

NORTH MARIN WATER DISTRICT
June 30, 2007
AUDITOR'S REPORT
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

NORTH MARIN WATER DISTRICT

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**NORTH MARIN WATER DISTRICT
Organization
June 30, 2007**

GOVERNING BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>
Stephen Petterle	President
Rick Fraitcs	Vice President
Jack Baker	Director
Dennis Rodoni	Director
John Schoonover	Director

ADMINISTRATION

Chris DeGabriele	General Manager
Renee Roberts	Secretary
David L. Bentley	Auditor/Controller
Drew McIntyre	Chief Engineer

NORTH MARIN WATER DISTRICT
999 Rush Creek Place
Novato, CA 94945
Management's Discussion and Analysis
June 30, 2007

As management of the North Marin Water District, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the North Marin Water District, for the fiscal year ended June 30, 2007.

Overview of the Financial Statements This discussion and analysis are intended to serve as an introduction to the North Marin Water District's basic financial statements. The North Marin Water District's basic financial statements are comprised of four components:

- 1) Statement of Net Assets
- 2) Statement of Revenues, Expenses and Changes in Net Assets
- 3) Statement of Cash Flows
- 4) Notes to the Financial Statements

This report also contains other supplementary information in addition to the basic financial statements.

The **Statement of Net Assets** is intended to disclose the financial position of the District at a specific point in time, June 30, 2007. It presents the District's assets and liabilities, with the difference between the two reported as net assets (equity). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the North Marin Water District is improving or deteriorating. Assets and liabilities are listed in order of their estimated liquidity. Cash and other unrestricted assets readily convertible to cash are listed first. Property, plant and equipment are listed near the bottom of assets because they are highly illiquid. Further, property, plant and equipment is reduced by the depreciation. This is the estimated diminution of value attributable to the wear and tear of assets caused by use and the passage of time.

The **Statement of Revenues, Expenses and Changes in Net Assets** is intended to disclose the results of operations over a period of time, the fiscal year ended June 30, 2007. This statement reflects revenues earned (whether collected or not), and expenses incurred (whether paid or not) during the year. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows (inflows and outflows of cash) in future fiscal periods (e.g., earned but unused vacation leave). This statement differs significantly from the statement of net assets, yet coordinates well with that statement. The net earnings of the District flow into the net assets of the District as reflected on the Statement of Net Assets.

The **Statement of Cash Flows** combines aspects of both the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets and discloses how cash flows through the District.

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The business-type activities of the North Marin Water District are conducted by the District governed by its own five-person board of directors, and they include water and sewer operations.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The North Marin Water District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The North Marin Water District uses only enterprise proprietary funds for its business type activities. The District has four funds: Novato Water, Novato Recycled Water, West Marin Water, and Oceana Marin Sewer.

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A Combining Statement of Net Assets and a Combining Statement of Revenues, Expenses, and Change in Net Assets are included as other supplemental information, for analysis purposes only. These statements provide the same type of information as the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, only in more detail. The combining statements provide separate information for the water (Novato Water, Novato Recycled Water, West Marin Water) and sewer (Oceana Marin Sewer) operations, which are considered to be the major funds of the North Marin Water District.

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Financial Analysis

An adjustment to current year beginning net assets was recorded in order to account for a change in the District's policy for recording payments made to Sonoma County Water Agency, which had previously been capitalized as entitlement costs. See Note 12 for more details regarding this adjustment. All comparative amounts in this discussion have been adjusted to reflect this treatment.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the North Marin Water District, assets exceeded liabilities by \$75,463,961 at the close of the most recent fiscal year.

By far the largest portion of the North Marin Water District's net assets (78.8%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The North Marin Water District uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the North Marin Water District's investment in its capital assets is reported net of related debt, it is not a spendable resource. The resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the North Marin Water District's net assets, \$4,945,832 (6.6%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$11,065,024 (14.6%), may be used for any legal purpose, however, of this amount only \$6,931,662 represents cash held to meet the District's ongoing obligations to citizens and creditors.

Other factors concerning the finances of the District are addressed in the discussion of the North Marin Water District's business-type activities on page 10 (Economic Factors).

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Table 1
Net Assets

Description	2007	2006
Current and other assets	\$ 20,470,818	\$ 18,974,065
Capital assets	\$ 79,377,039	\$ 69,982,789
Total assets	\$ 99,847,857	\$ 88,956,854
Long-term liabilities outstanding	\$ 21,579,955	\$ 16,108,878
Other liabilities	\$ 2,803,941	\$ 5,003,751
Total liabilities	\$ 24,383,896	\$ 21,112,629
Net assets:		
Investments in capital assets, net of related debt	\$ 59,453,105	\$ 57,718,713
Restricted net assets (cash)	\$ 4,945,832	\$ 7,130,109
Unrestricted net assets *	\$ 11,065,024	\$ 2,995,403
Total net assets	\$ 75,463,961	\$ 67,844,225
* \$6,931,662 of the 2007 amount and \$7,042,812 of the 2006 amount represents unrestricted (but designated) cash.		

At the end of the current fiscal year, the North Marin Water District is able to report positive balances in its net assets. The same situation held true for the prior fiscal year.

Key elements of this increase are as follows:

Table 2
Changes in Net Assets

Description	2007	2006
Operating revenue	\$11,441,223	\$10,089,847
Other general revenue & connection fees	\$ 3,018,862	\$ 1,909,846
Developer 'in-kind' contributions	\$ 8,210,864	\$ 1,493,596
Total Revenues	\$22,670,949	\$13,493,289
Purchased water cost	\$ 4,453,758	\$ 4,546,147
Interest on long term debt	\$ 411,543	\$ 357,793
Other expenditures	\$10,185,912	\$ 8,399,877
Total Expenses	\$15,051,213	\$13,303,817
Increase (decrease) in Net Assets	\$ 7,619,736	\$ 189,473
Net Assets Beginning, as restated (Note 12)	\$67,844,225	\$67,654,752
Net Assets Ending	\$75,463,961	\$67,844,225

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Financial Highlights

The assets of the North Marin Water District, California, exceeded its liabilities at the close of the most recent fiscal year by \$75,463,961 (*net assets*).

The District's total net assets increased by \$7,619,736. The increase derives from total revenue, exceeding total expenses. Total revenue which includes \$8.2 million in developer 'in-kind' contributions (i.e., installed pipeline and facilities) increased by \$9,177,660. Revenue net of developer in-kind contributions increased by \$2,460,391. Expenses increased by \$1,747,396. During the year, major improvement projects were completed as discussed in the Economic Factors section on page 9 of this report.

The North Marin Water District's total debt increased by \$4,352,108, due primarily to the increase in the State Revolving Fund Loan which is funding the Stafford Treatment Plan Rehabilitation Project, and the new SRF Loan which is funding the Recycled Water Facility.

Summary Income Statements by Service Area

<u>NOVATO WATER</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$10,788,330	\$9,526,307	13%
Operating Expenditures less depreciation	\$10,703,755	\$10,265,661	5%
Depreciation Expense	\$1,377,613	\$968,939	42%
Other Income / (Expense)	\$237,033	(\$267,993)	-
Net Income/(Loss) before Capital Contributions ¹	<u>(\$1,056,005)</u>	<u>(\$1,976,286)</u>	(47%)
Active Accounts	20,320	20,179	1%
Consumption (MG)	3,616	3,315	9%
Income / (Loss) / Active Account	(\$51.97)	(\$97.94)	(47%)
Income / (Loss) / 1,000 Gal	(\$0.29)	(\$0.60)	(52%)
¹ Connection Fee Revenue	\$354,421	\$599,052	(41%)
¹ Developer 'In-Kind' Contributions	\$4,464,659	\$1,342,073	233%

Fiscal year consumption was up 9% compared to the prior year (3,616 million gallons vs. 3,315 million gallons) while total operating revenue, which includes wheeling and other miscellaneous service charges, increased 13% (\$1,262,023) due to the increased sales volume and the 2% rate increase enacted July 1, 2006. Total operating expenditures, before depreciation, were 5% (\$438,094) more than last year. Purchases of Russian River water were \$141,200 more than last year. Salaries and benefits charged to Novato operations were up \$235,612 (6%) over last year.

The fiscal year loss before capital contributions (which includes Non-Operating Revenue such as interest, and Non-Operating Expenses such as expensed improvement projects) of \$1,056,005 compares to a budgeted net loss for the entire year of \$1,452,000 and to a Net Loss of \$1,976,286 for the prior year. We expended \$4,682,249 (80%) of the Improvement Project Budget versus \$5,614,600 (51%) for the prior year. Connection fee revenue totaled \$354,421 or 15% of the annual budget amount. The Novato Water cash balance decreased \$2,719,140 during the fiscal year.

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<u>NOVATO RECYCLED</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$7,008	\$0	-
Operating Expenditures less depreciation	\$7,942	\$0	-
Depreciation Expense	\$0	\$0	-
Other Income / (Expense)	<u>(\$46,053)</u>	<u>\$0</u>	-
Net Income/(Loss) before Capital Contributions ¹	<u>(\$46,987)</u>	<u>\$0</u>	-
Active Accounts	1	0	-
Consumption (MG)	2,908	0	-
¹ Connection Fee Revenue	\$0	\$0	-
¹ Developer 'In-Kind' Contributions	\$3,612,640	\$0	-

The Recycled Water Facility began delivery of recycled water (2,908 MG) to the Stone Tree Golf Course on June 16, 2007. \$3,027,158 was expended on the Recycled Water Facility Project this fiscal year.

<u>WEST MARIN WATER</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$500,140	\$421,801	19%
Operating Expenditures less depreciation	\$339,927	\$335,159	1%
Depreciation Expense	\$85,317	\$73,638	16%
Other Income / (Expense)	<u>(\$48,534)</u>	<u>(\$7,511)</u>	546%
Net Income/(Loss) before Capital Contributions ¹	<u>\$26,361</u>	<u>\$5,492</u>	380%
Active Accounts	764	753	1%
Consumption (MG)	98	86	14%
Raw Water (MG)	67	73	(9%)
Income/ (Loss) / Active Account	\$34.50	\$7.29	373%
Income / (Loss) / 1,000 Gal (Potable)	\$0.27	\$0.06	350%
¹ Connection Fee Revenue	\$38,800	\$31,650	23%
¹ Developer 'In-Kind' Contributions	\$122,645	\$134,120	(9%)

Potable water consumption totaled 98 MG this fiscal year and was up 14% from the previous year. Potable water revenue of \$480,969 was \$77,664 (20%) more than last year due to the increased sales volume and 6% rate increase enacted August 1, 2006. Operating expenditures, not including depreciation were \$339,927, up \$4,768 (1%) compared to the prior year.

The Net Income of \$26,361 compares to a budgeted annual loss of \$55,000 and to a Net Income of \$5,492 for the previous year. 54% (\$149,675) of the Improvement Project Budget was expended. The amount borrowed from Novato decreased \$59,985 this fiscal year and now stands at \$440,300, compared to a budgeted projection at June 30, 2007 of \$555,000.

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<u>OCEANA MARIN SEWER</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$145,745	\$141,739	3%
Operating Expenditures before depreciation	\$103,615	\$111,895	(7%)
Depreciation Expense	\$27,147	\$26,572	2%
Other Income / (Expense)	\$42,354	\$11,599	265%
Net Income/(Loss) before Capital Contributions ¹	<u>\$57,337</u>	<u>\$14,871</u>	286%
Active Accounts	220	217	1%
Income / (Loss) / Active Account	\$260.62	\$68.53	280%
¹ Connection Fee Revenue	\$34,945	\$9,000	288%
¹ Developer 'In-Kind' Contributions	\$10,920	\$17,403	(37%)

Sewer service revenue of \$145,605 was up \$3,866 (3%) from the prior year. Operating expenses were \$8,283 (7%) lower than the prior year.

The fiscal year Net Income of \$57,337 compares to a budgeted annual income of \$2,000 and to a Net Income of \$14,871 for the previous year. 53% of the annual Improvement Project Budget was expended. The big project this fiscal year was construction of an enclosure for the Tahiti Way Lift Station Generator budgeted at \$35,000, of which only \$2,518 was expended. In July \$15,533 in annexation fees were collected for Parcel L, and in November an additional \$2,774 in annexation fees were collected for the parcel at 37 Ocean View Ave. (shown above as Other Income). In March, \$21,445 in Connection Fees were collected for four units to be constructed on Parcel L. Oceana Marin now has a cash balance of \$182,228, compared to a budgeted projection of \$73,000 at June 30, 2007.

Capital Asset and Debt Administration

Capital assets. The North Marin Water District's investment in capital assets for its business type activities as of June 30, 2007, amounts to \$79,377,039 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total increase in the North Marin Water District's investment in capital assets for the current fiscal year was \$9,394,250.

Major capital asset events during the current fiscal year included the following:

Novato

- Completion of the Stafford Treatment Plant
- Construction of Center Road Tank
- Completion of the Recycled Water Treatment Facility Project

West Marin Water

- Upgrade Inverness Park Pump Station with two 150-gpm pumps in West Marin

Oceana Marin Sewer

- Lift Station Variable Frequency Drive Replacement in Oceana Marin

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Table 3
Capital Assets

	6/30/2007	6/30/2006	\$ Change	% Change
Property and Plant				
Land & Land Rights	\$1,473,091	\$1,473,091	\$0	0%
Dam, Lake, & Source Facilities	3,508,860	3,508,860	0	0%
Treatment Facilities	17,557,794	1,854,269	15,703,525	847%
Storage Facilities	11,140,159	10,578,377	561,782	5%
Transmission Facilities	5,489,830	5,489,830	0	0%
Distribution Facilities	43,560,867	37,548,722	6,012,145	16%
Maps & Records	84,466	84,466	0	0%
Sewer Facilities	686,181	686,181	0	0%
Sub-Total	\$83,501,248	\$61,223,796	\$22,277,452	36%
Less Accumulated Depreciation	(17,497,061)	(16,384,250)	(1,112,811)	7%
Net Property and Plant	\$66,004,187	\$44,839,546	\$21,164,641	47%
Construction in Progress	\$11,398,033	\$23,277,455	(\$11,879,422)	(51%)
Buildings and Equipment				
Buildings	\$1,778,388	\$1,778,388	\$0	0%
Office Equipment	730,940	645,653	\$85,287	13%
Laboratory Equipment	250,621	166,326	\$84,295	51%
Trucks & Automobiles	954,738	800,407	\$154,331	19%
Construction Equipment	562,989	530,767	\$32,222	6%
Tools, Shop Equipment	234,932	224,128	\$10,804	5%
Sub-Total	\$4,512,608	\$4,145,669	\$366,939	9%
Less Accumulated Depreciation	(2,537,789)	(2,279,881)	(\$257,908)	(11%)
Net Buildings and Equipment	\$1,974,819	\$1,865,788	\$109,031	6%
Net Capital Assets	\$79,377,039	\$69,982,789	\$9,394,250	13%

Additional information on the North Marin Water District's capital assets can be found in Note 3 on page 25 of this report.

Infrastructure Assets

The District has adopted the recommended approach of GASB Statement No. 34 with regard to infrastructure assets. All identifiable infrastructure assets have been capitalized at their purchase cost, or estimated value for contributed or donated assets.

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Long-term debt. At the end of the fiscal year, the North Marin Water District had total debt outstanding of \$20,086,755, an increase of \$4,352,108 (22%) for the prior fiscal year. The increase is due to an increase of the STP Rehab State Revolving Fund Loan (\$313,987), the addition of the RWF State Revolving Fund Loan (\$4,264,545), offset by principal repayment on the West Marin general obligation and revenue bonds (\$32,650), Economic Development Administration Drought Loans (\$12,368), and the Hamilton Boundary Reorganization note due Marin Municipal Water District (\$181,406).

Table 4
Outstanding Debt

	6/30/2007	6/30/2006	\$ Change	% Change
Bonds Outstanding-PR3 (FmHA)	75,000	86,000	(11,000)	(13%)
Bonds Outstanding-PR6 (FmHA)	129,000	141,000	(12,000)	(9%)
Bonds Outstanding-OL2 (NMWD)	26,593	29,243	(2,650)	(9%)
Bonds Outstanding-PRE1 (FmHA)	133,000	140,000	(7,000)	(5%)
Drought Loan (EDA)	162,821	175,189	(12,368)	(7%)
Hamilton Boundary Reorganization	190,477	371,883	(181,406)	(49%)
STP Rehab SRF Loan	15,105,319	14,791,332	313,987	2%
RWF SRF Loan	4,264,545	0	4,264,545	100%
Total Long-term Debt	\$20,086,755	\$15,734,647	\$4,352,108	28%

Additional information on the North Marin Water District's long-term debt can be found in Note 6 on pages 27-28 of this report.

Economic Factors and Description of Currently Known Facts:

- The unemployment rate for the county in which North Marin Water District is located is currently 3.7 percent, which is an decrease from a rate of 3.8 percent a year ago. This is lower then the state's average unemployment rate of 5.2 percent and lower than the national average rate of 4.5 percent
- The District increased commodity rates in fiscal year 2007 by 2% in Novato and 6% in West Marin, and did not increase rates in Oceana Marin.
- Historically low interest rates

All of these factors (except unemployment rates) were considered in preparing the North Marin Water District's budget for the 2007 fiscal year.

In FY 2006/07 construction on the Stafford Treatment Plant Rehabilitation Project was completed and a public dedication was held on November 4, 2006. At \$16,000,000 (\$14.6M construction cost) this is the largest project the District has ever undertaken. The new plant started up in late August 2006 purifying water from Stafford Lake to meet the ever more stringent quality standards now imposed upon drinking water providers in California. In FY 2006/07, over 349 million gallons of water were produced from the new Stafford Treatment Plant.

Other notable achievements in FY 2006/07 focused on improvement projects identified in the Novato Water System Master Plan. These included: Phase II of the Cherry Hill Pipeline Extension; Simmons Lane Bridge Main Replacement; replacing 42 polybutylene services in Pacheco Valley; replacing or lowering water mains and services at Clayton Court, San Marin Drive, Davidson Street, Lobo Vista, Pico Vista and Raposa Vista and other locations to synchronize with City paving/drainage projects; the new Center Road Tank was essentially completed along with an altitude valve and controls at Wildhorse Tank bolstering reliability of this Zone 3 system.

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On the Russian River, there was ample storage in Lake Sonoma, but Lake Mendocino reached its lowest level entering the spring since 1977. The dry year has resulted in less runoff into Lake Mendocino, but the bigger reason for reduced storage is less Eel River water diverted through the Potter Valley project than had been historically diverted. Storage in Lake Mendocino is needed later in the year for Russian River in-stream flows for migration and spawning of Chinook salmon. Sonoma County Water Agency received a temporary urgency change from the State Water Resources Control Board (SWRCB) to reduce flows in the Russian River this summer and agricultural diverters and urban water users are being asked to reduce water consumption to preserve storage in Lake Mendocino. Without the reduction of summer in-stream flows, storage in Lake Mendocino was expected to drop to about 8,000 acre feet, the lowest level ever.

West Marin improvements included completion of the PRE Tank #2 Retaining Wall Repair and Tank #1 Chlorine Booster System Upgrade; adding 50 radio read meters; replacement of 18 polybutylene services; and starting installation of a new pump station at Inverness Park.

The SWRCB approved NMWD's change in place and purpose of use for our senior Lagunitas Creek water right license. It's taken five full years of effort to secure this change for West Marin customers. NMWD's West Marin water customers now have a reliable water supply in normal and dry years.

At Oceana Marin, infiltration and inflow studies continued; and variable frequency drives were replaced at the lift station pumps.

As the District looks forward, Novato water customers will continue to experience reliable and reasonably priced service and increased emphasis on water conservation as the District forecasts up to ten more years of working with SCWA to perfect additional facilities for increased Russian River water deliveries. Into FY 2007/08 emphasis will continue on: the Stafford Lake outlet tower repair and security and air handling improvements at the treatment plant; construction of Palmer Drive Tank; completion of the recycled water project to serve Stone Tree Golf Course and Novato Fire Protection District; additional pipeline; and polybutylene service line replacements.

West Marin priorities for FY 2007/08 will include: completion of the Inverness Park Pump Station; chemical feed and electrical improvements and filter media replacement at the Point Reyes Treatment Plant. In Oceana Marin, construction of a lift station and generator enclosure and repairs to two disposal field trenches are planned.

Requests for Information

This financial report is designed to provide a general overview of the North Marin Water District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Marin Water District, Office of the Auditor-Controller, P.O. Box 146, Novato, CA 94948.

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The Combining Statement of Net Assets and a Combining Statement of Revenues, Expenses, and Change in Net Assets can be found on pages 32-34 of this report.

Financial Analysis

An adjustment to current year beginning net assets was recorded in order to account for a change in the District's policy for recording payments made to Sonoma County Water Agency, which had previously been capitalized as entitlement costs. See Note 12 for more details regarding this adjustment. All comparative amounts in this discussion have been adjusted to reflect this treatment.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the North Marin Water District, assets exceeded liabilities by \$75,463,961 at the close of the most recent fiscal year.

By far the largest portion of the North Marin Water District's net assets (78.8%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The North Marin Water District uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the North Marin Water District's investment in its capital assets is reported net of related debt, it is not a spendable resource. The resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the North Marin Water District's net assets, \$4,945,832 (6.6%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$11,065,024 (14.6%), may be used for any legal purpose, however, of this amount only \$6,931,662 represents cash held to meet the District's ongoing obligations to citizens and creditors.

Other factors concerning the finances of the District are addressed in the discussion of the North Marin Water District's business-type activities on page 10 (Economic Factors).

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Table 1
Net Assets

Description	2007	2006
Current and other assets	\$ 20,470,818	\$ 18,974,065
Capital assets	\$ 79,377,039	\$ 69,982,789
Total assets	\$ 99,847,857	\$ 88,956,854
Long-term liabilities outstanding	\$ 21,579,955	\$ 16,108,878
Other liabilities	\$ 2,803,941	\$ 5,003,751
Total liabilities	\$ 24,383,896	\$ 21,112,629
Net assets:		
Investments in capital assets, net of related debt	\$ 59,453,105	\$ 57,718,713
Restricted net assets (cash)	\$ 4,945,832	\$ 7,130,109
Unrestricted net assets *	\$ 11,065,024	\$ 2,995,403
Total net assets	\$ 75,463,961	\$ 67,844,225
* \$6,931,662 of the 2007 amount and \$7,042,812 of the 2006 amount represents unrestricted (but designated) cash.		

At the end of the current fiscal year, the North Marin Water District is able to report positive balances in its net assets. The same situation held true for the prior fiscal year.

Key elements of this increase are as follows:

Table 2
Changes in Net Assets

Description	2007	2006
Operating revenue	\$11,441,223	\$10,089,847
Other general revenue & connection fees	\$ 3,018,862	\$ 1,909,846
Developer 'in-kind' contributions	\$ 8,210,864	\$ 1,493,596
Total Revenues	\$22,670,949	\$13,493,289
Purchased water cost	\$ 4,453,758	\$ 4,546,147
Interest on long term debt	\$ 411,543	\$ 357,793
Other expenditures	\$10,185,912	\$ 8,399,877
Total Expenses	\$15,051,213	\$13,303,817
Increase (decrease) in Net Assets	\$ 7,619,736	\$ 189,473
Net Assets Beginning, as restated (Note 12)	\$67,844,225	\$67,654,752
Net Assets Ending	\$75,463,961	\$67,844,225

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Financial Highlights

The assets of the North Marin Water District, California, exceeded its liabilities at the close of the most recent fiscal year by \$75,463,961 (*net assets*).

The District's total net assets increased by \$7,619,736. The increase derives from total revenue, exceeding total expenses. Total revenue which includes \$8.2 million in developer 'in-kind' contributions (i.e., installed pipeline and facilities) increased by \$9,177,660. Revenue net of developer in-kind contributions increased by \$2,460,391. Expenses increased by \$1,747,396. During the year, major improvement projects were completed as discussed in the Economic Factors section on page 9 of this report.

The North Marin Water District's total debt increased by \$4,352,108, due primarily to the increase in the State Revolving Fund Loan which is funding the Stafford Treatment Plan Rehabilitation Project, and the new SRF Loan which is funding the Recycled Water Facility.

Summary Income Statements by Service Area

<u>NOVATO WATER</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$10,788,330	\$9,526,307	13%
Operating Expenditures less depreciation	\$10,703,755	\$10,265,661	5%
Depreciation Expense	\$1,377,613	\$968,939	42%
Other Income / (Expense)	\$237,033	(\$267,993)	-
Net Income/(Loss) before Capital Contributions ¹	<u>(\$1,056,005)</u>	<u>(\$1,976,286)</u>	(47%)
Active Accounts	20,320	20,179	1%
Consumption (MG)	3,616	3,315	9%
Income / (Loss) / Active Account	(\$51.97)	(\$97.94)	(47%)
Income / (Loss) / 1,000 Gal	(\$0.29)	(\$0.60)	(52%)
¹ Connection Fee Revenue	\$354,421	\$599,052	(41%)
¹ Developer 'In-Kind' Contributions	\$4,464,659	\$1,342,073	233%

Fiscal year consumption was up 9% compared to the prior year (3,616 million gallons vs. 3,315 million gallons) while total operating revenue, which includes wheeling and other miscellaneous service charges, increased 13% (\$1,262,023) due to the increased sales volume and the 2% rate increase enacted July 1, 2006. Total operating expenditures, before depreciation, were 5% (\$438,094) more than last year. Purchases of Russian River water were \$141,200 more than last year. Salaries and benefits charged to Novato operations were up \$235,612 (6%) over last year.

The fiscal year loss before capital contributions (which includes Non-Operating Revenue such as interest, and Non-Operating Expenses such as expensed improvement projects) of \$1,056,005 compares to a budgeted net loss for the entire year of \$1,452,000 and to a Net Loss of \$1,976,286 for the prior year. We expended \$4,682,249 (80%) of the Improvement Project Budget versus \$5,614,600 (51%) for the prior year. Connection fee revenue totaled \$354,421 or 15% of the annual budget amount. The Novato Water cash balance decreased \$2,719,140 during the fiscal year.

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<u>NOVATO RECYCLED</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$7,008	\$0	-
Operating Expenditures less depreciation	\$7,942	\$0	-
Depreciation Expense	\$0	\$0	-
Other Income / (Expense)	(\$46,053)	\$0	-
Net Income/(Loss) before Capital Contributions ¹	<u>(\$46,987)</u>	<u>\$0</u>	-
Active Accounts	1	0	-
Consumption (MG)	2,908	0	-
¹ Connection Fee Revenue	\$0	\$0	-
¹ Developer 'In-Kind' Contributions	\$3,612,640	\$0	-

The Recycled Water Facility began delivery of recycled water (2,908 MG) to the Stone Tree Golf Course on June 16, 2007. \$3,027,158 was expended on the Recycled Water Facility Project this fiscal year.

<u>WEST MARIN WATER</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$500,140	\$421,801	19%
Operating Expenditures less depreciation	\$339,927	\$335,159	1%
Depreciation Expense	\$85,317	\$73,638	16%
Other Income / (Expense)	(\$48,534)	(\$7,511)	546%
Net Income/(Loss) before Capital Contributions ¹	<u>\$26,361</u>	<u>\$5,492</u>	380%
Active Accounts	764	753	1%
Consumption (MG)	98	86	14%
Raw Water (MG)	67	73	(9%)
Income/ (Loss) / Active Account	\$34.50	\$7.29	373%
Income / (Loss) / 1,000 Gal (Potable)	\$0.27	\$0.06	350%
¹ Connection Fee Revenue	\$38,800	\$31,650	23%
¹ Developer 'In-Kind' Contributions	\$122,645	\$134,120	(9%)

Potable water consumption totaled 98 MG this fiscal year and was up 14% from the previous year. Potable water revenue of \$480,969 was \$77,664 (20%) more than last year due to the increased sales volume and 6% rate increase enacted August 1, 2006. Operating expenditures, not including depreciation were \$339,927, up \$4,768 (1%) compared to the prior year.

The Net Income of \$26,361 compares to a budgeted annual loss of \$55,000 and to a Net Income of \$5,492 for the previous year. 54% (\$149,675) of the Improvement Project Budget was expended. The amount borrowed from Novato decreased \$59,985 this fiscal year and now stands at \$440,300, compared to a budgeted projection at June 30, 2007 of \$555,000.

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<u>OCEANA MARIN SEWER</u>	FY	FY	FY07 vs 06
Year over Year Comparison	<u>06/07</u>	<u>05/06</u>	<u>Up/(Down)</u>
Operating Revenue	\$145,745	\$141,739	3%
Operating Expenditures before depreciation	\$103,615	\$111,895	(7%)
Depreciation Expense	\$27,147	\$26,572	2%
Other Income / (Expense)	<u>\$42,354</u>	<u>\$11,599</u>	265%
Net Income/(Loss) before Capital Contributions ¹	<u><u>\$57,337</u></u>	<u><u>\$14,871</u></u>	286%
Active Accounts	220	217	1%
Income / (Loss) / Active Account	\$260.62	\$68.53	280%
¹ Connection Fee Revenue	\$34,945	\$9,000	288%
¹ Developer 'In-Kind' Contributions	\$10,920	\$17,403	(37%)

Sewer service revenue of \$145,605 was up \$3,866 (3%) from the prior year. Operating expenses were \$8,283 (7%) lower than the prior year.

The fiscal year Net Income of \$57,337 compares to a budgeted annual income of \$2,000 and to a Net Income of \$14,871 for the previous year. 53% of the annual Improvement Project Budget was expended. The big project this fiscal year was construction of an enclosure for the Tahiti Way Lift Station Generator budgeted at \$35,000, of which only \$2,518 was expended. In July \$15,533 in annexation fees were collected for Parcel L, and in November an additional \$2,774 in annexation fees were collected for the parcel at 37 Ocean View Ave. (shown above as Other Income). In March, \$21,445 in Connection Fees were collected for four units to be constructed on Parcel L. Oceana Marin now has a cash balance of \$182,228, compared to a budgeted projection of \$73,000 at June 30, 2007.

Capital Asset and Debt Administration

Capital assets. The North Marin Water District's investment in capital assets for its business type activities as of June 30, 2007, amounts to \$79,377,039 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total increase in the North Marin Water District's investment in capital assets for the current fiscal year was \$9,394,250.

Major capital asset events during the current fiscal year included the following:

Novato

- Completion of the Stafford Treatment Plant
- Construction of Center Road Tank
- Completion of the Recycled Water Treatment Facility Project

West Marin Water

- Upgrade Inverness Park Pump Station with two 150-gpm pumps in West Marin

Oceana Marin Sewer

- Lift Station Variable Frequency Drive Replacement in Oceana Marin

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Table 3
Capital Assets

	6/30/2007	6/30/2006	\$ Change	% Change
Property and Plant				
Land & Land Rights	\$1,473,091	\$1,473,091	\$0	0%
Dam, Lake, & Source Facilities	3,508,860	3,508,860	0	0%
Treatment Facilities	17,557,794	1,854,269	15,703,525	847%
Storage Facilities	11,140,159	10,578,377	561,782	5%
Transmission Facilities	5,489,830	5,489,830	0	0%
Distribution Facilities	43,560,867	37,548,722	6,012,145	16%
Maps & Records	84,466	84,466	0	0%
Sewer Facilities	686,181	686,181	0	0%
Sub-Total	\$83,501,248	\$61,223,796	\$22,277,452	36%
Less Accumulated Depreciation	(17,497,061)	(16,384,250)	(1,112,811)	7%
Net Property and Plant	\$66,004,187	\$44,839,546	\$21,164,641	47%
Construction in Progress				
	\$11,398,033	\$23,277,455	(\$11,879,422)	(51%)
Buildings and Equipment				
Buildings	\$1,778,388	\$1,778,388	\$0	0%
Office Equipment	730,940	645,653	\$85,287	13%
Laboratory Equipment	250,621	166,326	\$84,295	51%
Trucks & Automobiles	954,738	800,407	\$154,331	19%
Construction Equipment	562,989	530,767	\$32,222	6%
Tools, Shop Equipment	234,932	224,128	\$10,804	5%
Sub-Total	\$4,512,608	\$4,145,669	\$366,939	9%
Less Accumulated Depreciation	(2,537,789)	(2,279,881)	(\$257,908)	(11%)
Net Buildings and Equipment	\$1,974,819	\$1,865,788	\$109,031	6%
Net Capital Assets	\$79,377,039	\$69,982,789	\$9,394,250	13%

Additional information on the North Marin Water District's capital assets can be found in Note 3 on page 25 of this report.

Infrastructure Assets

The District has adopted the recommended approach of GASB Statement No. 34 with regard to infrastructure assets. All identifiable infrastructure assets have been capitalized at their purchase cost, or estimated value for contributed or donated assets.

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Long-term debt. At the end of the fiscal year, the North Marin Water District had total debt outstanding of \$20,086,755, an increase of \$4,352,108 (22%) for the prior fiscal year. The increase is due to an increase of the STP Rehab State Revolving Fund Loan (\$313,987), the addition of the RWF State Revolving Fund Loan (\$4,264,545), offset by principal repayment on the West Marin general obligation and revenue bonds (\$32,650), Economic Development Administration Drought Loans (\$12,368), and the Hamilton Boundary Reorganization note due Marin Municipal Water District (\$181,406).

Table 4
Outstanding Debt

	6/30/2007	6/30/2006	\$ Change	% Change
Bonds Outstanding-PR3 (FmHA)	75,000	86,000	(11,000)	(13%)
Bonds Outstanding-PR6 (FmHA)	129,000	141,000	(12,000)	(9%)
Bonds Outstanding-OL2 (NMWD)	26,593	29,243	(2,650)	(9%)
Bonds Outstanding-PRE1 (FmHA)	133,000	140,000	(7,000)	(5%)
Drought Loan (EDA)	162,821	175,189	(12,368)	(7%)
Hamilton Boundary Reorganization	190,477	371,883	(181,406)	(49%)
STP Rehab SRF Loan	15,105,319	14,791,332	313,987	2%
RWF SRF Loan	4,264,545	0	4,264,545	100%
Total Long-term Debt	\$20,086,755	\$15,734,647	\$4,352,108	28%

Additional information on the North Marin Water District's long-term debt can be found in Note 6 on pages 27-28 of this report.

Economic Factors and Description of Currently Known Facts:

- The unemployment rate for the county in which North Marin Water District is located is currently 3.7 percent, which is an decrease from a rate of 3.8 percent a year ago. This is lower than the state's average unemployment rate of 5.2 percent and lower than the national average rate of 4.5 percent
- The District increased commodity rates in fiscal year 2007 by 2% in Novato and 6% in West Marin, and did not increase rates in Oceana Marin.
- Historically low interest rates

All of these factors (except unemployment rates) were considered in preparing the North Marin Water District's budget for the 2007 fiscal year.

In FY 2006/07 construction on the Stafford Treatment Plant Rehabilitation Project was completed and a public dedication was held on November 4, 2006. At \$16,000,000 (\$14.6M construction cost) this is the largest project the District has ever undertaken. The new plant started up in late August 2006 purifying water from Stafford Lake to meet the ever more stringent quality standards now imposed upon drinking water providers in California. In FY 2006/07, over 349 million gallons of water were produced from the new Stafford Treatment Plant.

Other notable achievements in FY 2006/07 focused on improvement projects identified in the Novato Water System Master Plan. These included: Phase II of the Cherry Hill Pipeline Extension; Simmons Lane Bridge Main Replacement; replacing 42 polybutylene services in Pacheco Valley; replacing or lowering water mains and services at Clayton Court, San Marin Drive, Davidson Street, Lobo Vista, Pico Vista and Raposa Vista and other locations to synchronize with City paving/drainage projects; the new Center Road Tank was essentially completed along with an altitude valve and controls at Wildhorse Tank bolstering reliability of this Zone 3 system.

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On the Russian River, there was ample storage in Lake Sonoma, but Lake Mendocino reached its lowest level entering the spring since 1977. The dry year has resulted in less runoff into Lake Mendocino, but the bigger reason for reduced storage is less Eel River water diverted through the Potter Valley project than had been historically diverted. Storage in Lake Mendocino is needed later in the year for Russian River in-stream flows for migration and spawning of Chinook salmon. Sonoma County Water Agency received a temporary urgency change from the State Water Resources Control Board (SWRCB) to reduce flows in the Russian River this summer and agricultural diverters and urban water users are being asked to reduce water consumption to preserve storage in Lake Mendocino. Without the reduction of summer in-stream flows, storage in Lake Mendocino was expected to drop to about 8,000 acre feet, the lowest level ever.

West Marin improvements included completion of the PRE Tank #2 Retaining Wall Repair and Tank #1 Chlorine Booster System Upgrade; adding 50 radio read meters; replacement of 18 polybutylene services; and starting installation of a new pump station at Inverness Park.

The SWRCB approved NMWD's change in place and purpose of use for our senior Lagunitas Creek water right license. It's taken five full years of effort to secure this change for West Marin customers. NMWD's West Marin water customers now have a reliable water supply in normal and dry years.

At Oceana Marin, infiltration and inflow studies continued; and variable frequency drives were replaced at the lift station pumps.

As the District looks forward, Novato water customers will continue to experience reliable and reasonably priced service and increased emphasis on water conservation as the District forecasts up to ten more years of working with SCWA to perfect additional facilities for increased Russian River water deliveries. Into FY 2007/08 emphasis will continue on: the Stafford Lake outlet tower repair and security and air handling improvements at the treatment plant; construction of Palmer Drive Tank; completion of the recycled water project to serve Stone Tree Golf Course and Novato Fire Protection District; additional pipeline; and polybutylene service line replacements.

West Marin priorities for FY 2007/08 will include: completion of the Inverness Park Pump Station; chemical feed and electrical improvements and filter media replacement at the Point Reyes Treatment Plant. In Oceana Marin, construction of a lift station and generator enclosure and repairs to two disposal field trenches are planned.

Requests for Information

This financial report is designed to provide a general overview of the North Marin Water District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Marin Water District, Office of the Auditor-Controller, P.O. Box 146, Novato, CA 94948.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of North Marin Water District:

We have audited the accompanying statement of net assets of the North Marin Water District, as of June 30, 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the North Marin Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the North Marin Water District, as of June 30, 2007, and the respective changes in financial position and the cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated November 12, 2007 on our consideration of the North Marin Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. This supplemental information is the responsibility of North Marin Water District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The supplemental information on pages 32 to 35 is presented for purposes of additional analysis and is not a required part of the financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the North Marin Water District, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bartlett Pringle & Wolf LLP

November 12, 2007



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards.**

We have audited the financial statements of the North Marin Water District as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Marin Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Marin Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Marin Water District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. 07-01, 07-02, 07-03, 07-04.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-01 and 07-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Marin Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the North Marin Water District in a separate letter dated November 12, 2007.

This report is intended solely for the information and use of Management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Bartlett Pringle & Wolf LLP

November 12, 2007

NORTH MARIN WATER DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS

Current Assets:

Cash and investments	\$ 130,709
Accounts receivable, net of allowance for doubtful accounts	2,382,450
Accrued interest receivable	143,573
State revolving fund receivable	689,953
Current portion of notes receivable	141,555
Other receivables	175,740
Deposits	23,120
Inventories	655,111
Prepaid expenses	<u>25,894</u>

Total current assets 4,368,105

Property and Equipment:

Property and equipment	88,013,856
Less: accumulated depreciation	(20,034,850)
Construction in progress	<u>11,398,033</u>

Property and equipment, net 79,377,039

Restricted and Other Assets:

Restricted cash and investments	4,998,856
Designated cash and investments	7,120,553
Notes receivable, net of current portion	<u>3,983,304</u>

Total restricted and other assets 16,102,713

Total assets \$ 99,847,857

See accompanying notes

**NORTH MARIN WATER DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007**

LIABILITIES AND NET ASSETS

Current Liabilities:	
Bank overdraft	\$ 319,600
Accounts payable	1,493,360
Accrued interest	45,229
Accrued payroll and benefits	285,271
Current portion of long term debt	20,786
Deposits and deferred revenues	638,212
Other current liabilities	1,483
	<hr/>
Total current liabilities	2,803,941
	<hr/>
Long-term Liabilities:	
General obligation bonds	87,807
Hamilton boundary reorganization note	190,477
Revenue bonds	255,000
Federal loans	162,821
State loans	19,369,864
Advances for construction	963,584
Compensated absences	550,402
	<hr/>
Total long-term liabilities	21,579,955
	<hr/>
Total liabilities	24,383,896
	<hr/>
Net Assets:	
Invested in capital assets, net of related debt	59,453,105
Restricted for construction and debt service	4,945,832
Unrestricted	11,065,024
	<hr/>
Total net assets	\$ 75,463,961
	<hr/> <hr/>

See accompanying notes

NORTH MARIN WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the year ended June 30, 2007

Operating Revenues:	
Water sales	\$ 11,105,531
Sewer service charges	145,605
Other operating revenue	<u>190,087</u>
Total operating revenues	<u>11,441,223</u>
Operating Expenses:	
Source of supply	4,513,365
Pumping	381,723
Operations	518,996
Water treatment	1,303,084
Sewage collection and treatment	78,331
Transmission and distribution	2,222,327
Consumer accounting	474,082
General and administrative	1,663,330
Depreciation	<u>1,490,077</u>
Total operating expenses	<u>12,645,315</u>
Operating income (loss)	<u>(1,204,092)</u>
Other Revenues (Expenses):	
Property taxes	97,920
Interest income	672,676
Reimbursement from Sonoma County Water	283,242
Interest expense	(411,543)
Special projects	(1,814,292)
Other expenses	(180,063)
Other revenues	<u>1,536,858</u>
Total other revenues (expenses)	<u>184,798</u>
Net loss before capital contributions	<u>(1,019,294)</u>
Connection fees	428,166
Developer-in-kind contributions	<u>8,210,864</u>
Change in net assets	7,619,736
Net assets at beginning of year, as previously reported	71,314,796
Adjustment applicable to prior years resulting from the retroactive change in treatment of Sonoma County Water Agency payments (Note 12)	<u>(3,470,571)</u>
Net assets at beginning of year, restated	67,844,225
Net assets at end of year	<u>\$ 75,463,961</u>

See accompanying notes

**NORTH MARIN WATER DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2007**

Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 10,841,951
Other cash receipts	190,087
Cash paid to suppliers and employees	<u>(11,524,168)</u>
Net cash used by operations	<u>(492,130)</u>
Cash Flows from Capital and Related Financing Activities:	
Connection fees	428,166
Special projects	(1,814,292)
Advances for construction received	978,901
Advances for construction refunded	(295,474)
Interest paid on debt	(375,422)
Purchases of property and equipment	(7,101,441)
Principal paid on debt	(226,431)
Proceeds from loans	<u>4,493,179</u>
Net cash flows used by capital and related financing activities	<u>(3,912,814)</u>
Cash Flows from Noncapital Financing Activities:	
Property taxes collected	97,920
SCWA water conservation reimbursement	283,242
Other revenues	844,192
Other expenses	(5,964)
Principal receipts of loans receivables	198,907
Issuance of employee loans	<u>(302,804)</u>
Net cash flows provided by non-capital financing activities	<u>1,115,493</u>
Cash Flows from Investing Activities:	
Purchases of investments	(2,999,037)
Proceeds from sale of investments	5,997,000
Interest received	<u>713,187</u>
Net cash flow provided by investing activities	<u>3,711,150</u>
Increase in cash and cash equivalents	421,699
Cash and cash equivalents, beginning of year	<u>3,559,505</u>
Cash and cash equivalents, end of year	<u>\$ 3,981,204</u>

See accompanying notes

**NORTH MARIN WATER DISTRICT
STATEMENT OF CASH FLOWS
For the year ended June 30, 2007**

Reconciliation of Cash and Cash Equivalents

Cash and investments, less bank overdrafts	\$ (188,891)
Restricted and designated cash and investments	<u>12,119,409</u>
Total cash and investments	<u>11,930,518</u>
Less investments that do not meet the definition of cash equivalents	<u>7,949,314</u>
Total cash and cash equivalents	<u><u>\$ 3,981,204</u></u>

Reconciliation of Operating Loss to Net Cash

Used by Operating Activities

Operating loss	\$ (1,204,092)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation and amortization	1,490,077
Other non-cash expenses	415,971
Change in assets and liabilities:	
Accounts receivable	(283,672)
Deposits receivables	5,617
Inventories	(38,378)
Prepaid expenses	(22,760)
Accounts payable	(936,759)
Accrued payroll and benefits	64,148
Dposits and deferred revenue	(131,130)
Other current liabilities	(671)
Compensated absences	<u>149,519</u>
Net cash used by operating activities	<u><u>\$ (492,130)</u></u>

Supplemental Schedule of Noncash Investing and Financing Activities:

Property in the amount of \$3,956,986 was contributed to the District by developers during the year ended June 30, 2007.

During the year ended June 30, 2007 the District issued a note receivable in the amount of \$3,612,640, for reimbursement of costs incurred to build the Recycled Water Treatment Plant. This reimbursement is to be received by a developer in lieu of connection fees.

Unrealized gain on investments during the year ended June 30, 2007 amounted to \$153,124.

Net interest expense in the amount of \$86,283 was capitalized to construction in progress costs during the year ended June 30, 2007.

See accompanying notes

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1 - General and Summary of Significant Accounting Policies

The accounting policies of the North Marin Water District (the District) conform to generally accepted accounting principles applicable to governmental water utilities. The following is a summary of the more significant policies:

Reporting Entity

Primary Government. The North Marin Water District was formed in April 1948 pursuant to the provisions of the County Water District Law, and it is governed by five elected Directors. The District's service area includes the City of Novato, adjacent areas, plus annexed areas in Western Marin County. As required by generally accepted accounting principles, these financials statements present the North Marin Water District and its component units.

Blended Component Units. The District's operations are accounted for by the following service areas, some of which were originally established as Improvement Districts:

Novato Water System. The Novato System is the primary service division of the District and represents the basic primary component of the District.

West Marin Water System, formally Point Reyes Service Area. This service area began in 1970 as a separate voter-approved Improvement District. Point Reyes was consolidated with the Olema Improvement District in 1996, and with the Paradise Ranch Estate Improvement District in 2002, forming the West Marin Water Service Area.

Oceana Marin Sewer Service. By agreement with a private developer, a service area was formed to provide sewer service to area residents. The service commenced in June of 1973.

Although the Improvement Districts are legally separate organizations, they are reported herein as if they were part of the primary government because the primary government controls the districts, and the Directors of the North Marin Water District serve as the governing officials of the Improvement Districts.

The Novato Recycled Water System is a proprietary fund which was formed during fiscal year 2007 consisting of a recycled water treatment plant.

Basis of Presentation

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include the financial activities of the overall District government. Eliminations have been made to prevent double counting of internal activities.

The District distinguishes operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering of goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and sewer service charges. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1 - General and Summary of Significant Accounting Policies (continued)

Proprietary Fund Accounting

The District operates as an Enterprise Fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District has elected not to follow subsequent private-sector guidance.

Basis of Accounting

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred.

Accounting Policy Pertaining to Sonoma County Water Agency Payments

The District's accounting policy is to expense as incurred any direct payments to the Sonoma County Water Agency (the Agency) for construction of the Agency's transmission and distribution system. See Note 12.

Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual annual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for goods or services.

Cash and Investments

The District maintains a cash and investment pool for use by all component units. Each unit's portion of the pool is reflected in the balance sheet as cash and investments. Deferred compensation funds are not part of the pool and are held separately from other District funds.

For purposes of the Statement of Cash Flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible.

Basis for Recording Receivables

The District grants credit to its customers and charges doubtful accounts arising to water receivables to bad debt expense when it is probable that the accounts will be uncollectible. The District has not recorded an allowance for uncollectible accounts, as all receivables are estimated to be fully collectible.

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1 - General and Summary of Significant Accounting Policies (continued)

Inventory

Inventories are valued at average cost.

Capital Assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of donation. Depreciation is recorded using the straight-line method over the estimated useful lives of the capital assets which range from 30 to 75 years for the plant and pipelines, and five to ten years for other equipment.

Property and Equipment

Additions and major renewals of property and equipment are capitalized at cost at the date of acquisition. The District capitalizes overhead costs directly related to plant improvements made by the District's work force. Donated assets (when applicable) are stated at estimated fair value at the dates of donation. Contributions in aid to construction received from outside parties in the form of property and equipment are recognized as revenue on the statement of revenues, expenses, and changes in net assets, and are credited to designated equity accounts. The District computes depreciation on all dams, reservoirs, distribution systems, buildings, and equipment using the straight-line method based upon the estimated remaining useful lives:

Equipment and vehicles	5-10 years
Transmission facilities and treatment plant	30-75 years
Buildings and storage facilities	50-75 years
Dam	100 years

Water Revenue

Water revenue is billed on bi-monthly cyclical bases. Estimated unbilled water revenue through June 30 has been accrued at year-end.

Advances for Construction and Contributions in Aid of Construction

Developer advances for construction consist of cash deposits restricted to finance the construction of new transmission lines, tanks, storage facilities, and related plant. Upon completion of the projects, such advances which exceed construction costs are credited back.

Property Taxes

Marin County allocates property taxes to the various governmental entities within the County. The District recognizes property tax revenue to the extent allocations are made available by the County. The County places property taxes levied for retirement of general obligation bonds into a bond interest and redemption fund and uses such monies to pay debt service on bonded debt.

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 1 - General and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB) and American Institute of Certified Public Accountants (AICPA) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Compensated Absences, Sick Leave, and Claims

District employees have a vested interest in accrued vacation time. All vacation hours will eventually be either used or paid off by the District. Employees earn vacation hours on a semi-monthly basis. The normal situation is that employees earn and use their current vacation hours with a small portion being unused each year. As this occurs, the District incurs a future obligation to pay for these unused hours and accrues a liability for such accumulated and unpaid vacation.

Employees earn sick leave at the rate of one day per month. Employees may elect to be paid for accumulated and unused sick leave in excess of 90 days, at the rate of one-half of the value of such accumulated amount. The District has accrued a liability for such excess amount.

The District is self-insured for general liability claims up to the first \$1 million and has established a restricted liability contingency account to set aside resources for such purposes. The District purchases commercial insurance coverage for property and equipment, fidelity bonds, automobile liability, and general liability in excess of its self-insurance limit. Incurred and unpaid claims, if any, are accrued as a liability when it is probable that an asset has been impaired and the amount of the obligation can be reasonably estimated.

Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as construction of improvements and financing of debt obligations. These assets are for the benefit of a specified purpose and, as such, are legally or contractually restricted.

Net Assets

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets net of related debt, or restricted or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, regulations of other governmental units, or through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested capital assets or restricted net assets.

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash, Cash Equivalents, and Investments

Cash and Investments consisted of the following at June 30, 2007:

	Cash	Category 1*	Fair Value/ Carrying Amount 2007
Cash and Demand Deposits with Banks	\$ (322,652)	N/A	\$ (322,652)
State of California Local Agency Investment Fund (LAIF)	4,254,240	N/A	4,254,240
Cash and Investment with the County of Marin	23,024	N/A	23,024
1975 Water Bond Improvement District No. OL-2 bond	26,592	N/A	26,592
Total Cash and Cash Equivalents	\$3,981,204	\$ -	\$ 3,981,204
Federal Securities		5,994,494	5,957,094
Corporate Notes		1,999,703	1,992,220
Total Investments	-	7,994,197	7,949,314
Total Cash, Cash Equivalents, and Investments	\$3,981,204	\$7,994,197	\$ 11,930,518

* The District does not have any Category 2 or Category 3 investments.

Investments are categorized to give an indication of the level of risk assumed by the District at year-end.

- Category 1 includes investments that are insured or registered or for which the securities are held by the District or by the District's agent in the District's name.
- Category 2 includes uninsured and unregistered investments where the securities are held by the counter-party's trust department or agent in the District's name.
- Category 3 includes unregistered and uninsured investments with the securities held by the counter-party's trust department or agent but not in the District's name.

Uncategorized investments represent investments not evidenced by specific securities either in physical or book-entry form.

Demand Deposits: The California Government Code requires California banks and savings and loans to secure public deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the public deposits. The government entity may waive collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). All of the District's deposits were either fully insured or collateralized by aforesaid collateral arrangements.

Investments: In accordance with the Governmental Accounting Standards Board (GASB), Statement No. 31, the District reports its investments at fair value in the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

The District's investment policy authorizes the District to invest in the State of California Local Agency Investment Fund and investments permitted by Section 53601 of the Government Code, and to sell covered calls in regard to owned investments. The Government Code authorizes investments to be made in U.S. Treasury obligations, commercial paper, corporate notes, repurchase agreements, and a variety of other instruments.

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash, Cash Equivalents, and Investments (continued)

Restricted Cash and Investments

At June 30, 2007, total restricted cash and investments represented the capital project and bond reserves because their use is limited to future water/sewer expansion projects and applicable bond covenants.

Designated Cash and Investments

Designated cash and investments represent amounts reserved by the District for a specific purpose, however they are not restricted by an outside party.

Note 3 - Property and Equipment

The following is a summary of capital assets as of June 30, 2007:

	Balance June 30, 2006	Additions	Disposals	Transfers	Balance June 30, 2007
Non-depreciable Capital Assets					
Land and land rights	\$ 1,473,091				\$ 1,473,091
Construction in progress	23,277,455	10,662,526		(22,541,948)	11,398,033
Total Non-depreciable Assets	24,750,546	10,662,526	-	(22,541,948)	12,871,124
Depreciable Capital Assets:					
Maps and records	84,466				84,466
Source facilities	3,508,860				3,508,860
Treatment plant	1,854,269	86,283	(284,832)	15,902,074	17,557,794
Storage facilities	10,578,377			561,782	11,140,159
Transmission system	5,489,830				5,489,830
Distribution system	37,548,722			6,012,145	43,560,867
Sewer facilities	686,181				686,181
Building facilities	1,778,388				1,778,388
Equipment	2,367,281	309,618	(8,626)	65,947	2,734,220
Total Depreciable Assets	63,896,374	395,901	(293,458)	22,541,948	86,540,765
Less Accumulated Depreciation	(18,664,131)	(1,490,077)	119,358		(20,034,850)
Net Depreciable Assets	45,232,243	(1,094,176)	(174,100)	22,541,948	66,505,915
Net Capital Assets	\$ 69,982,789	\$ 9,568,350	\$ (174,100)	\$ -	\$ 79,377,039

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 4 - Deferred Compensation Plans

The district offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until disability, termination, retirement, death or unforeseeable emergency. Investments in the plan are composed of various investments made by the plan trustee at the discretion of District's employees. Due to the passage of the Small Business Protection Act, enacted August 20, 1996, the assets of the plan no longer qualify as assets of the District, and have been removed from the District's financial statements. As of October 1, 2004, the District no longer contributes to the plan, but the employees can still defer a portion of their salary for deferred compensation.

Note 5 - Notes Receivable

Housing Loan: The District's Employer Assisted Housing Program allows up to \$300,000 to be loaned to an employee for a period of up to 15 years for the purchase of a home within the District service territory that will enable the employee to respond rapidly to emergencies affecting the operation of the District. Repayment is due upon sale, termination of employment, or other event as described in the Program. Interest on the loan is contingent upon and directly proportional to the appreciation in value occurring on the purchased property. There are four employee housing loans currently outstanding: an \$112,000 loan dated April of 2000, a \$250,000 loan dated August 2004, a \$39,200 loan dated September 2004, and a \$300,000 loan dated October 2006.

Personal Computer Loans: Up to \$3,500 may be loaned to an employee for a period of up to 36 months under the District's investment portfolio at the time of the loan plus one percent. At June 30, 2007 there were six employee computer loans outstanding totaling \$4,509.

Black Point Golf Links: The District entered into a contract with Black Point Golf Links whereby the golf course agreed to reimburse the District for construction costs incurred for a new recycled water treatment plant, in lieu of connection fees. The reimbursement will be collected in bi-monthly installments through February 2024, including interest at a rate of 2.4%. At June 30, 2007 the amount receivable under this contract was \$3,419,150.

The estimated 5 year repayment schedule for this receivable is as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2008	\$ 170,207
2009	174,333
2010	178,559
2011	182,887
2012	187,321
Thereafter	2,525,843
	<u>\$ 3,419,150</u>

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Debt:

Note Payable:

Hamilton Boundary Reorganization Liability:

On January 16, 2003, an agreement was executed with Marin Municipal Water District to reorganize the water service boundary at Hamilton Air Force Base. Assets received include the 1 MG Air Base Tank and 15,157 ft. of transmission line. The agreement called for an initial payment on March 29, 2003, of \$905,193 and six additional payments of \$200,000 due each July 1 from 2003 through 2008. For internal accounting purposes an interest rate of 5% was assumed and the liability has been discounted accordingly. The remaining balance of the note payable at June 30, 2007 is \$190,477.

Loans Payable:

U.S. Economic Development Administration:

The North Marin Water District has two loans with the U.S. Economic Development Administration. Under the terms of the loans both dated August 1977, the District agrees to repay the United States of America annual payments until the loans are paid with interest at 5% per annum. The two loans both mature July 1, 2017. The remaining balance of the loans at June 30, 2007 is \$162,821.

State Revolving Loans:

The District entered into an agreement with the California State Department of Water Resources for a loan in an amount not to exceed \$15,992,250 with an interest rate of 2.39%. As of June 30, 2007, the District has borrowed \$15,105,319 for the reconstruction of the Stafford Water Treatment Plant. Principal payments will begin approximately one year after completion of the project, which is expected to be completed in fiscal year 08/09. The loan will be repaid over a 20-year period. Interest payments are due each year on January 1 and July 2.

The District entered into an agreement with the California State Department of Water Resources for a loan of \$4,264,545 with an interest rate of 2.40% for the construction of a recycled water facility. Principal payments will begin approximately one year after completion of the project, which is expected to be completed in fiscal year 07/08. The loan will be repaid over a 20-year period. Interest payments have not yet been scheduled for this loan.

Bonds Payable:

General Obligation Bonds

On September 5, 1973, the District issued 1973 General Obligation Bonds, Issue PR-3 totaling \$250,000, with interest rate of 5%. Principal payments are due on January 1; interest is payable on January 1. The issue matures January 1, 2013.

The 1975 \$70,000 40 year General Obligation Bonds OL-2 issue was purchased by the U.S. Department of Agriculture (USDA), then upon demand of the USDA, was repurchased by the Novato Water District on June 1, 1991. The interest rate paid to Novato Water on the OL-2 bond was thereafter reset to the higher of the rate earned by the District treasury or the average rate of Novato Water's general obligation bond debt. The bond has an interest rate of 5%. Principal payment is due January 1; interest is payable on January 1. The issue matures January 1, 2015.

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Debt (continued)

Revenue Bonds

On August 28, 1981, the District issued Revenue Bonds 1981, Issue PR-6 totaling \$217,800, with an interest rate of 5%. Principal payments are due on July 1; interest is payable on July 1 and January 1. The issue matures July 1, 2021.

On April 22, 1980, the District issued Revenue Bonds 1980, Issue PRE-1 totaling \$240,000, with an interest rate of 5%. Principal payment is April 1; interest is payable on October 1, and April 1. The issue matures on April 1, 2020.

Changes in long-term debt for the year ending June 30, 2007 consisted of the following:

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Hamilton Boundary Reorganization	\$ 371,883	\$ -	\$ (181,406)	\$ 190,477
Federal Loans	175,189		(12,368)	162,821
State Revolving Loans	14,791,332	4,578,532		19,369,864
General Obligation Bonds	115,243		(13,650)	101,593
Revenue Bonds	281,000		(19,000)	262,000
Total long-term debt	\$ 15,734,647	\$ 4,578,532	\$ (226,424)	\$ 20,086,755
Less: Current portion	(26,652)	(26,784)	32,650	(20,786)
Net long-term debt	<u>\$ 15,707,995</u>	<u>\$ 4,551,748</u>	<u>\$ (193,774)</u>	<u>\$ 20,065,969</u>

Future principal and interest payments on the District's long-term debt (excluding state revolving loans) are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 20,786	\$ 14,954	\$ 35,740
2009	233,394	25,098	258,492
2010	43,713	22,952	66,665
2011	46,549	20,766	67,315
2012	48,426	18,414	66,840
2013-2017	210,645	57,799	268,444
2018-2022	113,378	12,068	125,446
	<u>\$ 716,891</u>	<u>\$ 172,051</u>	<u>\$ 888,942</u>

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 7 - Public Employees Retirement System

Plan Description: The District is a member of the California Public Employees' Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local resolutions. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from PERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy: Active plan members have a mandatory employee contribution rate of 8.0% as of June 1, 2005, which is paid by the District. The District is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for the fiscal year ending June 30, 2007 was 13.99% of the total qualifying PERS salaries (all local miscellaneous employees). The contribution requirements of the plan members are established by State statute and the employer contribution rate is calculated and established annually by PERS.

Annual Pension Cost: For fiscal year 2007, the District's annual pension cost of \$806,896 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumption included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases of 3.25% a year compounded annually, attributable to inflation and annual productivity growth, (c) projected salary increases attributable to seniority/merit that vary by length of service, and (d) post-retirement benefit increases based upon the District's contract with the PERS. The actuarial value of PERS assets was determined using a technique that smoothes the gains and/or losses.

Retirement Plan Three - Year Trend Information

Fiscal Year	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	\$ 312,192	100%	\$ -
6/30/2006	\$ 711,371	100%	\$ -
6/30/2007	\$ 806,896	100%	\$ -

Risk Pool's History of Funded Status and Funding Progress

Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Asset Value	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded Liability (Excess Assets) as % of Payroll
6/30/2003	2,596,966,545	2,372,879,034	224,087,511	91.4%	725,020,458	30.9%
6/30/2004	434,267,445	379,807,592	54,459,853	87.5%	97,227,479	56.0%
6/30/2005	579,276,103	500,388,523	78,887,580	86.4%	129,379,492	61.0%

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 8 - Other Post-employment Benefits

In addition to the pension benefits described in Note 8, the District provides post-retirement health care benefits, in accordance with employee agreements and an agreement with PERS, to all employees and/or their surviving spouse who retire from the District and receive PERS retirement benefits. Expenses for post-retirement benefits apply to 33 retirees. The District provides such benefits primarily through arrangements with the Public Employees Retirement System.

In addition, the District contributes toward the cost of health insurance for retiree (age 55 to 65) and spouse under any group plan offered by PERS. The District's contribution toward the chosen plan is capped in the same manner as all other District employees in the same class. Coverage terminates when the retiree or spouse becomes eligible for Medicare. The retiree must be at least 55 and have a minimum of 12 years of service at the date of retirement. When the retiree or spouse becomes eligible for Medicare, the District pays a monthly contribution toward the cost of health insurance coverage for the rest of the retiree and spouse's lives.

Under the provisions of Governmental Accounting Standards Board Statement No 45 (GASB 45), the District will be required to account for and potentially report a liability for postretirement benefits beginning in the fiscal year ending June 30, 2009. The District has received an actuarial estimate of \$3.3 million for the total actuarial accrued liability under GASB 45 with an annual required contribution (ARC) of approximately \$115,000. Any portion of the ARC which is not funded by the District will result in a liability on the financial statements. At June 30, the district had designated approximately \$2,250,000 in cash reserves to fund this liability.

Note 9 - Commercial Insurance

The District purchases commercial insurance policies with a variety of coverage including an \$11 million excess general liability policy with a \$1 million self-insured retention limit, a \$35,555,000 property and equipment policy, a \$1 million public officials policy, and a \$500,000 employee dishonesty bond. There were no accrued claim liabilities at June 30, 2007.

Note 10 - Self Insurance

The District commenced self-insuring its workers' compensation obligation on July 1, 2004, and has chosen to establish risk financing internal service funds where assets are set aside for claim settlements associated with risks of loss up to certain limits for workers compensations claims. The District has engaged an outside claims Administrator for claims adjustments. The District carries a workers' compensation excess policy for claims that exceed \$750,000.

At fiscal year end 2007, three claims remain outstanding against the District, for which the District has set up a reserve of \$111,959, based on the third party administrator's estimate of anticipated future expense that will be incurred prior to closing the three open claims. The difference between the total incurred expense and the market price of purchasing insurance has been set aside to fund future expenses.

NORTH MARIN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 11 - Commitments and Contingencies

Water Supply and Construction Agreement: The District is a party to an agreement with the Sonoma County Water Agency that provides, among other matters, that the District may be obligated to pay for a prorated share of the Agency's costs to improve or expand the Agency's water utility plant. The agreement expires June 30, 2040 and is subject to renewal for 40-year terms. Under the agreement, the District is obligated to pay promptly all billings from the Agency and may not withhold payment pending resolution of disputes, if any, which might exist between the District and the Agency.

Developer Construction Agreements: The District has a variety of agreements with private parties relating to the installation, improvement, or modification of water facilities and distribution systems. The financing of such improvements is provided primarily from advances for construction.

Novato Sanitary District: The District has entered into a contract with the Novato Sanitary District which requires the District to transfer ownership of the recycled water treatment plant to the Novato Sanitary District upon completion and approval from the State Water Resources Control Board. The Novato Sanitary District will be required to supply treated water to the District at rates sufficient to cover all operating expenses. The District's rights to this treated water will be recorded as an intangible asset (i.e., an entitlement) upon the transfer of ownership of the treatment plant.

Note 12 - Retroactive Change in the Method of Recording Sonoma County Water Agency Payments

In prior years, the District's accounting policy was to capitalize as an asset (entitlement costs) any direct payments to the Sonoma County Water Agency (the Agency) for construction of the Agency's transmission and distribution system. This asset was carried on the financial statements at cost basis, and was not amortized. This method was not in accordance with generally accepted accounting principles.

During the year ended June 30, 2007, the District retroactively changed its method of accounting for these costs to be expensed as incurred. The portion of this adjustment applicable to the year ended June 30, 2006 and prior years in the amount of \$3,470,571 has been treated as a retroactive restatement of the June 30, 2006 net assets balance. Had this change been applied to the year ended June 30, 2006, the effect on the change in net assets would have been a reduction of \$107,124.

**NORTH MARIN WATER DISTRICT
SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF NET ASSETS
June 30, 2007**

ASSETS	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total All Funds
Current Assets:					
Cash and investments		\$ -	\$ -	\$ 130,709	\$ 130,709
Accounts receivable, net of allowance	2,287,610		82,950	11,890	2,382,450
Accrued interest receivable	143,573				143,573
State revolving fund receivable	59,475	630,478			689,953
Current portion of notes receivable		141,555			141,555
Other receivables	164,265	7,008	3,635	832	175,740
Deposits	23,120				23,120
Inventories	655,111				655,111
Prepaid expenses	20,897		1,650	3,347	25,894
Total current assets	3,354,051	779,041	88,235	146,778	4,368,105
Property and Equipment:					
Property and equipment	81,650,564		5,169,529	1,193,763	88,013,856
Less: accumulated depreciation	(18,178,509)		(1,430,560)	(425,781)	(20,034,850)
Construction in progress	6,130,849	4,545,634	690,709	30,841	11,398,033
Property and equipment, net	69,602,904	4,545,634	4,429,678	798,823	79,377,039
Restricted and Other Assets:					
Restricted cash and investments	4,901,704		52,060	45,092	4,998,856
Designated cash and investments	7,113,748			6,805	7,120,553
Notes receivable, net of current portion	705,709	3,277,595			3,983,304
Advances to other funds	673,346				673,346
Total restricted and other assets	13,394,507	3,277,595	52,060	51,897	16,776,059
Total assets	\$ 86,351,462	\$ 8,602,270	\$ 4,569,973	\$ 997,498	\$ 100,521,203

**NORTH MARIN WATER DISTRICT
SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF NET ASSETS
June 30, 2007**

LIABILITIES AND NET ASSETS	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total All Funds
Current Liabilities:					
Bank overdraft	\$ 319,600				\$ 319,600
Accounts payable	1,477,253	6,500	5,041	4,566	1,493,360
Accrued interest	19	40,797	4,413		45,229
Accrued payroll and benefits	262,617		17,729	4,925	285,271
Current portion of long term debt			20,786		20,786
Deposits and deferred revenues	615,950		21,674	588	638,212
Other current liabilities	1,484				1,483
Total current liabilities	2,676,923	47,297	69,643	10,079	2,803,941
Liabilities Payable from Restricted and Other Assets:					
Advances from other funds		233,045	440,300		673,346
Total liabilities payable from restricted and other assets	-	233,045	440,300	-	673,345
Long-term Liabilities:					
General obligation bonds			87,807		87,807
Hamilton boundary reorganization note	190,477				190,477
Revenue bonds			255,000		255,000
Federal loans	142,343		20,478		162,821
State loans	15,105,319	4,264,545			19,369,864
Advances for construction	927,459		22,341	13,784	963,584
Compensated absences	545,253		4,030	1,119	550,402
Total long-term liabilities	16,910,851	4,264,545	389,656	14,903	21,579,955
Total liabilities	19,587,774	4,544,887	899,599	24,982	25,057,242
Net Assets:					
Invested in capital assets, net of related debt	54,307,108	281,089	4,066,085	798,823	59,453,105
Restricted for construction and debt service	4,901,118			44,714	4,945,832
Unrestricted	7,555,462	3,776,294	(395,711)	128,979	11,065,024
Total net assets	\$ 66,763,688	\$ 4,057,383	\$ 3,670,374	\$ 972,516	\$ 75,463,961

**NORTH MARIN WATER DISTRICT
SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
For the year ended June 30, 2007**

	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total All Funds
Operating Revenues:					
Water sales	\$ 10,601,455	\$ 7,008	\$ 497,068		\$ 11,105,531
Sewer service charges				145,605	145,605
Other operating revenue	186,875		3,072	140	190,087
Total operating revenues	<u>10,788,330</u>	<u>7,008</u>	<u>500,140</u>	<u>145,745</u>	<u>11,441,223</u>
Operating Expenses:					
Source of supply	4,502,280		11,085		4,513,365
Pumping	307,616		74,107		381,723
Operations	498,630	1,442	18,924		518,996
Water treatment	1,222,956	6,500	73,628		1,303,084
Sewage collection and treatment				78,331	78,331
Transmission and distribution	2,138,782		83,545		2,222,327
Consumer accounting	449,491		21,504	3,087	474,082
General and administrative	1,584,000		57,133	22,197	1,663,330
Depreciation	1,377,613		85,317	27,147	1,490,077
Total operating expenses	<u>12,081,368</u>	<u>7,942</u>	<u>425,243</u>	<u>130,762</u>	<u>12,645,315</u>
Operating income (loss)	<u>(1,293,038)</u>	<u>(934)</u>	<u>74,897</u>	<u>14,983</u>	<u>(1,204,092)</u>
Other Revenues (Expenses):					
Property taxes	83		57,276	40,561	97,920
Interest income	564,203	102,024	1,252	5,197	672,676
Reimbursement from Sonoma County Water	283,242				283,242
Interest expense	(292,079)	(81,824)	(37,640)		(411,543)
Special projects	(1,607,599)	(66,253)	(98,180)	(42,260)	(1,814,292)
Other expenses	(179,392)		(671)		(180,063)
Other revenues	1,468,575		29,427	38,856	1,536,858
Total other revenues (expenses)	<u>237,033</u>	<u>(46,053)</u>	<u>(48,536)</u>	<u>42,354</u>	<u>184,798</u>
Net income (loss) before capital contributions	<u>(1,056,005)</u>	<u>(46,987)</u>	<u>26,361</u>	<u>57,337</u>	<u>(1,019,294)</u>
Connection fees	354,421		38,800	34,945	428,166
Developer-in-kind contributions	4,464,659	3,612,640	122,645	10,920	8,210,864
Change in net assets	3,763,075	3,565,653	187,806	103,202	7,619,736
Interfund transfer	(491,730)	491,730			
Net assets at beginning of year, as previously reported	66,962,914	-	3,482,568	869,314	71,314,796
Adjustment applicable to prior years (Note 12)	(3,470,571)				(3,470,571)
Net assets at beginning of year, restated	63,492,343				67,844,225
Net assets at end of year	<u>\$ 66,763,688</u>	<u>\$ 4,057,383</u>	<u>\$ 3,670,374</u>	<u>\$ 972,516</u>	<u>\$ 75,463,961</u>

**NORTH MARIN WATER DISTRICT
SUPPLEMENTAL INFORMATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007**

	Program Revenues			Net Revenues and Changes in Net Assets	
	Program Expenses	Charges for Services	Operating Contribution and Grants		Capital Contribution and Grants
Business-type activities:					
Water	\$ 14,878,191	\$ 11,295,478	\$ 283,242	\$ 8,593,165	\$ 5,293,694
Sewer	173,022	145,745		45,865	18,588
Total business-type activities	<u>15,051,213</u>	<u>11,441,223</u>	<u>283,242</u>	<u>8,639,030</u>	<u>5,312,282</u>
Total government	<u>\$ 15,051,213</u>	<u>\$ 11,441,223</u>	<u>\$ 283,242</u>	<u>\$ 8,639,030</u>	<u>\$ 5,312,282</u>

General revenues	
Property taxes	97,920
Other revenues	1,536,858
Investment income	672,676
Total general revenue	<u>2,307,454</u>
Change in net assets	7,619,736
Net assets, July 1, 2006, as previously reported	71,314,796
Adjustment applicable to prior years (Note 12)	<u>(3,470,571)</u>
Net assets, July 1, 2006, restated	67,844,225
Net assets, June 30, 2007	<u>\$ 75,463,961</u>



**Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB
Circular A-133 and Schedule of Expenditures of Federal Award**

Compliance

We have audited the compliance of the North Marin Water District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The North Marin Water District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the North Marin Water District's management. Our responsibility is to express an opinion on the North Marin Water District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the North Marin Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the North Marin Water District's compliance with those requirements.

In our opinion, the North Marin Water District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the North Marin Water District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the North Marin Water District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Marin Water District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over compliance. 07-02, 07-04.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 07-02 to be a material weaknesses.

North Marin Water District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Bartlett Pringle & Wolf LLP

November 12, 2007

**NORTH MARIN WATER DISTRICT
SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007**

Federal Granter/Pass Through Grantor Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Disbursements/ Expenditures
<u>Environmental Protection Agency</u>			
Capitalization grants for Drinking Water State Revolving Loan	66.468	SR-F01CX124	\$ 313,987
Water Recycling Funding Program State Revolving Loan	66.458	C-06-4844-110	<u>4,264,545</u>
Total Environmental Protection Agency			<u>4,578,532</u>
Total expenditures of federal awards			<u>\$ 4,578,532</u>

See accompanying notes

NORTH MARIN WATER DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Note 1 - Reporting Entity:

The financial reporting entity consists of North Marin Water District (District) for which the District is financially accountable.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of North Marin Water District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3 - Program Descriptions:

Environmental Protection Agency:
Capitalization Grants for Drinking Water State Revolving Loan:

The objective of the Capitalization Grants for Drinking Water State Revolving Loan is to provide a long-term source of State financing for the costs of drinking water infrastructure. This project will achieve or maintain compliance with SDWA requirements, protect public health, and assist systems with an economic need.

Environmental Protection Agency:
Water Recycling Funding Program State Revolving Loan:

The objective of the Water Recycling Funding Program State Revolving Loan is to promote the beneficial use of treated municipal wastewater (water recycling) in order to augment fresh water supplies in California by providing technical and financial assistance to agencies and other stakeholders in support of water recycling projects and research.

NORTH MARIN WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over the program:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes No

Type of auditor's report issued on compliance for the program: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

II. Financial Statement Findings

07-01 Completed Capital Asset Projects

Finding

During our audit we noted that certain capital projects remained open on the books throughout the fiscal year, even after the project had been completed. This treatment causes a delay in recognizing depreciation expense on the completed assets, and may affect the calculation of interest expense to be capitalized on construction in progress projects.

We recommend that formal procedures be developed that will facilitate the exchange of information between departments and provide for the timely closing and capitalization of projects once the projects have been completed. This process will result in more accurate capital asset balances and more accurate estimates of depreciation expense in the financial statements.

NORTH MARIN WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

07-01 Completed Capital Asset Projects (continued)

Management's Response

The Stafford Treatment Plant Rehab project triggered this recommendation. The auditors recommended that the District capitalize the completed portion of the STP Rehab project effective October 1, 2006, which we have now done. The concern is that depreciation expense would be understated and net income thereby overstated.

07-02 Cash Disbursements

Finding

During the audit, we noted the following control deficiencies related to cash disbursements:

- Vendors should be authorized and set up in the system by a person independent of the cash disbursements process. Currently the accounts payable clerk is allowed to add new vendors with no review process.
- A member of Senior Management should manually sign checks. The accounts payable clerk currently uses a signature stamp for both required signatures.
- The listing of sequentially numbered purchase order's should be reviewed by Management to make sure that they are all accounted for. This is currently not being done.
- The listing of first and last checks used in each check run should be reviewed by Management, and evidence of this review should be maintained. The accounts payable clerk is currently doing this, with no review by Management.

In addition, during testing we noted one cash disbursement that had no evidence of review or approval, two cash disbursements paid that did not include a purchase order, one disbursement that did not include receiving documents, three disbursements that were not hole punched to indicate that they had been paid in accordance with District policy, and three disbursements that did not include evidence of review of the general ledger coding.

We recommend that all disbursements be properly approved, include purchase order and receiving document support, evidence of general ledger coding review, and all invoices should be hole punched after payment to prevent them from being resubmitted.

NORTH MARIN WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Management's Response

The District will implement the following procedures:

- Accountants will set up vendors in the accounting system. Randomly, they will perform an internet search on new vendors to verify their existence.
- Auditor-Controller will manually sign randomly selected checks. Software reprogramming will be necessary before implementation.
- On a monthly basis the Accounting Supervisor will review sequentially numbered purchase orders to make sure that all are accounted for
- The Accounting Supervisor will review the first and last check numbers of each check run on a monthly basis, and will maintain the check stock in a locked drawer.

07-03 Accounts Receivable/Cash Receipts

Finding

Currently, billing disputes and adjustments are currently directed to the Billing Supervisor. We recommend that these matters be addressed by an individual independent of maintenance of the accounts receivable/billing software.

We also noted that checks are not endorsed as soon as they are received, but rather are endorsed after being handled by multiple employees. We recommend that all checks be endorsed as soon as they are received.

In addition, the District has implemented strong segregation of duties policies and procedures, however we noted several instances where these policies and procedures were not followed. We recommend that the District strictly enforce these policies to ensure that internal controls over cash receipts are properly functioning.

Management's Response

The District will implement the following procedures:

- A new report will be created from the utility billing program which will print all the credit adjustments, the customer's name and address, and the reason for the adjustment. The Auditor-Controller will review this new report monthly.
- The daily cash processing procedures have been modified so that checks are endorsed as soon as they are received by the District.
- Departure from the strict enforcement of segregation of duties policies will only be permitted due to sick or vacation absences as authorized by the Consumer Services Supervisor.

NORTH MARIN WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

07-04 **Payroll**

Finding

We noted a lack of segregation of duties in the payroll process. Currently the processing of payroll and posting of payroll entries to the general ledger are performed by the same employee. In addition, manual payroll checks are not currently reviewed and/or approved by a member of management. The payroll clerk prints the checks using a signature stamp and distributes them to the employees.

We recommend that the payroll clerk not be allowed to post payroll to the general ledger, and that Management should review and sign all manual paychecks. This will strengthen internal controls over payroll and help reduce the likelihood of an improper payment being made.

Management's Response

The District will implement the following procedures:

- Staff will initiate a software program change to remove the General Ledger posting from the payroll process.
- The payroll check printing program will be modified to print only the General Manager's signature. Auditor-Controller or Chief Engineer will sign the manual paychecks. Staff will continue to encourage employees to sign up for direct deposit, and will phase out manual paychecks.

III. Findings and Questioned Costs for Federal Awards

See findings 07-02 and 07-04 above.

NORTH MARIN WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2007

The prior year audit disclosed no significant findings and no significant uncorrected or unresolved findings exist from the prior audit.



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

RECEIVED

DEC 10 2007

NORTH MARIN WATER DISTRICT

November 12, 2007

Board of Directors
North Marin Water District
999 Rush Creek Place
Post Office Box 146
Novato, CA 94948

This letter is intended to inform the Board of Directors of The North Marin Water District about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Directors.

In addition to our report on your financial statements, we have provided under separate cover a letter, dated November 12, 2007, concerning significant deficiencies and material weaknesses in internal control that we noted during our audit of the District's financial statements for the year ended June 30, 2007.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

The Auditor's Responsibility Under Generally Accepted Auditing Standards

Our audit of the financial statements of The North Marin Water District for the year ended June 30, 2007 was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. Estimates significant to the financial statements include capital asset lives and depreciation methods. The Board of Directors may wish to monitor throughout the year the process used to compute and record these accounting estimates.

Audit Adjustments

There were several audit adjustments made to the original trial balance presented to us to begin our audit. Of the adjustments that were recorded, the following is a description of the adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the District's financial reporting process:

- Transfer of the completed Stafford Treatment Plant into capital assets (approximately \$15,960,000)
- Recording of depreciation expense on the Stafford Treatment Plant (approximately \$338,000)
- Transfer of the Recycled Water Treatment Facility from the books of Novato Water District to Novato Recycled District (approximately \$492,000)
- Write-off of the Sonoma County Water Agency entitlement asset (approximately \$3,625,000).

Uncorrected Misstatements

We also accumulated one uncorrected misstatement, which was discussed with management and was determined by management to be immaterial to the financial statements taken as a whole. Therefore, the adjustment to correct this misstatement was not made to the financial statements. This uncorrected misstatement is summarized in the accompanying schedule.

Accounting Policies and Alternative Treatments

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. During the current year the District changed its policy for recording payments made to Sonoma County Water Agency. In prior years these payments have been capitalized as entitlement costs and were not amortized, which was not in accordance with generally accepted accounting principles. The new policy is to expense these payments as incurred.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the District.

Disagreements with Management

There were no unresolved disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements. (See difficulties encountered in performing the audit below.)

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

During the audit unreasonable time constraints were imposed by management considering the following items:

- The dates we received certain accounting records
- Significant discussions as described below
- Federal compliance testing for two programs

There were significant discussions with management regarding the following items, which resulted in excessive fee overruns:

- Appropriate application of accounting principles
- Audit adjustments
- Professional standards
- Financial statement restatements

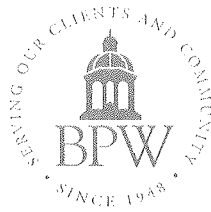
Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to The North Marin Water District.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than the specified parties.

Bartlett, Pringle & Wolf LLP

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BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

November 12, 2007

Board of Directors
North Marin Water District
999 Rush Creek Place
Post Office Box 146
Novato, CA 94948

In planning and performing our audit of the consolidated financial statements of North Marin Water District (the District) for the year ended June 30, 2007, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that we consider to be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We consider the following control deficiencies to be significant deficiencies:

Payroll - Segregation of Duties

We noted a lack of segregation of duties in the payroll process. Currently the processing of payroll and posting of payroll entries to the general ledger are performed by the same employee. In addition, manual payroll checks are not currently reviewed and/or approved by a member of management. The payroll clerk prints the checks using a signature stamp and distributes them to the employees.

We recommend that the payroll clerk not be allowed to post payroll to the general ledger, and that Management should review and sign all manual paychecks. This will strengthen internal controls over payroll and help reduce the likelihood of an improper payment being made.

Accounts Receivable/Cash Receipts- Segregation of Duties

During the audit we noted that the same person who supervises the Billing and Accounts Receivable function is responsible for approving billing disputes and adjustments. We recommend that these duties be separated.

We also noted that checks are not endorsed as soon as they are received. We recommend that all checks be endorsed as soon as they are received.

In addition, we noted nine Daily Cash Receiving Report's (DCR's) that were not initialed. We also noted several DCR's where the same employee initialed that they balanced cash, entered stubs, and posted cash. We recommend that these duties be done by separate employees.

Material Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies constitute material weaknesses:

Cash Disbursements- Segregation of Duties

During the audit, we noted the following control deficiencies related to cash disbursements:

- Vendors should be authorized and set up in the system by a person independent of the cash disbursements process. Currently the accounts payable clerk is allowed to add new vendors with no review process.

- A member of Senior Management should manually sign checks. The accounts payable clerk currently uses a signature stamp for both required signatures.
- The listing of sequentially numbered purchase order's should be reviewed by Management to make sure that they are all accounted for. This is currently not being done.
- The listing of first and last checks used in each check run should be reviewed by Management, and evidence of this review should be maintained. The accounts payable clerk is currently doing this, with no review by Management.

In addition, during testing we noted one cash disbursement that had no evidence of review or approval, two cash disbursements paid that did not include a purchase order, one disbursement that did not include receiving documents, three disbursements that were not hole punched to indicate that they had been paid in accordance with District policy, and three disbursements that did not include evidence of review of the general ledger coding.

We recommend that all disbursements be properly approved, include purchase order and receiving document support, evidence of general ledger coding review, and all invoices should be hole punched after payment to prevent them from being resubmitted.

Completed Capital Asset Projects

It was noted during the audit that certain capital projects remained open on the books throughout the fiscal year, even after the project had been completed. This treatment causes a delay in recognizing depreciation expense on the completed assets, and may affect the calculation of interest expense to be capitalized on construction in progress projects.

We recommend that formal procedures be developed that will facilitate the exchange of information between departments and provide for the timely closing and capitalization of projects once the projects have been completed. This process will result in more accurate capital asset balances and more accurate estimates of depreciation expense in the financial statements.

Control Deficiencies

We noted additional areas that your internal controls could be strengthened. While the following item does not constitute significant deficiencies or material weaknesses, we consider the following deficiency to be control deficiency:

Review and Approval of Journal Entries

During our review of journal entries, we noted that manual journal entries and correcting journal entries are not being reviewed by management before being posted. We recommend that all journal entries be reviewed by management prior to being posted to the general ledger.

Conclusion

While this letter by its nature is critical and addresses deficiencies noted during the audit, it does not address the numerous positive aspects of the District's operation. We would also like to express our appreciation for the cooperation extended to us by the District's staff during the course of our audit work. If you have any questions regarding the above issues, we would be pleased to discuss them with you at your convenience.

Very truly yours,

Bartlett Pringle & Wolf, LLP

BARTLETT, PRINGLE & WOLF, LLP
Certified Public Accountants and Consultants