

Novato Sanitary District
Novato, California



Annual Comprehensive Financial Report

For the Fiscal Year Ended
June 30, 2024

(With Summarized Comparative Information for the Year
Ended June 30, 2023)

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NOVATO SANITARY DISTRICT, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2024
(WITH SUMMARIZED COMPARATIVE INFORMATION
FOR THE YEAR ENDED JUNE 30, 2023)

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

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NOVATO SANITARY DISTRICT
Annual Comprehensive Financial Report
For the Year Ended June 30, 2024

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Introductory Section

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November 27, 2024

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, 2024, 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, 2024 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, 2024 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 for carrying out the policies and ordinances of the District Board and for overseeing the day-to-day operations of the District.

Mission and Vision

The mission 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 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 primarily 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 certain areas including downtown, and along commercial corridors. Future growth areas range from low density residential to multifamily medium and high density residential (via rezoning/redevelopment of existing commercial/residential properties), all of which 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 12.0% and 12.5% of the District's total revenue (including capital contributions) respectively for FYE 2024 and 2023. Under current conditions in the housing market, property tax revenues are expected to increase moderately in the 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. 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.

Thereafter, in March 2023, the District Board adopted Resolution No. 3180 resuming implementation of the sewer service charge schedules established by Ordinance No. 123 for FY 2023-24, which rates would be calculated using the scheduled rates for FY 2022-23 as established by the Ordinance No. 123 schedule. Resolution No. 3180 also provides that after FY 2023-24, sewer service charges would be calculated using the scheduled rates for the prior fiscal years (e.g., the rates in FY 2024-25 will be calculated in accordance with the scheduled rates for FY 2023-24 originally established under the Ordinance No. 123 five-year schedules), and sewer services charges for FY 2026-27 (calculated using FY 2025-26 rates) would continue in subsequent years unless modified by the Board. Accordingly, the FY 23-24 sewer services charge for the average water use tier was \$677.

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 Loan at an all-inclusive interest rate of about 2.81%, for a resulting savings of about \$3.88 million through Calendar Year (CY) 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 a portion of its reserves in a laddered portfolio of US Treasury securities ranging in maturities from 6-months to 5 years, as permitted by Government Code 53600.3.

In FYE 2024 the District continued to expand its investment in US Treasury securities with a further portion of its reserves. However, the focus of this investment was on short term US Treasuries with maturities of 6-months or less, to take advantage of the inverted yield curve in the Treasuries market where short-term rates significantly exceeded long term rates. Going forward, the District anticipates it will invest its reserves strategically in both LAIF and US Treasuries to maximize

interest income on its reserve funds.

Impacts of Inflationary Environment

Finances: For FYE 2024, the District's revenues remained relatively unaffected from the heightened inflationary environment. Going forward, it is anticipated there may be significant impacts to the District's revenues and finances in general, 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 2025, and will be addressed as needed in future budget review and financial planning efforts.

Operating Activities: In FYE 2024, the District continued to adjust its operating activities to minimize lingering supply chain issues. Also, while inflationary cost increases did not significantly impact 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 still lingering 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 76%), 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 or so, 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 over a decade-and-a-half 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 in FYE 2024, the District continued 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 currently reimburses individual ratepayers up to \$2,500 for complete lateral replacement. In FY 2024 the District contributed \$46,250 for the replacement of twenty-three 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.

- 5) In FYE 2024, after several years of planning and design effort, the District continued 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) and successfully implemented 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 FYE 2024, 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 continues to share a single full-time safety professional (Safety Officer) with the Central Marin Sanitation Agency (CMSA).

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 of federal and state grants, 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 and 2024, consistent with industry best practices, the District re-engaged Maze & Associates with a change in the engagement partner each time. 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 Elena Kurakina, the District's Finance officer, for her assistance with developing this report. We would also like to recognize and thank the members of the District's Finance Committee, Tim Fuelle and Jerry Peters, and the District's Board of Directors, for their continued support in the planning and implementation of the District's fiscal policies.

Respectfully submitted,

/s/ Sandeep S. Karkal
Sandeep Karkal, P.E.
General Manager-Chief Engineer

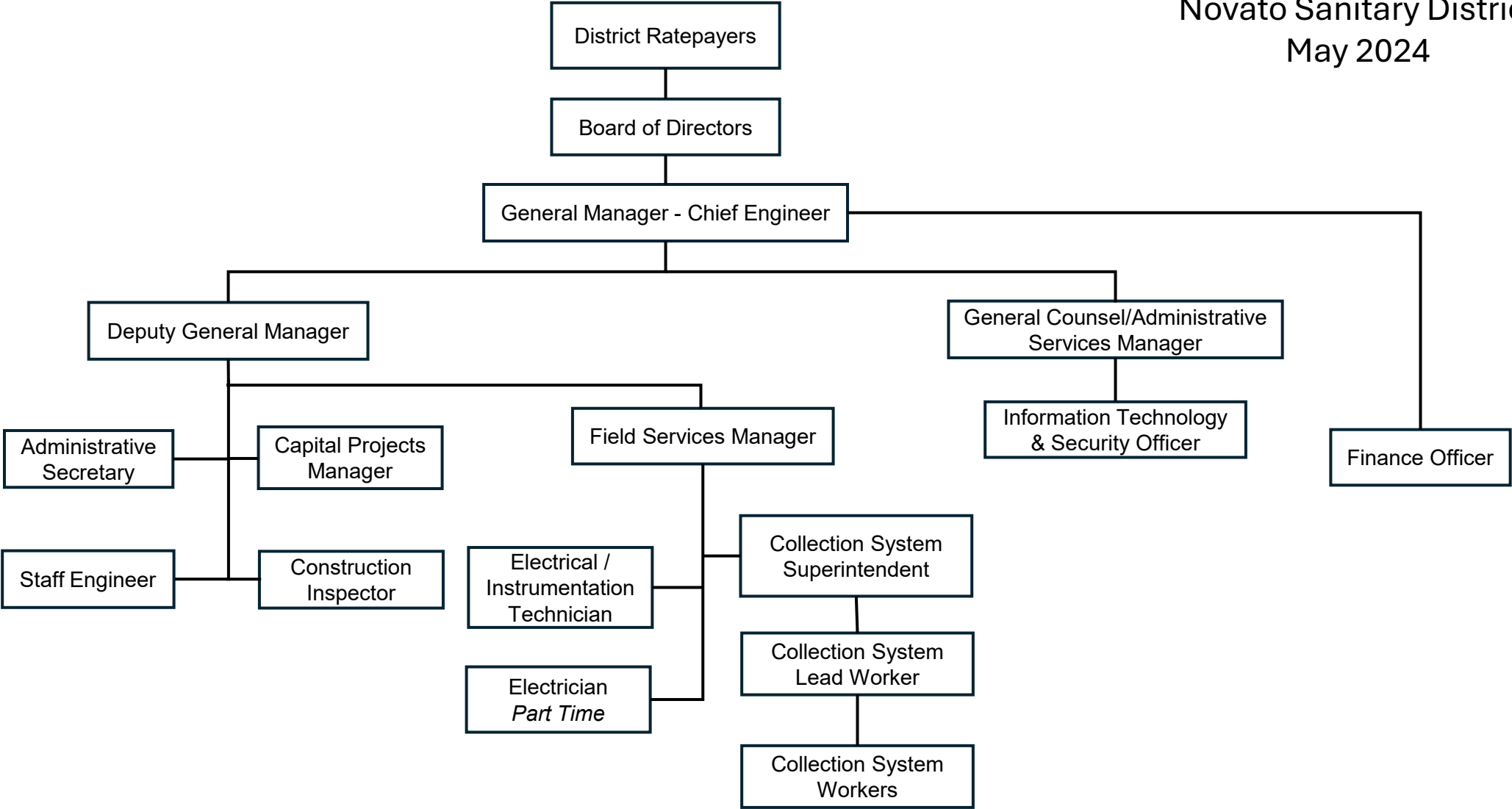
Leaders in Protecting the Environment

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 Sonoma-Marin.

Novato Sanitary District Board of Directors as of June 30, 2024

Name	Title	Elected/ Appointed	First Seated on Board	Current Term
Jean Mariani	President	Elected	05/2011	12/20-11/24
A. Gerald Peters	Director	Elected	12/2011	12/20-11/24
Dennis Bentley	Director	Elected	12/2022	12/22-11/26
Carole Dillon-Knutson	Director	Elected	12/2015	12/22-11/26
Tim Fuelle	Director	Elected	07/2019	12/22-11/26

Sandeep Karkal, P.E.
General Manager - Chief Engineer
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(415) 892-1694 – www.novatosan.com





Government Finance Officers Association

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**Novato Sanitary District
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2023

Christopher P. Morill

Executive Director/CEO

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Novato Sanitary District
Novato, California

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, 2024, 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, 2024, 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 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 there is substantial likelihood that, individually or in the aggregate, they would 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, 2023 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 5, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, 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.



Pleasant Hill, California
November 25, 2024

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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, 2024, and June 30, 2023. 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) 2024, the District's net position increased 3.85% or \$5,640,244 to \$152,087,278 from the prior year mostly due to investments in capital assets and a net increase in assessed values of its pension and other post-employment benefits (OPEB) assets. In FY 2023, the District's net position increased 0.6% or \$914,738 to \$146,447,034.
- In FY 2024, the District operating revenues increased 3.2% or \$657,879 due to a sewer service charge rate increase of approximately 3.0% (approved in March of 2023). Comparatively, in FY 2023 the District's operating revenues decreased 0.3% or \$51,538.
- Major considerations for FYE 2024 included lingering supply chain issues, and a heightened inflationary environment. While the District's operating activities continued to be impacted by the supply chain issues, its revenues were relatively unaffected through FYE 2024. Similarly, heightened inflation did not significantly affect District finances in FYE 2024. However, recognizing the lag time between inflationary pressures and their effects, the District remains watchful for 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 2025 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 section titled "Impact of Inflationary Environment".

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position (page 14), Statement of Revenues, Expenses and Changes in Net Position (page 15), and Statement of Cash Flows (page 17), 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 creditworthiness. 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 19 through 46.

Condensed Statements of Net Position

	2024	2023	\$ Change	2022	\$ Change
ASSETS					
Current Assets	43,860,655	39,879,405	3,981,250	41,693,278	(1,813,873)
Capital Assets	159,818,247	162,546,394	(2,728,147)	161,989,904	556,490
Net OPEB asset	2,113,651	1,694,504	419,147	-	1,694,504
Net pension asset	-	-	-	3,643,241	(3,643,241)
Total assets	205,792,553	204,120,303	1,672,250	207,326,423	(3,206,120)
Deferred Outflow of Resources (Note 7&10)	3,807,645	6,192,119	(2,384,474)	8,134,453	(1,942,334)
LIABILITIES					
Current liabilities	7,673,370	7,100,600	572,770	7,297,110	(196,510)
Non-current Liabilities	46,461,363	51,815,296	(5,353,933)	57,968,530	(6,153,234)
Total liabilities	54,134,733	58,915,896	(4,781,163)	65,265,640	(6,349,744)
Deferred Inflows of Resources (Note 7&10)	3,378,187	4,949,492	(1,571,305)	4,662,940	286,552
NET POSITION (Note 8)					
Net investment in capital assets	115,403,548	112,760,310	2,643,238	94,576,434	18,183,876
Restricted: OPEB	2,113,651	1,694,504	419,147	12,044,742	(10,350,238)
Restricted: Pension	2,164,069	2,072,185	91,884	-	2,072,185
Unrestricted	32,406,010	29,920,035	2,485,975	38,911,120	(8,991,085)
Total net position	152,087,278	146,447,034	5,640,244	145,532,296	914,738

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 and deferred outflows of resources

exceeded its liabilities and deferred inflows of resources by \$152,087,278 and \$146,447,034 as of June 30, 2024 and June 30, 2023, respectively, and *net position increased* year-over-year in fiscal year 2024 over fiscal year 2023.

Further, it is noted that:

- Total assets *increased* by \$1,672,250, or 0.8% in fiscal year 2024 over fiscal year 2023 from a combination of increase in current assets, and actuarial assessments of the District's Other Post Employment (OPEB) asset.
- Deferred outflows of resources *decreased* by \$2,384,474 or 38.5% from the prior fiscal year. Deferred inflows of resources decreased by \$1,571,305 or 31.7% from the prior fiscal year. The District recorded the decrease to reflect the different components required by GASB 68 for pension, and GASB 75 for OPEB plans.
- Total liabilities *decreased* by \$4,781,163 or 8.1% mostly due to long-term debt reductions.
- By far the largest portion of the District's net position (76% and 77% as of June 30, 2024 and June 30, 2022, 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 2024 and 2023, the District showed a positive balance in its unrestricted net position of \$32,406,010 and \$29,920,035 respectively, which may be utilized in future years, (see Note 8 for further discussion).

Statement of Revenues, Expenses and Changes in Net Position

	2024	2023	\$ Change	2022	\$ Change
REVENUE					
Operating revenues	21,134,517	20,476,638	657,879	20,528,176	(51,538)
Non-operating revenues	4,946,736	3,862,759	1,083,977	2,818,014	1,044,745
Total revenues	26,081,253	24,339,397	1,741,856	23,346,190	993,207
EXPENSES					
Operating expenses	12,644,109	15,777,072	(3,132,963)	3,833,946	11,943,126
Depreciation and amortization	6,242,667	6,175,731	66,936	6,296,841	(121,110)
Non-operating expenses	1,973,482	2,007,859	(34,377)	1,676,270	331,589
Total expenses	20,860,258	23,960,662	(3,100,404)	11,807,057	12,153,605
Net income before capital contributions	5,220,995	378,735	4,842,260	11,539,133	(11,160,398)
Capital contributions	419,249	536,003	(116,754)	2,127,256	(1,591,253)
Change in net position	5,640,244	914,738	4,725,506	13,666,389	(12,751,651)
Net position, beginning of year	146,447,034	145,532,296	914,738	131,865,907	13,666,389
Net position, end of year	152,087,278	146,447,034	5,640,244	145,532,296	914,738

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 2024, the District's total revenues *increased* by 7.2% or \$1,741,856.
 - The increase is primarily due to increases in sewer service charge revenues by \$768,062 or 4.0%, property tax collections by \$81,698 or 2.7%, and interest earnings by 668,618 or 82.3%. The sewer service charges increase is attributable to rate rise approved in March 2023. The interest earnings increase is a result of

the District diversifying its investment options by allocating a portion of its reserve funds from its Local Investment Agency Fund (LAIF) account to a higher interest-bearing Bank of New York Mellon (BNYM) investment account, consistent with Government Code 53600.3.

- In 2024, the District's total expenses *decreased* by 12.9% or \$3,100,404. In 2023, the District's total expenses *increased* by 102.9% or \$12,153,605.
 - A significant portion, or \$3,818,281, of the 2024 decrease is attributable to the actuarially determined changes of pension and OPEB net balances that positively affected related expenses.
- Finally, in 2024, the District's net position *increased* by 3.9% or \$5,640,244. In 2023, the District's net position increased by 0.6% or \$914,738. The current year's increase is primarily due to a decrease in pension and OPEB expenses attributable to actuarial gains in CalPERS' "Pool Performance" net pension assets from CalPERS improved investment performance for the period, and the District's Section 115 trust funds.

Operating and Non-Operating Revenues

	2024	2023	\$ Change	2022	\$ Change
OPERATING REVENUE					
Sewer service charges	19,950,842	19,182,780	768,062	19,567,567	(384,787)
Other service charges	244,547	399,868	(155,321)	203,489	196,379
Permit, inspection and other fees	87,670	104,233	(16,563)	35,330	68,903
Recycled water facility	252,858	291,073	(38,215)	250,540	40,533
AB939 - solid waste programs	598,600	498,684	99,916	471,250	27,434
Total operating revenues	21,134,517	20,476,638	657,879	20,528,176	(51,538)
NON-OPERATING REVENUE					
Property taxes	3,137,232	3,055,534	81,698	2,830,459	225,075
Franchise fees	63,977	63,032	945	61,196	1,836
Rental revenue	58,723	40,673	18,050	38,355	2,318
Interest earnings	1,481,037	812,419	668,618	(93,841)	906,260
Gain/(loss) on sale/disposition of assets	(34,938)	(108,899)	73,961	(18,155)	(90,744)
Grant revenue	240,705	-	240,705	-	-
Total non-operating revenues	4,946,736	3,862,759	1,083,977	2,818,014	1,044,745
Total revenues	26,081,253	24,339,397	1,741,856	23,346,190	993,207

In summary, total revenues *increased* by \$1,741,856 and by \$993,207 in fiscal years 2024 and 2023, respectively.

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Operating and Non-Operating Expenses

	2024	2023	\$ Change	2022	\$ Change
OPERATING EXPENSES					
Collection system	1,449,298	1,318,524	130,774	1,341,311	(22,787)
Treatment plant	3,670,097	3,532,439	137,658	3,198,324	334,115
Reclamation and disposal	618,732	532,449	86,283	536,597	(4,148)
Laboratory and monitoring	650,121	596,623	53,498	566,720	29,903
Pump stations	985,545	950,132	35,413	820,334	129,798
AB939 - solid waste programs	653,446	494,346	159,100	439,314	55,032
Recycled water	246,741	290,874	(44,133)	247,917	42,957
Administration and engineering	2,547,810	2,436,560	111,250	2,409,418	27,142
Non-Departmental	670,059	654,584	15,475	563,017	91,567
OPEB expense (Note 7)	(479,272)	(320,582)	(158,690)	84,550	(405,132)
Pension expense (Note10)	1,631,532	5,291,123	(3,659,591)	(6,373,556)	11,664,679
Total operating expenses	12,644,109	15,777,072	(3,132,963)	3,833,946	11,943,126
DEPRECIATION EXPENSE	6,242,667	6,175,731	66,936	6,296,841	(121,110)
NON-OPERATING EXPENSES					
Interest expense	1,043,964	1,259,839	(215,875)	1,465,943	(206,104)
Other non-operating expenses	929,518	748,020	181,498	210,327	537,693
Total non-operating expenses	1,973,482	2,007,859	(34,377)	1,676,270	331,589
Total expenses	20,860,258	23,960,662	(3,100,404)	11,807,057	12,153,605

In summary, as discussed in detail earlier, total expenses decreased by \$3,100,404 and increased by \$12,153,605 in fiscal years 2024 and 2023, respectively.

Capital Asset Administration

Changes in capital assets amounts for 2024 were as follows:

	Balance 2023	Additions	Trnsfers/ Deletions	Balance 2024
Capital assets				
Non-depreciable assets	15,294,566	2,584,930	-	17,879,496
Depreciable assets	255,005,381	965,459	(421,995)	255,548,845
Accumulated depreciation	(107,753,553)	(6,242,667)	386,126	(113,610,094)
Total capital assets, net	162,546,394	(2,692,278)	(35,869)	159,818,247

Changes in capital assets amounts for 2022 were as follows:

	Balance 2022	Additions	Trnsfers/ Deletions	Balance 2023
Capital assets				
Non-depreciable assets	10,924,057	6,194,209	(1,823,700)	15,294,566
Depreciable assets	253,080,450	2,512,596	(587,665)	255,005,381
Accumulated depreciation	(102,014,603)	(6,175,731)	436,781	(107,753,553)
Total capital assets, net	161,989,904	2,531,074	(1,974,584)	162,546,394

At the end of fiscal year 2024 and 2023, the District's investment in capital assets amounted to \$159,818,247 and \$162,546,394 (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).

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Debt Administration

Changes in long-term debt amounts for 2024 were as follows:

	Balance 2023	Additions	Deletions	Balance 2024
2017 Wastewater Revenue Bonds	9,140,000	-	(965,000)	8,175,000
2019 Wastewater Revenue Bonds	33,195,000	-	(3,475,000)	29,720,000
2020 Taxable Revenue Refunding Bonds	5,931,667	-	(308,000)	5,623,667
Total long-term debt	48,266,667	-	(4,748,000)	43,518,667

Changes in long-term debt amounts for 2023 were as follows:

	Balance 2022	Additions	Deletions	Balance 2023
2017 Wastewater Revenue Bonds	10,060,000	-	(920,000)	9,140,000
2019 Wastewater Revenue Bonds	36,505,000	-	(3,310,000)	33,195,000
2020 Taxable Revenue Refunding Bonds	6,233,000	-	(301,333)	5,931,667
Total long-term debt	52,798,000	-	(4,531,333)	48,266,667

As noted above and discussed in Note 6, the District has three outstanding debt issuances. The most recent issuance occurred in October 2020. At that time, the District refinanced its NPL, replacing the CalPERS 7% interest rate on this NPL debt with the 2020 Taxable Revenue 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 lingering supply chain issues and a heightened inflationary environment (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 Inflationary Environment

Finances: For FY 2024, the District's revenues remained relatively unaffected from the heightened inflationary environment. Going forward, it is anticipated there may be significant impacts to the District's revenues and finances in general, 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 2025 and will be addressed as needed in future budget review and financial planning efforts.

Operating Activities: In FY 2024, the District continued to adjust its operating activities to minimize lingering supply chain issues. Also, while inflationary cost increases did not significantly impact operating activities, it is anticipated that there may be significant impacts going forward, largely from factors out of the District's control.

Capital Improvements Program: The still lingering 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 allocation and 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.

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Basic Financial Statements

NOVATO SANITARY DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2024
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$40,815,371	\$37,188,220
Restricted - cash and investments (Note 2)	2,164,069	2,072,185
Accounts receivable, net (Note 3)	660,969	467,801
Accrued interest receivable	184,307	110,598
Prepaid expenses and other deposits	35,939	40,601
Total current assets	43,860,655	39,879,405
NON-CURRENT ASSETS		
Capital assets - not being depreciated (Note 4)	17,879,496	15,294,566
Capital assets - being depreciated, net (Note 4)	141,938,751	147,251,828
Net OPEB asset (Note 7)	2,113,651	1,694,504
Total non-current assets	161,931,898	164,240,898
TOTAL ASSETS	205,792,553	204,120,303
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related (Note 7)	241,129	485,726
Pension related (Note 10)	3,566,516	5,706,393
TOTAL DEFERRED OUTFLOWS	3,807,645	6,192,119
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,787,706	1,243,532
Customer deposits	25,500	25,500
Restricted - special assessment payable		103,122
Accrued interest payable	827,340	922,914
Long-term liabilities - due within one year:		
Compensated absences (Note 5)	56,824	57,532
Long-term debt (Note 6)	4,976,000	4,748,000
Total current liabilities	7,673,370	7,100,600
NON-CURRENT LIABILITIES		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 5)	170,472	172,597
Long-term debt (Note 6)	45,062,699	50,970,084
Net pension liability (Note 10)	1,228,192	672,615
Total non-current liabilities	46,461,363	51,815,296
TOTAL LIABILITIES	54,134,733	58,915,896
DEFERRED INFLOWS OF RESOURCES		
OPEB related (Note 7)	1,246,367	1,753,750
Pension Related (Note 10)	2,131,820	3,195,742
TOTAL DEFERRED INFLOWS OF RESOURCES	3,378,187	4,949,492
NET POSITION (Note 8)		
Net investment in capital assets	115,403,548	112,760,310
Restricted for:		
Pension	2,164,069	2,072,185
OPEB	2,113,651	1,694,504
Unrestricted	32,406,010	29,920,035
TOTAL NET POSITION	\$152,087,278	\$146,447,034

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2024
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	2024	2023
OPERATING REVENUES		
Sewer service charges	\$19,950,842	\$19,182,780
Other service charges	244,547	399,868
Permit, inspection and other fees	87,670	104,233
Recycled water facility	252,858	291,073
AB939 - solid waste programs	598,600	498,684
Total operating revenues	<u>21,134,517</u>	<u>20,476,638</u>
OPERATING EXPENSES		
Collection system	1,449,298	1,318,524
Treatment plant	3,670,097	3,532,439
Reclamation and disposal	618,732	532,449
Laboratory and monitoring	650,121	596,623
Pump stations	985,545	950,132
AB939 - solid waste programs	653,446	494,346
Recycled water	246,741	290,874
Administrative and engineering	2,547,810	2,436,560
Non-Departmental	670,059	654,584
OPEB (credit) expense (Note 7)	(479,272)	(320,582)
Pension expense (credit) (Note 10)	1,631,532	5,291,123
Total operating expenses	<u>12,644,109</u>	<u>15,777,072</u>
Operating income before depreciation	8,490,408	4,699,566
Depreciation (Note 4)	<u>(6,242,667)</u>	<u>(6,175,731)</u>
OPERATING INCOME	<u>2,247,741</u>	<u>(1,476,165)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	3,137,232	3,055,534
Franchise fees	63,977	63,032
Rental revenue	58,723	40,673
Grant revenue	240,705	
Interest income	1,481,037	812,419
Interest expense	(1,043,964)	(1,259,839)
Loss on sale/disposition of capital assets	(34,938)	(108,899)
Other non-operating revenue (expenses)	<u>(929,518)</u>	<u>(748,020)</u>
Total nonoperating revenues (expenses), net	<u>2,973,254</u>	<u>1,854,900</u>
Net income (loss) before capital contributions	<u>5,220,995</u>	<u>378,735</u>
CAPITAL CONTRIBUTIONS		
Connection fees	419,249	521,753
Capital contributions		14,250
Total capital contributions	<u>419,249</u>	<u>536,003</u>
CHANGES IN NET POSITION	5,640,244	914,738
NET POSITION, BEGINNING OF YEAR	<u>146,447,034</u>	<u>145,532,296</u>
NET POSITION, END OF YEAR	<u><u>\$152,087,278</u></u>	<u><u>\$146,447,034</u></u>

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers for sewer service charges and services	\$21,304,754	\$20,701,734
Cash paid to or on behalf of employees for salaries, wages and benefits	(3,724,425)	(723,094)
Cash paid to vendors and suppliers for materials and services	(8,456,722)	(12,401,878)
Cash Flows from Operating Activities	<u>9,123,607</u>	<u>7,576,762</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	3,137,232	3,055,534
Principal payments on noncapital long-term debt	(308,000)	(301,000)
Interest payments on noncapital long-term debt	(147,143)	(154,342)
Cash Flows from Noncapital Financing Activities	<u>2,682,089</u>	<u>2,600,192</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,550,389)	(6,868,855)
Proceeds from sale of capital assets	931	41,985
Connection fees	419,249	521,753
Principal payments on long-term debt	(5,371,385)	(5,161,386)
Interest payments on long-term debt	(992,395)	(1,196,622)
Cash Flows (used for) Capital and Related Financing Activities	<u>(9,493,989)</u>	<u>(12,663,125)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	<u>1,407,328</u>	<u>766,379</u>
Cash Flows from Investing Activities	<u>1,407,328</u>	<u>766,379</u>
NET CASH FLOWS	3,719,035	(1,719,792)
Cash, beginning of year	<u>39,260,405</u>	<u>40,980,197</u>
Cash, end of year	<u><u>\$42,979,440</u></u>	<u><u>\$39,260,405</u></u>
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$40,815,371	\$37,188,220
Restricted - cash and cash equivalents	<u>2,164,069</u>	<u>2,072,185</u>
Total cash and cash equivalents	<u><u>\$42,979,440</u></u>	<u><u>\$39,260,405</u></u>

(Continued)

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

	2024	2023
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$2,247,741</u>	<u>(\$1,476,165)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,242,667	6,175,731
Other non-operating revenues	363,405	103,705
Other non-operating expenses	(929,518)	(748,020)
Change in assets and liabilities:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable - sewer services	(193,168)	121,391
Prepaid expenses and other deposits	4,662	18,730
OPEB related deferred outflows of resources	244,597	294,229
Pension related deferred outflows of resources	2,139,877	1,648,105
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	544,174	(323,270)
Restricted - special assessment payable	(103,122)	(1,792)
Compensated absences	(2,833)	10,709
Net OPEB asset	(419,147)	(2,848,999)
Collective net pension liability	555,577	4,315,856
OPEB related deferred inflows of resources	(507,383)	959,390
Pension related deferred inflows of resources	<u>(1,063,922)</u>	<u>(672,838)</u>
Total adjustments	<u>6,875,866</u>	<u>9,052,927</u>
Net cash provided by operating activities	<u><u>\$9,123,607</u></u>	<u><u>\$7,576,762</u></u>
Schedule of Non-Cash Investing and Financing Activities:		
Capital contributions	\$0	\$14,250
Loss on disposition of capital assets	(34,938)	(108,899)

See accompanying notes to financial statements

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NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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, 2024

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, 2024

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 assets 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, 2024

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, 2023, from which the summarized information was derived.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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

Q. New Accounting Standards

GASB Statement No. 100 – In June 2022, GASB issued Statement No. 100, Accounting for Changes and Error Corrections. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. This Statement also addresses corrections of errors in previously issued financial statements. The provisions of this Statement were implemented during fiscal year 2024. The implementation had no effect on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2024, are classified in the accompanying financial statements as follows:

Cash and investments	\$40,815,371
Restricted cash and investments	<u>2,164,069</u>
Total Cash and Investments	<u><u>\$42,979,440</u></u>

Cash and investments as of June 30, 2024, consist of the following:

	<u>2024</u>
<i>Held by District:</i>	
Deposits with financial institutions	\$271,408
U.S. Treasury Notes	6,939,725
Money Market Funds	16,319,645
Local Agency Investment Fund	17,284,593
<i>Held by Pension Trust</i>	
Mutual funds	<u>2,164,069</u>
Total Cash and Investments	<u><u>\$42,979,440</u></u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

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

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

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:

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Investments Authorized by the District's Debt Issues (Continued)

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 million		A
Municipal Bonds or Notes		Two Highest Categories
Guaranteed Investment Agreements		AA or better from S&P
California Local Agency Investment Fund (LAIF)		

C. Custodial Credit Risk

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The fair 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, 2024 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 2 – CASH AND INVESTMENTS (Continued)
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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, 2024, these investments matured in an average of 217 days.

At June 30, 2024, the District has investments in U.S. Treasury Notes and Money Market Funds in the amount of \$6,939,725 and \$16,319,645, respectively. At June 30, 2024, the U.S. Treasury Notes mature as follows: \$3,033,045 within 1 year or less, \$1,953,652 within 1-2 years, and \$1,953,028 within 2-3 years.

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, 2024, the Local Agency Investment Fund and Money Market Funds were not rated and the U.S. Treasury Notes were rated Aaa by Moody's.

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, 2024.

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 investments in the Local Agency Investment Fund and Money Market Funds are exempt from the fair value measurement hierarchy. The District's investments in U.S. Treasury Notes are valued in Level 2 inputs at June 30, 2024.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 3 – ACCOUNTS RECEIVABLE

The District's accounts receivable consists of the following at June 30, 2024:

<u>Description</u>	<u>2024</u>
Sewer services	\$140,060
Franchise/Lease	159,427
Recycling	75,820
Other, net of allowance	285,662
	<u>\$660,969</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, 2023</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2024</u>
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,960,910			2,960,910
Construction-in-process	9,560,149	\$2,584,930		12,145,079
Total non-depreciable assets	<u>15,294,566</u>	<u>2,584,930</u>		<u>17,879,496</u>
Depreciable assets:				
Sewer system improvements	166,035,238		(\$132,646)	165,902,592
Sewer collection and outfall system	60,298,627		(3,934)	60,294,693
Sewer facilities equipment	26,086,811	383,292	(167,536)	26,302,567
Equipment	2,584,705	582,167	(117,879)	3,048,993
Total depreciable assets	<u>255,005,381</u>	<u>965,459</u>	<u>(421,995)</u>	<u>255,548,845</u>
Accumulated depreciation:				
Sewer system improvements	(71,579,580)	(4,054,073)	119,526	(75,514,127)
Sewer collection and outfall system	(20,809,978)	(969,423)	3,622	(21,775,779)
Sewer facilities equipment	(13,839,541)	(959,355)	146,165	(14,652,731)
Equipment	(1,524,454)	(259,816)	116,813	(1,667,457)
Total accumulated depreciation	<u>(107,753,553)</u>	<u>(6,242,667)</u>	<u>386,126</u>	<u>(113,610,094)</u>
Total depreciable assets, net	<u>147,251,828</u>	<u>(5,277,208)</u>	<u>(35,869)</u>	<u>141,938,751</u>
Total capital assets, net	<u><u>\$162,546,394</u></u>	<u><u>(\$2,692,278)</u></u>	<u><u>(\$35,869)</u></u>	<u><u>\$159,818,247</u></u>

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

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 4 – CAPITAL ASSETS (Continued)

B. Construction-In-Process

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

Construction-in-process consists of the following projects as of June 30, 2024:

<u>Projects</u>	
Collection System Improvements	\$4,058,726
North Bay Water Reuse Authority *	961,113
Hamilton Wetlands Outfall Monitoring *	110,293
Novato Creek Watershed *	100,834
Cogeneration	831,024
Pump Station Improvements	5,345,497
Treatment Plant Improvements	100,935
Reclamation Facility Improvements	515,505
Administrative Building Updates	36,425
Network and SCADA Upgrades	84,727
Total	<u><u>\$12,145,079</u></u>

*These projects represent planning level or feasibility/infeasibility level studies, or represent the District's contribution to projects executed by other agencies (e.g., NBWRA, County of Marin, State Coastal Conservancy, etc.). Such projects may not eventually result in "constructed" District projects that can be conventionally capitalized. Therefore, cost of these projects will be removed from CIP account when the determination has been made that the projects will or will not result in "constructed" District projects.

NOTE 5 – COMPENSATED ABSENCES

The changes to compensated absences balances consist of the following at June 30, 2024:

<u>Balance</u> <u>2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2024</u>	<u>Due Within</u> <u>One Year</u>
<u>\$230,129</u>	<u>\$47,594</u>	<u>(\$50,427)</u>	<u>\$227,296</u>	<u>\$56,824</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 6 – LONG-TERM DEBT

A. Long-Term Debt Activity

Changes in long-term debt amounts for 2023-2024 were as follows:

	<u>Balance</u> <u>June 30, 2023</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2024</u>	<u>Due within</u> <u>one year</u>
Long-term debt:				
2017 Wastewater Revenue				
Refunding Bonds	\$9,140,000	(\$965,000)	\$8,175,000	\$1,010,000
Add: Unamortized premium	1,012,270	(126,534)	885,736	
2019 Wastewater Revenue				
Refunding Bonds	33,195,000	(3,475,000)	29,720,000	3,650,000
Add: Unamortized premium	6,438,814	(804,851)	5,633,963	
2020 Wastewater Revenue Bonds	<u>5,932,000</u>	<u>(308,000)</u>	<u>5,624,000</u>	<u>316,000</u>
Total long-term debt	<u>\$55,718,084</u>	<u>(\$5,679,385)</u>	<u>\$50,038,699</u>	<u>\$4,976,000</u>

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>
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	4,225,000	861,600	5,086,600
2029	4,435,000	650,350	5,085,350
2030-2031	<u>9,550,000</u>	<u>624,200</u>	<u>10,174,200</u>
Total	<u>\$29,720,000</u>	<u>\$5,890,700</u>	<u>\$35,610,700</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 6 – LONG-TERM DEBT (Continued)

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.

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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,160,000	249,750	1,409,750
2029	1,220,000	191,750	1,411,750
2030-2031	2,615,000	197,750	2,812,750
Total	<u>\$8,175,000</u>	<u>\$1,711,500</u>	<u>\$9,886,500</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, 2024

NOTE 6 – LONG-TERM DEBT (Continued)

D. 2020 Wastewater Revenue Bonds

The District issued \$6,467,000 in Wastewater Revenue Bonds on October 15, 2020 to prepay the District's unfunded accrued pension liability with CalPERS. The Bonds are payable from net revenues of the District and bear an interest rate of 2.38% for Fiscal Year (FY) 2022 through FY 2036 and 2.98% for FY2037 through FY2039. Interest payments are due February 1 and August 1 of each year, commencing on August 1, 2021. Principal payments are due February 1 of each year commencing on February 1, 2022. The following table summarizes the debt service maturity of the District for the bonds as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$316,000	\$139,765	\$455,765
2026	324,000	132,197	456,197
2027	330,000	124,450	454,450
2028	338,000	116,548	454,548
2029	346,000	108,456	454,456
2030-2034	1,864,000	413,629	2,277,629
2035-2039	<u>2,106,000</u>	<u>377,266</u>	<u>2,483,266</u>
Total	<u>\$5,624,000</u>	<u>\$1,412,311</u>	<u>\$7,036,311</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, 2024

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>2024*</u>	<u>2023*</u>	<u>2022*</u>	<u>2021*</u>	<u>2020*</u>
Active plan members	18	18	18	18	18
Retirees and beneficiaries receiving benefits	<u>25</u>	<u>25</u>	<u>35</u>	<u>35</u>	<u>36</u>
Total plan membership	<u>43</u>	<u>43</u>	<u>53</u>	<u>53</u>	<u>54</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 2024 and 2023, this minimum amount was \$157 and \$151 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, 2024

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)
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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 asset was measured as of June 30, 2024 and the total OPEB liability was determined by an actuarial valuation as of June 30, 2022. The actuarial assumptions included (a) 6.70% investment rate of return, (b) 2.80% projected annual salary increase, (c) 2.30% inflation rate and (d) health care cost trend rate of 3.73%-6.50% 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 total 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.

	<u>Fiscal Year Ended 6/30/24</u>
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, 2024

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:

Asset Class	Target Allocation	Expected Long Term Real Rates of Return
Domestic Equity	23.0%	24.14%
International Developed Equity	4.0%	5.14%
Emerging Markets Equity	2.0%	3.14%
REITs	1.0%	2.14%
Short-Term Bonds	14.0%	15.14%
Core Fixed Income	49.3%	50.44%
High Yield	1.8%	2.94%
Cash	5.0%	6.14%
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, 2024, the annual money-weighted rate of return on investments, net of investment expense, was 7.10%. 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, 2024

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Net OPEB Liability (Asset)

The components of the net OPEB liability (asset) of the District at June 30, 2024, 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, 2023 (Measurement Date)	\$2,999,856	\$4,694,360	(\$1,694,504)
Changes Recognized for the Measurement Period:			
Service Cost	42,349		42,349
Interest on the total OPEB liability	153,300		153,300
Difference between expected and actual experience	31,853		31,853
Changes of assumptions	(96,808)		(96,808)
Contributions:			
Employer - District's contribution		202,661	(202,661)
Employer - implicit subsidy		41,711	(41,711)
Net investment income		332,234	(332,234)
Benefit payments, including refunds of employee contributions	(202,661)	(202,661)	
Implicit rate subsidy fulfilled	(41,711)	(41,711)	
Administrative Expense		(26,765)	26,765
Net Changes during July 1, 2023 to June 30, 2024	(113,678)	305,469	(419,147)
Balance at June 30, 2024 (Measurement Date)	<u>\$2,886,178</u>	<u>\$4,999,829</u>	<u>(\$2,113,651)</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, 2024
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 2024
Inflation	2.30%
Assumed Rate of Payroll Growth	2.80%
Healthcare trend rates	6.50%, trending down to 3.73%
PEMHCA trend rate	1.30%
Rate of return on assets	6.70%
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, 2024

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 5.60% as of June 30, 2024. 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 (Asset) to Changes in the Discount Rate

In accordance with GASB 75, regarding the disclosure of the sensitivity of the net OPEB liability (asset) to changes in the discount rate, the following table presents the net OPEB liability (asset) of the Plan as of June 30, 2024, calculated using the discount rate of 5.60%, as well as what the Plan's net OPEB 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:

Plan's Net OPEB Liability (Asset)		
Discount Rate -1%	Current Discount	Discount Rate +1%
(4.60%)	Rate (5.60%)	(6.60%)
(\$1,807,023)	(\$2,113,651)	(\$2,372,154)

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

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

Plan's Net OPEB Liability (Asset)		
Discount Rate -1%	Healthcare Cost	Discount Rate +1%
Trend Rates (5.50%	Trend Rates (6.50%	Trend Rates (7.50%
decreasing to 2.73%)	decreasing to 3.73%)	decreasing to 4.73%)
(\$2,440,411)	(\$2,113,651)	(\$1,721,372)

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)
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OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2024, the District recognized OPEB expense (credit) of (\$479,272). At June 30, 2024, 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	\$25,352	(\$643,525)
Changes of assumptions	116,158	(602,842)
Net difference between projected and actual earnings on OPEB plan investments	99,619	
Total	<u>\$241,129</u>	<u>(\$1,246,367)</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>
2025	(\$320,789)
2026	(284,574)
2027	(370,649)
2028	(29,226)
	<u>(\$1,005,238)</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 8 – NET POSITION

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

	<u>2024</u>	<u>2023</u>
<i>Net investment in capital assets:</i>		
Capital assets - not being depreciated	\$17,879,496	\$15,294,566
Capital assets, net - being depreciated	141,938,751	147,251,828
Wastewater Revenue Refunding Bonds	<u>(44,414,699)</u>	<u>(49,786,084)</u>
Total net investment in capital assets	<u>115,403,548</u>	<u>112,760,310</u>
<i>Restricted net position:</i>		
Pension trust	2,164,069	2,072,185
Net OPEB asset	<u>2,113,651</u>	<u>1,694,504</u>
Total restricted net position	<u>4,277,720</u>	<u>3,766,689</u>
<i>Unrestricted net position:</i>		
Non-spendable net position:		
Prepaid expenses and deposits	<u>35,939</u>	<u>40,601</u>
Total non-spendable net position	<u>35,939</u>	<u>40,601</u>
Spendable net position:		
Undesignated net position reserve	<u>32,370,071</u>	<u>29,879,434</u>
Total spendable net position	<u>32,370,071</u>	<u>29,879,434</u>
Total unrestricted net position	<u>32,406,010</u>	<u>29,920,035</u>
Total net position	<u><u>\$152,087,278</u></u>	<u><u>\$146,447,034</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, 2024 amounted to \$4,363,637. 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, 2024

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. Fair of all Plan assets held in trust by the District's 401(a) Plan at June 30, 2024 amounted to \$1,231,664.

During fiscal year 2024, the District and employees each contributed \$61,358 and \$64,258, respectively. The total covered payroll of employees participating in the plan for the year ended June 30, 2024 was \$1,601,933. The total payroll for the year was \$2,782,802.

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, 2024

NOTE 10 – PENSION PLANS (Continued)

The Plan provisions and benefits in effect at June 30, 2024, are summarized as follows:

	Miscellaneous Tier I
	<u>Prior to January 1, 2012</u>
Hire date	2% @ 55
Benefit formula	5 years service
Benefit vesting schedule	monthly for life
Benefit payments	50 - 67
Retirement age	1.426% to 2.418%
Monthly benefits, as a % of eligible compensation	7.00%
Required employee contribution rates	12.47%
Required employer contribution rates	
	Miscellaneous Tier II
	<u>Between January 1, 2012</u>
	<u>through December 31, 2012</u>
Hire date	2% @ 60
Benefit formula	5 years service
Benefit vesting schedule	monthly for life
Benefit payments	50 - 67
Retirement age	1.092% to 2.418%
Monthly benefits, as a % of eligible compensation	7.00%
Required employee contribution rates	10.10%
Required employer contribution rates	
	Miscellaneous PEPPRA
	<u>On or after January 1, 2013</u>
Hire date	2% @ 62
Benefit formula	5 years service
Benefit vesting schedule	monthly for life
Benefit payments	52 - 67
Retirement age	1.000% to 2.500%
Monthly benefits, as a % of eligible compensation	7.75%
Required employee contribution rates	7.68%
Required employer contribution rates	

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 2024.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 10 – PENSION PLANS (Continued)

For the year ended June 30, 2024, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions - employer	<u><u>\$235,584</u></u>
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B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2024, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Total Net Pension Liability	<u><u>\$1,228,192</u></u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2023, 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, 2022 rolled forward to June 30, 2023 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, 2022 and 2023 was as follows:

	Miscellaneous
Proportion - June 30, 2022	0.01437%
Proportion - June 30, 2023	0.02456%
Change - Increase (Decrease)	<u><u>0.01019%</u></u>

For the year ended June 30, 2024, the District recognized pension expense of \$1,631,532. At June 30, 2024, 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	\$235,584	
Differences between actual and expected experience	62,743	\$9,733
Changes in assumptions	74,151	
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	1,181,931	1,165,122
Net differences between projected and actual earnings on plan investments	198,855	
Adjustments due to differences in proportion	<u>1,813,252</u>	<u>956,965</u>
Total	<u><u>\$3,566,516</u></u>	<u><u>\$2,131,820</u></u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 10 – PENSION PLANS (Continued)

The \$235,584 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. 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
2025	\$812,313
2026	359,551
2027	21,542
2028	5,706
Total	<u>\$1,199,112</u>

Actuarial Assumptions – The total pension liabilities in the June 30, 2022 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous Tier I, II, and III</u>
Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Actuarial Cost Method	Entry-Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
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 20 years of mortality improvements using the Society of Actuaries Scale 80% of scale MP-2020. For more details on this table, please refer to the 2021 experience study report (based on CalPERS demographic data from 1998 to 2019) that can be found on the CalPERS website

All other actuarial assumptions used in the June 30, 2022 valuation were based on the results of the 2021 CalPERS Experience Study and Review of Actuarial Assumptions for the period 2000 to 2019, including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 10 – PENSION PLANS (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 6.90% 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 6.90% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 6.90% 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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. 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	Assumed asset Allocation	Real Return Years 1 - 10 ^{1,2}
Global Equity-Cap-Weighted	30.0%	4.54%
Global Equity - Non-Cap-Weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-Backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%
Total	100%	

(1) An expected inflation of 2.30% used for this period.

(2) Figures are based on the 2021 Asset Liability Management Study.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 10 – PENSION PLANS (Continued)

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	5.90%
Net Pension Liability (Asset)	\$4,955,397
Current Discount Rate	6.90%
Net Pension Liability (Asset)	\$1,228,192
1% Increase	7.90%
Net Pension Liability (Asset)	(\$1,839,618)

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, 2024, the District had a balance of \$2,164,069 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.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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, 2024, 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 \$15,750,000 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 \$5,000,000 self-insured layer to \$10,750,000 through CSRMA.
- Workers' compensation and employer's liability: The District is self-insured through the CSRMA up to \$1,000,000 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 \$167,939,584 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 \$1,928,984 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, 2024, 2023 and 2022. 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, 2024, 2023 and 2022.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

NOTE 12 – COMMITMENTS AND CONTINGENCIES
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A. *Local Improvement District Bonds*

Within the District's boundaries, there exists Assessment District No. 2001 (Novato Heights) which was formed for the sole purpose of financing sewer system improvements. The District is not liable for repayment of any bonds issued to finance these local improvements. The District acts as the agent for the property owners within the assessment district by collecting assessments, forwarding collections to bondholders, and initiating foreclosure procedures if appropriate. The outstanding balance on these bonds as of June 30, 2024, and 2023 was \$0.

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 \$2,120,183 of open construction contracts as of June 30, 2024.

C. *Grant Awards*

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

D. *Litigation*

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

Required Supplementary Information

NOVATO SANITARY DISTRICT
Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
As of fiscal year ending June 30, 2024

**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	6/30/2022	6/30/2023
Plan's proportion of the Net Pension Liability (Asset)	0.05846%	0.05971%	-0.06736%	0.00582%	0.00984%
Plan's proportion share of the Net Pension Liability (Asset)	\$5,990,112	\$6,496,500	(\$3,643,241)	\$672,615	\$1,228,192
Plan's Covered Payroll	2,044,398	2,180,962	2,261,938	2,397,359	1,982,411
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	293.00%	297.87%	-161.07%	28.06%	61.95%
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%	97.44%	95.54%
Plan's Proportionate Share of Aggregate Employer Contributions	720,545	788,670	1,119,268	1,327,740	1,094,607

NOVATO SANITARY DISTRICT
Cost-Sharing Multiple Employer Defined Benefit Pension Plan
As of fiscal year ending June 30, 2024

SCHEDULE OF CONTRIBUTIONS

	District Miscellaneous Plan				
Fiscal Year	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)	<u>(\$35,079)</u>	<u>(\$20,110)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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%

	District Miscellaneous Plan				
Fiscal Year	2020	2021	2022	2023	2024
Actuarially determined contribution	\$535,865	\$6,950,014	\$218,540	\$233,790	\$235,584
Contributions in relation to the actuarially determined contributions	(535,865)	(402,745)	(218,540)	(233,790)	(235,584)
Additional contributions to the Unfunded Liability		(6,547,269)			
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$2,180,962	\$2,261,938	\$2,474,295	\$2,397,359	\$1,982,411
Contributions as a percentage of covered payroll	24.57%	307.26%	8.83%	9.75%	11.88%

Notes to Schedule

Valuation date: 6/30/2022

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	2.30%
Salary increases	Varies by Entry Age and Service
Investment rate of return	6.90% (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.

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	2023	2024
Total OPEB liability								
Service cost	\$104,860	\$108,006	\$117,613	\$61,293	\$67,131	\$117,943	\$119,295	\$42,349
Interest	251,406	256,099	244,664	272,505	246,435	211,730	218,139	153,300
Changes in benefit terms								
Differences between expected and actual experience		(21,960)	201,040	(31,710)	(607,392)	(25,045)	(835,983)	31,853
Changes of assumptions		277,245	(1,170,724)	13,340	537,362	(90,412)	(814,271)	(96,808)
Benefit payments	(187,852)	(277,142)	(217,800)	(202,135)	(195,746)	(187,031)	(174,798)	(202,661)
Implicit rate subsidy fulfilled	(68,761)		(73,458)	(23,156)	(28,799)	(61,282)	(47,791)	(41,711)
Net change in total OPEB liability	99,653	342,248	(898,665)	90,137	18,991	(34,097)	(1,535,409)	(113,678)
Total OPEB liability - beginning	4,916,998	5,016,651	5,358,899	4,460,234	4,550,371	4,569,362	4,535,265	2,999,856
Total OPEB liability - ending (a)	\$5,016,651	\$5,358,899	\$4,460,234	\$4,550,371	\$4,569,362	\$4,535,265	\$2,999,856	\$2,886,178
OPEB fiduciary net position								
Net investment income	\$6,933	\$2,230	\$75,128	\$90,034	\$205,474	(\$400,619)	\$226,978	\$332,234
Contributions:								
Employer - District's Contribution	887,852	382,482	606,729	403,796	581,377	1,796,954	1,284,902	202,661
Employer - Implicit Subsidy	68,761	74,262	73,458	23,156	28,799	61,282		41,711
Benefit payments from PARS Trust	(187,852)	(226,479)	(217,800)	(202,135)	(195,746)	(187,031)	(174,798)	(202,661)
Implicit rate subsidy fulfilled	(68,761)	(74,262)	(73,458)	(23,156)	(28,799)	(61,282)		(41,711)
Administrative expense	(294)		(2,741)	(7,609)	(11,080)	(18,833)	(23,492)	(26,765)
Net change in plan fiduciary net position	706,639	158,233	461,316	284,086	580,025	1,190,471	1,313,590	305,469
Plan fiduciary net position - beginning		706,639	864,872	1,326,188	1,610,274	2,190,299	3,380,770	4,694,360
Plan fiduciary net position - ending (b)	706,639	864,872	1,326,188	1,610,274	2,190,299	3,380,770	4,694,360	4,999,829
Plan net OPEB liability (asset) - ending (a) - (b)	\$4,310,012	\$4,494,027	\$3,134,046	\$2,940,097	\$2,379,063	\$1,154,495	(\$1,694,504)	(\$2,113,651)
Plan fiduciary net position as a percentage of the total OPEB liability	14.09%	16.14%	29.73%	35.39%	47.93%	74.54%	156.49%	173.23%
Covered payroll	\$1,933,573	\$1,991,580	\$1,636,626	\$1,681,633	\$2,129,440	\$2,194,832	\$2,353,536	\$2,560,760
District's Net OPEB liability (asset) as a percentage of covered payroll	222.90%	225.65%	191.49%	174.84%	111.72%	52.60%	-72.00%	-82.54%

* 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	2022-2023	2023-2024
Actuarially determined contribution	\$411,241	\$401,663	\$441,931	\$126,101	\$304,864	\$311,382	\$251,102	\$0
Contributions in relation to the actuarially determined contribution	956,613	456,744	680,187	426,952	610,176	1,858,236	1,332,693	244,372
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>	<u>(\$1,081,591)</u>	<u>(\$244,372)</u>
Covered payroll	\$2,046,348	\$1,991,580	\$1,636,626	\$1,681,633	\$2,129,440	\$2,194,832	\$2,353,536	\$2,560,760
Contributions as a percentage of covered payroll	46.75%	22.93%	41.56%	25.39%	28.65%	84.66%	56.63%	9.54%

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, 2023 actuarial valuation provided the Actuarially Determined Contributions for fiscal years ending June 30, 2024.

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	13 years
Asset valuation method	Market value
Inflation	2.30%
Assumed rate of payroll growth	2.80%
	Non-Medicare: 6.50%, trending down to 3.73% by 2075 and later years
	Medicare: 5.40%, trending down to 3.73% by 2075 and later years
Healthcare trend rate	
PEMHCA trend rate	1.30%
Rate of return on assets	6.70%
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

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Statistical Information Section

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**Novato Sanitary District
Statistical Section**

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

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	<u>Page No.</u>
Financial Trends	57-59
These schedules contain information to help the reader understand how the District's Financial performance and well-being have changed over time.	
Revenue Capacity	60-65
These schedules contain information to help the reader assess the District's most significant own-source revenue, sewer service charges.	
Debt Capacity	66-67
These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
Demographic Information	68
This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	69-70
This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	

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

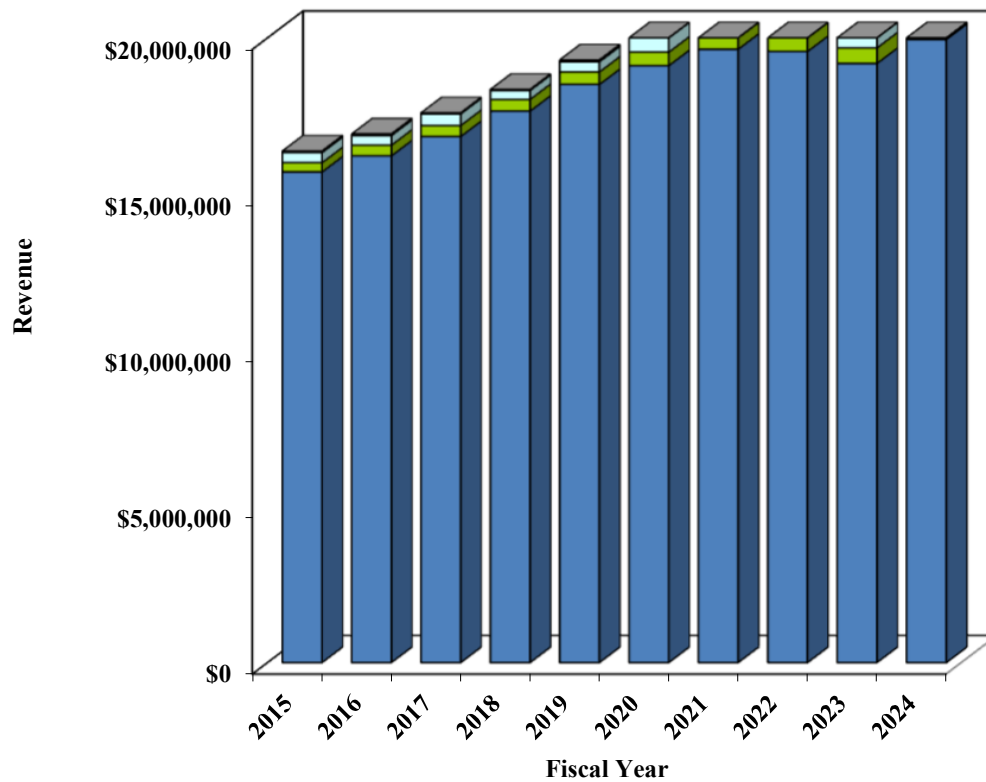
	Restated									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Changes in net position:										
Operating revenues (see Schedule 2)	16,372,320	16,919,629	17,596,116	18,344,976	19,291,206	20,056,048	20,637,247	20,528,176	20,476,638	21,134,517
Operating expenses (see Schedule 3)	(7,894,306)	(8,392,467)	(9,173,987)	(9,131,926)	(8,457,722)	(10,221,539)	(9,881,753)	(3,833,946)	(15,777,072)	(12,644,109)
Depreciation and amortization	(5,201,451)	(5,201,451)	(5,744,111)	(5,793,254)	(5,917,189)	(6,119,229)	(6,314,427)	(6,296,841)	(6,175,731)	(6,242,667)
Operating income(loss)	3,276,563	3,325,711	2,678,018	3,419,796	4,916,295	3,715,280	4,441,067	10,397,389	(1,476,165)	2,247,741
Non-operating revenues(expenses)										
Property taxes (see Schedule 5)	1,999,816	2,155,479	2,292,988	2,360,251	2,502,875	2,580,039	2,704,092	2,830,459	3,055,534	3,137,232
Interest	43,117	71,592	136,595	312,886	629,461	640,601	289,394	(93,841)	812,419	1,481,037
Interest expense	(2,567,765)	(2,450,757)	(2,325,634)	(2,178,527)	(1,907,209)	(2,982,940)	(2,809,604)	(2,397,328)	(2,191,225)	(1,975,350)
Franchise fees/Rental Income	142,597	152,589	146,924	132,090	85,854	35,684	97,685	99,551	103,705	122,700
Bond Premium Amortization*	-	-	-	-	-	931,385	931,385	931,385	931,386	931,386
Gain/(Loss) on sale/disposition of assets	13,364	-	1,627	(34,250)	(40,576)	(9,234)	(17,843)	(18,155)	(108,899)	(34,938)
Other revenue/(expense), net	(135,556)	(82,683)	40,461	(211,515)	(233,047)	(431,373)	(557,264)	(210,327)	(748,020)	(929,518)
Total non-operating revenues(expenses), net	(504,427)	(153,780)	292,961	380,935	1,037,358	764,162	637,845	1,141,744	1,854,900	2,732,549
Net income before capital contributions	2,772,136	3,171,931	2,970,979	3,800,731	5,953,653	4,479,442	5,078,912	11,539,133	378,735	4,980,290
Connection Fees	291,565	223,240	227,567	234,495	319,240	837,884	1,417,471	2,068,106	521,753	419,249
Capital contributions	250,725	13,400	200	133,035	98,354	273,940	223,900	59,150	14,250	-
Capital Grant	-	-	51,069	257,183	150,149	-	-	-	-	240,705
Changes in net position	3,314,426	3,408,571	3,249,815	4,425,444	6,521,396	5,591,266	6,720,283	13,666,389	914,738	5,640,244
Net position by component:										
Net Position, Beginning of Year	106,584,107	105,599,405	108,547,506	111,797,320	113,032,962	119,554,358	125,145,624	131,865,907	145,532,296	146,447,034
Prior Year adjustment	(4,299,128)	-	-	(3,189,801)	-	-	-	-	-	-
Net Investment in capital assets	94,572,835	96,235,212	114,440,159	97,939,722	100,177,367	103,012,579	104,218,071	94,576,434	112,760,310	115,403,548
Restricted				745,826	1,311,222	1,788,976	2,284,858	12,044,742	3,766,689	4,277,720
Unrestricted	11,026,570	12,312,294	(2,642,839)	17,537,215	18,065,769	20,344,069	25,362,978	38,911,120	29,920,035	32,406,010
Net Position, End of Year	105,599,405	108,547,506	111,797,320	113,032,962	119,554,358	125,145,624	131,865,907	145,532,296	146,447,034	152,087,278

Source: Novato Sanitary District Records

* Beginning in FY2020

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

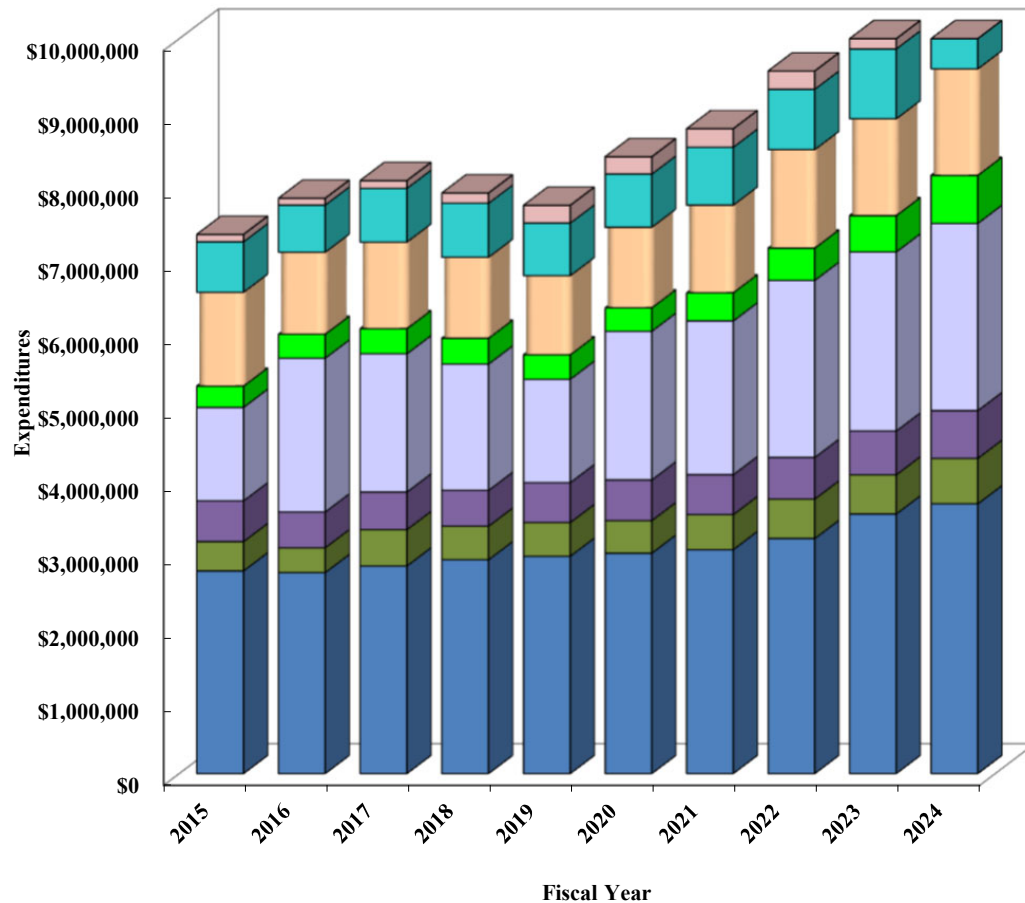
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2015	15,706,704	44,494	297,586	323,536	16,372,320
2016	16,222,876	46,283	342,621	307,849	16,919,629
2017	16,843,212	28,479	354,134	370,291	17,596,116
2018	17,655,740	27,141	376,426	285,669	18,344,976
2019	18,509,333	55,607	400,772	325,495	19,291,206
2020	19,111,326	41,583	434,260	468,879	20,056,047
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
2023	19,182,780	104,233	498,684	690,941	20,476,638
2024	19,950,842	87,670	598,600	497,405	21,134,517



Source: Novato Sanitary District Records.

**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
2015	1,277,022	2,757,514	398,118	555,215	686,789	100,354	289,586	1,271,975	557,733	7,894,306
2016	1,116,422	2,734,327	337,887	487,624	641,965	92,028	325,068	2,093,124	564,022	8,392,467
2017	1,178,118	2,824,699	493,926	512,003	731,684	105,327	341,580	1,881,777	1,104,873	9,173,987
2018	1,103,000	2,909,669	456,136	487,971	735,079	138,238	350,937	1,718,907	1,231,989	9,131,926
2019	1,077,449	2,957,149	458,191	543,373	715,265	241,382	332,294	1,407,194	725,425	8,457,722
2020	1,097,245	2,998,835	442,917	554,456	723,498	234,916	318,882	2,022,473	1,828,317	10,221,539
2021	1,193,727	3,046,982	476,034	543,941	787,009	251,633	382,985	2,092,252	1,107,190	9,881,753
2022	1,341,311	3,198,324	536,597	566,720	820,334	247,917	439,314	2,409,418	(5,725,989)	3,833,946
2023	1,318,524	3,532,439	532,449	596,623	950,132	290,874	494,346	2,436,560	5,625,125	15,777,072
2024	1,449,298	3,670,097	618,732	650,121	985,545	246,741	653,446	2,547,810	1,822,319	12,644,109



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 Records.

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

Fiscal Year	Assessed Value	Percent Change
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%
2023	15,336,742,126	6.72%
2024	15,909,582,787	3.74%

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	
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	2,580,039	1,649	2,578,390	2,580,039	1,649	2,578,390	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%
2023	3,055,534	2,516	3,053,018	3,055,534	2,516	3,053,018	99.92%
2024	3,137,232	2,914	3,134,317	3,137,232	2,914	3,134,317	99.91%

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

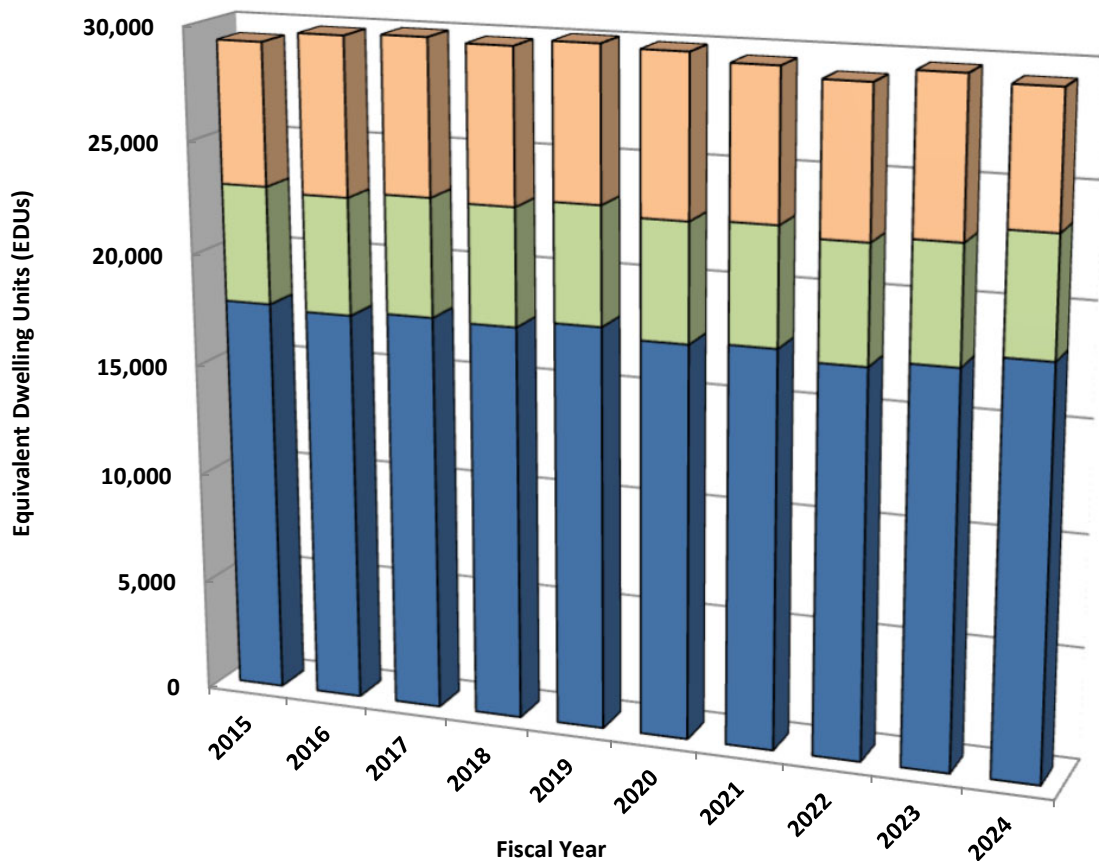
**Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years
Schedule 6**

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Prior Year Tax Collections	Percent of Current Taxes Collected	Net Collections
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	2,578,390	2,578,390	100.0%	1,649	0.1%	\$ 2,580,039
2021	2,702,795	2,702,795	100.0%	1,297	0.0%	\$ 2,704,092
2022	2,827,972	2,827,972	100.0%	2,487	0.1%	\$ 2,830,459
2023	3,053,018	3,053,018	100.0%	2,516	0.1%	\$ 3,055,534
2024	3,134,317	3,134,317	100.0%	2,914	0.1%	\$ 3,137,232

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
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
2023	17,577.34	5,176.81	6,852.51	29,606.66
2024	18,163.87	5,257.88	5,847.23	29,268.98



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										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Rate per EDU per year (1)	531.00	552.00	573.00	594.00	615.00	636.00	657.00	657.00	657.00	677.00
Rate per EDU per month	44.25	46.00	47.75	49.50	51.25	53.00	54.75	54.75	54.75	56.42
EDUs ⁽¹⁾ EDU Factors										
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⁾	Flow factor	Charge per Sq.Ft.			Strength factor		Charge per HCF*			
Base Charge/ Unspecified	1.0	\$ 0.18			1.0		\$ 7.36			
Office	1.0	\$ 0.18			1.0		\$ 7.36			
Retail	1.0	\$ 0.18			1.0		\$ 7.36			
Public office	1.0	\$ 0.18			1.0		\$ 7.36			
School classrooms/administration	1.0	\$ 0.18			1.0		\$ 7.36			
Churches	1.0	\$ 0.18			1.0		\$ 7.36			
Meeting halls with kitchens	1.0	\$ 0.18			1.2		\$ 8.87			
Auto service stations	1.0	\$ 0.18			1.0		\$ 7.36			
Supermarkets	1.0	\$ 0.18			1.8		\$ 13.56			
Auditoriums, theaters	1.0	\$ 0.18			1.0		\$ 7.36			
Gymnasiums w/showers	1.0	\$ 0.18			1.0		\$ 7.36			
Hotels/motels	1.0	\$ 0.18			1.0		\$ 7.36			
Mortuary	1.0	\$ 0.18			1.8		\$ 13.56			
Medical offices	1.3	\$ 0.36			1.0		\$ 7.36			
Veterinary offices	1.3	\$ 0.23			1.0		\$ 7.36			
Dental offices	1.3	\$ 0.23			1.0		\$ 7.36			
Hospitals	1.3	\$ 0.23			1.0		\$ 7.36			
Cafeteria/dining area	2.0	\$ 0.36			1.8		\$ 13.56			
Restaurants/cafes	2.0	\$ 0.36			1.8		\$ 13.56			
Bakeries	2.0	\$ 0.36			1.8		\$ 13.56			
Ice Cream/yogurt shops	2.0	\$ 0.36			1.8		\$ 13.56			
Delicatessens	2.0	\$ 0.36			1.8		\$ 13.56			
Laundry and Laundromats	3.0	\$ 0.54			1.2		\$ 8.87			
Warehouse or Storage not live/work	0.0	0.00			0.0		0.00			
<div>⁽¹⁾ Rates as of July 1 of each year</div> <div>⁽²⁾ Rates as of July 1, 2023</div> <div>Source: Novato Sanitary District Technical Services Department</div> <div>*HCF= Hundred Cubic Feet of water use</div>										

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

Customer	2024		2015	
	EDU's	Percentage of Total	EDU's	Percentage of Total
Novato Unified School District	455.14	1.56%	393.35	1.34%
BioMarin Pharmaceutical	447.83	1.53%	304.69	1.04%
Scarpa Steven Trust	438.39	1.50%	NA	NA
NCP Multifamily LLC	397.62	1.36%	NA	NA
Avanath Bay Vista LP	226.78	0.77%	NA	NA
Fireman's Fund - Novato - 777 San Marin Drive LLC	225.77	0.77%	381.05	1.30%
Vintage Oaks Shopping Center (not including Costco or Target)	224.60	0.77%	274.79	0.94%
Los Robles Mobile Home Park	216.18	0.74%	NA	NA
Marion Park Associates	184.02	0.63%	NA	NA
Fairfield Windover LP	136.00	0.46%	NA	NA
Total EDUs: Principal customers	2,952.33	10.09%	1,353.88	4.61%
Total Equivalent Dwelling Units (EDUs)	29,269	100.00%	29,288	100.00%

Source: Novato Sanitary District Technical Services Department/NBS

**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	
2015	18,964,584	(7,894,306)	11,070,278	4,339,933	2,678,227	7,018,160	1.577
2016	19,453,246	(8,392,467)	11,060,779	4,449,171	2,567,765	7,016,936	1.576
2017	20,493,547	(9,173,987)	9,933,363	4,565,431	2,450,757	7,016,188	1.416
2018	21,529,151	(9,131,926)	12,397,225	4,673,762	2,325,634	6,999,396	1.771
2019	22,803,516	(8,457,722)	14,345,794	4,804,212	2,178,527	6,982,739	2.054
2020	24,914,974	(10,221,539)	14,693,435	4,741,834	1,907,209	6,649,043	2.210
2021	25,726,067	(9,881,753)	15,844,314	4,300,000	2,982,940	7,282,940	2.176
2022	26,194,504	(3,833,946)	22,360,558	3,855,000	2,809,604	6,664,604	3.355
2023	25,058,766	(15,777,072)	9,281,694	4,531,000	2,433,692	6,964,692	1.333
2024	26,502,369	(12,644,109)	13,858,260	4,748,000	2,214,993	6,962,993	1.990

Notes:

⁽¹⁾ Operating expenses exclude depreciation expense.

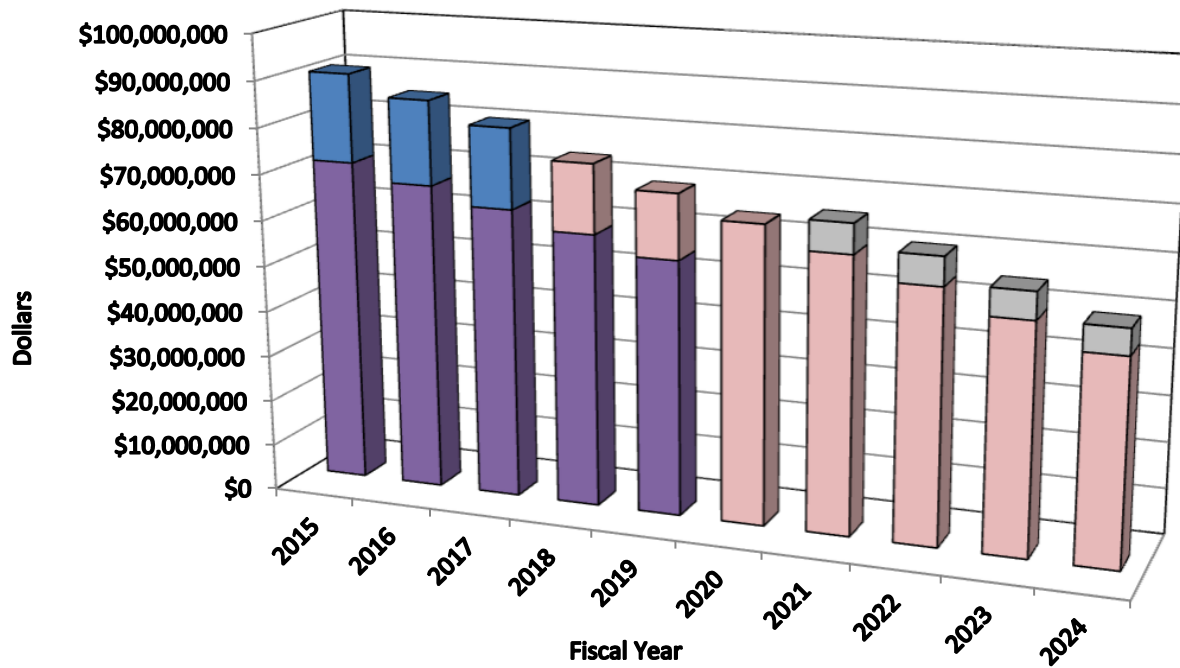
⁽²⁾ Net revenues calculated without the non-cash adjustment for the capital asset disposal/write down of \$3.5M in FY2014.

⁽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 Records.

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

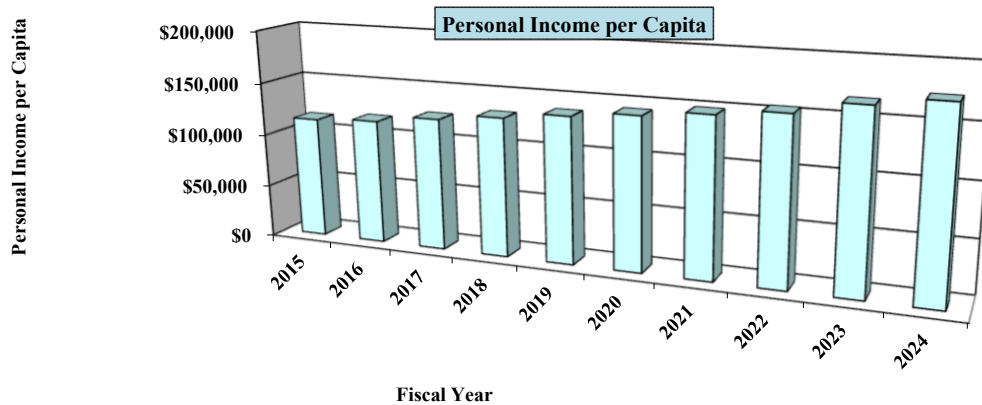
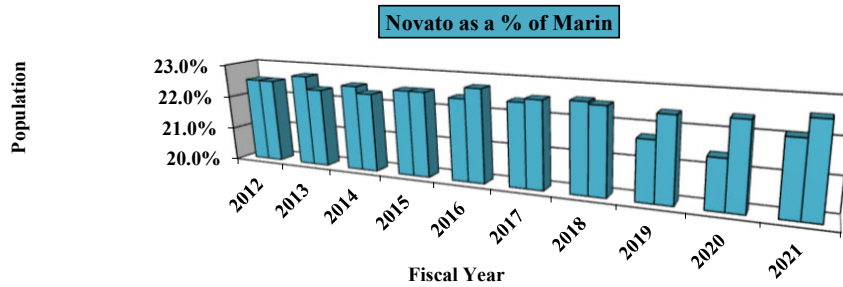
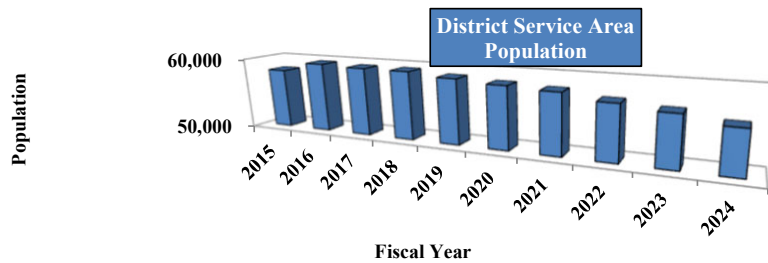
Fiscal Year	SRF Loan Payable	Certificates of Participation Bond Payable	2017 & 2019 Wastewater Revenue Bonds Payable	2020 Revenue Bonds Payable	Total		
					Debt	Per Capita	As a Share of Personal Income
2015	70,771,876	19,265,000			90,036,876	1,544.37	1.35%
2016	67,091,444	18,380,000			85,471,444	1,434.08	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	1,140.74	0.77%
2022	-	-	54,947,470	6,233,000	61,180,470	1,065.86	0.69%
2023	-	-	49,786,084	5,932,000	55,718,084	980.95	0.59%
2024	-	-	44,414,698	5,624,000	50,038,699	896.75	0.52%



Source: Novato Sanitary District Records.

**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
2015	58,300	22.5%	3.9%	258,972	29,571,166	114,455
2016	59,600	22.7%	4.3%	262,274	30,442,677	117,552
2017	59,400	22.5%	3.0%	263,604	32,255,481	124,552
2018	59,400	22.5%	2.5%	263,886	33,868,255	130,780
2019	58,900	22.4%	2.4%	262,879	35,561,667	137,319
2020	58,500	22.4%	10.1%	260,831	36,984,134	142,811
2021	58,200	22.6%	4.8%	257,774	38,463,499	148,524
2022	57,400	21.7%	2.4%	264,303	40,002,039	154,465
2023	56,800	21.4%	3.4%	265,294	43,022,193	166,127
2024	55,800	22.1%	4.1%	252,660	44,932,379	173,503



Notes:

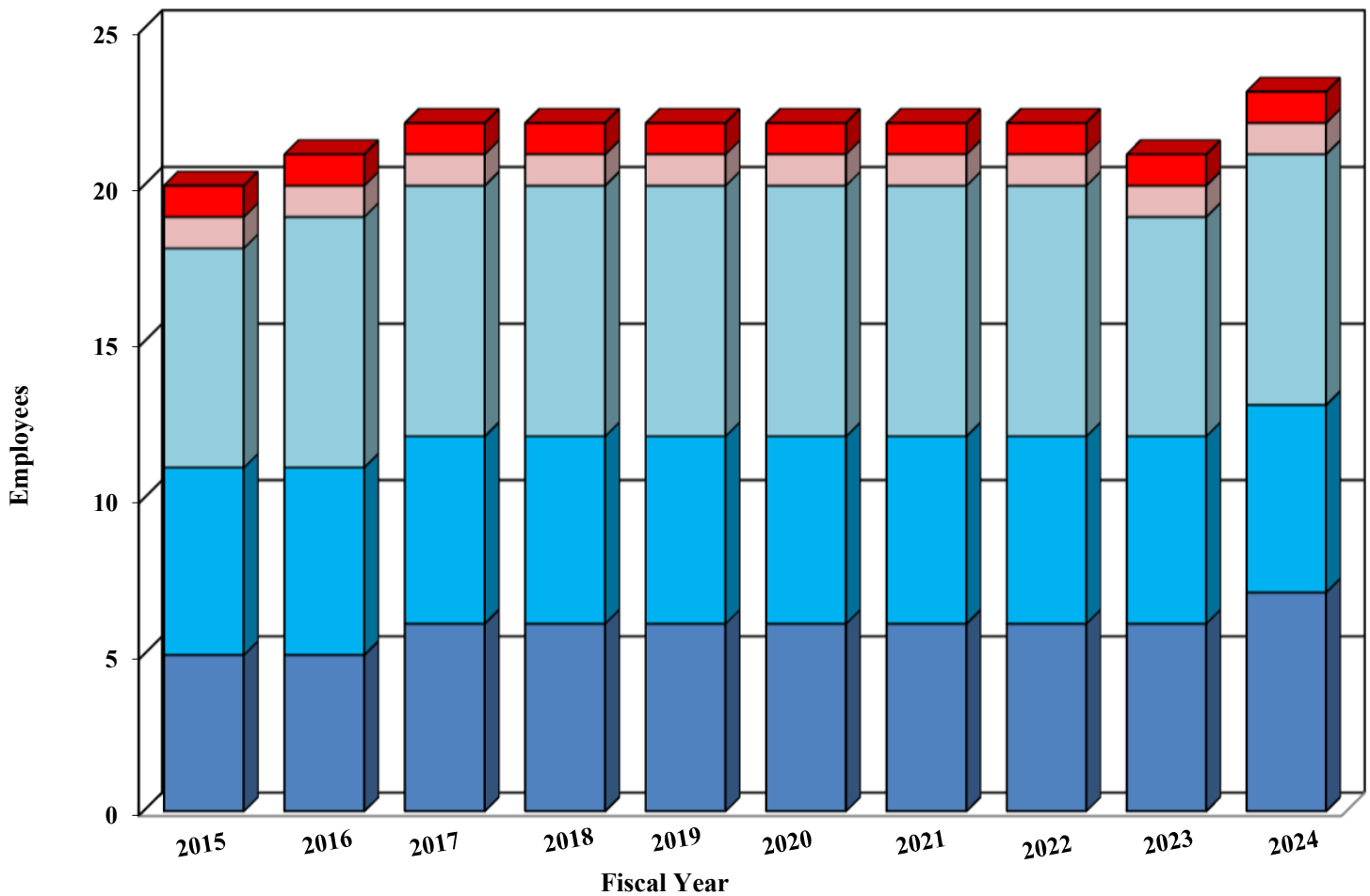
⁽¹⁾ Approximate values, as demographic data specific to the District's service area is not available.

⁽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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Administration	5	5	6	6	6	6	6	6	6	6
Engineering	6	6	6	6	6	6	6	6	6	6
Lab Services	0	0	0	0	0	0	0	0	0	0
Operations	0	0	0	0	0	0	0	0	0	0
Collections	7	8	8	8	8	8	8	8	7	8
Maintenance	1	1	1	1	1	1	1	1	1	1
Safety	1	1	1	1	1	1	1	1	1	1
Total	20	21	22	22	22	22	22	22	21	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⁾
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
2022	266	42	4.02	7.00	1,467
2023	266	42	3.79	7.00	1,383
2024	266	42	5.56	7.00	2,029

Notes:

MG - Millions of Gallons

MGD - Millions of Gallons per Day

⁽¹⁾ Fiscal year basis.

⁽²⁾ Approximate values; primarily sewers.

Source: Novato Sanitary District Records.