



North Marin Water District
Annual Financial Report
June 30, 2008 and 2007





Board of Directors as of June 30, 2008

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Rick Fraites	President	Elected	12/05 - 12/09
Dennis J. Rodoni	Vice President	Elected	12/07 - 12/11
Jack Baker	Director	Elected	12/07 - 12/11
Stephen Petterie	Director	Elected	12/07 - 12/11
John C. Schoonover	Director	Elected	12/05 - 12/09

**Chris DeGabriele, General Manager
North Marin Water District
999 Rush Creek Place
Novato, California 94948
(415) 897-4133 – www.nmwd.org**

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For the Years Ended June 30, 2008 and 2007

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Introductory Section



north marin water district

999 RUSH CREEK PLACE • POST OFFICE BOX 146 • NOVATO, CALIFORNIA 94948 • (415) 897-4133 • FAX (415) 892-8043

September 11, 2008

Board of Directors
North Marin Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the North Marin Water District for the fiscal year ended June 30, 2008 and 2007, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying Notes and Supplemental Information.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

District Structure and Leadership

The North Marin Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The North Marin Water District has been providing water service to its customers since 1948. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The North Marin Water District employs 64 employees, some of which are part-time or temporary. There are currently 32 office positions and 32 field positions and no vacant positions. The District's Board of Directors meets on the first and third Tuesdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water service to approximately 61,000 residents in the greater Novato area through 20,382 service connections. The District also provides water service to approximately 1,800 residents in the Point Reyes service area of West Marin County through 760 service connections and sewer service to approximately 500 residents in the Oceana Marin service area of West Marin County through 224 service connections.



District Services

The District provides water service to the greater Novato area and to areas of West Marin (Point Reyes Station, Olema, Bear Valley, Inverness Park and Paradise Ranch Estates). The District provides sewer services to the area of Oceana Marin.

Residential customers are approximately 93% of the District's customer base and consume approximately 79% of the water produced annually by the District. The District purchases approximately 80% of its water supply from the Sonoma County Water Agency (Agency) with the balance derived from the District's Stafford Lake Reservoir. In fiscal year 2008 and 2007, the District purchased approximately 2.8 and 3.3 billion gallons of water from the Agency, respectively.

Economic Condition, Outlook and Major Initiatives

The District carries out its Mission with a highly-motivated and competent staff empowered to conduct the District's business by placing customer needs and welfare first. Each day, District employees strive to carry out their work mindful of these basic principles: Good Water, Good Service, Good Value, and A Safe Place to Work.

The Russian River water delivery system from the Agency typically provides 80% of the District's water supply, but continues to have limited capacity in summer months. Rainfall in fiscal year 2007 totaled only 15.25" and dry spring conditions resulted in the State Water Resources Control Board ordering reduced diversions from the Russian River during summer months of 2007. In response, the District declared a water shortage emergency and adopted an ordinance prohibiting the waste of water. The District's new Stafford Lake water treatment plant was fully utilized to offset Russian River supplies with local water supply and the Deer Island recycled water treatment facility (a joint project between the District and Novato Sanitary District) was completed, to deliver highly-treated recycled wastewater to irrigate Stone Tree Golf Course.

A new Restructured Agreement with the Agency for increased Russian River water has been executed, but necessary Russian River water production and delivery facilities (pumps and pipelines) have not yet been constructed to fulfill the contract requirements. Competing environmental and fishery-related interests are delaying the Russian River water facility development and the District looks forward to achieving more water conservation and development of recycled water to further stretch its local source of supply in future years.

Dry weather patterns continue and the spring of 2008 was the driest on record with only 0.39 inches of rainfall from March through June. The District's water conservation efforts continue to be focused on reducing summer water demand, which primarily involves outdoor irrigation. Additional customer outreach was made in the spring of 2008 for conservation. Water use restrictions for new development were made more stringent. The *WaterLine* newsletter was again published in the spring and fall. The spring edition included tips on how to reduce summer water demand and described the District's current water conservation programs. The District's Water Conservation Plan was updated and shows that over 1,000 acre-feet of water is being saved each year.

In West Marin, normal year water supply conditions on Lagunitas Creek prevailed and customers experienced no water restrictions. Work on long-range improvements continued and the Inverness Park Pump Station upgrade was completed.

At \$382 per year, the cost of water service for a typical Novato single family home using 130,000 gallons of water a year is the second-lowest of urban area water purveyors. Water remains a good value for Novato customers.

District Water Supply

Stafford Lake – Local Source Provides 20% of the District's Supply

Stafford Lake lies four miles west of downtown Novato and collects the runoff from 8.3 square miles of watershed land adjacent to the upper reaches of Novato Creek. The lake has a surface area of 230 acres and holds 4,450 AF (acre-feet) (1,450 MG) of water. Water from Stafford Lake is fed into the 6 million gallons per day (mgd) treatment plant located just below the dam. In fiscal year 2008 and 2007, 2,186 AF (712 MG) and 1,072 AF (349 MG), respectively, of water was produced from the new Stafford Lake Water Treatment Plant.

Russian River – Provides 80% of the District's Annual Supply

Russian River water originates from both the Eel River and the Russian River watersheds northeast of the City of Ukiah (Lake Mendocino) and west of Healdsburg (Lake Sonoma). The Coyote Dam and Lake Mendocino impounds the Eel River diversions and winter runoff from the local watershed. Warm Springs Dam and Lake Sonoma impound winter runoff from the Dry Creek and Warm Springs local watersheds. Lakes Mendocino and Sonoma combined can store 367,500 acre feet to meet the regions' water supply needs. Releases from the lakes flow to a point about 10 miles upstream of Guerneville where six deep Ranney Collector wells collect river water that has been filtered through 60 to 90 feet of natural sand and gravel to perforated pipes located at the bottom of each well. The thick layer of sand and gravel through which the water must pass before reaching the intake pipes provides a highly-efficient, natural filtration process which, with chlorination treatment, produces a clear, potable, bacteria-free water. This water is then fed directly into the Agency's aqueduct system.

In fiscal year 2008 and 2007, the District received 8,477 AF (2,762 MG) and 10,133 AF (3,302 MG), respectively, of Russian River water. The District has an agreement in place with the Agency to provide sufficient supply and meet the District's current and future water supply needs. There continues to be competing interests for Russian River water, principally to protect steelhead and salmon listed as threatened species under the Endangered Species Act. There is still much work to do in Sonoma County to build necessary pumps and pipelines to import the future deliveries. The District continues to actively support the necessary development of the Russian River water supply and protection of the Russian River fisheries.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, maturity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund and the District has purchased U.S. Treasuries, Federal agency securities and corporate medium-term notes through its custodial trustee Union Bank of California.

Water Rates and District Revenues

Revenue from user charges generated from District customers support District operations. Accordingly, water and sewer rates are reviewed periodically. Water and sewer rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed bi-monthly service charge; whereas, sewer rates are composed primarily of a fixed (monthly) charge.

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent Certified Public Accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District is self-insured for general liability claims up to the first \$1.0 million and has established a contingent liability 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.

Technological Advance in Customer Service

The District made significant changes to its customer service division, which has improved customer convenience. Customers now have the option to receive and pay their water and sewer bills in a variety of options including e-billing and online bill payment.

Acknowledgements

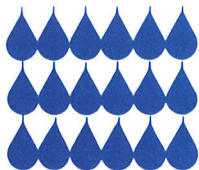
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning and implementation of the North Marin Water District's fiscal policies.

Respectfully submitted,


Chris DeGabriele
General Manager


David Bentley
Auditor-Controller

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com

Independent Auditor's Report

Board of Directors
North Marin Water District
Novato, California

We have audited the accompanying financial statements of the North Marin Water District (District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The comparative financial information as of June 30, 2007 was audited by other auditors whose report dated November 12, 2007, expressed an unqualified opinion on those basic financial statements.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the North Marin Water District as of June 30, 2008, and the respective changes in net assets and cash flows 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 a report dated September 11, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit. This report can be found on page 43.

Management's discussion and analysis on pages 6 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit this information and express no opinion on it. Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Combining Statements in the supplemental information section on pages 39 to 42 are presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section on pages 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

September 11, 2008
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation

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North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the North Marin Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 6.4% or \$4,855,829 to \$80,319,790 in fiscal year 2008. In 2007, the District's net assets increased 5.8% or \$4,419,169 to \$75,463,961. (Prior period adjustments were factored into these calculations).
- In 2008, the District's operating revenues decreased 0.6% or \$68,880 due to a 7% decline in water sales volume offset by a higher rate for non-residential customers. In 2007, the District's operating revenues increased 15.2% or \$1,559,213 due to an 8% increase in water sales volume coupled with a 7% rate increase.
- The District's operating expenses before depreciation decreased 0.1% or \$16,996 due to lower water procurement cost offset by increases in water treatment costs during the fiscal year. In 2007, the District's operating expenses before depreciation increased 11.2% or \$1,269,278 due to a \$688,700 increase in expensed improvement project costs and a \$202,916 increase in general and administrative expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

North Marin Water District
Management's Discussion and Analysis
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These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, new or changed government legislation or accounting standards, as well as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 38.

Statement of Net Assets

Condensed Statements of Net Assets					
	2008	2007	Change	2006	Change
Assets:					
Current assets	\$ 10,719,677	8,551,863	2,167,814	6,407,825	2,144,038
Non-current assets	8,077,090	11,918,960	(3,841,870)	12,566,240	(647,280)
Capital assets, net	85,413,491	79,377,040	6,036,451	73,453,360	5,923,680
Total assets	104,210,258	99,847,863	4,362,395	92,427,425	7,420,438
Liabilities:					
Current liabilities	3,412,086	3,988,417	(576,331)	5,003,755	(1,015,338)
Non-current liabilities	20,478,382	20,395,485	82,897	16,108,878	4,286,607
Total liabilities	23,890,468	24,383,902	(493,434)	21,112,633	3,271,269
Net assets:					
Net investment in capital assets	65,099,863	59,290,284	5,809,579	57,344,482	1,945,802
Restricted for capital projects and debt service	4,743,194	4,994,444	(251,250)	7,504,340	(2,509,896)
Unrestricted	10,476,733	11,179,233	(702,500)	6,465,970	4,713,263
Total net assets	80,319,790	75,463,961	4,855,829	71,314,792	4,149,169
Total liabilities and net assets	\$ 104,210,258	99,847,863	4,362,395	92,427,425	7,420,438

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$80,319,790 and \$75,463,961 as of June 30, 2008 and 2007, respectively.

By far the largest portion of the District's net assets (81% and 79% as of June 30, 2008 and 2007, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2008 and 2007, the District showed a positive balance in its unrestricted net assets of \$10,476,733 and \$11,179,233, respectively, which may be utilized in future years.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>2006</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 11,779,157	11,848,037	(68,880)	10,288,824	1,559,213
Non-operating revenue	919,920	1,767,917	(847,997)	617,085	1,150,832
Total revenue	<u>12,699,077</u>	<u>13,615,954</u>	<u>(916,877)</u>	<u>10,905,909</u>	<u>2,710,045</u>
Expense:					
Operating expense	12,538,993	12,555,989	(16,996)	11,286,711	1,269,278
Depreciation and amortization	1,761,673	1,490,077	271,596	1,069,149	420,928
Non-operating expense	722,709	589,178	133,531	386,759	202,419
Total expense	<u>15,023,375</u>	<u>14,635,244</u>	<u>388,131</u>	<u>12,742,619</u>	<u>1,892,625</u>
Net income before capital contributions	<u>(2,324,298)</u>	<u>(1,019,290)</u>	<u>(1,305,008)</u>	<u>(1,836,710)</u>	<u>817,420</u>
Capital contributions	7,061,891	8,639,031	(1,577,140)	2,133,298	6,505,733
Change in net assets	<u>4,737,593</u>	<u>7,619,741</u>	<u>(2,882,148)</u>	<u>296,588</u>	<u>(3,178,736)</u>
Net assets, beginning of year	<u>75,463,961</u>	<u>71,314,792</u>	<u>4,149,169</u>	<u>71,018,204</u>	<u>296,588</u>
Prior period adjustments	<u>118,236</u>	<u>(3,470,572)</u>	<u>3,588,808</u>	<u>-</u>	<u>3,588,808</u>
Net assets, end of year	<u>\$ 80,319,790</u>	<u>75,463,961</u>	<u>4,855,829</u>	<u>71,314,792</u>	<u>706,660</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$4,855,829 and \$4,149,169 for the fiscal years ended June 30, 2008 and 2007, respectively, taking into consideration the prior period adjustments in both years.

A closer examination of the sources of changes in net assets reveals that:

In 2008, the District's total revenue decreased by \$916,877, primarily due to a decrease in non-operating revenue of \$847,997 arising primarily from the receipt of the \$627,395 construction lawsuit settlement in 2007. Total expense increased \$388,131, due primarily to an increase in depreciation and interest expense.

In 2007, the District's total revenue increased by \$2,710,045, primarily due to an increase in water consumption and water rates and the non-operating revenue of \$627,395 from the construction lawsuit settlement. Total expense increased \$1,892,625, due primarily to an increase in expensed improvement project costs, an increase in general and administrative expenses and depreciation expense.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

Total District Revenues

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>2006</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 9,607,490	9,693,104	(85,614)	8,432,210	1,260,894
Monthly meter service charge	1,424,628	1,412,428	12,200	1,338,533	73,895
Sewer service charges	146,642	145,605	1,037	141,739	3,866
Water conservation projects	394,398	406,813	(12,415)	198,976	207,837
Other charges and services	205,999	190,087	15,912	177,366	12,721
Total operating revenues	<u>11,779,157</u>	<u>11,848,037</u>	<u>(68,880)</u>	<u>10,288,824</u>	<u>1,559,213</u>
Non-operating revenues:					
Property tax revenue	110,129	97,919	12,210	82,138	15,781
Investment earnings	699,107	825,799	(126,692)	450,799	375,000
Rental revenue	49,233	48,161	1,072	47,736	425
Construction lawsuit settlement	-	627,395	(627,395)	-	627,395
Gain on sale/disposition of capital assets	22,867	20,509	2,358	-	20,509
Other non-operating revenues	38,584	148,134	(109,550)	36,412	111,722
Total non-operating revenues	<u>919,920</u>	<u>1,767,917</u>	<u>(847,997)</u>	<u>617,085</u>	<u>1,150,832</u>
Total revenues	<u>\$ 12,699,077</u>	<u>13,615,954</u>	<u>(916,877)</u>	<u>10,905,909</u>	<u>2,710,045</u>

In 2008, as noted previously, total District operating revenue held steady in 2008 from 2007; however, non-operating revenue declined due to a reduction in mark-to-market gains on the District's portfolio and the District receiving \$627,395 for the construction lawsuit settlement in 2007.

In 2007, the District's total revenues increased by \$2,710,045, primarily due to an increase in water consumption and water rates and the non-operating revenue of \$627,395 from the construction lawsuit settlement.

Total District Expenses

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>2006</u>	<u>Change</u>
Operating expenses:					
Source of supply	\$ 3,782,414	4,513,365	(730,951)	4,508,462	4,903
Pumping	379,341	381,725	(2,384)	358,844	22,881
Water facilities operations	506,287	518,996	(12,709)	504,491	14,505
Water treatment	1,698,781	1,303,083	395,698	1,205,525	97,558
Transmission and distribution	2,385,742	2,222,348	163,394	2,059,031	163,317
Sewage collection and treatment	84,418	78,328	6,090	88,998	(10,670)
Customer service	466,301	474,082	(7,781)	450,278	23,804
General and administrative	1,900,169	1,835,667	64,502	1,632,751	202,916
Improvement projects	1,475,193	1,533,477	(58,284)	844,777	688,700
Water conservation projects	359,748	283,242	76,506	278,668	4,574
Overhead absorption	(499,401)	(588,324)	88,923	(645,114)	56,790
Depreciation and amortization	1,761,673	1,490,077	271,596	1,069,149	420,928
Total operating expenses	<u>\$ 14,300,666</u>	<u>14,046,066</u>	<u>254,600</u>	<u>12,355,860</u>	<u>1,690,206</u>
Non-operating expenses:					
Interest expense -- long-term debt	519,484	411,543	107,941	357,937	53,606
Sonoma County Water Agency agreement	114,682	-	114,682	-	-
Loss on sale/disposition of capital assets	87,214	177,635	(90,421)	-	177,635
Other non-operating expenses	1,329	-	1,329	28,822	(28,822)
Total non-operating expenses	<u>722,709</u>	<u>589,178</u>	<u>133,531</u>	<u>386,759</u>	<u>202,419</u>
Total expenses	<u>\$ 15,023,375</u>	<u>14,635,244</u>	<u>388,131</u>	<u>12,742,619</u>	<u>1,892,625</u>

In 2008, as noted previously, total District operating expenses increased due to a decrease in water procurement (source of supply) costs which were offset by increases in water treatment, transmission and distribution, and depreciation expenses. Also, interest expense increased as well.

In 2007, as noted previously, total District expenses increased \$1,892,625, due primarily to an increase in expensed improvement project costs, an increase in general and administrative expenses and an increase in depreciation expense.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2008 and 2007

Capital Asset Administration

At the end of fiscal year 2008 and 2007, the District's investment in capital assets amounted to \$85,413,491 and \$79,377,040, respectively, (net of accumulated depreciation). This investment in capital assets includes: land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-progress, etc. (See Note 8 for further information)

Changes in capital asset amounts for 2008 were as follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2008</u>
Capital assets:				
Non-depreciable assets	\$ 12,871,125	2,984,826	(7,242,519)	8,613,432
Depreciable assets	86,540,765	12,142,151	(148,444)	98,534,472
Accumulated depreciation and amortization	(20,034,850)	(1,761,673)	62,110	(21,734,413)
Total capital assets, net	<u>\$ 79,377,040</u>	<u>13,365,304</u>	<u>(7,328,853)</u>	<u>85,413,491</u>

Changes in capital asset amounts for 2007 were as follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2007</u>
Capital assets:				
Non-depreciable assets	\$ 24,750,546	10,662,527	(22,541,948)	12,871,125
Depreciable assets	63,896,374	22,937,849	(293,458)	86,540,765
Accumulated depreciation and amortization	(18,664,131)	(1,490,077)	119,358	(20,034,850)
Total capital assets, net	<u>\$ 69,982,789</u>	<u>32,110,299</u>	<u>(22,716,048)</u>	<u>79,377,040</u>

Debt Administration

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

	<u>Balance 2007</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2008</u>
Long-term debt:				
Bonds payable	\$ 363,593	-	(27,792)	335,801
Loans payable	19,723,163	628,881	(374,217)	19,977,827
Total long-term debt	<u>\$ 20,086,756</u>	<u>628,881</u>	<u>(402,009)</u>	<u>20,313,628</u>

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

	<u>Balance 2006</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2007</u>
Long-term debt:				
Bonds payable	\$ 396,243	-	(32,650)	363,593
Loans payable	15,338,404	4,578,532	(193,773)	19,723,163
Total long-term debt	<u>\$ 15,734,647</u>	<u>4,578,532</u>	<u>(226,423)</u>	<u>20,086,756</u>

(See Note 12 for further debt service information)

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Auditor-Controller at 999 Rush Creek Place, Novato, California 94945 – (415) 897-4133.

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Basic Financial Statements

North Marin Water District
Statements of Net Assets
June 30, 2008 and 2007

<i>Assets</i>	2008	2007
Current assets:		
Cash and cash equivalents (note 3)	\$ 5,293,115	2,957,603
Restricted – cash and cash equivalents (note 3)	1,063,646	1,323,694
Accrued interest receivable	144,586	143,573
Accounts receivable – water and sewer sales and services	2,550,603	2,382,450
Accounts receivable – governmental agencies	590,866	689,953
Accounts receivable – other	226,514	175,740
Note receivable – Black Point Golf Links – current portion (note 5)	174,332	170,206
Notes receivable – employee computer loans (note 6)	8,164	4,509
Materials and supplies inventory	634,375	655,111
Prepaid expenses and deposits	33,476	49,024
Total current assets	<u>10,719,677</u>	<u>8,551,863</u>
Non-current assets:		
Investments (note 3)	439,960	4,293,653
Restricted – investments (note 3)	3,683,318	3,675,163
Internal balances (note 4)	-	-
Note receivable – Black Point Golf Links (note 5)	3,074,612	3,248,944
Notes receivable – employee housing assistance loans (note 7)	879,200	701,200
Capital assets, not being depreciated (note 8)	8,613,432	12,871,125
Depreciable capital assets, net (note 8)	<u>76,800,059</u>	<u>66,505,915</u>
Total non-current assets	<u>93,490,581</u>	<u>91,296,000</u>
Total assets	<u><u>\$ 104,210,258</u></u>	<u><u>99,847,863</u></u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,842,215	1,812,962
Accrued wages and related payables	298,147	284,360
Accrued claims payable (note 9)	24,557	111,960
Customer advances and deposits	952,751	1,603,281
Accrued interest payable – long-term debt	6,731	45,230
Long-term liabilities – due within one year:		
Compensated absences (note 10)	90,563	109,838
Bonds payable (note 12)	22,923	20,786
Loans payable (note 12)	<u>174,199</u>	<u>-</u>
Total current liabilities	<u>3,412,086</u>	<u>3,988,417</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 10)	271,688	329,515
Post employment benefits payable (note 11)	90,188	-
Bonds payable (note 12)	312,878	342,807
Loans payable (note 12)	<u>19,803,628</u>	<u>19,723,163</u>
Total non-current liabilities	<u>20,478,382</u>	<u>20,395,485</u>
Total liabilities	<u>23,890,468</u>	<u>24,383,902</u>
Net assets:		
Net investment in capital assets (note 13)	65,099,863	59,290,284
Restricted for capital projects and debt service (note 14)	4,743,194	4,994,444
Unrestricted (note 15)	<u>10,476,733</u>	<u>11,179,233</u>
Total net assets	<u>80,319,790</u>	<u>75,463,961</u>
Total liabilities and net assets	<u><u>\$ 104,210,258</u></u>	<u><u>99,847,863</u></u>

See accompanying notes to the basic financial statements

North Marin Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Water consumption sales	\$ 9,607,490	9,693,104
Monthly meter service charge	1,424,628	1,412,428
Sewer service charges	146,642	145,605
Water conservation projects	394,398	406,813
Other charges and services	205,999	190,087
Total operating revenues	<u>11,779,157</u>	<u>11,848,037</u>
Operating expenses:		
Source of supply	3,782,414	4,513,365
Pumping	379,341	381,725
Water facilities operations	506,287	518,996
Water treatment	1,698,781	1,303,083
Transmission and distribution	2,385,742	2,222,348
Sewage collection and treatment	84,418	78,328
Customer service	466,301	474,082
General and administrative	1,900,169	1,835,667
Improvement projects	1,475,193	1,533,477
Water conservation projects	359,748	283,242
Total operating expenses	<u>13,038,394</u>	<u>13,144,313</u>
Operating loss before overhead absorption	(1,259,237)	(1,296,276)
Overhead absorption	499,401	588,324
Operating loss before depreciation and amortization	(759,836)	(707,952)
Depreciation	(1,761,673)	(1,490,077)
Operating loss	<u>(2,521,509)</u>	<u>(2,198,029)</u>
Non-operating revenues(expenses):		
Property tax revenue	110,129	97,919
Investment earnings	699,107	825,799
Rental revenue	49,233	48,161
Construction lawsuit settlement	-	627,395
Interest expense – long-term debt	(519,484)	(411,543)
Sonoma County Water Agency agreement (note 21)	(114,682)	-
Loss on sale/disposition of capital assets, net	(64,347)	(157,126)
Other non-operating revenues, net	37,255	148,134
Total non-operating revenues, net	<u>197,211</u>	<u>1,178,739</u>
Net loss before capital contributions	<u>(2,324,298)</u>	<u>(1,019,290)</u>
Capital contributions:		
Developers and others	5,546,285	8,210,864
Connection fees	1,515,606	428,167
Capital contributions	<u>7,061,891</u>	<u>8,639,031</u>
Change in net assets	<u>4,737,593</u>	<u>7,619,741</u>
Net assets, beginning of year	75,463,961	71,314,792
Prior period adjustment (note 2)	118,236	(3,470,572)
Net assets, end of year	<u>\$ 80,319,790</u>	<u>75,463,961</u>

See accompanying notes to the basic financial statements

North Marin Water District
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 11,560,230	9,469,982
Cash paid to employees for salaries and wages	(4,073,289)	(3,868,779)
Cash paid to vendors and suppliers for materials and services	(9,111,227)	(9,603,241)
Net cash used in operating activities	<u>(1,624,286)</u>	<u>(4,002,038)</u>
Cash flows from non-capital financing activities:		
Property tax revenue	110,129	97,919
Rental revenue	49,233	48,161
Construction lawsuit settlement	-	627,395
Sonoma County Water Agency agreement	(114,682)	-
Principal received on notes receivable	285,308	198,907
Principal issued on notes receivable	(296,757)	(302,804)
Other non-operating revenues, net	37,255	148,134
Net cash provided by non-capital financing activities	<u>70,486</u>	<u>817,712</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(7,884,458)	(7,101,441)
Proceeds from capital contributions	6,812,779	3,384,573
Proceeds from the issuance of debt	727,968	4,493,179
Principal paid on long-term debt	(402,009)	(226,423)
Interest paid on long-term debt	(557,983)	(375,422)
Proceeds from the sale of capital assets	17,443	20,508
Net cash used in capital and related financing activities	<u>(1,286,260)</u>	<u>194,974</u>
Cash flows from investing activities:		
Proceeds from sale of investments	7,364,444	5,997,000
Purchases of investments	(3,147,020)	(2,999,037)
Investment earnings	698,094	713,187
Net cash provided by investing activities	<u>4,915,518</u>	<u>3,711,150</u>
Net increase in cash and cash equivalents	<u>2,075,458</u>	<u>721,798</u>
Cash and cash equivalents, beginning of year	<u>4,281,303</u>	<u>3,559,505</u>
Cash and cash equivalents, end of year	<u>\$ 6,356,761</u>	<u>4,281,303</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 5,293,115	2,957,603
Restricted assets – cash and cash equivalents	<u>1,063,646</u>	<u>1,323,694</u>
Total cash and cash equivalents	<u>\$ 6,356,761</u>	<u>4,281,297</u>

Continued on next page

See accompanying notes to the basic financial statements

North Marin Water District
Statements of Cash Flows, continued
For the Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,515,396)	(2,193,026)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Deprecation	1,761,673	1,490,077
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water and sewer sales and services, net	(168,153)	(2,383,672)
Accounts receivable – other	(50,774)	5,617
Materials and supplies inventory	20,736	(38,378)
Prepaid expenses and other deposits	15,548	(22,760)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	29,253	(936,759)
Accrued wages and related payables	13,787	64,148
Accrued claims payable	(87,403)	(671)
Customer advances and deposits	(650,530)	(131,130)
Compensated absences	(77,102)	149,519
Post employment retirement benefits	90,188	-
Total adjustments	<u>897,223</u>	<u>(1,804,009)</u>
Net cash used in operating activities	\$ <u>(1,618,173)</u>	<u>(3,997,035)</u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	\$ 17,383	153,124
Contributed capital	4,681,260	3,956,986
In-lieu of connection fees	-	3,612,640
Capitalized interest	<u>-</u>	<u>86,283</u>

See accompanying notes to the basic financial statements

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The North Marin Water District (District) is an independent special district formed in April 1948, which operates under the authority of Division 12 of the California Water Code. The District's service area includes the City of Novato, adjacent areas, plus annexed areas in West Marin County. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The District's operations are accounted for by the following service areas, some of which were originally established as Improvement Districts. 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 Improvement Districts and the Board of Directors serve as their governing board. The following service areas are reported as blended component units.

Novato Water System – The Novato Water 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 the Paradise Ranch Estate Improvement District in 2002, forming the West Marin Water System.

Oceana Marin Sewer Service – By agreement with a private developer, this service area was formed to provide sewer service to area residents commencing in June 1973.

Novato Recycled Water System – This is a enterprise fund which was formed by the District in 2007 which accounts for the operation of the District's recycled water treatment plant in a separate fund.

B. Basis of Accounting and Measurement Focus

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

Operating revenues and expenses, such as water sales and sewer service charges along with water purchases and wastewater disposal, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as grant funding, investment income and interest expense, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the District's Auditor-Controller to deposit funds in financial institutions.

Changes in market value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in market value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

5. Property Taxes

The County of Marin Assessor's Office assesses all real and personal property within the County each year. The County of Marin Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The County of Marin Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

6. Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as capital projects or debt service. These assets are for the benefit of a specified purpose and, as such, are legally or contractually restricted by an external third-party agreement.

7. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for capitalizing equipment purchases at \$1,000. Donated assets are recorded at estimated cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Dam – 100 years
- Transmission and distribution systems – 30 to 75 years
- Treatment plant – 75 years
- Buildings and storage facilities – 50 to 75 years
- Equipment and vehicles – 5 to 10 years

9. Compensated Absences

The District's 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 time on a semi-monthly basis. Employees normally earn and use their current vacation time with a small portion being unused each year. As this occurs, the District incurs a future obligation to pay for these unused hours and accrued a liability for such accumulated and unpaid vacation time.

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

10. Water and Sewer Sales

Water sales are billed on a bi-monthly cyclical basis. Estimated unbilled water and sewer sales and service charges through June 30th have been accrued as of year end.

11. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

12. Capital and Operating Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

13. Budgetary Policies

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

14. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

(2) Prior Period Adjustments

2007 – Change in Accounting Policy

The District's prior accounting policy, based on recommendations from the external auditor, was to capitalize as an intangible asset (entitlement costs) any direct payments to the Sonoma County Water Agency (Agency) for the construction of the Agency's transmission and distribution system. This asset was carried on the financial statements at its original cost basis and was not amortized over a contractual term-limit. This accounting policy did not agree with generally accepted accounting principals for the treatment of this particular transaction.

In 2007, the District retroactively changed its method of accounting for this type of transaction to be expensed as incurred. Therefore, the portion of this adjustment applicable to the year ended June 30, 2006 and for prior years in the amount of \$3,470,572 has been treated as a prior period adjustment to 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.

2008 – Non-Capitalized Security Upgrades and Non-Expensed Engineering Project Costs

In 2008, the District continued to incur costs related to security upgrades for its infrastructure capital assets; however, in 2007, the District decided to expense its security upgrades accumulated costs to date. In 2008, it became apparent that the total of those prior and current costs was significant enough to add tangible value to the STP project, and therefore, the District decided to retroactively capitalize the \$133,682 expensed security upgrades to its construction-in-process account in the current year.

In 2008, the District recognized an advance for construction of \$15,446 as a capital contribution from a developer for a project in its Oceana Marin Sewer service area. However, the District should have offset that advance against the accumulated engineering costs in CIP of \$15,446 for the project. The \$15,446 is immaterial to the overall presentation of the District's basic financial statements, but it could be considered to be a material adjustment to the Oceana Marin Sewer segment of the District and is therefore treated as a prior period adjustment. Had these changes been applied to the year ended June 30, 2007, the effect on the change in net assets would have been an increase of \$118,236 (\$133,682-\$15,446).

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(2) Prior Period Adjustment, continued

	<u>2008</u>	<u>2007</u>
Net assets, beginning of year	\$ 75,463,961	71,314,792
Change in net assets	4,737,593	7,619,741
Adjustment for change in accounting policy	-	(3,470,572)
Adjustment for non-capitalized security upgrades	133,682	-
Adjustment for contributed capital from developer	<u>(15,446)</u>	<u>-</u>
Net assets, end of year	<u>\$ 80,319,790</u>	<u>75,463,961</u>

(3) Cash and Investments

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

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 5,293,115	2,957,603
Restricted – cash and cash equivalents	1,063,646	1,323,694
Investments	439,960	4,293,653
Restricted – investments	<u>3,683,318</u>	<u>3,675,163</u>
Total cash and investments	<u>\$ 10,480,039</u>	<u>12,250,113</u>

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

	<u>2008</u>	<u>2007</u>
Cash on hand	\$ 350	350
Deposits with financial institutions	152,656	5,617
Deposits with County of Marin Treasury	27,629	23,025
Investments	<u>10,299,404</u>	<u>12,221,121</u>
Total cash and investments	<u>\$ 10,480,039</u>	<u>12,250,113</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(3) Cash and Investments, continued

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio *	Maximum Investment in One Issuer
State and Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years**	75%	None
U.S. Agency Securities	5 years**	75%	None
Banker's Acceptances	180 days	10%	30%
Commercial Paper	270 days	10%	10%
Non-negotiable Certificates of Deposit	1 year	10%	None
Negotiable Certificates of Deposit	5 years	10%	None
Medium-Term Notes	5 years	30%	None
Repurchase agreements	30 days	10%	None
Money Market Mutual Funds	N/A	10%	10%
California Local Agency Investment Fund (LAIF)	N/A	75%	None
California Asset Management Program (CAMP)	N/A	75%	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

** Except when authorized by the District's legislative body in accordance with Government Code Section 53601

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(3) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit), and, the District's investment policy that requires no more than two-thirds of the District's deposits in a depository shall be collateralized by mortgage-backed securities, with the remainder to be secured by non-mortgage-backed securities. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the District's bank balances, up to \$100,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(3) Cash and Investments, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investments at June 30, 2008, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>	<u>More than 60 months</u>
Local Agency Investment Fund	\$ 6,176,126	6,176,126	-	-	-
U.S. Treasury notes	1,006,020	1,006,020	-	-	-
General Electric Co. note @ 4.250%	1,008,460	-	-	1,008,460	-
Goldman Sachs note @ 6.875%	1,038,090	-	-	1,038,090	-
Wells Fargo note @ 6.450%	1,044,990	-	-	1,044,990	-
Olema general obligation bond	25,718	-	-	-	25,718
Total	\$ 10,299,404	7,182,146	-	3,091,540	25,718

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

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>	<u>More than 60 months</u>
Local Agency Investment Fund	\$ 4,252,305	4,252,305	-	-	-
U.S. Treasury notes	1,959,920	989,920	970,000	-	-
Federal Home Loan Bank securities	3,991,260	1,999,690	1,991,570	-	-
J.P. Morgan note @ 4.125%	997,800	997,800	-	-	-
Merrill Lynch note @ 4.000%	994,420	994,420	-	-	-
Olema general obligation bond	25,416	-	-	-	25,416
Total	\$ 12,221,121	9,234,135	2,961,570	-	25,416

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(3) Cash and Investments, continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings at June 30, 2008, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings</u>	
				<u>AAA</u>	<u>AA+ to AA-</u>
Local Agency Investment Fund	\$ 6,176,126	N/A	6,176,126	-	-
U.S. Treasury notes	1,006,020	AAA	-	1,006,020	-
General Electric Co. note @ 4.250%	1,008,460	A-	-	1,008,460	-
Goldman Sachs note @ 6.875%	1,038,090	A-	-	-	1,038,090
Wells Fargo note @ 6.450%	1,044,990	A-	-	-	1,044,990
Olema general obligation bond	25,718	N/A	25,718	-	-
Total	\$ 10,299,404		6,201,844	2,014,480	2,083,080

Credit ratings at June 30, 2007, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings</u>	
				<u>AAA</u>	<u>AA+ to AA-</u>
Local Agency Investment Fund	\$ 4,252,305	N/A	4,252,305	-	-
U.S. Treasury notes	1,959,920	AAA	-	1,959,920	-
Federal Home Loan Bank securities	3,991,260	AAA	-	3,991,260	-
J.P. Morgan note @ 4.125%	997,800	A-	-	-	997,800
Merrill Lynch note @ 4.000%	994,420	A-	-	-	994,420
Olema general obligation bond	25,416	N/A	25,416	-	-
Total	\$ 12,221,121		4,277,721	5,951,180	1,992,220

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The following is a list that represents 5% or more of total District investments invested in one issuer.

<u>Issuer</u>	<u>Investment type >5%</u>	<u>Reported Amount</u>	
		<u>2008</u>	<u>2007</u>
U.S. Treasury notes	Federal agency securities	\$ 1,006,020	1,959,920
Federal Home Loan Bank securities	Federal agency securities	-	3,991,260
General Electric Co. note @ 4.250%	Medium-term corporate note	1,008,460	-
Goldman Sachs note @ 6.875%	Medium-term corporate note	1,038,090	-
Wells Fargo note @ 6.450%	Medium-term corporate note	1,044,990	-
J.P. Morgan note @ 4.125%	Medium-term corporate note	-	997,800
Merrill Lynch note @ 4.000%	Medium-term corporate note	-	994,420

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(4) Internal Balances

Due To/From Other Funds

Internal balances consist of the following as of June 30, 2008 as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance	Novato Water	West Marin	\$ <u>591,506</u>

Internal balances consist of the following as of June 30, 2007 as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance	Novato Water	West Marin	\$ 440,300
Advance	Novato Water	Novato Recycled	<u>233,045</u>
		Total	\$ <u>673,345</u>

The Novato Water segment continues to advance the West Marin segment funds for operations due to its negative operating reserve situation. Repayment terms continue to be worked out with repayment of the principal balance advanced. Interest continues to accrue on the balance at the monthly return rate of the District's investment portfolio.

The Novato Recycled enterprise fund repaid the Novato Water segment its advancement in 2008.

(5) Note Receivable – Black Point Golf Links

This District has entered into a contractual agreement with the Black Point Golf Links whereby the golf course agreed to reimburse the District for construction cost incurred for a new recycled water treatment plant, in-lieu of connection fees. The reimbursement is collected in bi-monthly installments through February 2024, including interest at a rate of 2.400%. As of June 30th, the amount receivable under the contract is as follows:

The balance at June 30, consists of the following:

	<u>2008</u>	<u>2007</u>
Note receivable – Black Point Golf Links – current portion	\$ 174,332	170,206
Note receivable – Black Point Golf Links	<u>3,074,612</u>	<u>3,248,944</u>
Note receivable – Black Point Golf Links	\$ <u>3,248,944</u>	<u>3,419,150</u>

(6) Notes Receivable – Employee Computer Loans

The District allows employees to purchase personal computers and to secure a loan from the District to pay for the purchase of the computer up to \$3,500 per person. These employee computer loans are repaid to the District over a period of up to 36 months through payroll deduction with interest rates applied that are based on the District's investment portfolio return rate at the origination of the loan plus one percent. As of June 30, 2008 and 2007 the District had various outstanding loans totaling \$8,164 and \$4,509, respectively.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(7) Notes Receivable – Employee Housing Assistance Loans

The District's Employer Assisted Housing Program (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's service area. This will allow the employee to respond rapidly to customer calls or emergencies affecting the operation of the District. Repayment is due upon sale of the employee's residence, termination of employment, or other events as described in the Program documents. Interest earned on the loan is contingent upon and directly proportional to the appreciation in value occurring on the purchased property. The following is a listing of employee housing assistance loans and their corresponding origination dates as follows:

The balance at June 30, consists of the following:

<u>Origination</u>	<u>2008</u>	<u>2007</u>
April 2000	\$ -	112,000
August 2004	250,000	250,000
Sept. 2004	39,200	39,200
October 2006	300,000	300,000
Sept. 2007	140,000	-
Nov. 2007	150,000	-
Total	<u>\$ 879,200</u>	<u>701,200</u>

(8) Capital Assets

Construction-In-Progress

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at June 30 are as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
The balance at June 30, consists of the following projects:			
Developer construction – Novato Water	\$ 4,892,318	2,948,092	1,541,604
Developer construction – Novato Recycled	-	491,730	-
Developer construction – West Marin Water	162,888	158,494	3,829
Developer construction – Oceana Marin Sewer	17,403	28,323	18,601
Stafford treatment plant construction	14,569,511	-	-
Stafford treatment plant design	764,779	-	-
Olema tank CEQA construction	561,783	-	-
Replace Paradise Ranch Estates tank	399,707	399,707	-
Solar powered lake aeration	-	193,875	-
Center Road tank	313,357	2,145,810	2,240,754
Palmer Drive tank	108,443	259,225	1,083,631
Recycled water facility construction	452,808	3,316,347	-
Recycled water facility expansion	640,191	737,557	951,826
Outlet tower sluice gate	140,274	337,604	528,204
Stafford treatment plant security upgrades	74,691	133,682	428,904
Accounting software conversion	-	103,674	137,456
Various other minor projects <\$100,000	179,302	143,914	205,532
Total construction-in-process per year	<u>\$ 23,277,455</u>	<u>11,398,034</u>	<u>7,140,341</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(8) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2007</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2008</u>
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-process	11,398,034	2,984,826	(7,242,519)	7,140,341
Total non-depreciable assets	<u>12,871,125</u>	<u>2,984,826</u>	<u>(7,242,519)</u>	<u>8,613,432</u>
Depreciable assets:				
Distribution system	43,560,867	7,253,989	(1,263)	50,813,593
Treatment plant	17,557,794	4,020,980	-	21,578,774
Storage facilities	11,140,159	565,784	-	11,705,943
Transmission system	5,489,830	-	-	5,489,830
Source facilities	3,508,860	-	-	3,508,860
Sewer facilities	686,181	6,270	-	692,451
Structures and improvements	1,778,388	-	-	1,778,388
Other plant and equipment	2,818,686	295,128	(147,181)	2,966,633
Total depreciable assets	<u>86,540,765</u>	<u>12,142,151</u>	<u>(148,444)</u>	<u>98,534,472</u>
Accumulated depreciation:				
Distribution system	(10,532,464)	(608,726)	-	(11,141,190)
Treatment plant	(1,506,189)	(561,473)	-	(2,067,662)
Storage facilities	(2,630,070)	(194,681)	-	(2,824,751)
Transmission system	(1,757,476)	(73,135)	-	(1,830,611)
Source facilities	(881,420)	(36,112)	-	(917,532)
Sewer facilities	(189,441)	(14,998)	-	(204,439)
Structures and improvements	(691,285)	(42,570)	-	(733,855)
Other plant and equipment	(1,846,505)	(229,978)	62,110	(2,014,373)
Total accumulated depreciation	<u>(20,034,850)</u>	<u>(1,761,673)</u>	<u>62,110</u>	<u>(21,734,413)</u>
Total depreciable assets, net	<u>66,505,915</u>	<u>10,380,478</u>	<u>(86,334)</u>	<u>76,800,059</u>
Total capital assets, net	\$ <u><u>79,377,040</u></u>	<u><u>13,365,304</u></u>	<u><u>(7,328,853)</u></u>	<u><u>85,413,491</u></u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(8) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2006</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2007</u>
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-process	23,277,455	10,662,527	(22,541,948)	11,398,034
Total non-depreciable assets	<u>24,750,546</u>	<u>10,662,527</u>	<u>(22,541,948)</u>	<u>12,871,125</u>
Depreciable assets:				
Distribution system	37,548,722	6,012,145	-	43,560,867
Treatment plant	1,854,269	15,988,357	(284,832)	17,557,794
Storage facilities	10,578,377	561,782	-	11,140,159
Transmission system	5,489,830	-	-	5,489,830
Source facilities	3,508,860	-	-	3,508,860
Sewer facilities	686,181	-	-	686,181
Structures and improvements	1,778,388	-	-	1,778,388
Other plant and equipment	2,451,747	375,565	(8,626)	2,818,686
Total depreciable assets	<u>63,896,374</u>	<u>22,937,849</u>	<u>(293,458)</u>	<u>86,540,765</u>
Accumulated depreciation:				
Distribution system	(9,980,882)	(551,582)	-	(10,532,464)
Treatment plant	(1,257,369)	(365,358)	116,538	(1,506,189)
Storage facilities	(2,441,884)	(188,186)	-	(2,630,070)
Transmission system	(1,684,342)	(73,134)	-	(1,757,476)
Source facilities	(845,308)	(36,112)	-	(881,420)
Sewer facilities	(174,464)	(14,977)	-	(189,441)
Structures and improvements	(640,939)	(50,346)	-	(691,285)
Other plant and equipment	(1,638,943)	(210,382)	2,820	(1,846,505)
Total accumulated depreciation	<u>(18,664,131)</u>	<u>(1,490,077)</u>	<u>119,358</u>	<u>(20,034,850)</u>
Total depreciable assets, net	<u>45,232,243</u>	<u>21,447,772</u>	<u>(174,100)</u>	<u>66,505,915</u>
Total capital assets, net	<u>\$ 69,982,789</u>	<u>32,110,299</u>	<u>(22,716,048)</u>	<u>79,377,040</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(9) Accrued Claims Payable

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 the risk of loss up to certain limits for workers' compensation claims. The District has engaged an outside claims administrator for claims adjustments. The District carries a workers' compensation excess insurance policy for claims that exceed \$750,000.

In fiscal year 2009, the District will purchase insurance to cover its workers' compensation obligation and will no longer be self-insuring itself for these claims.

Settled claims have not exceeded any of the accrued coverage amounts in any of the last three fiscal years and there were no reductions in the District's excess insurance coverage during the years ending June 30, 2008, 2007 and 2006. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The accrued claims payable balance includes an amount for claims that have been incurred but not reported (IBNR).

The balance at June 30, consists of the following:

	<u>2008</u>	<u>2007</u>
Accrued claims payable, beginning of year	\$ 111,960	22,926
Claims recognized	2,761	138,647
Claims settled	(142,703)	(104,870)
Claims adjustments	52,539	55,257
Accrued claims payable, end of year	<u>\$ 24,557</u>	<u>111,960</u>

(10) Compensated Absences

Compensated absences comprise unpaid vacation and sick leave which is accrued as earned.

Changes to compensated absences for 2008, were as follows:

<u>Balance</u> <u>2007</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2008</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 439,353	755,541	(832,643)	362,251	90,563	271,688

Changes to compensated absences for 2007, were as follows:

<u>Balance</u> <u>2006</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2007</u>	<u>Current</u> <u>Portion</u>	<u>Long-term</u> <u>Portion</u>
\$ 339,590	853,862	(754,099)	439,353	109,838	329,515

(11) Post Employment Benefits Payable

The District, in anticipation of adopting the Governmental Accounting Standards Board (GASB) Statement No. 45 - *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* in fiscal year 2009, estimated its annual required post employment benefits contribution and corresponding liability for fiscal year 2008. This estimated liability will be recalculated in fiscal year 2009 when the District receives its revised actuarial report and adopts GASB No. 45.

The balance at June 30, consists of the following:

	<u>2008</u>	<u>2007</u>
Post employment benefits payable, beginning of year	\$ -	-
Annual required contribution	272,191	-
Retired employees post employment medical benefit payments	(182,003)	-
Post employment benefits payable, end of year	<u>\$ 90,188</u>	<u>-</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(12) Long-term Debt

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

	<u>Balance 2007</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2008</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1973 General obligation bonds – PR-3	\$ 75,000	-	(11,000)	64,000	12,000
1975 General obligation bonds – OL-2	26,593	-	(2,792)	23,801	2,923
1980 Revenue bonds – PRE-1	133,000	-	(7,000)	126,000	8,000
1981 Revenue bonds – PR-6	129,000	-	(7,000)	122,000	-
Total bonds payable	<u>363,593</u>	<u>-</u>	<u>(27,792)</u>	<u>335,801</u>	<u>22,923</u>
Loans payable:					
1977 U.S. EDA loan – Novato Water	142,344	-	(11,456)	130,888	-
1977 U.S. EDA loan – West Marin	20,478	-	(1,701)	18,777	-
2003 Hamilton boundary liability	190,477	-	(190,477)	-	-
2005 DWR loan – Novato Water	15,105,319	590,866	-	15,696,185	-
2005 SWRCB loan – Novato Recycled	4,264,545	38,015	(170,583)	4,131,977	174,199
Total loans payable	<u>19,723,163</u>	<u>628,881</u>	<u>(374,217)</u>	<u>19,977,827</u>	<u>174,199</u>
Total long-term debt	<u>\$ 20,086,756</u>	<u>628,881</u>	<u>(402,009)</u>	<u>20,313,628</u>	<u>197,122</u>

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

	<u>Balance 2006</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2007</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1973 General obligation bonds – PR-3	\$ 86,000	-	(11,000)	75,000	11,000
1975 General obligation bonds – OL-2	29,243	-	(2,650)	26,593	2,786
1980 Revenue bonds – PRE-1	140,000	-	(7,000)	133,000	7,000
1981 Revenue bonds – PR-6	141,000	-	(12,000)	129,000	-
Total bonds payable	<u>396,243</u>	<u>-</u>	<u>(32,650)</u>	<u>363,593</u>	<u>20,786</u>
Loans payable:					
1977 U.S. EDA loan – Novato Water	153,115	-	(10,771)	142,344	-
1977 U.S. EDA loan – West Marin	22,074	-	(1,596)	20,478	-
2003 Hamilton boundary liability	371,883	-	(181,406)	190,477	-
2005 DWR loan – Novato Water	14,791,332	313,987	-	15,105,319	-
2005 SWRCB loan – Novato Recycled	-	4,264,545	-	4,264,545	-
Total loans payable	<u>15,338,404</u>	<u>4,578,532</u>	<u>(193,773)</u>	<u>19,723,163</u>	<u>-</u>
Total long-term debt	<u>\$ 15,734,647</u>	<u>4,578,532</u>	<u>(226,423)</u>	<u>20,086,756</u>	<u>20,786</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(12) Long-Term Debt, continued

Bonds Payable

1973 General Obligation Bonds – Issue PR-3

On September 5, 1973, the District issued general obligation bonds totaling \$250,000 to acquire and improve the Inverness Park and Point Reyes Water Companies. The bond issuance was purchased in its entirety by the U.S. Department of Agriculture, Farmers Home Administration Rural Development Administration on a 5%, 40-year payback basis.

The bonds are scheduled to mature in 2013. Principal and interest are payable annually on January 1st and at a rate of 5.000%. Future annual debt service requirements on the bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 12,000	3,200	15,200
2010	12,000	2,600	14,600
2011	13,000	2,000	15,000
2012	13,000	1,350	14,350
2013	14,000	700	14,700
Total	64,000	9,850	73,850
Less current portion	(12,000)		
Total non-current	\$ 52,000		

1975 General Obligation Bonds – Issue OL-2

In 1975, the District issued general obligation bonds totaling \$70,000 to acquire and improve the Olema Water Company owned by W. Robert Phillips and others and to service that area. The bonds were purchased by the U.S. Department of Agriculture (USDA), then upon demand of the USDA the bonds were repurchased by the District's Novato Water segment on June 1, 1991. The interest rate paid to the Novato Water segment on the bonds was thereafter reset to the higher of the rate earned by the District's investments or the average rate of the Novato Water segment general obligation bond debt.

The bonds are scheduled to mature in 2015. Principal and interest are payable annually on January 1st and at a rate of 5.000%. Future annual debt service requirements on the bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,923	1,190	4,113
2010	3,070	1,044	4,114
2011	3,223	890	4,113
2012	3,384	729	4,113
2013	3,553	560	4,113
2014-2015	7,648	578	8,226
Total	\$ 23,801	4,991	28,792
Less current portion	(2,923)		
Total non-current	\$ 20,878		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(12) Long-Term Debt, continued

Bonds Payable, continued

1980 Revenue Bonds – Issue PRE-1

On August 22, 1980, the District issued revenue bonds totaling \$240,000 for the system rehabilitation of the Paradise Ranch Estates (PRE) water distribution system.

The bonds are scheduled to mature in 2020. Principal is payable annually on April 1st and interest is payable semi-annually on October 1st and April 1st at a rate of 5.000%. Future annual debt service requirements on the bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 8,000	6,300	14,300
2010	8,000	5,900	13,900
2011	9,000	5,500	14,500
2012	9,000	5,050	14,050
2013	10,000	4,600	14,600
2014-2018	56,000	15,150	71,150
2019-2020	26,000	1,950	27,950
Total	\$ 126,000	44,450	170,450
Less current portion	(8,000)		
Total non-current	\$ 118,000		

1981 Revenue Bonds – Issue PR-6

On August 28, 1981, the District issued revenue bonds totaling \$217,800 to finance the further work needed to rehabilitate the Point Reyes and Inverness Park water systems including the addition of a 300,000 gallon tank in Point Reyes Station and a 100,000 gallon tank in Inverness Park.

The bonds are scheduled to mature in 2022. Principal is payable annually on July 1st and interest is payable semi-annually on July 1st and January 1st at a rate of 5.000%. Future annual debt service requirements on the bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	3,050	3,050
2010	7,000	5,925	12,925
2011	7,000	5,575	12,575
2012	8,000	5,200	13,200
2013	8,000	4,800	12,800
2014-2018	46,000	17,500	63,500
2019-2022	46,000	4,700	50,700
Total	\$ 122,000	46,750	168,750
Less current portion	-		
Total non-current	\$ 122,000		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(12) Long-Term Debt, continued

Loan Payable

1977 U.S. EDA Loan – Novato Water segment

In August 1977, the District secured a loan with the U.S. Economic Development Administration (EDA) to assist in the funding emergency Novato Water system projects in response to a severe drought.

The loan is scheduled to mature in 2018. Principal and interest are payable annually on July 1st at a rate of 5.000%. Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	-	-
2010	11,880	6,544	18,424
2011	12,474	5,950	18,424
2012	13,097	5,327	18,424
2013	13,752	4,672	18,424
2014-2018	<u>79,685</u>	<u>12,330</u>	<u>92,015</u>
Total	\$ <u>130,888</u>	<u>34,823</u>	<u>165,711</u>
Less current portion	<u>-</u>		
Total non-current	\$ <u><u>130,888</u></u>		

1977 U.S. EDA Loan – West Marin segment

In August 1977, the District secured a loan with the U.S. Economic Development Administration (EDA) to assist in the funding emergency West Marin system projects, including temporary diversions from Bear Valley Creek and Lagunitas Creek, in response to a severe drought.

The loan is scheduled to mature in 2018. Principal and interest are payable annually on July 1st at a rate of 5.000%. Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	-	-
2010	1,764	939	2,703
2011	1,853	851	2,704
2012	1,945	758	2,703
2013	2,042	661	2,703
2014-2018	<u>11,173</u>	<u>1,666</u>	<u>12,839</u>
Total	\$ <u>18,777</u>	<u>4,875</u>	<u>23,652</u>
Less current portion	<u>-</u>		
Total non-current	\$ <u><u>18,777</u></u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(12) Long-Term Debt, continued

Loan Payable, continued

2003 Hamilton Boundary Liability

On January 16, 2003, an agreement was executed with the Marin Municipal Water District to reorganize the water service boundary at Hamilton Air Force Base which lies in the south east section of the City of Novato. The District received capital assets including the 1.0 million gallon Air base Tank and 15,157 ft. of transmission lines. The agreement called for an initial payment on March 29, 2003 of \$905,193 and six additional payments of \$200,000 due each July 1st from 2003 through 2008. For internal accounting purposes an interest rate of 5.0% was imputed on the liability and the liability has been discounted accordingly. The balance of the liability was paid-off in 2008 prior to its July 1, 2008 final payment date.

2005 DWR Loan – Novato Water segment

In 2005, the District entered into an agreement with the California Department of Water Resources (DWR) for a loan in an amount not-to-exceed \$16,528,850 with an interest rate of 2.39% per annum. As of June 30, 2008, the District has borrowed \$15,696,195 for the reconstruction of the Stafford Water Treatment Plant. Principal payments will begin approximately one year after the completion of the project, which is scheduled to be completed in fiscal year 2009. Interest payments on the loan are due each year on January 1st and July 2nd. The loan will be repaid semi-annually over a 20-year period based on the estimated repayment schedule below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	-	-
2010	653,315	391,159	1,044,474
2011	669,023	375,451	1,044,474
2012	685,108	359,367	1,044,475
2013	701,580	342,894	1,044,474
2014-2018	3,769,178	1,453,194	5,222,372
2019-2023	4,244,601	977,771	5,222,372
2024-2028	4,779,998	442,374	5,222,372
2029	1,026,047	18,428	1,044,475
Total	\$ 16,528,850	4,360,638	20,889,488
Unexpended principal on loan	(832,655)		
Total principal outstanding	15,696,195		
Less current portion	-		
Total non-current	\$ 15,696,195		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(12) Long-Term Debt, continued

Loan Payable, continued

2005 SWRCB Loan – Novato Recycled Water segment

In 2005, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a loan in an amount of \$4,302,560 with an interest rate of 2.4% per annum for the construction of a recycled water facility.

The loan is scheduled to mature in 2027. Principal and interest are payable annually on June 19th at a rate of 2.4%. Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 174,199	99,168	273,367
2010	178,380	94,987	273,367
2011	182,662	90,705	273,367
2012	187,045	86,322	273,367
2013	191,534	81,833	273,367
2014-2018	1,028,870	337,965	1,366,835
2019-2023	1,158,405	208,430	1,366,835
2024-2027	1,030,882	62,586	1,093,468
Total	\$ 4,131,977	1,061,996	5,193,973
Less current portion	(174,199)		
Total non-current	\$ 3,957,778		

(13) Net Investment in Capital Assets

Net investment in capital assets:

	<u>2008</u>	<u>2007</u>
The balance at June 30, consists of the following:		
Capital assets, not being depreciated	\$ 8,613,432	12,871,125
Depreciable capital assets	76,800,059	66,505,915
Bonds payable – current portion	(22,923)	(20,786)
Loans payable – current portion	(174,199)	-
Bonds payable – non-current portion	(312,878)	(342,807)
Loans payable – non-current portion	(19,803,628)	(19,723,163)
Net investment in capital assets	\$ 65,099,863	59,290,284

(14) Restricted Net Assets

The balance at June 30, consists of the following:

	<u>2008</u>	<u>2007</u>
Restricted for debt service	\$ 51,042	47,647
Restricted for capital projects	4,692,152	4,946,797
Total restricted net assets	\$ 4,743,194	4,994,444

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(15) Unrestricted Net Assets

Net assets are designated as follows:

	<u>2008</u>	<u>2007</u>
Post employment benefits	\$ 2,451,358	2,253,313
Facility maintenance reserve	1,731,021	3,312,757
Self-insured - workers' compensation	666,502	650,790
Contingencies	394,400	591,349
Conservation incentive rate	355,059	312,344
Recycled water facility repalcement	90,538	-
Undesignated	<u>4,787,855</u>	<u>4,058,680</u>
Total unrestricted net assets	<u>\$ 10,476,733</u>	<u>11,179,233</u>

(16) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the plan assets held in trust at June 30, 2008 and 2007 was \$2,540,227 and \$2,583,235, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

(17) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Authority. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal year 2008, 2007 and 2006 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2008, 2007 and 2006, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(17) Defined Benefit Pension Plan, continued

<u>Fiscal Year</u>		<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2005-2006	\$	711,371	100%	-	13.041%
2006-2007		806,896	100%	-	13.986%
2007-2008		859,221	100%	-	13.847%

(18) Other Post Employment Benefits

In addition to a pension plan, substantially all the District's employees may become eligible for certain health care benefits if they reach normal retirement age while working for the District. In accordance with employee agreements and an agreement with CalPERS, all employees and/or their surviving spouse who retire from the District and receive CalPERS retirement benefits may become eligible for certain post employment health care benefits.

Also, the District contributes the cost of health care insurance for retirees (age 55 to 65) and their spouse under any group health care plan offered by CalPERS. 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 coverage. The retiree must be at least 55 years old and have a minimum of 12-years of service at the date of retirement. When the retiree or spouse becomes eligible for Medicare coverage, the District will pay a monthly contribution toward the cost of health insurance coverage for the remainder of the retiree and spouse's lives.

The District finances these benefits on a pay-as-you-go basis. In 2008 and 2007, the District paid \$182,003 and \$180,771, respectively, in post-employment health care benefits and had 33 eligible retired employees in 2008 and 2007, respectively.

(19) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance policies with a variety of coverage including an \$10.0 million excess general liability policy with a \$1.0 million self-insured retention limit, a \$35,550,000 property and equipment policy, a \$1.0 million public official's policy and a \$500,000 employee dishonesty bond.

(20) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is expected to have a significant impact on the presentation of the District's financial statements in future years.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(20) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 48

In September 2007, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings. This statement also includes disclosure requirements for future revenues that are pledged or sold. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 49

In November 2007, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 50

In May 2008, the GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25 and 27, to conform with requirements of GASB Statements No. 43 and 45. This statement is not effective for this District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 51

In June 2008, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is may have an impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 52

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. This statement is not effective for the District until the fiscal year ended June 30, 2009. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 53

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective for the District until the fiscal year ended June 30, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2008 and 2007

(21) Commitments and Contingencies

Sonoma County Water Agency Agreement

The District is party to an agreement with the Sonoma County Water Agency (Agency) that provides, among other matters, that the District is obligated to pay for a prorated share of certain Agency's costs to improve or expand the Agency's water utility plant. The agreement expires on 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.

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 recover all operating expenses incurred.

Construction Contracts

The District has a variety of agreements with developers and private parties relating to the installation, improvement or modification of transmission facilities and distribution systems within its service area. The financing of such improvements is provided primarily from advances for construction and the districts capital replacement reserve. The District has committed to approximately \$2,312,963 of open construction contracts as of June 30, 2008. These include:

<u>Project Name</u>	<u>Total Approved Contract</u>	<u>Balance to Complete</u>
Palmer Drive tank	\$ 2,849,414	1,853,191
Outlet tower sluice gate	1,009,980	456,256
2nd feed to Ammo Hill tank	19,850	3,516
Total	\$ <u>3,879,244</u>	<u>2,312,963</u>

Grant Awards

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

Litigation

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

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Supplemental Information

North Marin Water District
Combining Statement of Net Assets
For the Year Ended June 30, 2008

<i>Assets</i>	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total
Current assets:					
Cash and cash equivalents	\$ 5,123,833	90,538	-	78,744	5,293,115
Restricted – cash and cash equivalents	951,390	-	54,812	57,444	1,063,646
Accrued interest receivable	144,586	-	-	-	144,586
Accounts receivable – water and sewer sales	2,288,403	169,473	79,952	12,775	2,550,603
Accounts receivable – governmental agencies	590,866	-	-	-	590,866
Accounts receivable – other	161,280	14,279	-	50,955	226,514
Note receivable – Black Point Golf Links	-	174,332	-	-	174,332
Notes receivable – employee computer loans	8,164	-	-	-	8,164
Materials and supplies inventory	634,375	-	-	-	634,375
Prepaid expenses and deposits	30,040	-	-	3,436	33,476
Total current assets	9,932,937	448,622	134,764	203,354	10,719,677
Non-current assets:					
Investments	439,960	-	-	-	439,960
Restricted – investments	3,683,318	-	-	-	3,683,318
Internal balances	591,506	-	(591,506)	-	-
Note receivable – Black Point Golf Links	-	3,074,612	-	-	3,074,612
Notes receivable – employee housing loans	879,200	-	-	-	879,200
Capital assets, not being depreciated	7,493,383	951,826	111,882	56,341	8,613,432
Depreciable capital assets, net	67,646,223	3,713,869	4,694,811	745,156	76,800,059
Total non-current assets	80,733,590	7,740,307	4,215,187	801,497	93,490,581
Total assets	\$ 90,666,527	8,188,929	4,349,951	1,004,851	104,210,258
<i>Liabilities and Net Assets</i>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,745,024	93,626	-	3,565	1,842,215
Accrued wages and related payables	272,247	-	19,838	6,062	298,147
Accrued claims payable	23,403	-	884	270	24,557
Customer advances and deposits	932,759	-	18,950	1,042	952,751
Accrued interest payable – long-term debt	-	2,961	3,770	-	6,731
Long-term liabilities – due within one year:					
Compensated absences	90,563	-	-	-	90,563
Bonds payable	-	-	22,923	-	22,923
Loans payable	-	174,199	-	-	174,199
Total current liabilities	3,063,996	270,786	66,365	10,939	3,412,086
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	271,688	-	-	-	271,688
Other post-employment benefits payable	90,188	-	-	-	90,188
Bonds payable	-	-	312,878	-	312,878
Loans payable	15,827,073	3,957,778	18,777	-	19,803,628
Total non-current liabilities	16,188,949	3,957,778	331,655	-	20,478,382
Total liabilities	19,252,945	4,228,564	398,020	10,939	23,890,468
Net assets:					
Net investment in capital assets	59,312,533	533,718	4,452,115	801,497	65,099,863
Restricted for capital projects and debt service	4,634,708	-	51,042	57,444	4,743,194
Unrestricted	7,466,341	3,426,647	(551,226)	134,971	10,476,733
Total net assets	71,413,582	3,960,365	3,951,931	993,912	80,319,790
Total liabilities and net assets	\$ 90,666,527	8,188,929	4,349,951	1,004,851	104,210,258

North Marin Water District
Combining Statement of Net Assets
For the Year Ended June 30, 2007

<i>Assets</i>	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total
Current assets:					
Cash and cash equivalents	\$ 2,820,089	-	-	137,514	2,957,603
Restricted – cash and cash equivalents	1,226,542	-	52,060	45,092	1,323,694
Accrued interest receivable	143,573	-	-	-	143,573
Accounts receivable – water and sewer sales	2,287,610	-	82,950	11,890	2,382,450
Accounts receivable – governmental agencies	59,475	630,478	-	-	689,953
Accounts receivable – other	164,265	7,008	3,635	832	175,740
Note receivable – Black Point Golf Links	-	170,206	-	-	170,206
Notes receivable – employee computer loans	4,509	-	-	-	4,509
Materials and supplies inventory	655,111	-	-	-	655,111
Prepaid expenses and deposits	44,027	-	1,650	3,347	49,024
Total current assets	7,405,201	807,692	140,295	198,675	8,551,863
Non-current assets:					
Investments	4,293,653	-	-	-	4,293,653
Restricted – investments	3,675,163	-	-	-	3,675,163
Internal balances	673,345	(233,045)	(440,300)	-	-
Note receivable – Black Point Golf Links	-	3,248,944	-	-	3,248,944
Notes receivable – employee housing loans	701,200	-	-	-	701,200
Capital assets, not being depreciated	7,499,721	4,545,634	794,120	31,650	12,871,125
Depreciable capital assets, net	62,103,184	-	3,635,558	767,173	66,505,915
Total non-current assets	78,946,266	7,561,533	3,989,378	798,823	91,296,000
Total assets	\$ 86,351,467	8,369,225	4,129,673	997,498	99,847,863
<i>Liabilities and Net Assets</i>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,796,855	6,500	5,041	4,566	1,812,962
Accrued wages and related payables	261,707	-	17,729	4,924	284,360
Accrued claims payable	106,810	-	4,030	1,120	111,960
Customer advances and deposits	1,544,894	-	44,015	14,372	1,603,281
Accrued interest payable – long-term debt	20	40,797	4,413	-	45,230
Long-term liabilities – due within one year:					
Compensated absences	109,838	-	-	-	109,838
Bonds payable	-	-	20,786	-	20,786
Loans payable	-	-	-	-	-
Total current liabilities	3,820,124	47,297	96,014	24,982	3,988,417
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	329,515	-	-	-	329,515
Other post-employment benefits payable	-	-	-	-	-
Bonds payable	-	-	342,807	-	342,807
Loans payable	15,438,140	4,264,545	20,478	-	19,723,163
Total non-current liabilities	15,767,655	4,264,545	363,285	-	20,395,485
Total liabilities	19,587,779	4,311,842	459,299	24,982	24,383,902
Net assets:					
Net investment in capital assets	54,164,765	281,089	4,045,607	798,823	59,290,284
Restricted for capital projects and debt service	4,901,705	-	47,647	45,092	4,994,444
Unrestricted	7,697,218	3,776,294	(422,880)	128,601	11,179,233
Total net assets	66,763,688	4,057,383	3,670,374	972,516	75,463,961
Total liabilities and net assets	\$ 86,351,467	8,369,225	4,129,673	997,498	99,847,863

North Marin Water District
Combining Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008

	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total
Operating revenues:					
Water consumption sales	\$ 9,030,312	173,992	403,186	-	9,607,490
Monthly meter service charge	1,354,428	-	70,200	-	1,424,628
Sewer service charges	-	-	-	146,642	146,642
Water conservation projects	394,398	-	-	-	394,398
Other charges and services	203,175	198	2,626	-	205,999
Total operating revenues	10,982,313	174,190	476,012	146,642	11,779,157
Operating expenses:					
Source of supply	3,771,308	-	11,106	-	3,782,414
Pumping	319,065	2,901	57,375	-	379,341
Water facilities operations	485,947	-	20,340	-	506,287
Water treatment	1,535,067	87,126	76,588	-	1,698,781
Transmission and distribution	2,264,387	12,169	109,186	-	2,385,742
Sewage collection and treatment	-	-	-	84,418	84,418
Customer service	442,076	-	21,045	3,180	466,301
General and administrative	1,806,724	12,125	57,829	23,491	1,900,169
Improvement projects	1,128,876	57,572	240,010	48,735	1,475,193
Water conservation projects	359,748	-	-	-	359,748
Total operating expenses	12,113,198	171,893	593,479	159,824	13,038,394
Operating loss before overhead absorption	(1,130,885)	2,297	(117,467)	(13,182)	(1,259,237)
Overhead absorption	489,915	-	7,297	2,189	499,401
Operating loss before depreciation	(640,970)	2,297	(110,170)	(10,993)	(759,836)
Depreciation	(1,546,081)	(94,209)	(94,215)	(27,168)	(1,761,673)
Operating loss	(2,187,051)	(91,912)	(204,385)	(38,161)	(2,521,509)
Non-operating revenues(expenses):					
Property tax revenue	1,146	-	62,797	46,186	110,129
Investment earnings	590,415	98,758	2,363	7,571	699,107
Rental revenue	45,360	-	3,373	500	49,233
Construction lawsuit settlement	-	-	-	-	-
Interest expense – long-term debt	(377,538)	(103,864)	(38,082)	-	(519,484)
Sonoma County Water Agency agreement	(114,682)	-	-	-	(114,682)
Loss on sale/disposition of capital assets, net	(45,935)	-	(17,227)	(1,185)	(64,347)
Other non-operating revenues, net	35,275	-	1,044	936	37,255
Total non-operating revenues, net	134,041	(5,106)	14,268	54,008	197,211
Net loss before capital contributions	(2,053,010)	(97,018)	(190,117)	15,847	(2,324,298)
Capital contributions:					
Developers and others	5,146,616	-	387,674	11,995	5,546,285
Connection fees	1,422,606	-	84,000	9,000	1,515,606
Capital contributions	6,569,222	-	471,674	20,995	7,061,891
Change in net assets	4,516,212	(97,018)	281,557	36,842	4,737,593
Net assets, beginning of year	66,763,688	4,057,383	3,670,374	972,516	75,463,961
Prior period adjustment	133,682	-	-	(15,446)	118,236
Net assets, end of year	\$ 71,413,582	3,960,365	3,951,931	993,912	80,319,790

North Marin Water District
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
Operating revenues:					
Water consumption sales	\$ 9,246,910	7,008	439,186	-	9,693,104
Monthly meter service charge	1,354,546	-	57,882	-	1,412,428
Sewer service charges	-	-	-	145,605	145,605
Water conservation projects	405,868	-	945	-	406,813
Other charges and services	186,875	-	3,072	140	190,087
Total operating revenues	<u>11,194,199</u>	<u>7,008</u>	<u>501,085</u>	<u>145,745</u>	<u>11,848,037</u>
Operating expenses:					
Source of supply	4,502,280	-	11,085	-	4,513,365
Pumping	307,616	-	74,109	-	381,725
Water facilities operations	498,630	1,442	18,924	-	518,996
Water treatment	1,222,956	6,500	73,627	-	1,303,083
Transmission and distribution	2,138,803	-	83,545	-	2,222,348
Sewage collection and treatment	-	-	-	78,328	78,328
Customer service	449,492	-	21,503	3,087	474,082
General and administrative	1,756,338	-	57,133	22,196	1,835,667
Improvement projects	1,326,784	66,253	98,180	42,260	1,533,477
Water conservation projects	283,242	-	-	-	283,242
Total operating expenses	<u>12,486,141</u>	<u>74,195</u>	<u>438,106</u>	<u>145,871</u>	<u>13,144,313</u>
Operating loss before overhead absorption	(1,291,942)	(67,187)	62,979	(126)	(1,296,276)
Overhead absorption	<u>586,417</u>	<u>-</u>	<u>1,493</u>	<u>414</u>	<u>588,324</u>
Operating loss before depreciation	(705,525)	(67,187)	64,472	288	(707,952)
Depreciation	<u>(1,377,613)</u>	<u>-</u>	<u>(85,317)</u>	<u>(27,147)</u>	<u>(1,490,077)</u>
Operating loss	<u>(2,083,138)</u>	<u>(67,187)</u>	<u>(20,845)</u>	<u>(26,859)</u>	<u>(2,198,029)</u>
Non-operating revenues(expenses):					
Property tax revenue	83	-	57,275	40,561	97,919
Investment earnings	717,326	102,024	1,252	5,197	825,799
Rental revenue	44,270	-	3,391	500	48,161
Construction lawsuit settlement	627,395	-	-	-	627,395
Interest expense – long-term debt	(292,079)	(81,824)	(37,640)	-	(411,543)
Sonoma County Water Agency agreement	-	-	-	-	-
Loss on sale/disposition of capital assets, net	(165,340)	-	8,214	-	(157,126)
Other non-operating revenues, net	<u>95,479</u>	<u>-</u>	<u>14,715</u>	<u>37,940</u>	<u>148,134</u>
Total non-operating revenues, net	<u>1,027,134</u>	<u>20,200</u>	<u>47,207</u>	<u>84,198</u>	<u>1,178,739</u>
Net loss before capital contributions	<u>(1,056,004)</u>	<u>(46,987)</u>	<u>26,362</u>	<u>57,339</u>	<u>(1,019,290)</u>
Capital contributions:					
Developers and others	4,464,659	3,612,640	122,645	10,920	8,210,864
Connection fees	<u>354,421</u>	<u>-</u>	<u>38,800</u>	<u>34,946</u>	<u>428,167</u>
Capital contributions	<u>4,819,080</u>	<u>3,612,640</u>	<u>161,445</u>	<u>45,866</u>	<u>8,639,031</u>
Change in net assets	<u>3,763,076</u>	<u>3,565,653</u>	<u>187,807</u>	<u>103,205</u>	<u>7,619,741</u>
Net assets, beginning of year	66,471,184	491,730	3,482,567	869,311	71,314,792
Prior period adjustment	<u>(3,470,572)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,470,572)</u>
Net assets, 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>

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Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA

Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com

Independent Auditor's 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*

Board of Directors
North Marin Water District
Novato, California

We have audited the basic financial statements of the North Marin Water District (District) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 11, 2008. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. 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 District's internal control. Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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 these specified parties.

September 11, 2008
Cypress, California

Ch Z Fedak, CPA
An Accountancy Corporation

