District invested in a laddered portfolio of US Treasury securities ranging in maturities from 6-months to 5 years, as permitted by Government Code 53600.3. Going forward, the District anticipates investing its reserves strategically in both LAIF and US Treasuries to maximize interest income on its reserve funds.

Impact of COVID-19 and Inflation

Finances: For FYE 2022, the District's revenues remained relatively unaffected from the COVID-19 pandemic and heightened inflation. Going forward, it is anticipated there may be significant impacts to the District's revenues and finances in general, may be not so much from COVID-19 but from how inflationary trends will continue to impact the local economy. As mentioned earlier, SSCs and apportioned property taxes constitute a 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 should become clearer after about January 2023, and will be addressed as needed in future budget review and financial planning efforts.

Operating Activities: The District continued (and will continue) to adjust its operating activities to minimize potential COVID-19 impacts, consistent with guidance/requirements of local, state, and federal health authorities, through measures such as enhanced safety protocols, modified work schedules and virtual meetings, etc. Also, while inflationary cost increases did not significantly impact 2022 operating activities, it is anticipated that there may be more significant impacts going forward, largely from factors out of the District's control.

Capital Improvements Program: The effects of COVID (supply chain issues) and inflation (accelerating labor and material prices), continue to be challenges in implementing capital improvement related projects. However, consistent with its history of responsive and cost-effective capital project management, the District continues to plan and prioritize project timelines, activities/sub-activities, and expenditures to timely respond to these challenges.

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 12%), 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. As discussed earlier, 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 and in US Treasury securities of appropriate durations and maturities.

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 these projects.
- 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 2022 the District contributed \$68,000 for the replacement of thirty-four 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.
In FYE 2022, after several years of planning and design effort, the District began construction on multiple major collection system improvement and pump station upgrade projects. In addition, the District continues to explore implementing cogeneration and alternative energy projects to both optimize its energy costs and reduce its carbon footprint. For example, the District has received a \$2.13 million grant commitment from the California Energy Commission (CEC)/PGE funded Small Generator Incentive Program (SGIP) for installation of a 754 kW Battery Energy Storage System (BESS) that will enable the District to optimize its energy use, especially during grid-related peak demand periods.

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 and Senate Bill (SB) 1383. 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 2022, 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, and implementing provisions of Senate Bill 1383, California's "Short-Lived Climate Pollutant Reduction Strategy".

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 former Finance Officer, and Elena Kurakina, the District's current Finance officer, for their 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

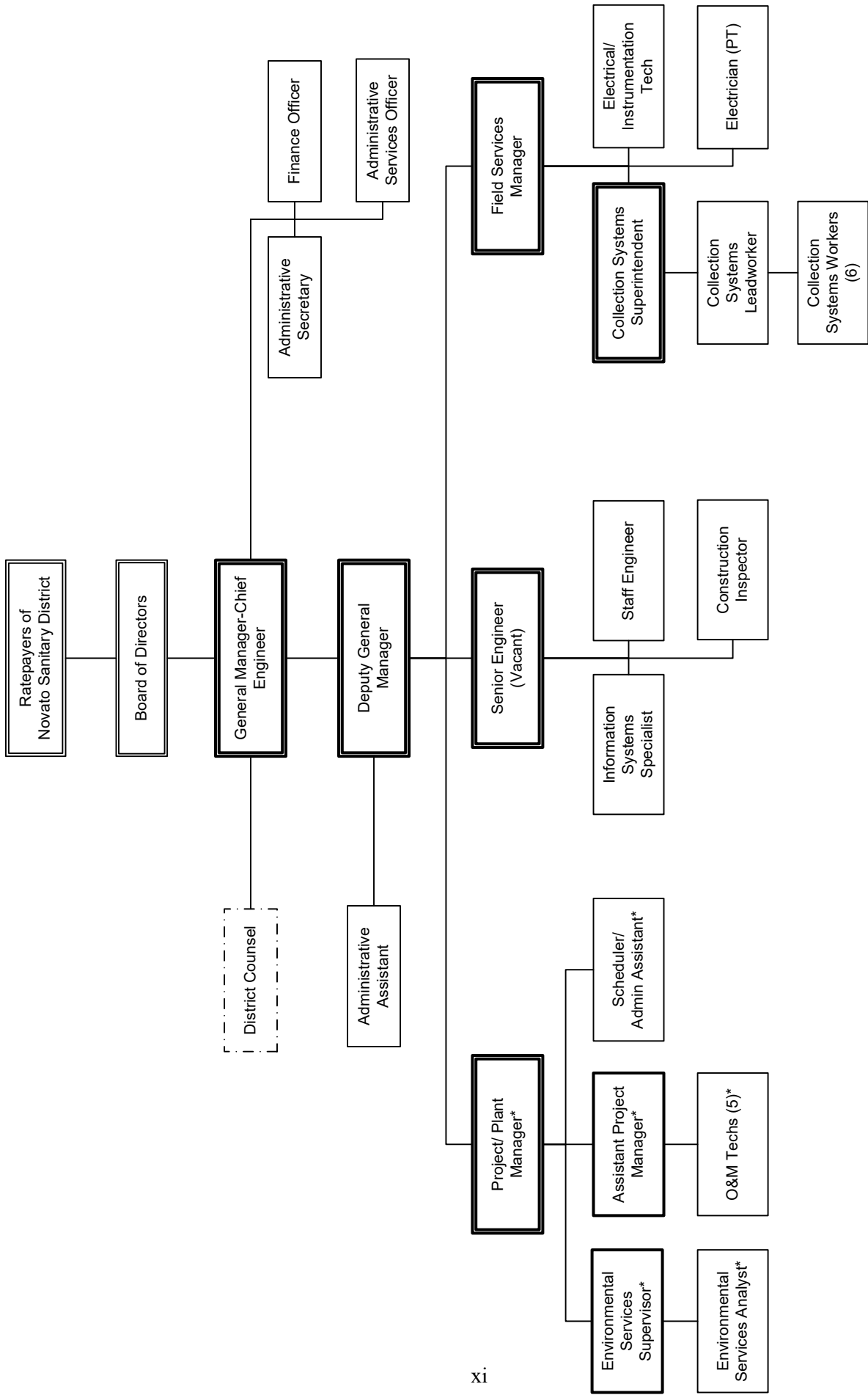
Leaders in Protecting the Environment

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, 2022

Name	Title	Elected/ Appointed	First Seated on Board	Current Term *
Timothy Fvette	President	Elected	07/2019	12/20-11/22
William C. Long	Director	Elected	12/2001	12/18-11/22
Carole Dillon-Knutson	Director	Elected	12/2015	11/18-11/22
Jean Mariani	Director	Elected	05/2011	11/20-11/24
A. Gerald Peters	Director	Elected	12/2011	11/20-11/24

Sandeep Karkal, P.E.
General Manager - Chief Engineer
500 Davidson Street
Novato, California 94945
(415) 892-1694 – www.novatosan.com



* denotes Veolia Water staff



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Novato Sanitary District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO

Financial Section

This Page Left Intentionally Blank

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Novato Sanitary District
Novato, California

Opinion

We have audited the accompanying financial statements of the business-type activities of Novato Sanitary District (District), California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as June 30, 2022, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirement relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management's 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; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2021 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 13, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 is the responsibility of management and, 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

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section and Statistical Section listed in the Table of Contents, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in black ink that reads "Mazze + Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California
November 14, 2022

This Page Left Intentionally Blank



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, 2022, and June 30, 2021. 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

- At Fiscal Year ending (FYE) 2022, the District's net position increased 10.4% or \$13,666,389 to \$145,532,296 from the prior year. In FYE 2021, the District's net position increased 5.4% or \$6,720,283 to \$131,865,907.
- In FYE 2022, the District did not raise its Sewer Service Charge (SSC) rates, i.e., rates were maintained at the prior FY 20-21 levels. Accordingly, the District's operating revenues were stable from the prior year, with a modest decrease of 0.5% or \$109,071. Comparatively, in FYE 2021, operating revenues increased 2.9% or \$581,199, primarily from an SSC rate increase of approximately 3.3%. This FYE 2021 rate increase was the final step increase in 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.
- The major (or macro) events of 2022 are COVID-19 and increasingly, the heightened global inflationary environment. While the District's operating activities were impacted by COVID-19, (albeit less so than in 2020 and 2021), its revenues were relatively unaffected by COVID-19 through FYE 2022. Similarly, accelerating inflation did not significantly affect District finances in FYE 2022. However, it is anticipated that both events (but inflation in particular) may have significant effects on District finances going forward. Given the District's collection of most of its revenues (SSCs and property tax related) on County tax rolls, these impacts may be clearer after about January 2023, and will be addressed as needed in future budget review and financial planning efforts. Also, supply chain issues and inflationary cost increases continue to challenge capital improvement related projects. More discussion is provided herein in the sections titled "Impact of COVID-19 and Inflation".

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 on District activities and performance 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

	2022	2021	\$ Change	2020	\$ Change
ASSETS					
Current Assets	41,693,278	39,765,605	1,927,673	33,871,350	5,894,255
Capital Assets	165,633,145	164,141,926	1,491,219	167,722,819	
Total assets	207,326,423	203,907,530	3,418,893	201,594,169	2,313,361
Deferred Outflow of Resources (Note 7&10)	8,134,453	8,297,935	(163,482)	1,680,904	6,617,031
LIABILITIES					
Current liabilities	7,297,110	7,648,449	(351,339)	6,759,280	889,169
Non-current Liabilities	57,968,530	71,132,932	(13,164,402)	69,942,386	
Total liabilities	65,265,640	78,781,381	(13,515,741)	76,701,666	2,079,715
Deferred Inflows of Resources (Note 7&10)	4,662,940	1,558,177	3,104,763	1,427,783	130,394
NET POSITION (Note 8)					
Net investment in capital assets	94,576,434	104,218,071	(9,641,637)	103,012,579	1,205,492
Restricted	12,044,742	2,284,858	9,759,884	1,788,976	495,882
Unrestricted	38,911,120	25,362,978	13,548,142	20,344,069	5,018,909
Total net position	145,532,296	131,865,907	13,666,389	125,145,624	6,720,283

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 \$145,532,296 and \$131,865,907 as of June 30, 2022 and June 30, 2021, respectively.

By far the largest portion of the District's net position (65% and 79% as of June 30, 2022 and June 30, 2021, 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 2022 and 2021, the District showed a positive balance in its unrestricted net position of \$38,911,120 and \$25,362,978 respectively, which may be utilized in future years, (see Note 8 for further discussion).

Statement of Revenues, Expenses and Changes in Net Position

	2022	2021	\$ Change	2020	\$ Change
REVENUE					
Operating revenues	20,528,176	20,637,247	(109,071)	20,056,048	581,199
Non-operating revenues	2,818,014	3,073,327	(255,313)	3,247,090	(173,763)
Total revenues	23,346,190	23,710,574	(364,384)	23,303,138	407,436
EXPENSES					
Operating expenses	3,833,946	9,881,753	(6,047,807)	10,221,539	(339,786)
Depreciation and amortization	6,296,841	6,314,427	(17,586)	6,119,229	195,198
Non-operating expenses	1,676,270	2,435,482	(759,212)	2,482,928	(47,446)
Total expenses	11,807,057	18,631,662	(6,824,605)	18,823,696	(192,034)
Net income before capital contributions	11,539,133	5,078,912	6,460,221	4,479,442	599,470
Capital contributions	2,127,256	1,641,371	485,885	1,111,824	529,547
Change in net position	13,666,389	6,720,283	6,946,106	5,591,266	1,129,017
Net position, beginning of year	131,865,907	125,145,624	6,720,283	119,554,358	5,591,266
Net position, end of year	145,532,296	131,865,907	13,666,389	125,145,624	6,720,283

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 2022, the District's total revenues *decreased* by 1.5% or \$364,384. A significant portion of the decrease was under non-operating revenue; a \$255,313 loss of interest in the PARS pension trust account reflecting market conditions during the year. The District's sewer service charge (SSC) revenues decreased modestly by 0.4% or \$70,371 over 2021, primarily as the District did not raise its SSC rates in FY 21-22, i.e., maintained SSC rates at the prior FY 20-21 levels. In 2021, total revenues *increased* by \$407,436, primarily from a final step increase of about 3.3 % in 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, although these were partially offset by lower interest earnings in the District's Local Investment Agency Fund (LAIF) account for the 2020-21 period.
- In 2022, the District's total expenses *decreased* by 36.6% or \$6,824,605. In 2021, the District's total expenses *decreased* by 1.0% or \$192,034. A significant portion of the 2022 decrease is attributable to a one-time accrual basis decrease in pension expense resulting from a combination of paying-off CalPERS unfunded accrual liabilities (UAL) with bonds issued in the prior fiscal year, and changes made by CalPERS to the District's actuarially

derived CalPERS Net Pension Liability (NPL).

- In 2022, the District's net position *increased* by 10.4% or \$13,666,389. In 2021, the District's net position increased by 5.4% or \$6,720,283. The current year's increase is due to a significant reduction in expenses of 36.6%. The prior year's increase is 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

	2022	2021	\$ Change	2020	\$ Change
OPERATING REVENUE					
Sewer service charges	19,567,567	19,637,938	(70,371)	19,111,326	526,612
Other service charges	203,489	206,659	(3,170)	233,963	(27,304)
Permit, inspection and other fees	35,330	88,715	(53,385)	41,583	47,132
Recycled water facility	250,540	251,632	(1,092)	234,916	16,716
AB939 - solid waste programs	471,250	452,303	18,947	434,260	18,043
Total operating revenues	20,528,176	20,637,247	(109,071)	20,056,048	581,199
NON-OPERATING REVENUE					
Property taxes	2,830,459	2,704,092	126,367	2,580,039	124,053
Franchise fees	61,196	59,613	1,583	60,113	(500)
Rental revenue	38,355	38,071	284	(24,429)	62,500
Interest earnings	(93,841)	289,394	(383,235)	640,601	(351,207)
Gain/(loss) on sale/disposition of assets	(18,155)	(17,843)	(312)	(9,234)	(8,609)
Grant revenue	-	-	-	-	-
Total non-operating revenues	2,818,014	3,073,327	(255,313)	3,247,090	(173,763)
Total revenues	23,346,190	23,710,574	(364,384)	23,303,138	407,436

In summary, total revenues decreased by \$364,384 and increased by \$407,436 in fiscal years 2022 and 2021, respectively.

Operating and Non-Operating Expenses

	2022	2021	\$ Change	2020	\$ Change
OPERATING EXPENSES					
Collection system	1,341,311	1,193,727	147,584	1,097,245	96,482
Treatment plant	3,198,324	3,046,982	151,342	2,998,835	48,147
Reclamation and disposal	536,597	476,034	60,563	442,917	33,117
Laboratory and monitoring	566,720	543,941	22,779	554,456	(10,515)
Pump stations	820,334	787,009	33,325	723,498	63,511
AB939 - solid waste programs	439,314	382,985	56,329	234,916	148,069
Recycled water	247,917	251,633	(3,716)	318,882	(67,249)
Administration and engineering	2,409,418	2,092,252	317,166	2,022,473	69,779
Non-Departmental	563,017	408,761	154,256	406,421	2,340
OPEB expense (Note 7)	84,550	(222,833)	307,383	280,715	(503,548)
Pension expense (Note 10)	(6,373,556)	921,262	(7,294,818)	1,141,181	(219,919)
Total operating expenses	3,833,946	9,881,753	(6,047,807)	10,221,539	(339,786)
DEPRECIATION EXPENSE	6,296,841	6,314,427	(17,586)	6,119,229	195,198
NON-OPERATING EXPENSES					
Interest expense	1,465,943	1,878,218	(412,275)	2,051,555	(173,337)
Other non-operating expenses	210,327	557,264	(346,937)	431,373	125,891
Total non-operating expenses	1,676,270	2,435,482	(759,212)	2,482,928	(47,446)
Total expenses	11,807,057	18,631,662	(6,824,605)	18,823,696	(192,034)

In summary, as discussed in detail earlier, total expenses decreased by \$6,824,605 and decreased by \$192,034 in fiscal years 2022 and 2021, respectively.

Capital Asset Administration

Changes in capital assets amounts for 2022 were as follows:

	Balance 2021	Additions	Transfers/ Deletions	Balance 2022
Capital assets				
Non-depreciable assets	8,853,572	2,654,881	(584,396)	10,924,057
Depreciable assets	251,015,468	2,092,489	(27,507)	253,080,450
Accumulated depreciation	(95,727,114)	(6,296,841)	9,352	(102,014,603)
Total capital assets, net	164,141,926	(1,549,471)	(602,551)	161,989,904

Changes in capital assets amounts for 2021 were as follows:

	Balance 2020	Additions	Transfers/ Deletions	Balance 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

At the end of fiscal year 2022 and 2021, the District's investment in capital assets amounted to \$161,989,904 and \$164,141,926 (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 2022 were as follows:

	Balance 2021	Additions	Deletions	Balance 2022
2017 Wastewater Revenue Bonds	10,950,000	-	(890,000)	10,060,000
2019 Wastewater Revenue Bonds	39,660,000	-	(3,155,000)	36,505,000
2020 Taxable Revenue Refunding Bonds	6,467,000	-	(234,000)	6,233,000
Total long-term debt	57,077,000	-	(4,279,000)	52,798,000

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

	Balance 2020	Additions	Deletions	Balance 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

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 and heightened global inflationary impacts (discussed below), at this time 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 and Inflation

Finances: For FYE 2022, the District's revenues remained relatively unaffected from the COVID-19 pandemic and heightened inflation. Going forward, it is anticipated there may be significant impacts to the District's revenues and finances in general, maybe not so much from COVID-19, but rather from how inflationary trends will continue to impact the local economy. As mentioned earlier, SSCs and apportioned property taxes constitute a 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 should become clearer after about January 2023, and will be addressed as needed in future budget review and financial planning efforts.

Operating Activities: The District continued (and will continue) to adjust its operating activities to minimize potential COVID-19 impacts, consistent with guidance/requirements of local, state, and federal health authorities, through measures such as enhanced safety protocols, modified work schedules and virtual meetings, etc. Also, while inflationary cost increases did not significantly impact 2022 operating activities, it is anticipated that there may be more significant impacts going forward, largely from factors out of the District's control.

Capital Improvements Program: The effects of COVID (supply chain issues) and inflation (accelerating labor and material prices), continue to be challenges in implementing capital improvement related projects. However, consistent with its history of responsive and cost-effective capital project management, the District continues to plan and prioritize project timelines, activities/sub-activities, and expenditures to timely respond to these challenges.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager-Chief Engineer, or the District's Finance Officer, at (415) 892-1694 or 500 Davidson Street, Novato, California, 94945.

Basic Financial Statements

NOVATO SANITARY DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$28,935,455	\$37,057,078
Restricted - cash and investments (Note 2)	12,044,742	2,284,858
Accounts receivable, net (Note 3)	589,192	318,286
Accrued interest receivable	64,558	29,199
Prepaid expenses and other deposits	59,331	76,183
Total current assets	41,693,278	39,765,604
NON-CURRENT ASSETS		
Capital assets - not being depreciated (Note 4)	10,924,057	8,853,572
Capital assets - being depreciated, net (Note 4)	151,065,847	155,288,354
Net pension asset (Note 10)	3,643,241	
Total non-current assets	165,633,145	164,141,926
TOTAL ASSETS	207,326,423	203,907,530
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related (Note 7)	779,955	614,657
Pension related (Note 10)	7,354,498	7,683,278
TOTAL DEFERRED OUTFLOWS	8,134,453	8,297,935
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,566,802	2,050,214
Customer deposits	25,500	25,500
Restricted - special assessment payable	104,914	124,480
Accrued interest payable	1,014,039	1,120,750
Long-term liabilities - due within one year:		
Compensated absences (Note 5)	54,855	48,505
Wastewater Revenue Refunding Bonds (Note 6)	4,531,000	4,279,000
Total current liabilities	7,297,110	7,648,449
NON-CURRENT LIABILITIES		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 5)	164,565	145,514
Wastewater Revenue Refunding Bonds (Note 6)	56,649,470	62,111,855
Net OPEB liability (Note 7)	1,154,495	2,379,063
Net pension liability (Note 10)		6,496,500
Total non-current liabilities	57,968,530	71,132,932
TOTAL LIABILITIES	65,265,640	78,781,381
DEFERRED INFLOWS OF RESOURCES		
OPEB related (Note 7)	794,360	1,127,002
Pension Related (Note 10)	3,868,580	431,175
TOTAL DEFERRED INFLOWS OF RESOURCES	4,662,940	1,558,177
NET POSITION (Note 8)		
Net investment in capital assets	94,576,434	104,218,071
Restricted - Pension Trust	12,044,742	2,284,858
Unrestricted	38,911,120	25,362,978
TOTAL NET POSITION	\$145,532,296	\$131,865,907

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
OPERATING REVENUES		
Sewer service charges	\$19,567,567	\$19,637,938
Other service charges	203,489	206,659
Permit, inspection and other fees	35,330	88,715
Recycled water facility	250,540	251,632
AB939 - solid waste programs	471,250	452,303
Total operating revenues	<u>20,528,176</u>	<u>20,637,247</u>
OPERATING EXPENSES		
Collection system	1,341,311	1,193,727
Treatment plant	3,198,324	3,046,982
Reclamation and disposal	536,597	476,034
Laboratory and monitoring	566,720	543,941
Pump stations	820,334	787,009
AB939 - solid waste programs	439,314	382,985
Recycled water	247,917	251,633
Administrative and engineering	2,409,418	2,092,252
Non-Departmental	563,017	408,761
OPEB expense (Note 7)	84,550	(222,833)
Pension expense (credit) (Note 10)	(6,373,556)	921,262
Total operating expenses	<u>3,833,946</u>	<u>9,881,753</u>
Operating income before depreciation	16,694,230	10,755,494
Depreciation (Note 4)	(6,296,841)	(6,314,427)
OPERATING INCOME	<u>10,397,389</u>	<u>4,441,067</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,830,459	2,704,092
Franchise fees	61,196	59,613
Rental revenue	38,355	38,071
Interest income	(93,841)	289,394
Interest expense	(1,465,943)	(1,878,218)
Loss on sale/disposition of capital assets	(18,155)	(17,843)
Other non-operating revenue (expenses)	(210,327)	(557,264)
Total nonoperating revenues (expenses), net	<u>1,141,744</u>	<u>637,845</u>
Net income (loss) before capital contributions	<u>11,539,133</u>	<u>5,078,912</u>
CAPITAL CONTRIBUTIONS		
Connection fees	2,068,106	1,417,471
Capital contributions	59,150	223,900
Total capital contributions	<u>2,127,256</u>	<u>1,641,371</u>
CHANGES IN NET POSITION	13,666,389	6,720,283
NET POSITION, BEGINNING OF YEAR	<u>\$131,865,907</u>	125,145,624
NET POSITION, END OF YEAR	<u>\$145,532,296</u>	<u>\$131,865,907</u>

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers for sewer service charges and services	\$20,356,821	\$20,629,836
Cash paid to or on behalf of employees for salaries, wages and benefits	(11,875,381)	(10,238,210)
Cash paid to vendors and suppliers for materials and services	(743,836)	(6,280,087)
Cash Flows from Operating Activities	7,737,604	4,111,539
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,830,459	2,704,092
Cash Flows from Noncapital Financing Activities	2,830,459	2,704,092
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,103,824)	(2,751,377)
Connection fees	2,068,106	1,417,471
Net proceeds from issuance of debt		6,467,000
Payment to bond escrow agent		(260,757)
Principal payments on long-term debt	(5,210,385)	(3,855,000)
Interest payments on long-term debt	(1,554,499)	(2,336,352)
Cash Flows (used for) Capital and Related Financing Activities	(8,800,602)	(1,319,015)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	(129,200)	362,537
Cash Flows from Investing Activities	(129,200)	362,537
NET CASH FLOWS	1,638,261	5,859,153
Cash, beginning of year	39,341,936	33,482,783
Cash, end of year	\$40,980,197	\$39,341,936
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$28,935,455	\$37,057,078
Restricted - cash and cash equivalents	12,044,742	2,284,858
Total cash and cash equivalents	\$40,980,197	\$39,341,936

(Continued)

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$10,397,389</u>	<u>\$4,441,067</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,296,841	6,314,427
Other non-operating revenues	99,551	115,527
Other non-operating expenses	(228,482)	(557,264)
Change in assets and liabilities:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable - sewer services	(270,906)	(105,095)
Prepaid expenses and other deposits	16,852	(3,149)
OPEB related deferred outflows of resources	(165,298)	(339,680)
Pension related deferred outflows of resources	328,780	(6,277,351)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(483,412)	476,137
Customer deposits		
Restricted - special assessment payable	(19,566)	(13,598)
Compensated absences	25,401	(15,230)
Net OPEB liability	(1,224,568)	(561,034)
Collective net pension liability	(10,139,741)	506,388
OPEB related deferred inflows of resources	(332,642)	356,504
Pension related deferred inflows of resources	<u>3,437,405</u>	<u>(226,110)</u>
Total adjustments	<u>(2,659,785)</u>	<u>(329,528)</u>
Net cash provided by operating activities	<u><u>\$7,737,604</u></u>	<u><u>\$4,111,539</u></u>
Schedule of Non-Cash Investing and Financing Activities:		
Capital contributions	\$59,150	\$223,900
Loss on disposition of capital assets	(18,155)	(17,843)

See accompanying notes to financial statements

This Page Left Intentionally Blank

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

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 Year Ended June 30, 2022**

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 Year Ended June 30, 2022

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 assets 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 Year Ended June 30, 2022

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.

P. *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, 2021, from which the summarized information was derived.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

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

Q. New Accounting Standards

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement were implemented during fiscal year 2022. The District does not currently have any leases.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The provisions of this Statement were implemented during fiscal year 2022. The implementation had no effect on the financial statements.

GASB Statement No. 93 – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The provisions of this Statement were implemented during fiscal year 2022. The implementation had no effect on the financial statements.

GASB Statement No. 97 – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement were implemented during fiscal year 2022. This Statement had no material effect on the financial statements.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2022, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$28,935,455
Restricted cash and investments	<u>12,044,742</u>
Total Cash and Investments	<u><u>\$40,980,197</u></u>

Cash and cash equivalents as of June 30, 2022, consist of the following:

<i>Held by District:</i>	
Cash on hand	\$380
Deposits with financial institutions	62,800
Local Agency Investment Fund	28,872,275
<i>Held by Fiscal Agent:</i>	
Deposits with financial institutions	10,000,000
<i>Held by Pension Trust</i>	
Mutual funds	<u>2,044,742</u>
Total Cash and Investments	<u><u>\$40,980,197</u></u>

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 Year Ended June 30, 2022

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		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		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, 2022 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 Year Ended June 30, 2022

NOTE 2 – CASH AND INVESTMENTS (Continued)
--

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, 2022, these investments matured in an average of 311.

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, 2022, 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, 2022.

G. *Fair Value Hierarchy*

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

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

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 3 – ACCOUNTS RECEIVABLE

The District's accounts receivable consists of the following at June 30, 2022:

<u>Description</u>	
Sewer services	\$398,658
Franchise/Lease	34,112
Property tax	
Recycling	127,401
Other, net of allowance	29,021
	<u>\$589,192</u>

NOTE 4 – CAPITAL ASSETS

A. Capital Assets Activity

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

	<u>Balance June 30, 2021</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2022</u>
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,887,510	\$59,150		2,946,660
Construction-in-process	3,192,555	2,595,731	(\$584,396)	5,203,890
Total non-depreciable assets	<u>8,853,572</u>	<u>2,654,881</u>	<u>(584,396)</u>	<u>10,924,057</u>
Depreciable assets:				
Sewer system improvements	165,433,496	302,630		165,736,126
Sewer collection and outfall system	56,976,057	1,433,333		58,409,390
Sewer facilities equipment	25,855,265	171,745	(27,507)	25,999,503
Equipment	2,750,650	184,781		2,935,431
Total depreciable assets	<u>251,015,468</u>	<u>2,092,489</u>	<u>(27,507)</u>	<u>253,080,450</u>
Accumulated depreciation:				
Sewer system improvements	(63,248,494)	(4,275,763)		(67,524,257)
Sewer collection and outfall system	(18,955,486)	(884,637)		(19,840,123)
Sewer facilities equipment	(11,965,644)	(938,807)	9,352	(12,895,099)
Equipment	(1,557,490)	(197,634)		(1,755,124)
Total accumulated depreciation	<u>(95,727,114)</u>	<u>(6,296,841)</u>	<u>9,352</u>	<u>(102,014,603)</u>
Total depreciable assets, net	<u>155,288,354</u>	<u>(4,204,352)</u>	<u>(18,155)</u>	<u>151,065,847</u>
Total capital assets, net	<u><u>\$164,141,926</u></u>	<u><u>(\$1,549,471)</u></u>	<u><u>(\$602,551)</u></u>	<u><u>\$161,989,904</u></u>

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

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.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 4 – CAPITAL ASSETS (Continued)

Construction-in-process consists of the following projects as of June 30, 2022:

<u>Projects</u>	
Collection System Improvements	\$1,887,646
North Bay Water Reuse Authority *	949,186
Hamilton Wetlands Outfall Monitoring *	110,293
Novato Creek Watershed *	100,834
Cogeneration	515,982
Pump Station Improvements	861,755
Treatment Plant Improvements	7,462
Equipment In Process (vehicle repl.)	686,005
Network and SCADA Upgrades	84,727
Total	<u>\$5,203,890</u>

*These projects represent multi-year planning or feasibility/infeasibility level studies, or represent the District's contribution to projects executed by other agencies (NBWRA, County of Marin, State Coastal Conservancy, etc.). Such projects may not eventually result in "constructed" District projects that can be conventionally capitalized, in which case the cost of these projects will be expensed (rather than capitalized), and processed as a future adjustment.

NOTE 5 – COMPENSATED ABSENCES

The changes to compensated absences balances consist of the following at June 30, 2022:

<u>Balance 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2022</u>	<u>Due Within One Year</u>
\$194,019	\$49,164	(\$23,763)	\$219,420	\$54,855

NOTE 6 – LONG-TERM DEBT

A. Long-Term Debt Activity

Changes in long-term debt amounts for 2021-2022 were as follows:

	<u>Balance June 30, 2021</u>	<u>Retirements</u>	<u>Balance June 30, 2022</u>	<u>Due within one year</u>
Long-term debt:				
2017 Wastewater Revenue Refunding Bonds	\$10,950,000	(\$890,000)	\$10,060,000	\$920,000
Add: Unamortized premium	1,265,337	(126,533)	1,138,804	
2019 Wastewater Revenue Refunding Bonds	39,660,000	(3,155,000)	36,505,000	3,310,000
Add: Unamortized premium	8,048,518	(804,852)	7,243,666	
2020 Wastewater Revenue Refunding Bonds	6,467,000	(234,000)	6,233,000	301,000
Total long-term debt	<u>\$66,390,855</u>	<u>(\$5,210,385)</u>	<u>\$61,180,470</u>	<u>\$4,531,000</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

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>
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	4,025,000	1,062,850	5,087,850
2028-2031	<u>18,210,000</u>	<u>2,136,150</u>	<u>20,346,150</u>
Total	<u><u>\$36,505,000</u></u>	<u><u>\$9,277,900</u></u>	<u><u>\$45,782,900</u></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 Year Ended June 30, 2022

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
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	1,110,000	305,250	1,415,250
2028-2031	4,995,000	639,250	5,634,250
Total	<u>\$10,060,000</u>	<u>\$2,671,500</u>	<u>\$12,731,500</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 Year Ended June 30, 2022

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:

Fiscal Year	Principal	Interest	Total
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	330,000	124,450	454,450
2028-2032	1,776,000	499,738	2,275,738
2033-2037	2,000,000	383,561	2,383,561
2038-2039	878,000	132,600	1,010,600
Total	<u>\$6,233,000</u>	<u>\$1,713,796</u>	<u>\$7,946,796</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 Year Ended June 30, 2022

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>2022*</u>	<u>2021*</u>	<u>2020*</u>
Active plan members	18	18	18
Retirees and beneficiaries receiving benefits	<u>35</u>	<u>35</u>	<u>36</u>
Total plan membership	<u><u>53</u></u>	<u><u>53</u></u>	<u><u>54</u></u>

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

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 2022 and 2020, this minimum amount was \$149 and \$143 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 Year Ended June 30, 2022

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, 2022 and the total OPEB liability was determined by an actuarial valuation as of June 30, 2020. The actuarial assumptions included (a) 4.80% investment rate of return, (b) 2.75% projected annual salary increase, (c) 9.25% inflation rate and (d) health care cost trend rate of 5.20%-6.00% 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 6/30/22
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 Year Ended June 30, 2022

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

Investment Policy

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation 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%
	<hr/>
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, 2022, the annual money-weighted rate of return on investments, net of investment expense, was 4.80%. 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 Year Ended June 30, 2022

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2022, were as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
	(a)	(b)	(c) = (a) - (b)
Balance at June 30, 2021 (Measurement Date)	\$4,569,362	\$2,190,299	\$2,379,063
Changes Recognized for the Measurement Period:			
Service Cost	117,943		117,943
Interest on the total OPEB liability	211,730		211,730
Difference between expected and actual experience	(25,045)		(25,045)
Changes of assumptions	(90,412)		(90,412)
Contributions:			
Employer - District's contribution		1,796,954	(1,796,954)
Employer - implicit subsidy		61,282	(61,282)
Net investment income		(400,619)	400,619
Benefit payments, including refunds of employee contributions	(187,031)	(187,031)	
Implicit rate subsidy fulfilled	(61,282)	(61,282)	
Administrative Expense		(18,833)	18,833
Net Changes during July 1, 2021 to June 30, 2022	(34,097)	1,190,471	(1,224,568)
Balance at June 30, 2022 (Measurement Date)	<u>\$4,535,265</u>	<u>\$3,380,770</u>	<u>\$1,154,495</u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions:

Measurement Date	June 30, 2022
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 2022
Inflation	9.25%
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	4.80%
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 Year Ended June 30, 2022

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 4.80% as of June 30, 2022. 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, 2022, calculated using the discount rate of 4.80%, 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%
(3.80%)	Rate (4.80%)	(5.80%)
\$1,754,591	\$1,154,495	\$660,190

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 (5.00%	Trend Rates (6.00%	Trend Rates (7.00%
decreasing to 3.04%)	decreasing to 4.04%)	decreasing to 5.04%)
\$545,480	\$1,154,495	\$1,908,493

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

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, 2022, the District recognized OPEB expense of \$84,550. At June 30, 2022, 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	\$55,045	(\$402,388)
Changes of assumptions	366,149	(391,972)
Net difference between projected and actual earnings on OPEB plan investments	358,761	
Total	<u>\$779,955</u>	<u>(\$794,360)</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>
2023	(\$97,726)
2024	(45,834)
2025	47,601
2026	83,816
2027	(2,262)
	<u>(\$14,405)</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 8 – NET POSITION

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

	<u>2022</u>	<u>2021</u>
<i>Net investment in capital assets:</i>		
Capital assets - not being depreciated	\$10,924,057	\$8,853,572
Capital assets, net - being depreciated	151,065,847	155,288,354
Wastewater Revenue Refunding Bonds	(67,413,470)	(59,923,855)
Total net investment in capital assets	<u>94,576,434</u>	<u>104,218,071</u>
<i>Restricted net position:</i>		
Pension trust	<u>12,044,742</u>	<u>2,284,858</u>
Total restricted net position	<u>12,044,742</u>	<u>2,284,858</u>
<i>Unrestricted net position:</i>		
Non-spendable net position:		
Prepaid expenses and deposits	<u>59,331</u>	<u>76,183</u>
Total non-spendable net position	<u>59,331</u>	<u>76,183</u>
Spendable net position:		
Undesignated net position reserve	<u>38,851,789</u>	<u>25,286,795</u>
Total spendable net position	<u>38,851,789</u>	<u>25,286,795</u>
Total unrestricted net position	<u>38,911,120</u>	<u>25,362,978</u>
Total net position	<u><u>\$145,532,296</u></u>	<u><u>\$131,865,907</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, 2022 amounted to \$3,762,221. The plan's Trust administrator for the Voya Plan is CalPERS and the Lincoln Plan Trust administrator is Sandeep Karkal.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

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

The District also offers a 401(a) Plan (Plan) to management and confidential employees. The District contributes 2.5% of base salary for all qualified employees, with the exception of the General Manager-Chief Engineer. The District's contribution for the General Manager-Chief Engineer is equivalent to the maximum of a 457 plan's annual contribution. Employee contributions to this Plan are mandatory for qualified employees. Market value of all Plan assets held in trust by the District's 401(a) Plan at June 30, 2022 amounted to \$1,440,839.

During fiscal year 2022, the District and employees each contributed \$53,088 and \$67,801, respectively. The total covered payroll of employees participating in the plan for the year ended June 30, 2022 was \$1,063,528. The total payroll for the year was \$2,601,858.

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 Year Ended June 30, 2022

NOTE 10 – PENSION PLANS (Continued)

The Plan provisions and benefits in effect at June 30, 2022, are summarized as follows:

	<u>Miscellaneous Tier I</u>
	<u>Prior to January 1, 2012</u>
Hire date	
Benefit formula	2% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.43% to 2.42%
Required employee contribution rates	7.00%
Required employer contribution rates	10.88%

	<u>Miscellaneous Tier II</u>
	<u>Between January 1, 2012 through December 31, 2012</u>
Hire date	
Benefit formula	2% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.09% to 2.42%
Required employee contribution rates	7.00%
Required employer contribution rates	8.65%

	<u>Miscellaneous Tier III</u>
	<u>On or after January 1, 2013</u>
Hire date	
Benefit formula	2% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	52 - 67
Monthly benefits, as a % of eligible compensation	1.0% to 2.5%
Required employee contribution rates	6.75%
Required employer contribution rates	7.59%

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 \$0 in fiscal year 2022.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 10 – PENSION PLANS (Continued)

For the year ended June 30, 2022, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions - employer	\$218,540
--------------------------	-----------

B. *Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

As of June 30, 2022, the District reported net pension liability (asset) for its proportionate share of the net pension liability (asset) of the Plan as follows:

	Proportionate Share of Net Pension Liability (Asset)
Total Net Pension Liability (Asset)	(\$3,643,241)

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, 2021, and the total pension liability for each Plan used to calculate the net pension liability (asset) was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The District's proportion of the net pension liability (asset) 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 (asset) for the Pension Plan as of June 30, 2020 and 2021 was as follows:

	Miscellaneous
Proportion - June 30, 2020	0.15402%
Proportion - June 30, 2021	-0.19187%
Change - Increase (Decrease)	-0.34589%

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 10 – PENSION PLANS (Continued)

For the year ended June 30, 2022, the District recognized pension expense of (\$6,373,556). At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$218,540	
Differences between actual and expected experience	(408,550)	
Changes in assumptions		
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	4,364,151	(3,868,580)
Net differences between projected and actual earnings on plan investments	3,180,357	
Adjustments due to differences in proportion		
Total	<u>\$7,354,498</u>	<u>(\$3,868,580)</u>

The \$218,540 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 (asset) 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:

Year Ended June 30	Annual Amortization
2023	\$732,260
2024	807,878
2025	848,353
2026	878,887
Total	<u>\$3,267,378</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 10 – PENSION PLANS (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous Tier I, II, and III</u>
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
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, 2020 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 Year Ended June 30, 2022

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)	Assumed Asset Allocation	Real Return Years 1 - 10 (2)	Real Return Years 11+ (3)
Public 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' Annual Comprehensive 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 (Asset) to Changes in the Discount Rate – The following presents the District's proportionate share of the net pension liability (asset) 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 (asset) 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 (Asset)	(\$367,027)
Current Discount Rate	7.15%
Net Pension Liability (Asset)	(\$3,643,241)
1% Increase	8.15%
Net Pension Liability (Asset)	(\$6,351,640)

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 10 – PENSION PLANS (Continued)
--

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

C. *PARS Trust*

During the fiscal year ended June 30, 2017, the District joined the Public Agencies Post-Employment Benefits Trust, a multiple employer trust administered by Public Agency Retirement Services (PARS) for the purpose of pre-funding pension obligations. At June 30, 2022, the District had a balance of \$2,044,742 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*

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy approved by the CalPERS Board in 2015, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the CalPERS Board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense, but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the CalPERS Board. These new assumptions will be reflected in the CalPERS GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

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, 2022, 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 theft, faithful performance of duty, forgery or alteration, computer fraud, and funds transfer fraud with a deductible of \$2,500 per claim.
- Special form property coverage up to \$145,538,108 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 \$1,404,608 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, 2022, 2021 and 2020. 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, 2022, 2021 and 2020.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2022

NOTE 12 – COMMITMENTS AND CONTINGENCIES
--

A. *Local Improvement District Bonds*

Within the District's boundaries, there exists Assessment District No. 2001 (Novato Heights) which was formed for the sole purpose of financing sewer system improvements. The District is not liable for repayment of any bonds issued to finance these local improvements. The District acts as the agent for the property owners within the assessment district by collecting assessments, forwarding collections to bondholders, and initiating foreclosure procedures if appropriate. The outstanding balance on these bonds as of June 30, 2022 was \$155,000

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 \$6,117,649 of open construction contracts as of June 30, 2022.

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.

This Page Left Intentionally Blank

Required Supplementary Information

NOVATO SANITARY DISTRICT
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
As of fiscal year ending June 30, 2022
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
Plan's proportion of the Net Pension Liability (Asset)	0.05361%	0.05140%	0.05494%	0.05591%	0.05675%
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
Plan's Covered Payroll	1,882,361	1,426,443	1,721,479	1,947,484	1,889,243
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%
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%
Plan's Proportionate Share of Aggregate Employer Contributions	441,326	551,726	578,932	620,318	654,101

Measurement Date:	District Miscellaneous Plan		
	6/30/2019	6/30/2020	6/30/2021
Plan's proportion of the Net Pension Liability (Asset)	0.05846%	0.05971%	-0.06736%
Plan's proportion share of the Net Pension Liability (Asset)	\$5,990,112	\$6,496,500	(\$3,643,241)
Plan's Covered Payroll	2,044,398	2,180,962	2,261,938
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	293.00%	297.87%	-161.07%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	74.38%	73.10%	114.68%
Plan's Proportionate Share of Aggregate Employer Contributions	720,545	788,670	1,119,268

*Note: Fiscal year 2015 was the first year presented and therefore, only 8 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, 2022
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

Fiscal Year	District Miscellaneous Plan				
	2015	2016	2017	2018	2019
Actuarially determined contribution	\$173,410	\$281,175	\$323,786	\$327,385	\$446,594
Contributions in relation to the actuarially determined contributions	(208,489)	(301,285)	(323,786)	(327,385)	(446,594)
Contribution deficiency (excess)	\$(35,079)	\$(20,110)	\$0	\$0	\$0
Covered payroll	\$1,426,443	\$1,721,479	\$1,947,484	\$1,889,243	\$2,044,398
Contributions as a percentage of covered payroll	14.62%	17.50%	16.63%	17.33%	21.84%

Fiscal Year	District Miscellaneous Plan		
	2020	2021	2022
Actuarially determined contribution	\$535,865	\$6,950,014	\$218,540
Contributions in relation to the actuarially determined contributions	(535,865)	(402,745)	(218,540)
Additional contributions to the Unfunded Liability		(6,547,269)	
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$2,180,962	\$2,261,938	\$2,474,295
Contributions as a percentage of covered payroll	24.57%	307.26%	8.83%

Notes to Schedule

Valuation date: 6/30/2020

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 8 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	2022
Total OPEB liability						
Service cost	\$104,860	\$108,006	\$117,613	\$61,293	\$67,131	\$117,943
Interest	251,406	256,099	244,664	272,505	246,435	211,730
Changes in benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	-	(21,960)	201,040	(31,710)	(607,392)	(25,045)
Changes of assumptions	-	277,245	(1,170,724)	13,340	537,362	(90,412)
Benefit payments	(187,852)	(277,142)	(217,800)	(202,135)	(195,746)	(187,031)
Implicit rate subsidy fulfilled	(68,761)	-	(73,458)	(23,156)	(28,799)	(61,282)
Net change in total OPEB liability	99,653	342,248	(898,665)	90,137	18,991	(34,097)
Total OPEB liability - beginning	4,916,998	5,016,651	5,358,899	4,460,234	4,550,371	4,569,362
Total OPEB liability - ending (a)	\$5,016,651	\$5,358,899	\$4,460,234	\$4,550,371	\$4,569,362	\$4,535,265
OPEB fiduciary net position						
Net investment income	\$6,933	\$2,230	\$75,128	\$90,034	\$205,474	(\$400,619)
Contributions:						
Employer - District's Contribution	887,852	382,482	606,729	403,796	581,377	1,796,954
Employer - Implicit Subsidy	68,761	74,262	73,458	23,156	28,799	61,282
Benefit payments from PARS Trust	(187,852)	(226,479)	(217,800)	(202,135)	(195,746)	(187,031)
Implicit rate subsidy fulfilled	(68,761)	(74,262)	(73,458)	(23,156)	(28,799)	(61,282)
Administrative expense	(294)	-	(2,741)	(7,609)	(11,080)	(18,833)
Net change in plan fiduciary net position	706,639	158,233	461,316	284,086	580,025	1,190,471
Plan fiduciary net position - beginning	-	706,639	864,872	1,326,188	1,610,274	2,190,299
Plan fiduciary net position - ending (b)	706,639	864,872	1,326,188	1,610,274	2,190,299	3,380,770
Plan net OPEB liability - ending (a) - (b)	\$4,310,012	\$4,494,027	\$3,134,046	\$2,940,097	\$2,379,063	\$1,154,495
Plan fiduciary net position as a percentage of the total OPEB liability	14.09%	16.14%	29.73%	35.39%	47.93%	74.54%
Covered payroll	\$1,933,573	\$1,991,580	\$1,636,626	\$1,681,633	\$2,129,440	\$2,194,832
District's Net OPEB liability as a percentage of covered payroll	222.90%	225.65%	191.49%	174.84%	111.72%	52.60%

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

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

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

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Actuarially determined contribution	\$411,241	\$401,663	\$441,931	\$126,101	\$304,864	\$311,382
Contributions in relation to the actuarially determined contribution	956,613	456,744	680,187	426,952	610,176	1,858,236
Contribution deficiency (excess)	<u>(\$545,372)</u>	<u>(\$55,081)</u>	<u>(\$238,256)</u>	<u>(\$300,851)</u>	<u>(\$305,312)</u>	<u>(\$1,546,854)</u>
Covered payroll	\$2,046,348	\$1,991,580	\$1,636,626	\$1,681,633	\$2,129,440	\$2,194,832
Contributions as a percentage of covered payroll	46.75%	22.93%	41.56%	25.39%	28.65%	84.66%

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, 2021 actuarial valuation provided the Actuarially Determined Contributions for fiscal years ending June 30, 2022.

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	9.25%
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	4.80%
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

This Page Left Intentionally Blank

Statistical Information Section

This Page Left Intentionally Blank

**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.

Table of Contents

	<u>Page No.</u>
Financial Trends	57-59
These schedules contain information to help the reader understand how the District's Financial performance and well-being have changed over time.	
Revenue Capacity	60-65
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.	

This Page Left Intentionally Blank

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

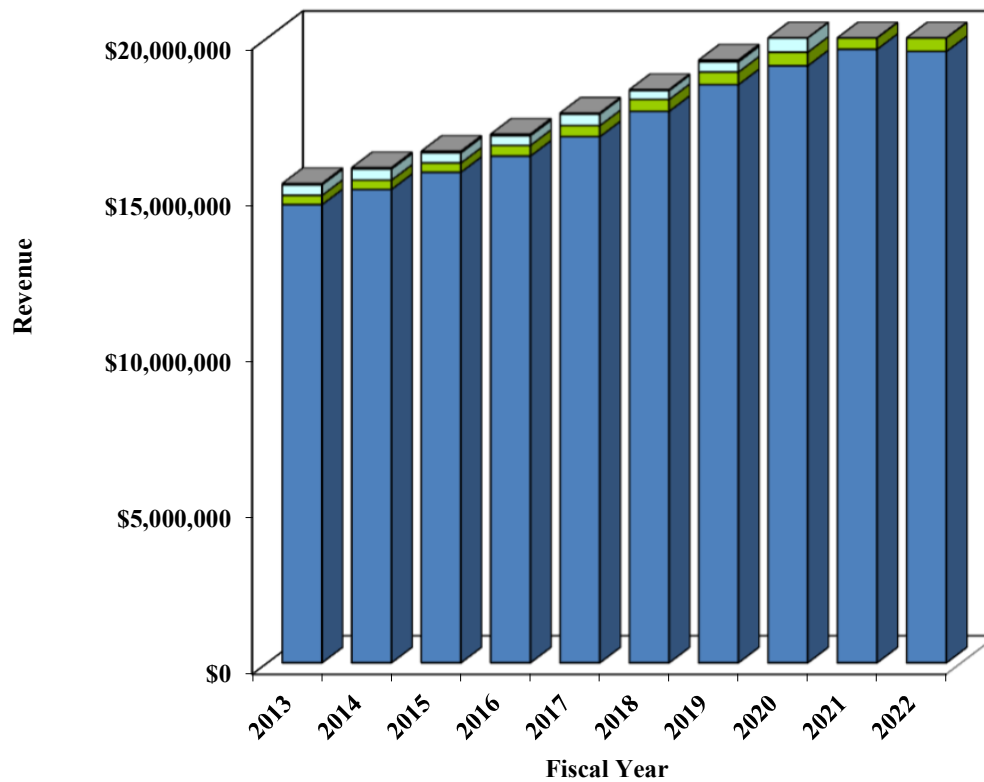
	Restated									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Changes in net position:										
Operating revenues (see Schedule 2)	15,341,561	15,849,099	16,372,320	16,919,629	17,596,116	18,344,975	19,291,206	20,056,048	20,637,247	20,528,176
Operating expenses (see Schedule 3)	(8,103,790)	(8,322,651)	(8,452,039)	(8,392,467)	(9,173,987)	(9,131,926)	(8,457,722)	(10,221,539)	(9,881,753)	(3,833,946)
Depreciation and amortization	(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)	(6,296,841)
Operating income(loss)	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	10,397,389
Non-operating revenues(expenses)										
Property taxes (see Schedule 5)	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	2,830,459
Interest	67,050	45,673	43,117	71,592	136,595	312,886	629,461	640,601	289,394	(93,841)
Interest expense	(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)	(2,397,328)
Franchise fees/Rental Income	113,416	127,708	142,597	152,589	146,924	132,090	85,854	35,684	97,685	99,551
Bond Premium Amortization*	-	-	-	-	-	-	-	931,385	931,385	931,385
Gain/(Loss) on sale/disposition of assets	2,529	(3,502,140)	13,364	-	1,627	(34,250)	(40,576)	(9,234)	(17,843)	(18,155)
Other revenue/(expense), net	(339,663)	(270,260)	(135,556)	(82,683)	40,461	(211,515)	(233,047)	(431,373)	(557,264)	(210,327)
Total non-operating revenues(expenses), net	(1,072,984)	(4,336,005)	(504,427)	(153,780)	292,961	380,935	1,037,358	764,162	637,845	1,141,744
Net income before capital contributions	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	11,539,133
Connection Fees	146,949	343,773	291,565	223,240	227,567	234,495	319,240	837,884	1,417,471	2,068,106
Capital contributions	-	202,530	250,725	13,400	200	133,035	98,354	273,940	223,900	59,150
Capital Grant	-	16,250	-	-	51,069	257,183	150,149	-	-	-
Changes in net position	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	13,666,389
Net position by component:										
Prior Year adjustment	(6,774,168)	-	(4,299,128)	-	-	(3,189,801)				
Net Investment in capital assets	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	94,576,434
Restricted						745,826	1,311,222	1,788,976	2,284,858	12,044,742
Unrestricted	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	38,911,475
Total net position	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	145,532,651

Source: Novato Sanitary District Accounting Department

* Beginning in FY2020

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

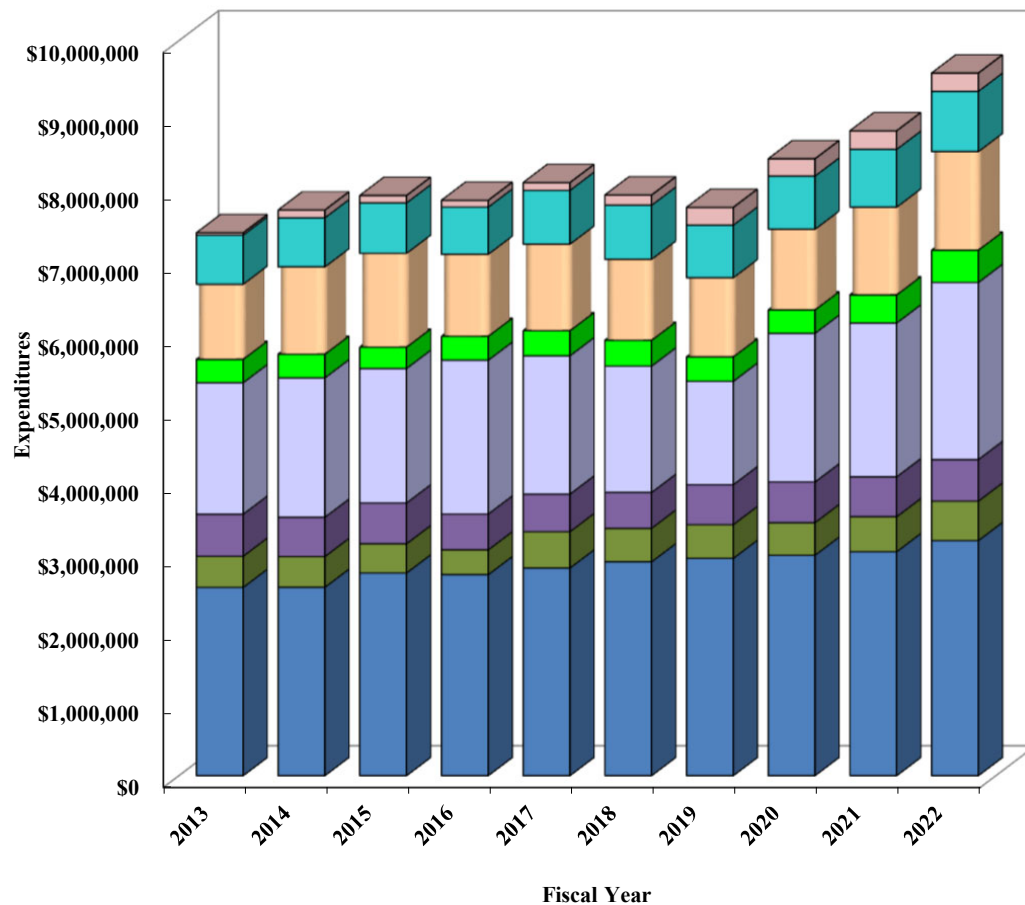
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2013	14,670,826	34,505	297,586	338,644	15,341,561
2014	15,157,903	39,023	297,586	354,587	15,849,099
2015	15,706,704	44,494	297,586	323,536	16,372,320
2016	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
2022	19,567,567	35,330	471,250	454,029	20,528,176



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
2013	1,022,006	2,561,301	423,670	572,718	668,427	31301	318,616	1,788,438	717,313	8,103,790
2014	1,188,408	2,562,314	418,748	534,959	668,841	104837	320,938	1,896,860	626,746	8,322,651
2015	1,277,022	2,757,514	398,118	555,215	686,789	100354	289,586	1,829,708	557,733	8,452,039
2016	1,116,422	2,734,327	337,887	487,624	641,965	92028	325,068	2,093,124	564,022	8,392,467
2017	1,178,118	2,824,699	493,926	512,003	731,684	105327	341,580	1,881,777	1,104,873	9,173,987
2018	1,103,000	2,909,669	456,136	487,971	735,079	138238	350,937	1,718,907	1,231,989	9,131,926
2019	1,077,449	2,957,149	458,191	543,373	715,265	241382	332,294	1,407,194	725,425	8,457,722
2020	1,097,245	2,998,835	442,917	554,456	723,498	234916	318,882	2,022,473	1,828,317	10,221,539
2021	1,193,727	3,046,982	476,034	543,941	787,009	251633	382,985	2,092,252	1,107,190	9,881,753
2022	1,341,311	3,198,324	536,597	566,720	820,334	247917	439,314	2,409,418	(5,725,989)	3,833,946



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
2013	9,618,666,723	
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%
2022	14,370,845,839	3.07%

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	Tax Levy			Tax Collections			Current Year % Collected
	Total	Prior Year	Current Year	Total	Prior Year	Current Year	
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%
2022	2,830,459	2,487	2,827,972	2,830,459	2,487	2,827,972	99.91%

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

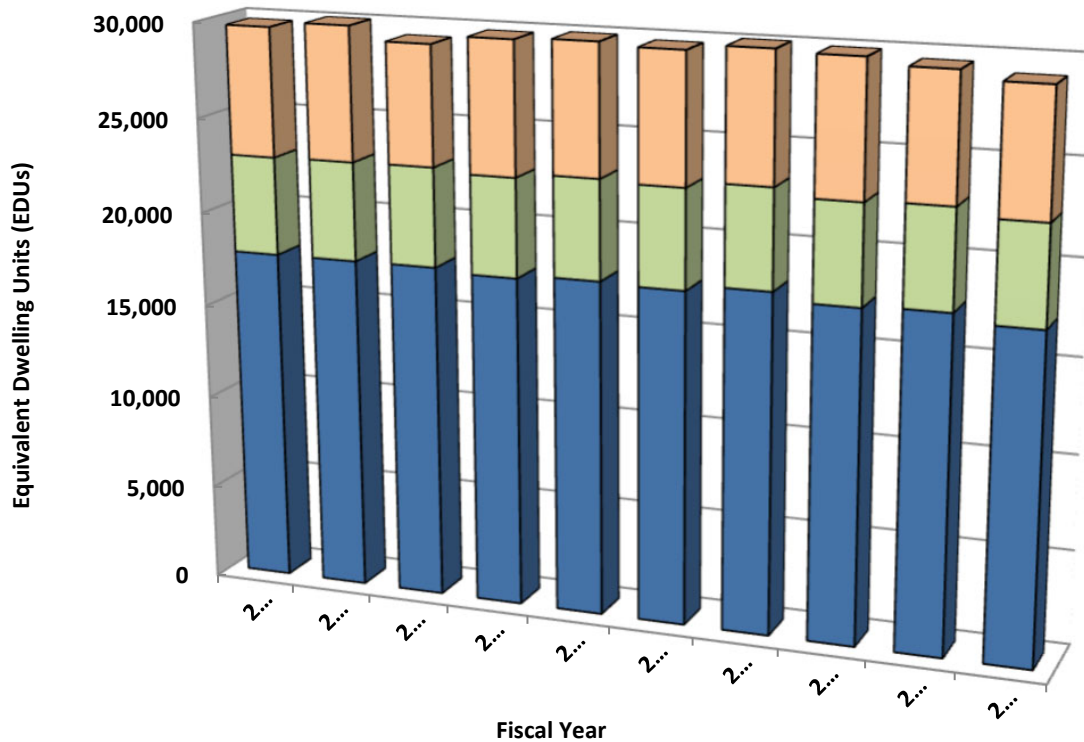
Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years
Schedule 6

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Prior Year Tax Collections	Percent of Current Taxes Collected	Net Collections
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
2022	2,715,056	2,830,459	104.3%	2,487	0.1%	\$ 2,832,946

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
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
2022	17,270.72	5,204.27	6,562.73	29,037.72



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**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Rate per EDU per year (1)	493.00	512.00	531.00	552.00	573.00	594.00	615.00	636.00	657.00	657.00
Rate per EDU per month	41.08	42.67	44.25	46.00	47.75	49.50	51.25	53.00	54.75	54.75

EDUs ⁽¹⁾	<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

⁽¹⁾ Rates as of July 1 of each year

⁽²⁾ Rates as of July 1, 2022

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	2022		2013	
	EDU's	Percentage of Total	EDU's	Percentage of Total
Novato Unified School District	427.05	1.47%	402.00	1.37%
Fireman's Fund - Novato - 777 San Marin Drive LLC	355.90	1.23%	367.00	1.25%
BioMarin Pharmaceutical	305.36	1.05%	197.00	0.67%
Vintage Oaks Shopping Center (not including Costco or Target)	214.73	0.74%	285.00	0.97%
Hamilton Hangars (3-10)	141.66	0.49%	173.00	0.59%
Buck Institute	112.05	0.39%	67.63	0.23%
Nave Merchant Assoc-Nave Bros	164.11	0.57%	164.00	0.56%
City Of Novato	103.97	0.36%	63.00	0.21%
Novato Fair Shopping Center	96.30	0.33%	118.00	0.40%
Marin Community College District	91.74	0.32%	72.68	0.25%
Total EDUs: Principal customers	2,012.87	6.94%	1,909.31	6.50%
Total Equivalent Dwelling Units (EDUs)	29,037	100.00%	29,334	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	
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	20,442,478	(9,173,987)	11,268,491	4,673,762	2,325,634	6,999,396	1.610
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
2022	26,194,504	(3,833,946)	22,360,558	4,279,000	2,689,800	6,968,800	3.209

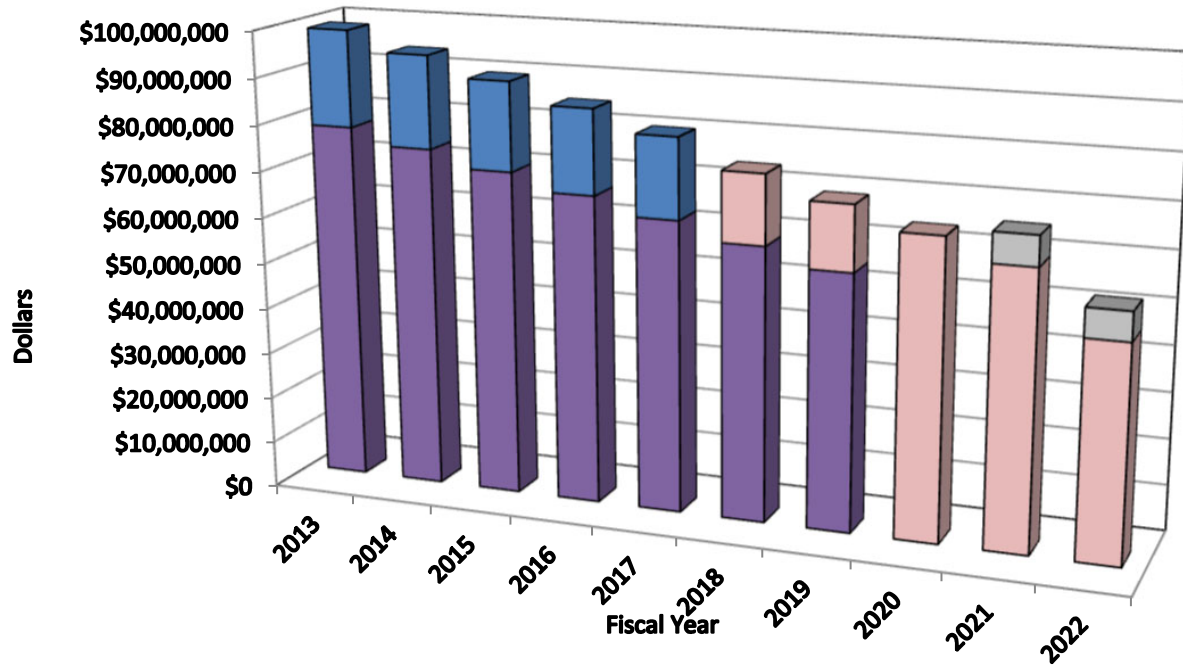
Notes:

- ⁽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

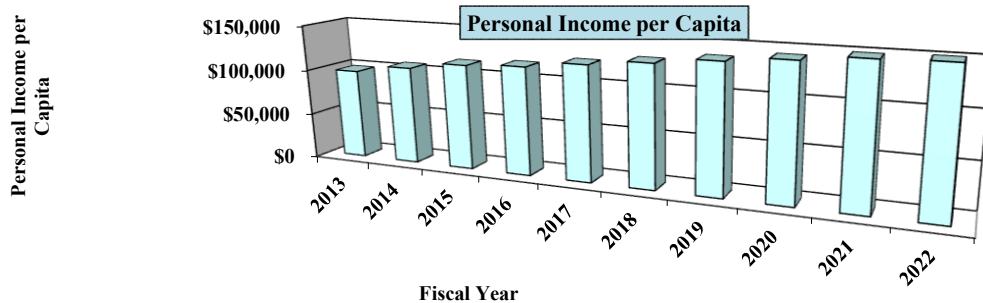
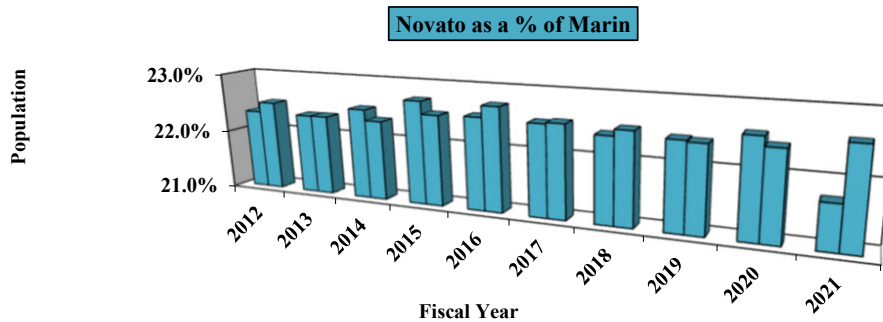
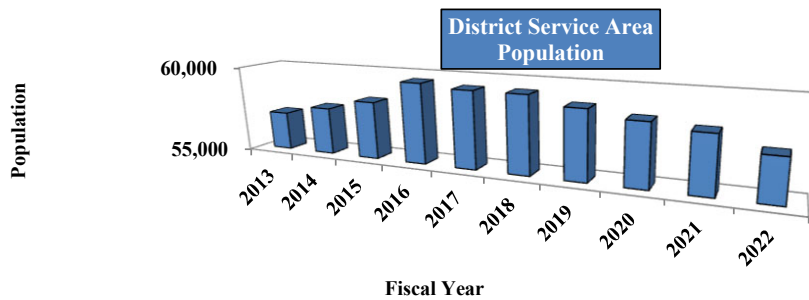
Fiscal Year	SRF Loan Payable	Certificates of Participation Bond Payable	2017 & 2019 Wastewater Revenue Bonds Payable	2020 Revenue Refunding Bonds Payable	Total		
					Debt	Per Capita	As a Share of Personal Income
2013	77,878,980	20,950,000			98,828,980	1,727.78	1.76%
2014	74,366,047	20,120,000			94,486,047	1,637.54	1.54%
2015	70,771,876	19,265,000			90,036,876	1,544.37	1.35%
2016	67,091,444	18,380,000			85,471,444	1,434.08	1.22%
2017	63,322,683	17,475,000			80,797,683	1,360.23	1.09%
2018	59,463,471	-	15,054,938		74,518,409	1,254.52	0.96%
2019	55,511,638	-	14,138,404		69,650,042	1,182.51	0.86%
2020	-	-	64,710,240		64,710,240	1,106.16	0.77%
2021	-	-	59,923,855	6,467,000	66,390,855	1,156.64	0.75%
2022	-	-	46,565,000	6,233,000	52,798,000	919.83	0.60%



Source: Novato Sanitary District Accounting Department

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

District ⁽¹⁾			County of Marin ⁽²⁾			
Fiscal Year	District Service Area Population	Novato as a % of Marin	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
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
2022	57,400	21.7%	2.4%	264,303	40,825,491	154,465



Notes:

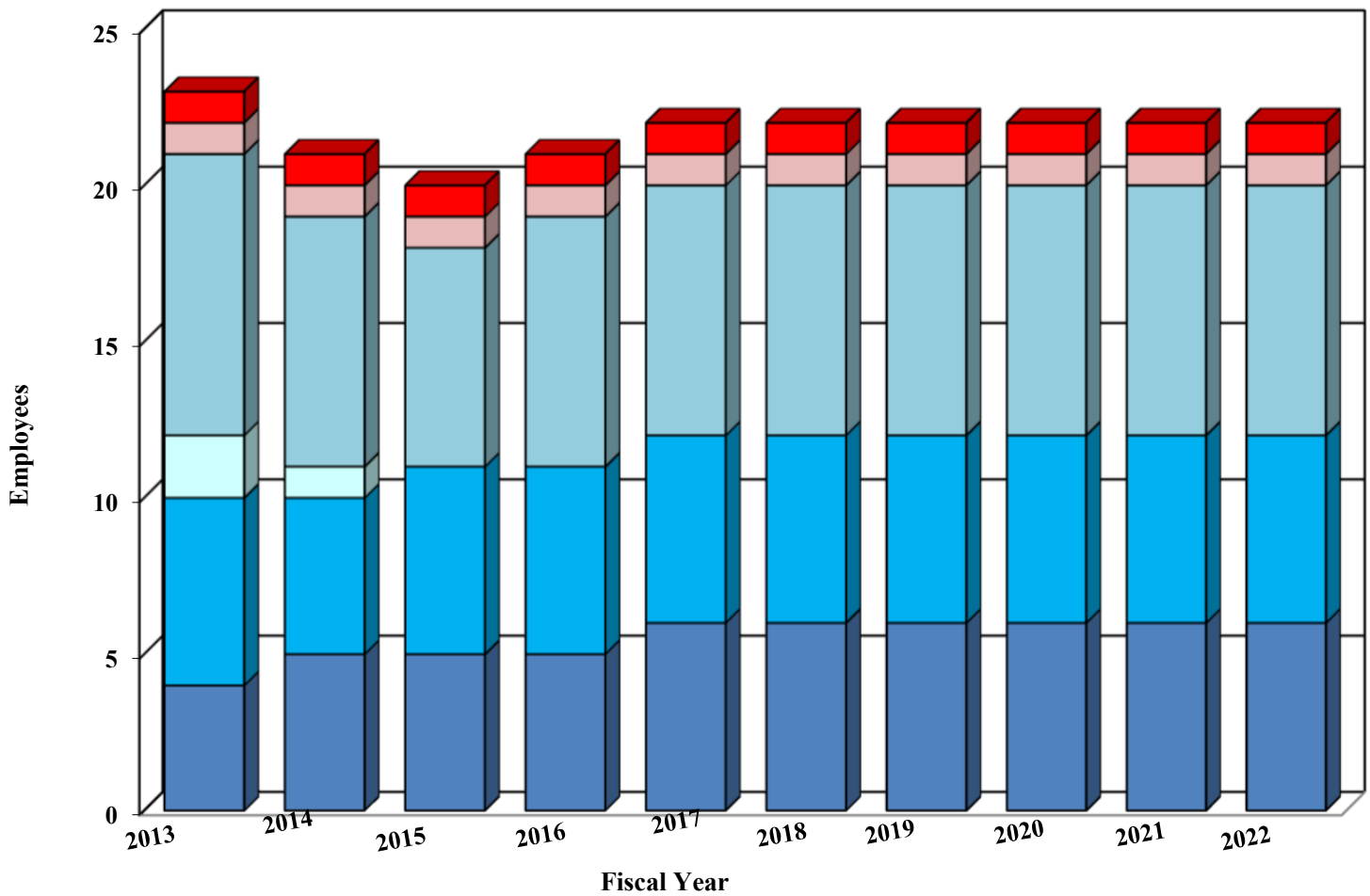
⁽¹⁾ Approximate values, as demographic data specific to the District's service area is not available.

⁽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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Administration	4	5	5	5	6	6	6	6	6	6
Engineering	6	5	6	6	6	6	6	6	6	6
Lab Services	2	1	0	0	0	0	0	0	0	0
Operations	0	0	0	0	0	0	0	0	0	0
Collections	9	8	7	8	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	21	20	21	22	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⁾
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	1,332
2021	266	42	4.02	7.00	1,467

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.