



# **NORTH MARIN WATER DISTRICT**

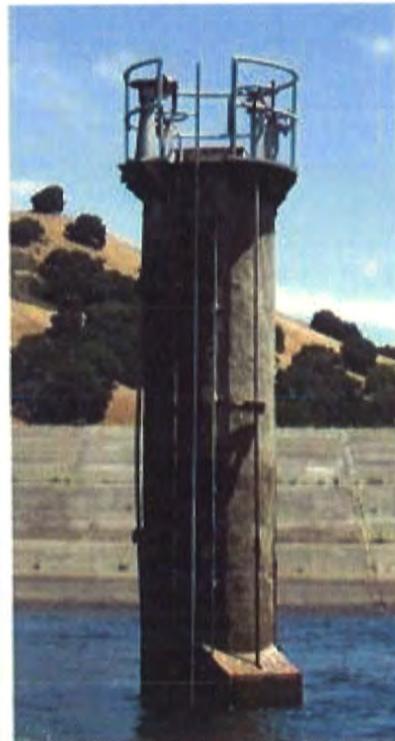
Novato, California

## **Comprehensive Annual Financial Report**

**June 30, 2009 and 2008**



**1951**



**2009**

**Stafford Lake Outlet Tower**



**NORTH MARIN  
WATER DISTRICT**

**Board of Directors as of June 30, 2009**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Dennis J. Rodoni	President	Elected	12/07 - 12/11
Jack Baker	Vice President	Elected	12/07 - 12/11
Rick Fraites	Director	Elected	12/05 - 12/09
Stephen Petterle	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 94945  
(415) 897-4133 – [www.nmwd.com](http://www.nmwd.com)**

**North Marin Water District**  
**Comprehensive Annual Financial Report**  
**For the Years Ended June 30, 2009 and 2008**

**NORTH MARIN WATER DISTRICT**  
999 Rush Creek Place  
Novato, California 94945

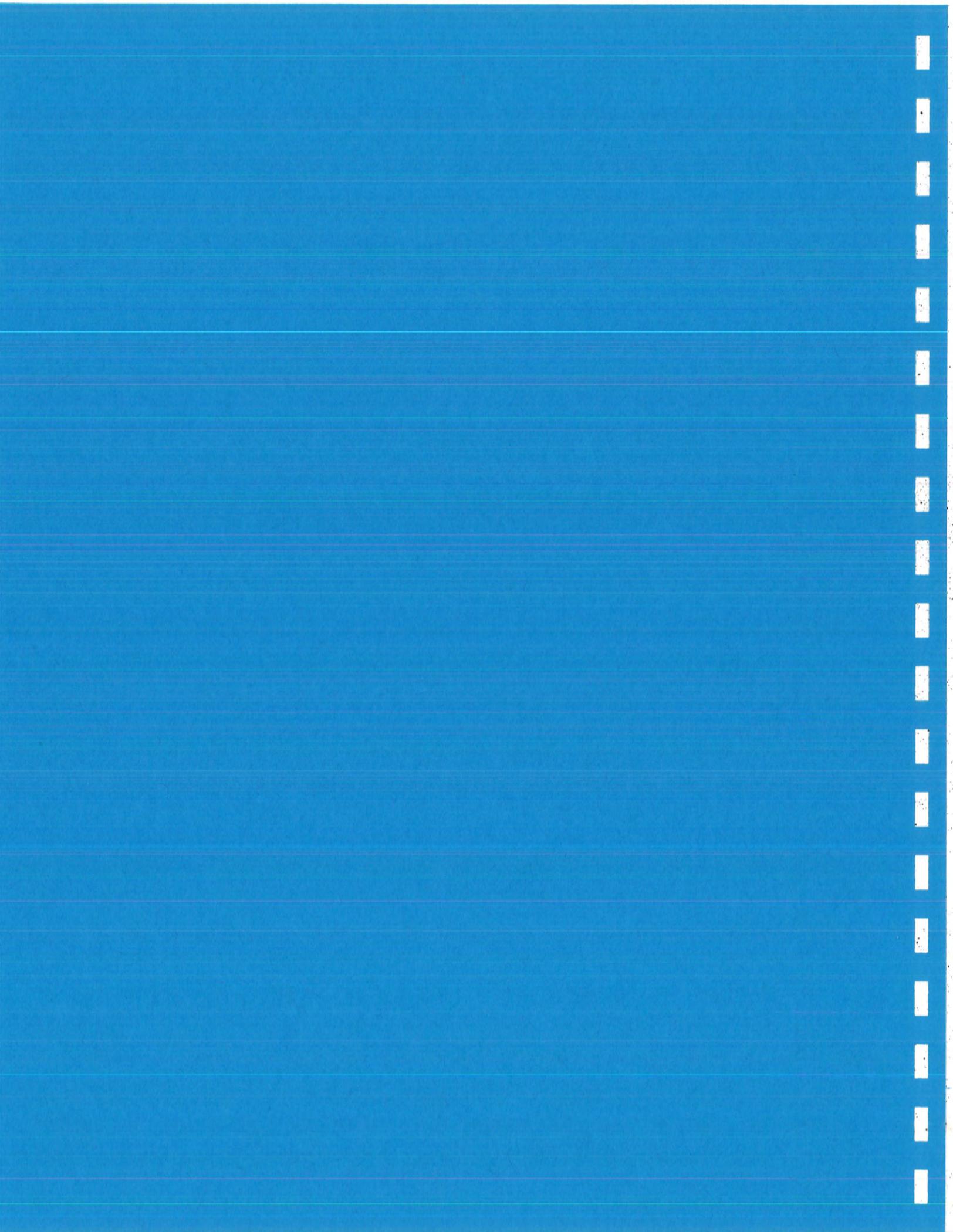
Prepared by:  
Finance Department  
*David Bentley, Auditor-Controller*  
*Dianne Landeros, Accounting/Human Resources Supervisor*

**North Marin Water District  
Comprehensive Annual Financial Report  
For the Years Ended June 30, 2009 and 2008**

**Table of Contents**

	<b><u>Page No.</u></b>
Table of Contents	i
<b>Introductory Section</b>	
Letter of Transmittal	1-4
Organizational Chart	5
District Service Area Map	6
<b>Financial Section</b>	
Independent Auditor's Report	7
Management's Discussion and Analysis	8-12
Basic Financial Statements:	
Statements of Net Assets	13
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	15-16
Notes to the Basic Financial Statements	17-39
Supplemental Information:	
Combining Statement of Net Assets – June 30, 2009	40
Combining Statement of Net Assets – June 30, 2008	41
Combining Statement of Revenues, Expenses and Changes in Net Assets – June 30, 2009	42
Combining Statement of Revenues, Expenses and Changes in Net Assets – June 30, 2008	43
<b>Statistical Information Section</b>	
Statistical Section – Table of Contents	44
Changes in Net Assets by Component – Last Ten Fiscal Years	45-46
Operating Revenues by Source – Last Ten Fiscal Years	47
Operating Expenses by Activity – Last Ten Fiscal Years	48
Non-Operating Revenue and Expenses – Last Ten Fiscal years	49
Revenue Base – Last Ten Fiscal Years	50
Customers by Type – Last Ten Fiscal Years	51
Revenue Rates – Last Ten Fiscal Years	52
Ten Largest Water Users – Current Fiscal Year and Five Years Ago	53
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	54
Pledged-Revenue Coverage – Last Ten Fiscal Years	55
Demographic and Economic Statistics – Last Ten Fiscal Years	56
Operating and Capacity Indicators – Last Ten Fiscal Years	57
<b>Report on Internal Controls and Compliance</b>	
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 <i>Government Auditing Standards</i>	58

# **Introductory Section**





**NORTH MARIN  
WATER DISTRICT**

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August 31, 2009

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, 2009 and 2008, 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 three sections: (1) Introductory, (2) Financial and (3) Statistical. The Introductory section offers general information about the District's organization and current District activities and provides 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. The Statistical section includes a ten year history of financial trends, revenue and debit capacity, demographic, and other operating information in table and graphical format.

Generally Accepted Accounting Principles (GAAP) requires 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 66 employees, some of whom are part-time or temporary. There are currently 32 office positions and 34 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 20,416 service connections. The District also provides water service to approximately 1,800 residents in the Point Reyes service area of West Marin County through 761 service connections and sewer service to approximately 500 residents in the Oceana Marin service area of West Marin County through 225 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 service to the area of Oceana Marin.

Residential customers are approximately 93% of the District's customer base and consume approximately 77% 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 2009 and 2008, the District purchased approximately 2.7 billion gallons of water each year from the Agency.

## **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 2009 totaled only 20.65" and dry spring conditions resulted in the Sonoma County Water Agency reducing Russian River in-stream flows during summer months of 2008. The District encouraged customers to maintain water use at last year's levels. The District's new Stafford Lake water treatment plant was fully utilized to offset reduced 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) again delivered 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 additional recycled water to further stretch its local source of supply in future years.

Dry weather patterns continue with nearly one-half the annual rainfall occurring in February 2009. The spring of 2009 was one of the driest on record with only 3.68 inches of rainfall from March through June. The State Water Resources Control Board adopted order WR2009-0034 on May 28, 2009 requiring a 25% reduction in Russian River diversions from June 15 through October 2, 2009 compared to the same period in 2004. The State Board also set a water conservation goal to achieve a 25% reduction in water use from April 6 through October 2, 2009, again compared to the same period in 2004. The District declared a water shortage emergency and adopted an Emergency Water Conservation Ordinance prohibiting waste of water to comply with the summer 2009 water use restrictions imposed by the State Board. The District's water conservation efforts continue to be focused on reducing summer water demand, which primarily involves outdoor irrigation. 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 approximately 1,100 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 replacement of the 30,000 gallon Inverness Park storage tank was completed.

At \$420 per year, the cost of water service for a typical Novato single family home using 127,000 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 2009 and 2008, 1,555 AF (623 MG) and 2,184 AF (712 MG), respectively, of water was produced from the 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 2009 and 2008, the District received 8,380 AF (2,731 MG) and 8,477 AF (2,762 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 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 during the fiscal year the District purchased certificates of deposit from local banks and held U.S. Treasuries 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.

### **Awards and Acknowledgements**

This is the first year that the District is submitting its Consolidated Annual Financial Report (CAFR) for the Government Finance Officers Association of the United States and Canada's (GFOA) *Certificate of Achievement for Excellence in Financial Reporting*. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for 2009.

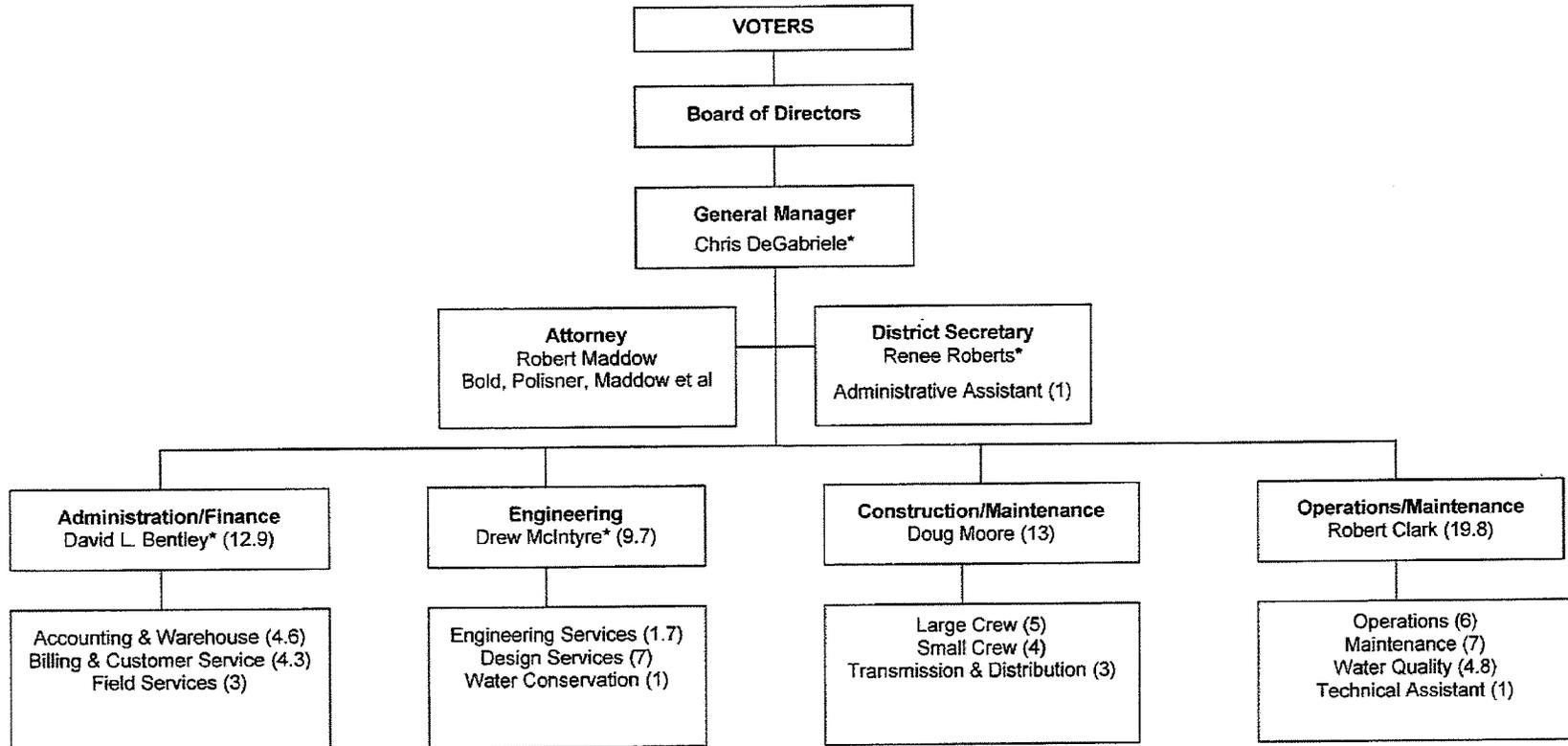
Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning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

Respectfully submitted,

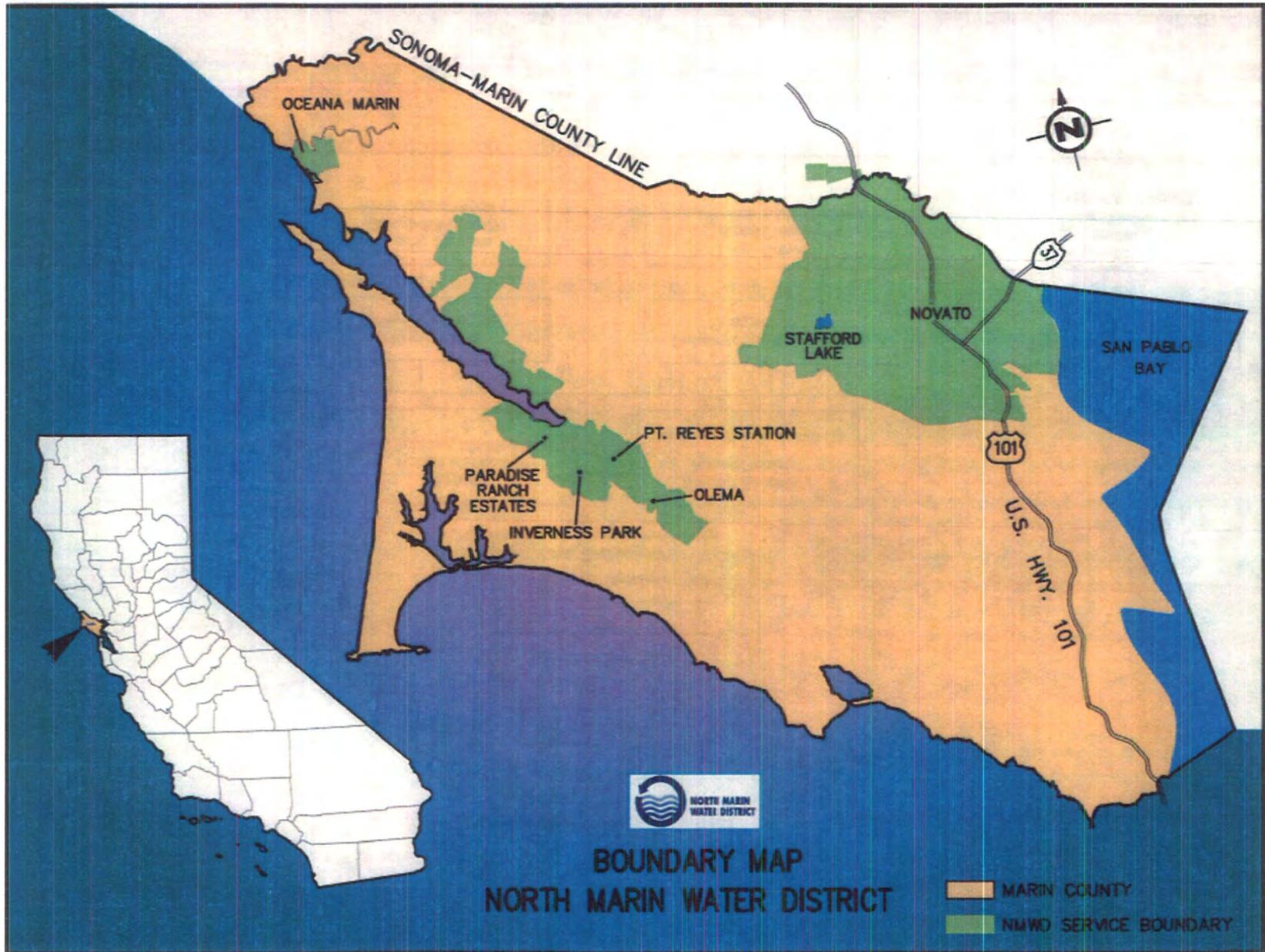
  
Chris DeGabriele  
General Manager

  
David Bentley  
Auditor-Controller

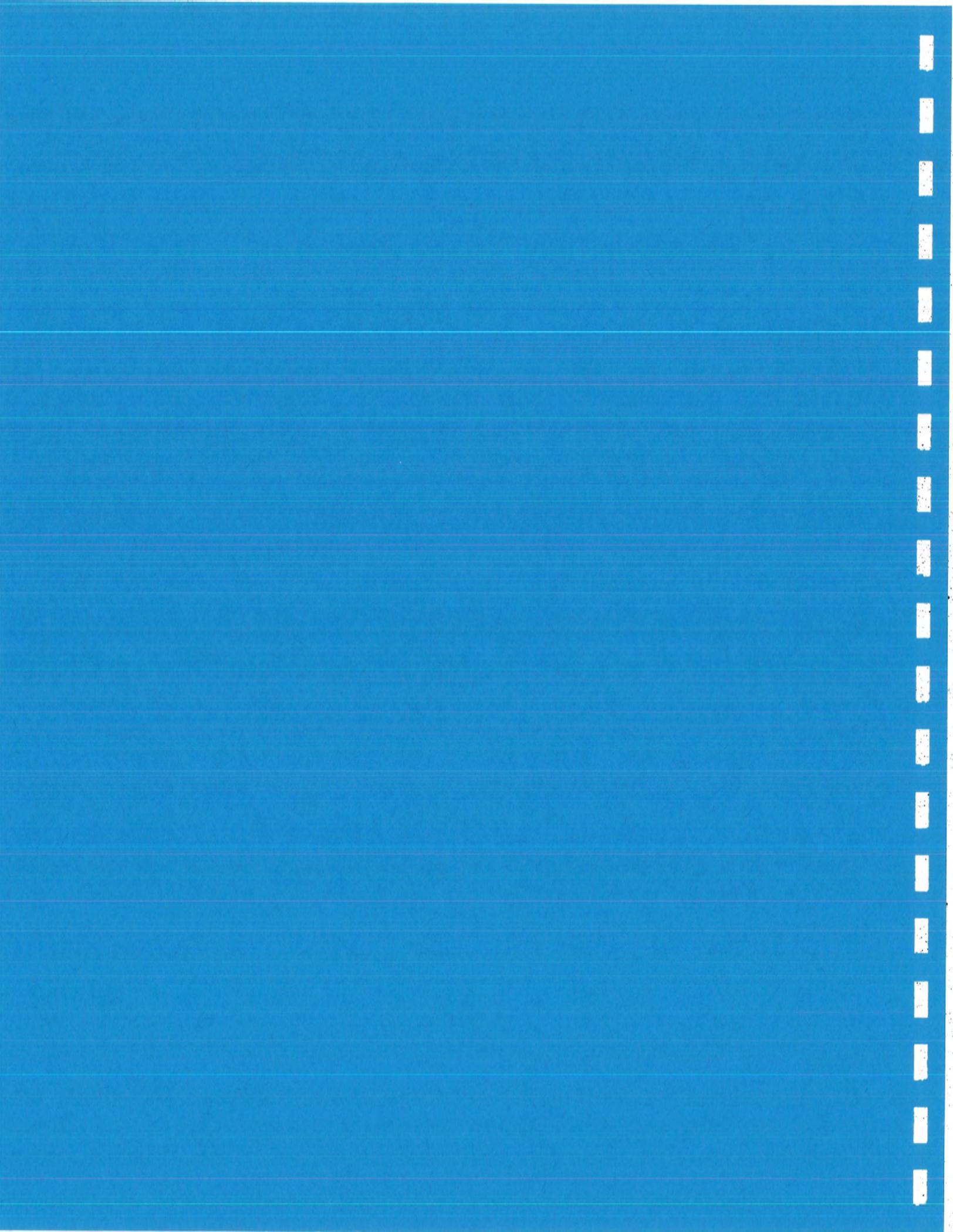
**North Marin Water District**  
 Organization Chart  
 June 2009



\*Also serves as District officer



# **Financial Section**





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

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

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## 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 years ended June 30, 2009 and 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 audits.

We conducted our audits 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 audits provide 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, 2009 and 2008, and the respective changes in net assets and cash flows for the years 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 August 31, 2009, 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 58.

Management's discussion and analysis and the required supplementary information on page 30 are not required parts of the basic financial statements but are 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 are presented for purposes of additional analysis and are 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, are stated fairly in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

August 31, 2009  
Cypress, California

*Charles Z. Fedak, CPA, MBA*  
*An Accountancy Corporation*

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**North Marin Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

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, 2009 and 2008. 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 decreased 8.7% or \$7,036,614 to \$73,283,176 in fiscal year 2009. In 2009, the District re-evaluated its capital asset depreciable lives and expensed an approximately \$7.7 million non-cash charge to depreciation expense due to the District's change in the accounting estimate for depreciation. In 2008, the District's net assets increased 6.4% or \$4,855,829 to \$80,319,790.
- In 2009, the District's operating revenues increased 6.3% or \$747,137 due primarily to a 4% decrease in water sales volume coupled with an 11% rate increase in September 2008 and a 20% rate increase in June 2009. 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 2009, the District's operating expenses before depreciation increased 5.7% or \$718,132 due to a \$621,480 increase in expensed improvement project costs and a \$178,374 increase in source of supply expenses. In 2008, 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.

**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**  
**For the Years Ended June 30, 2009 and 2008**

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 17 through 39.

**Statement of Net Assets**

	Condensed Statements of Net Assets				
	2009	2008	Change	2007	Change
Assets:					
Current assets	\$ 9,438,893	10,719,677	(1,280,784)	8,551,863	2,167,814
Non-current assets	6,177,592	8,077,090	(1,899,498)	11,918,960	(3,841,870)
Capital assets, net	82,006,722	85,413,491	(3,406,769)	79,377,040	6,036,451
<b>Total assets</b>	<u>97,623,207</u>	<u>104,210,258</u>	<u>(6,587,051)</u>	<u>99,847,863</u>	<u>4,362,395</u>
Liabilities:					
Current liabilities	3,450,972	3,412,086	38,886	3,988,417	(576,331)
Non-current liabilities	20,889,059	20,478,382	410,677	20,395,485	82,897
<b>Total liabilities</b>	<u>24,340,031</u>	<u>23,890,468</u>	<u>449,563</u>	<u>24,383,902</u>	<u>(493,434)</u>
Net assets:					
Net investment in capital assets	61,057,551	65,099,863	(4,042,312)	59,290,284	5,809,579
Restricted for capital projects and debt service	4,304,331	4,743,194	(438,863)	4,994,444	(251,250)
Unrestricted	7,921,294	10,476,733	(2,555,439)	11,179,233	(702,500)
<b>Total net assets</b>	<u>73,283,176</u>	<u>80,319,790</u>	<u>(7,036,614)</u>	<u>75,463,961</u>	<u>4,855,829</u>
<b>Total liabilities and net assets</b>	<u>\$ 97,623,207</u>	<u>104,210,258</u>	<u>(6,587,051)</u>	<u>99,847,863</u>	<u>4,362,395</u>

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 \$73,283,176 and \$80,319,790 as of June 30, 2009 and 2008, respectively.

By far the largest portion of the District's net assets (83% and 81% as of June 30, 2009 and 2008, 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 2009 and 2008, the District showed a positive balance in its unrestricted net assets of \$7,921,294 and \$10,476,733, respectively. See note 13 for the amount of spendable net assets that may be utilized in future years.

**North Marin Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**Statement of Revenues, Expenses and Changes in Net Assets**

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 12,526,294	11,779,157	747,137	11,848,037	(68,880)
Non-operating revenue	659,684	919,920	(260,236)	1,767,917	(847,997)
<b>Total revenue</b>	<u>13,185,978</u>	<u>12,699,077</u>	<u>486,901</u>	<u>13,615,954</u>	<u>(916,877)</u>
Expense:					
Operating expense	13,257,125	12,538,993	718,132	12,555,989	(16,996)
Depreciation and amortization	10,091,139	1,761,673	8,329,466	1,490,077	271,596
Non-operating expense	650,730	722,709	(71,979)	589,178	133,531
<b>Total expense</b>	<u>23,998,994</u>	<u>15,023,375</u>	<u>8,975,619</u>	<u>14,635,244</u>	<u>388,131</u>
<b>Net income before capital contributions</b>	(10,813,016)	(2,324,298)	(8,488,718)	(1,019,290)	(1,305,008)
Capital contributions	3,776,402	7,061,891	(3,285,489)	8,639,031	(1,577,140)
<b>Change in net assets</b>	(7,036,614)	4,737,593	(11,774,207)	7,619,741	(19,393,948)
<b>Net assets, beginning of year</b>	80,319,790	75,463,961	4,855,829	71,314,792	4,149,169
<b>Prior period adjustments</b>	-	118,236	(118,236)	(3,470,572)	3,352,336
<b>Net assets, end of year</b>	<u>\$ 73,283,176</u>	<u>80,319,790</u>	<u>(7,036,614)</u>	<u>75,463,961</u>	<u>(11,892,443)</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 decreased by \$7,036,614 in the fiscal year ended June 30, 2009 and increased by \$4,855,829 for the fiscal year ended June 30, 2008.

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

In 2009, the District's operating revenues increased 6.3% or \$747,137 due primarily to a 4% decrease in water sales volume coupled with an 11% rate increase in September 2008 and a 20% rate increase in June 2009. 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 2009, the District's operating expenses before depreciation increased 5.7% or \$718,132 due to a \$621,480 increase in expensed improvement project costs and a \$178,374 increase in source of supply expenses. In 2008, 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 2009, the District re-evaluated its capital asset depreciable lives and expensed an approximately \$7.7 million non-cash charge to depreciation expense due to the District's change in the accounting estimate for depreciation.

**North Marin Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**Total District Revenues**

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 10,573,368	9,607,490	965,878	9,693,104	(85,614)
Bi-monthly meter service charge	1,581,407	1,424,628	156,779	1,412,428	12,200
Sewer service charges	147,918	146,642	1,276	145,605	1,037
Water conservation reimbursements	16,068	394,398	(378,330)	406,813	(12,415)
Other charges and services	207,533	205,999	1,534	190,087	15,912
<b>Total operating revenues</b>	<u>12,526,294</u>	<u>11,779,157</u>	<u>747,137</u>	<u>11,848,037</u>	<u>(68,880)</u>
<b>Non-operating revenues:</b>					
Property tax revenue	103,630	110,129	(6,499)	97,919	12,210
Investment earnings	413,681	699,107	(285,426)	825,799	(126,692)
Rental revenue	52,061	49,233	2,828	48,161	1,072
Construction lawsuit settlement	-	-	-	627,395	(627,395)
Gain on sale/disposition of capital assets	-	22,867	(22,867)	20,509	2,358
Other non-operating revenues	90,312	38,584	51,728	148,134	(109,550)
<b>Total non-operating revenues</b>	<u>659,684</u>	<u>919,920</u>	<u>(260,236)</u>	<u>1,767,917</u>	<u>(847,997)</u>
<b>Total revenues</b>	<u>\$ 13,185,978</u>	<u>12,699,077</u>	<u>486,901</u>	<u>13,615,954</u>	<u>(916,877)</u>

In 2009, as noted previously, total District operating revenue increased in 2009 from 2008 due primarily to a 4% decrease in water sales volume coupled with an 11% rate increase in September 2008 and a 20% rate increase in June 2009.

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.

**Total District Expenses**

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
<b>Operating expenses:</b>					
Source of supply	\$ 3,960,788	3,782,414	178,374	4,513,365	(730,951)
Pumping	339,236	379,341	(40,105)	381,725	(2,384)
Water facilities operations	578,868	506,287	72,581	518,996	(12,709)
Water treatment	1,781,516	1,698,781	82,735	1,303,083	395,698
Transmission and distribution	2,335,067	2,385,742	(50,675)	2,222,348	163,394
Sewage collection and treatment	98,715	84,418	14,297	78,328	6,090
Customer service	505,218	466,301	38,917	474,082	(7,781)
General and administrative	1,943,522	1,900,169	43,353	1,835,667	64,502
Improvement projects	1,589,413	1,475,193	114,220	1,533,477	(58,284)
Water conservation projects	507,260	359,748	147,512	283,242	76,506
Overhead absorption	(382,478)	(499,401)	116,923	(588,324)	88,923
Depreciation and amortization	10,091,139	1,761,673	8,329,466	1,490,077	271,596
<b>Total operating expenses</b>	<u>\$ 23,348,264</u>	<u>14,300,666</u>	<u>9,047,598</u>	<u>14,046,066</u>	<u>254,600</u>
<b>Non-operating expenses:</b>					
Interest expense -- long-term debt	513,314	519,484	(6,170)	411,543	107,941
Wohler/Collector No. 6 agreement	110,246	114,682	(4,436)	-	114,682
Loss on sale/disposition of capital assets	-	87,214	(87,214)	177,635	(90,421)
Other non-operating expenses	27,170	1,329	25,841	-	1,329
<b>Total non-operating expenses</b>	<u>650,730</u>	<u>722,709</u>	<u>(71,979)</u>	<u>589,178</u>	<u>133,531</u>
<b>Total expenses</b>	<u>\$ 23,998,994</u>	<u>15,023,375</u>	<u>8,975,619</u>	<u>14,635,244</u>	<u>388,131</u>

In 2009, as noted previously, total District operating expenses increased due primarily to an increase in purchased water costs of \$161,281, higher lab costs of \$68,409 and higher replacement and enhancement costs of \$167,436

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.

**North Marin Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**Capital Asset Administration**

At the end of fiscal year 2009 and 2008, the District's investment in capital assets amounted to \$82,006,722 and \$85,413,491, 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 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2009</u>
Capital assets:				
Non-depreciable assets	\$ 8,613,432	3,348,719	(8,781,610)	3,180,541
Depreciable assets	98,534,472	12,117,261	(194,733)	110,457,000
Accumulated depreciation and amortization	<u>(21,734,413)</u>	<u>(10,091,139)</u>	<u>194,733</u>	<u>(31,630,819)</u>
Total capital assets, net	<u>\$ 85,413,491</u>	<u>5,374,841</u>	<u>(8,781,610)</u>	<u>82,006,722</u>

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	<u>(20,034,850)</u>	<u>(1,761,673)</u>	<u>62,110</u>	<u>(21,734,413)</u>
Total capital assets, net	<u>\$ 79,377,040</u>	<u>13,365,304</u>	<u>(7,328,853)</u>	<u>85,413,491</u>

**Debt Administration**

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

	<u>Balance 2008</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2009</u>
Long-term debt:				
Bonds payable	\$ 335,801	-	(22,923)	312,878
Loans payable	<u>19,977,827</u>	<u>832,665</u>	<u>(174,199)</u>	<u>20,636,293</u>
Total long-term debt	<u>\$ 20,313,628</u>	<u>832,665</u>	<u>(197,122)</u>	<u>20,949,171</u>

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 2006</u>
Long-term debt:				
Bonds payable	\$ 363,593	-	(27,792)	335,801
Loans payable	<u>19,723,163</u>	<u>628,881</u>	<u>(374,217)</u>	<u>19,977,827</u>
Total long-term debt	<u>\$ 20,086,756</u>	<u>628,881</u>	<u>(402,009)</u>	<u>20,313,628</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, 2009 and 2008**

<i>Assets</i>	<b>2009</b>	<b>2008</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 3)	\$ 3,017,527	5,293,115
Restricted – cash and cash equivalents (note 3)	2,444,288	1,063,646
Accrued interest receivable	58,325	144,586
Accounts receivable – water and sewer sales and services	2,680,031	2,550,603
Accounts receivable – governmental agencies	307,378	590,866
Accounts receivable – other	128,603	226,514
Note receivable – Black Point Golf Links – current portion (note 5)	178,560	174,332
Notes receivable – employee computer loans (note 6)	4,136	8,164
Materials and supplies inventory	588,499	634,375
Prepaid expenses and deposits	31,546	33,476
Total current assets	<u>9,438,893</u>	<u>10,719,677</u>
<b>Non-current assets:</b>		
Investments (note 3)	-	439,960
Restricted – investments (note 3)	2,084,755	3,683,318
Internal balances (note 4)	-	-
Note receivable – Black Point Golf Links (note 5)	2,896,052	3,074,612
Notes receivable – employee housing assistance loans (note 7)	1,196,785	879,200
Capital assets, not being depreciated (note 8)	3,180,541	8,613,432
Depreciable capital assets, net (note 8)	<u>78,826,181</u>	<u>76,800,059</u>
Total non-current assets	<u>88,184,314</u>	<u>93,490,581</u>
<b>Total assets</b>	<u>\$ 97,623,207</u>	<u>104,210,258</u>
<b><i>Liabilities and Net Assets</i></b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,885,585	1,842,215
Accrued wages and related payables	361,906	298,147
Accrued claims payable (note 9)	14,400	24,557
Customer advances and deposits	523,682	952,751
Accrued interest payable – long-term debt	16,818	6,731
Long-term liabilities – due within one year:		
Compensated absences (note 10)	101,770	90,563
Bonds payable (note 12)	30,069	22,923
Loans payable (note 12)	<u>516,742</u>	<u>174,199</u>
Total current liabilities	<u>3,450,972</u>	<u>3,412,086</u>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (note 10)	305,310	271,688
Post employment benefits payable (note 11)	181,389	90,188
Bonds payable (note 12)	282,809	312,878
Loans payable (note 12)	<u>20,119,551</u>	<u>19,803,628</u>
Total non-current liabilities	<u>20,889,059</u>	<u>20,478,382</u>
<b>Total liabilities</b>	<u>24,340,031</u>	<u>23,890,468</u>
<b>Net assets: (note 13)</b>		
Investment in capital assets, net of related debt	61,057,551	65,099,863
Restricted for capital projects and debt service	4,304,331	4,743,194
Unrestricted	<u>7,921,294</u>	<u>10,476,733</u>
<b>Total net assets</b>	<u>73,283,176</u>	<u>80,319,790</u>
<b>Total liabilities and net assets</b>	<u>\$ 97,623,207</u>	<u>104,210,258</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, 2009 and 2008**

	2009	2008
Operating revenues:		
Water consumption sales	\$ 10,573,368	9,607,490
Bi-monthly meter service charge	1,581,407	1,424,628
Sewer service charges	147,918	146,642
Water conservation reimbursements	16,068	394,398
Other charges and services	207,533	205,999
Total operating revenues	12,526,294	11,779,157
Operating expenses:		
Source of supply	3,960,788	3,782,414
Pumping	339,236	379,341
Water facilities operations	578,868	506,287
Water treatment	1,781,516	1,698,781
Transmission and distribution	2,335,067	2,385,742
Sewage collection and treatment	98,715	84,418
Customer service	505,218	466,301
General and administrative	1,943,522	1,900,169
Improvement projects	1,589,413	1,475,193
Water conservation projects	507,260	359,748
Total operating expenses	13,639,603	13,038,394
Operating loss before overhead absorption	(1,113,309)	(1,259,237)
Overhead absorption	382,478	499,401
Operating loss before depreciation and amortization	(730,831)	(759,836)
Depreciation (note 19)	(10,091,139)	(1,761,673)
<b>Operating loss</b>	<b>(10,821,970)</b>	<b>(2,521,509)</b>
Non-operating revenues(expenses):		
Property tax revenue	103,630	110,129
Investment earnings	413,681	699,107
Rental revenue	52,061	49,233
Interest expense – long-term debt	(513,314)	(519,484)
Wohler/Collector No. 6 agreement (note 18)	(110,246)	(114,682)
Loss on sale/disposition of capital assets, net	-	(64,347)
Other non-operating revenues, net	63,142	37,255
Total non-operating revenues, net	8,954	197,211
<b>Net loss before capital contributions</b>	<b>(10,813,016)</b>	<b>(2,324,298)</b>
Capital contributions:		
Developers and others	2,830,488	5,546,285
Connection fees	945,914	1,515,606
<b>Capital contributions</b>	<b>3,776,402</b>	<b>7,061,891</b>
<b>Change in net assets</b>	<b>(7,036,614)</b>	<b>4,737,593</b>
Net assets, beginning of year	80,319,790	75,463,961
Prior period adjustment (note 2)	-	118,236
Net assets, end of year	<b>\$ 73,283,176</b>	<b>80,319,790</b>

See accompanying notes to the basic financial statements

**North Marin Water District**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 12,187,399	11,560,230
Cash paid to employees for salaries and wages	(4,262,790)	(4,073,289)
Cash paid to vendors and suppliers for materials and services	(9,142,596)	(9,111,227)
Net cash used in operating activities	<u>(1,217,987)</u>	<u>(1,624,286)</u>
Cash flows from non-capital financing activities:		
Property tax revenue	103,630	110,129
Rental revenue	52,061	49,233
Sonoma County Water Agency agreement	(110,246)	(114,682)
Principal received on notes receivable	178,360	285,308
Principal issued on notes receivable	(317,585)	(296,757)
Other non-operating revenues, net	63,142	37,255
Net cash provided(used) by non-capital financing activities	<u>(30,638)</u>	<u>70,486</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,998,434)	(7,884,458)
Proceeds from capital contributions and connection fees	2,090,466	6,812,779
Proceeds from the issuance of debt	1,423,531	727,968
Principal paid on long-term debt	(197,122)	(402,009)
Interest paid on long-term debt	(503,227)	(557,983)
Proceeds from the sale of capital assets	-	17,443
Net cash used in capital and related financing activities	<u>(2,184,786)</u>	<u>(1,286,260)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	2,038,523	7,364,444
Purchases of investments	-	(3,147,020)
Investment earnings	499,942	698,094
Net cash provided by investing activities	<u>2,538,465</u>	<u>4,915,518</u>
<b>Net increase(decrease) in cash and cash equivalents</b>	<u>(894,946)</u>	<u>2,075,458</u>
Cash and cash equivalents, beginning of year	<u>6,356,761</u>	<u>4,281,303</u>
Cash and cash equivalents, end of year	<u>\$ 5,461,815</u>	<u>6,356,761</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 3,017,527	5,293,115
Restricted assets – cash and cash equivalents	<u>2,444,288</u>	<u>1,063,646</u>
Total cash and cash equivalents	<u>\$ 5,461,815</u>	<u>6,356,761</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, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
Reconciliation of operating income to net cash used in operating activities:		
Operating loss	\$ (10,821,970)	(2,521,509)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Deprecation	10,091,139	1,761,673
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water and sewer sales and services	(129,428)	(168,153)
Accounts receivable – governmental agencies	(307,378)	-
Accounts receivable – other	97,911	(50,774)
Materials and supplies inventory	45,876	20,736
Prepaid expenses and other deposits	1,930	15,548
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	43,370	29,253
Accrued wages and related payables	63,759	13,787
Accrued claims payable	(10,157)	(87,403)
Customer advances and deposits	(429,069)	(650,530)
Compensated absences	44,829	(77,102)
Post employment retirement benefits	91,201	90,188
Total adjustments	9,603,983	897,223
Net cash used in operating activities	\$ (1,217,987)	(1,624,286)
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	\$ 60,289	17,383
Contributed capital	1,685,936	4,681,260

See accompanying notes to the basic financial statements

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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 an 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, 2009 and 2008**

**(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, 2009 and 2008**

**(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 \$5,000. 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 – 50 years
- Treatment plant – 20 to 50 years
- Sewer mains and pumps – 10 to 40 years
- Buildings and storage facilities – 35 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 30<sup>th</sup> 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, 2009 and 2008**

**(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 Adjustment**

***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).

	<b>2008</b>
Net assets, beginning of year	\$ 75,463,961
Change in net assets	4,737,593
Adjustment for non-capitalized security upgrades	133,682
Adjustment for non-expensed engineering project	(15,446)
Net assets, end of year	\$ 80,319,790

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(3) Cash and Investments**

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 3,017,527	5,293,115
Restricted – cash and cash equivalents	2,444,288	1,063,646
Investments	-	439,960
Restricted – investments	<u>2,084,755</u>	<u>3,683,318</u>
Total cash and investments	<u>\$ 7,546,570</u>	<u>10,480,039</u>

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

	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 350	350
Deposits with financial institutions	616,064	152,656
Deposits with County of Marin Treasury	24,674	27,629
Investments	<u>6,905,482</u>	<u>10,299,404</u>
Total cash and investments	<u>\$ 7,546,570</u>	<u>10,480,039</u>

***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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
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

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(3) Cash and Investments, continued**

***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).

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 \$250,000 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.

***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:

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(3) Cash and Investments, continued**

**Interest Rate Risk, continued**

Investments at June 30, 2009, 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	\$ 4,820,727	4,820,727	-	-	-
General Electric Co. note @ 4.250%	1,016,930	-	1,016,930	-	-
Wells Fargo note @ 6.450%	1,045,560	-	1,045,560	-	-
Olema general obligation bond	22,265	-	-	-	22,265
Total	\$ 6,905,482	4,820,727	2,062,490	-	22,265

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

**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, 2009, 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	\$ 4,820,727	N/A	4,820,727	-	-
General Electric Co. note @ 4.250%	1,016,930	A-	-	-	1,016,930
Wells Fargo note @ 6.450%	1,045,560	A-	-	-	1,045,560
Olema general obligation bond	22,265	N/A	22,265	-	-
Total	\$ 6,905,482		4,842,992	-	2,062,490

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

**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.

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(3) Cash and Investments, continued**

*Concentration of Credit Risk, continued*

<u>Issuer</u>	<u>Investment type &gt;5%</u>	<u>Reported Amount</u>	
		<u>2009</u>	<u>2008</u>
U.S. Treasury notes	Federal agency securities	\$ -	1,006,020
General Electric Co. note @ 4.250%	Medium-term corporate note	1,016,930	1,008,460
Goldman Sachs note @ 6.875%	Medium-term corporate note	-	1,038,090
Wells Fargo note @ 6.450%	Medium-term corporate note	1,045,560	1,044,990

**(4) Internal Balances**

*Due To/From Other Funds*

Internal balances consist of the following as of June 30, 2009 as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance	Novato Water	West Marin	\$ 458,822
Advance	Novato Water	Novato Recycled	230,623
		Total	<u>\$ 689,445</u>

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>

The Novato Water segment continues to advance the West Marin and Novato Recycled segments funds for operations. Repayment terms continue to be worked out with repayment of the principal balance advanced. Interest accrues on the balance at the monthly return rate of the District's investment portfolio plus \$50 per month.

**(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 30<sup>th</sup>, the amount receivable under the contract is as follows:

The balance at June 30, consists of the following:

	<u>2009</u>	<u>2008</u>
Note receivable – Black Point Golf Links – current portion	\$ 178,560	174,332
Note receivable – Black Point Golf Links	2,896,052	3,074,612
Note receivable – Black Point Golf Links	<u>\$ 3,074,612</u>	<u>3,248,944</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, 2009 and 2008 the District had various outstanding loans totaling \$4,136 and \$8,164, respectively.

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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>2009</u>	<u>2008</u>
August 2004	\$ 250,000	250,000
Sept. 2004	39,200	39,200
October 2006	300,000	300,000
Sept. 2007	140,000	140,000
Nov. 2007	150,000	150,000
July. 2008	125,000	-
Oct. 2008	192,585	-
Total	<u>\$ 1,196,785</u>	<u>879,200</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>2007</u>	<u>2008</u>	<u>2009</u>
The balance at June 30, consists of the following projects:			
Developer construction – Novato Water	\$ 2,948,092	1,541,604	1,045,246
Developer construction – Novato Recycled	491,730	-	-
Developer construction – West Marin Water	158,494	3,829	8,272
Developer construction – Oceana Marin Sewer	28,323	18,601	-
Center Road tank	2,145,810	2,240,754	-
Palmer Drive tank	259,225	1,083,631	-
Recycled water facility construction	3,316,347	-	-
Recycled water facility expansion	737,557	951,826	-
Outlet tower sluice gate	337,604	528,204	-
Security upgrades	133,682	428,904	-
Accounting software conversion	103,674	137,456	-
2nd Feed to Amaroli tank	-	-	417,298
Various other minor projects <\$100,000	143,914	205,532	236,634
Total construction-in-process per year	<u>\$ 10,804,452</u>	<u>7,140,341</u>	<u>1,707,450</u>

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(8) Capital Assets, continued**

Changes in capital assets for the year were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-process	7,140,341	3,348,719	(8,781,610)	1,707,450
Total non-depreciable assets	<u>8,613,432</u>	<u>3,348,719</u>	<u>(8,781,610)</u>	<u>3,180,541</u>
Depreciable assets:				
Distribution system	50,813,593	4,163,853	-	54,977,446
Treatment plant	21,578,774	583,228	-	22,162,002
Storage facilities	11,705,943	5,339,761	-	17,045,704
Transmission system	5,489,830	-	-	5,489,830
Source facilities	3,508,860	1,518,222	-	5,027,082
Sewer facilities	692,451	161,232	-	853,683
Structures and improvements	1,778,388	-	-	1,778,388
Other plant and equipment	2,966,633	350,965	(194,733)	3,122,865
Total depreciable assets	<u>98,534,472</u>	<u>12,117,261</u>	<u>(194,733)</u>	<u>110,457,000</u>
Accumulated depreciation:				
Distribution system	(11,141,190)	(6,528,944)	-	(17,670,134)
Treatment plant	(2,067,662)	(830,985)	-	(2,898,647)
Storage facilities	(2,824,751)	(725,912)	-	(3,550,663)
Transmission system	(1,830,611)	(1,036,335)	-	(2,866,946)
Source facilities	(917,532)	(365,620)	-	(1,283,152)
Sewer facilities	(204,439)	(134,032)	-	(338,471)
Structures and improvements	(733,855)	(226,189)	-	(960,044)
Other plant and equipment	(2,014,373)	(243,122)	194,733	(2,062,762)
Total accumulated depreciation	<u>(21,734,413)</u>	<u>(10,091,139)</u>	<u>194,733</u>	<u>(31,630,819)</u>
Total depreciable assets, net	<u>76,800,059</u>	<u>2,026,122</u>	<u>-</u>	<u>78,826,181</u>
Total capital assets, net	\$ <u>85,413,491</u>	<u>5,374,841</u>	<u>(8,781,610)</u>	<u>82,006,722</u>

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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>\$ 79,377,040</u>	<u>13,365,304</u>	<u>(7,328,853)</u>	<u>85,413,491</u>

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(9) Accrued Claims Payable**

The District commenced self-insuring its workers' compensation obligation on July 1, 2004, and established 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 carried a workers' compensation excess insurance policy for claims that exceed \$750,000.

In fiscal year 2009, the District purchased insurance to cover its workers' compensation obligation and is no longer self-insured for these claims. The remaining accrued claims payable balance will be adjusted as prior year claims are resolved and closed.

Settled claims have not exceeded any of the accrued coverage amounts in any of the last three fiscal years. 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>2009</u>	<u>2008</u>
Accrued claims payable, beginning of year	\$	24,557	111,960
Claims recognized		-	2,761
Claims settled		-	(142,703)
Claims adjustments		<u>(10,157)</u>	<u>52,539</u>
Accrued claims payable, end of year	\$	<u>14,400</u>	<u>24,557</u>

**(10) Compensated Absences**

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

Changes to compensated absences for 2009, were as follows:

<u>Balance 2008</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2009</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 362,251	806,505	(761,676)	407,080	101,770	305,310

Changes to compensated absences for 2008, were as follows:

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

**(11) Post Employment Benefits Payable**

During the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

***Plan Description – Eligibility***

The District pays a portion of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District.

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(11) Post Employment Benefits Payable, continued**

***Plan Description – Eligibility, continued***

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Active plan members	60	60	60
Retirees and beneficiaries receiving benefits	30	35	32
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>90</u>	<u>95</u>	<u>92</u>

***Plan Description – Benefits***

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District's CalPERS medical. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

***Funding Policy***

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 6.4% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

***Annual Cost***

For the years ended June 30, 2009 and 2008, the District's ARC cost is \$273,421 and \$272,191, respectively. The District's net OPEB payable obligation amounted to \$181,389 and \$90,188 for the years ended June 30, 2009 and 2008, respectively. The District contributed \$182,220 and \$182,003 in age adjusted contributions for current retiree OPEB premiums for the years ended June 30, 2009 and 2008, respectively.

The balance at June 30, consists of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 272,806	272,806	-
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	615	(615)	-
Total annual OPEB expense	<u>273,421</u>	<u>272,191</u>	<u>-</u>
Change in net OPEB payable obligation:			
Age adjusted contributions made	(182,220)	(182,003)	-
Total change in net OPEB payable obligation	<u>91,201</u>	<u>90,188</u>	<u>-</u>
OPEB payable – beginning of year	<u>90,188</u>	<u>-</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 181,389</u>	<u>90,188</u>	<u>-</u>

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(11) Post Employment Benefits Payable, continued**

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2009 and the two preceding years were as follows:

*Three-Year History of Net OPEB Obligation*

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2009	\$ 273,421	182,220	66.64%	\$ 91,201
2008	272,191	182,003	66.87%	90,188
2007	*	-	0.00%	-

\* The information for this year is unavailable.

GASB No. 45 was estimated in fiscal year 2008 and implemented in fiscal year 2009.

***Funded Status and Funding Progress of the Plan***

*Required Supplemental Information – Schedule of Funding Progress*

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2006	\$ -	2,637,574	2,637,574	0.00%	\$ 4,262,790	61.87%

The most recent valuation (dated July 1, 2006) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$2,637,574. There are no plan assets because the District funds on a pay-as-you-go basis and maintains net assets equal to the remaining net post-employment benefits payable obligation. No trend information is reported because the year ended June 30, 2009, is the first year the District implemented GASB 45. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2009 was \$4,262,790. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 61.87%.

***Actuarial Methods and Assumptions***

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2006
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	20 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	6.00% – Projected at July 1, 2006
Projected salary increase	3.00%
Inflation - discount rate	6.00%
Individual salary growth	District annual COLA

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(12) Long-term Debt**

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

	<u>Balance 2008</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1973 General obligation bonds – PR-3	\$ 64,000	-	(12,000)	52,000	12,000
1975 General obligation bonds – OL-2	23,801	-	(2,923)	20,878	3,069
1980 Revenue bonds – PRE-1	126,000	-	(8,000)	118,000	8,000
1981 Revenue bonds – PR-6	122,000	-	-	122,000	7,000
Total bonds payable	<u>335,801</u>	<u>-</u>	<u>(22,923)</u>	<u>312,878</u>	<u>30,069</u>
Loans payable:					
1977 U.S. EDA loan – Novato Water	130,888	-	-	130,888	11,880
1977 U.S. EDA loan – West Marin	18,777	-	-	18,777	1,764
2005 DWR loan – Novato Water	15,696,185	832,665	-	16,528,850	324,718
2005 DWR loan – Novato Recycled	4,131,977	-	(174,199)	3,957,778	178,380
Total loans payable	<u>19,977,827</u>	<u>832,665</u>	<u>(174,199)</u>	<u>20,636,293</u>	<u>516,742</u>
Total long-term debt	<u>\$ 20,313,628</u>	<u>832,665</u>	<u>(197,122)</u>	<u>20,949,171</u>	<u>546,811</u>

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 loan	190,477	-	(190,477)	-	-
2005 DWR loan – Novato Water	15,105,319	590,866	-	15,696,185	-
2005 DWR 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>

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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 1<sup>st</sup> 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>
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	52,000	6,650	58,650
Less current portion	(12,000)		
Total non-current	\$ 40,000		

***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 1<sup>st</sup> 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>
2010	\$ 3,069	1,044	4,113
2011	3,223	890	4,113
2012	3,384	729	4,113
2013	3,553	560	4,113
2014	3,731	382	4,113
2015	3,918	195	4,113
Total	\$ 20,878	3,800	24,678
Less current portion	(3,069)		
Total non-current	\$ 17,809		

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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 1<sup>st</sup> and interest is payable semi-annually on October 1<sup>st</sup> and April 1<sup>st</sup> 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>
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	10,000	4,100	14,100
2015-2019	59,000	12,350	71,350
2020	13,000	650	13,650
Total	\$ 118,000	38,150	156,150
Less current portion	(8,000)		
Total non-current	\$ 110,000		

**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 1<sup>st</sup> and interest is payable semi-annually on July 1<sup>st</sup> and January 1<sup>st</sup> 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>
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	8,000	4,400	12,400
2015-2019	49,000	15,125	64,125
2020-2022	35,000	2,675	37,675
Total	\$ 122,000	43,700	165,700
Less current portion	(7,000)		
Total non-current	\$ 115,000		

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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 1<sup>st</sup> 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>
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	14,440	3,984	18,424
2015-2018	<u>65,245</u>	<u>8,346</u>	<u>73,591</u>
Total	\$ 130,888	<u>34,823</u>	<u>165,711</u>
Less current portion	<u>(11,880)</u>		
Total non-current	<u>\$ 119,008</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 1<sup>st</sup> 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>
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	2,145	559	2,704
2015-2018	<u>9,028</u>	<u>1,107</u>	<u>10,135</u>
Total	\$ 18,777	<u>4,875</u>	<u>23,652</u>
Less current portion	<u>(1,764)</u>		
Total non-current	<u>\$ 17,013</u>		

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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 1<sup>st</sup> 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 for the reconstruction of the Stafford Water Treatment Plant. Principal and interest payments on the loan are due each year on January 1<sup>st</sup> and July 2<sup>nd</sup>.

The loan is scheduled to mature in fiscal year 2030. The loan will be repaid semi-annually over a 20-year period based on the repayment schedule below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 324,718	197,519	522,237
2011	661,123	383,351	1,044,474
2012	677,017	367,458	1,044,475
2013	693,295	351,179	1,044,474
2014	709,964	334,510	1,044,474
2015-2019	3,814,220	1,408,152	5,222,372
2020-2024	4,295,324	927,048	5,222,372
2025-2029	4,837,119	385,253	5,222,372
2030	<u>516,070</u>	<u>6,168</u>	<u>522,238</u>
Total	\$ 16,528,850	<u>4,360,638</u>	<u>20,889,488</u>
Less current portion	<u>(324,718)</u>		
Total non-current	<u>\$ 16,204,132</u>		

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(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 19<sup>th</sup> 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>
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	196,131	77,236	273,367
2015-2019	1,053,563	313,272	1,366,835
2020-2024	1,186,207	180,628	1,366,835
2025-2027	782,256	37,845	820,101
Total	\$ 3,957,778	962,828	4,920,606
Less current portion	(178,380)		
Total non-current	\$ 3,779,398		

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(13) Net Assets**

Calculation of net assets per fund as of June 30, 2009, were as follows:

	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
Net investment in capital assets:					
Capital assets, not being depreciated	\$ 2,976,119	91,931	111,683	808	3,180,541
Depreciable capital assets, net	69,389,028	4,564,448	4,118,742	753,963	78,826,181
Current:					
Bonds payable	-	-	(30,069)	-	(30,069)
Loans payable	(336,598)	(178,380)	(1,764)	-	(516,742)
Non-current:					
Bonds payable	-	-	(282,809)	-	(282,809)
Loans payable	(16,323,140)	(3,779,398)	(17,013)	-	(20,119,551)
Total net investment in capital assets	<u>55,705,409</u>	<u>698,601</u>	<u>3,898,770</u>	<u>754,771</u>	<u>61,057,551</u>
Restricted net assets:					
Connection fee reserve	1,271,762	-	210,343	66,329	1,548,434
Wohler pipeline reserve	568,125	-	-	-	568,125
Collector No. 6 reserve	2,119,828	-	-	-	2,119,828
Olema bond reserve	22,265	-	-	-	22,265
Cash reserve for debt service	-	-	52,964	-	52,964
Accrued interest for debt service	-	-	(7,285)	-	(7,285)
Total restricted net assets	<u>3,981,980</u>	<u>-</u>	<u>256,022</u>	<u>66,329</u>	<u>4,304,331</u>
Unrestricted net assets:					
Non-spendable net assets:					
Current:					
Materials and supplies inventory	588,499	-	-	-	588,499
Prepaid expenses and deposits	26,765	-	1,686	3,095	31,546
Non-current:					
Note receivable – Black Point Golf Links	-	2,896,052	-	-	2,896,052
Notes receivable – employee housing loans	1,196,785	-	-	-	1,196,785
Total non-spendable net assets	<u>1,812,049</u>	<u>2,896,052</u>	<u>1,686</u>	<u>3,095</u>	<u>4,712,882</u>
Spendable net assets are designated as follows:					
Operating reserve	3,733,484	3,820	(699,059)	170,167	3,208,412
Total spendable net assets	<u>3,733,484</u>	<u>3,820</u>	<u>(699,059)</u>	<u>170,167</u>	<u>3,208,412</u>
Total unrestricted net assets	5,545,533	2,899,872	(697,373)	173,262	7,921,294
Total net assets	<u>\$ 65,232,922</u>	<u>3,598,473</u>	<u>3,457,419</u>	<u>994,362</u>	<u>73,283,176</u>

**(14) 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, 2009 and 2008 was \$2,543,787 and \$2,540,227, 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.

**North Marin Water District**  
**Notes to the Basic Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**(15) 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 2009, 2008 and 2007 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 2009, 2008 and 2007, 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:

<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>
2006-2007	\$ 806,896	100%	-	13.986%
2007-2008	859,221	100%	-	13.847%
2008-2009	904,789	100%	-	14.367%

**(16) 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 \$46,218,000 property and equipment policy, a \$3.0 million public official's policy and a \$500,000 employee dishonesty bond.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2009, that has effective dates that may impact future financial presentations.

***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. 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, 2009 and 2008**

**(18) Commitments and Contingencies**

*Wohler/Collector No. 6 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 (NSD) which requires NSD to supply secondary treated effluent of sufficient quantity to the District for the recycled water treatment operation. The District shall pay NSD \$20 per year for an annual lease of the site for the recycled water treatment facility.

*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 \$360,920 of open construction contracts as of June 30, 2009. These include:

<u>Project Name</u>	<u>Total Approved Contract</u>	<u>Balance to Complete</u>
Palmer Drive tank	\$ 2,407,680	240,767
Outlet tower sluice gate	983,600	97,990
Ponti tank	217,853	22,163
Total	<u>\$ 3,609,133</u>	<u>360,920</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.

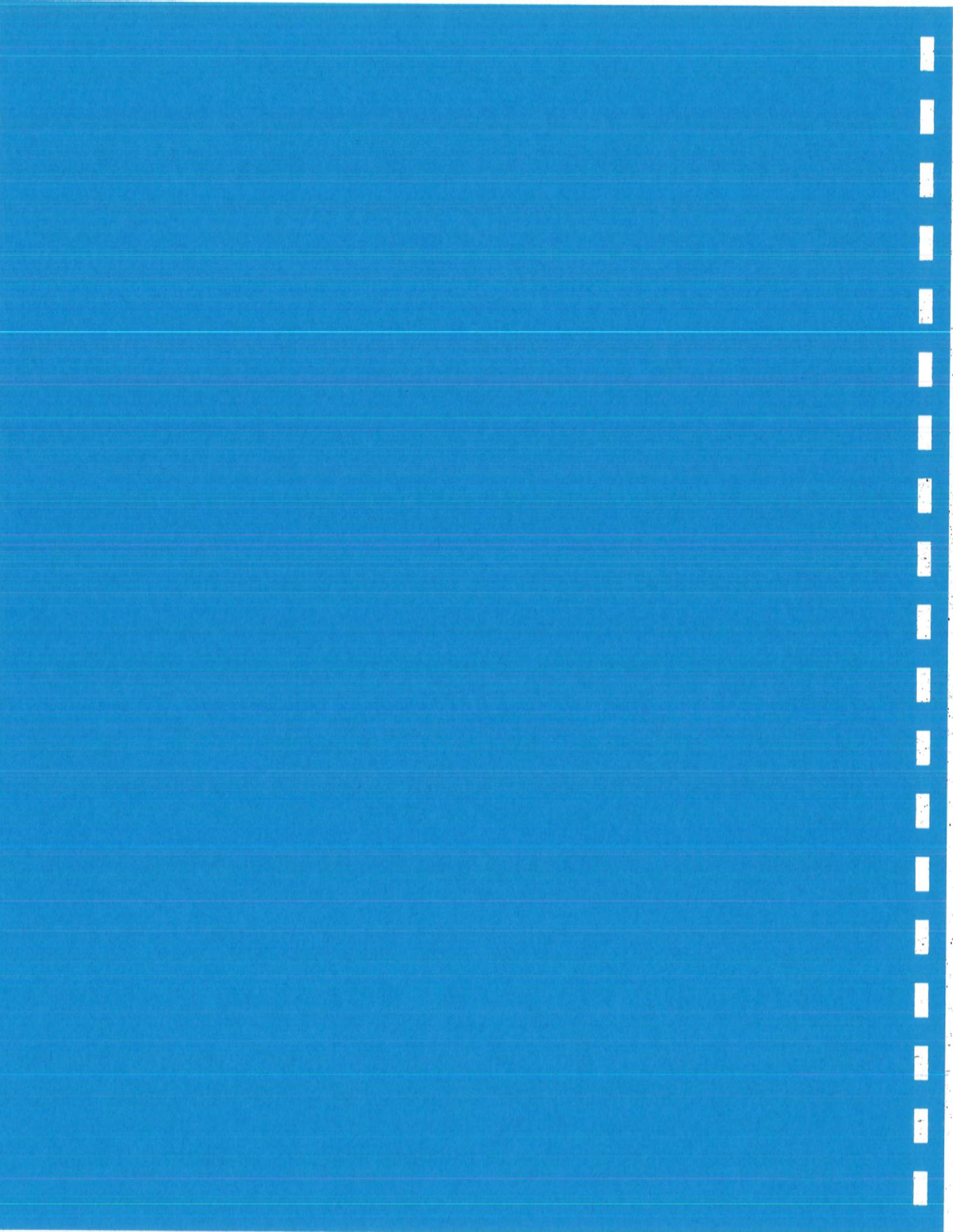
*Litigation*

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.

**(19) Change in Accounting Estimate**

In 2009, the District re-evaluated its capital asset depreciable lives and expensed an approximately \$7.7 million non-cash charge to depreciation expense due to the District's change in the accounting estimate for depreciation.

## **Supplemental Information**



# Combining Statements

**North Marin Water District**  
**Combining Statement of Net Assets**  
**For the Year Ended June 30, 2009**

<i>Assets</i>	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total
Current assets:					
Cash and cash equivalents	\$ 2,856,601	-	-	160,926	3,017,527
Restricted – cash and cash equivalents	2,322,886	-	52,964	68,438	2,444,288
Accrued interest receivable	58,325	-	-	-	58,325
Accounts receivable – water and sewer sales	2,482,283	99,050	84,862	13,836	2,680,031
Accounts receivable – governmental agencies	307,378	-	-	-	307,378
Accounts receivable – other	92,127	34,558	-	1,918	128,603
Note receivable – Black Point Golf Links	-	178,560	-	-	178,560
Notes receivable – employee computer loans	4,136	-	-	-	4,136
Materials and supplies inventory	588,499	-	-	-	588,499
Prepaid expenses and deposits	26,765	-	1,686	3,095	31,546
Total current assets	<u>8,739,000</u>	<u>312,168</u>	<u>139,512</u>	<u>248,213</u>	<u>9,438,893</u>
Non-current assets:					
Investments	-	-	-	-	-
Restricted – investments	2,084,755	-	-	-	2,084,755
Internal balances	689,445	(230,623)	(458,822)	-	-
Note receivable – Black Point Golf Links	-	2,896,052	-	-	2,896,052
Notes receivable – employee housing loans	1,196,785	-	-	-	1,196,785
Capital assets, not being depreciated	2,976,119	91,931	111,683	808	3,180,541
Depreciable capital assets, net	<u>69,389,028</u>	<u>4,564,448</u>	<u>4,118,742</u>	<u>753,963</u>	<u>78,826,181</u>
Total non-current assets	<u>76,336,132</u>	<u>7,321,808</u>	<u>3,771,603</u>	<u>754,771</u>	<u>88,184,314</u>
<b>Total assets</b>	<u>\$ 85,075,132</u>	<u>7,633,976</u>	<u>3,911,115</u>	<u>1,002,984</u>	<u>97,623,207</u>
<b><i>Liabilities and Net Assets</i></b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,810,259	74,736	-	590	1,885,585
Accrued wages and related payables	337,139	-	18,844	5,923	361,906
Accrued claims payable	14,400	-	-	-	14,400
Customer advances and deposits	425,661	-	95,912	2,109	523,682
Accrued interest payable – long-term debt	6,544	2,989	7,285	-	16,818
Long-term liabilities – due within one year:					
Compensated absences	101,770	-	-	-	101,770
Bonds payable	-	-	30,069	-	30,069
Loans payable	336,598	178,380	1,764	-	516,742
Total current liabilities	<u>3,032,371</u>	<u>256,105</u>	<u>153,874</u>	<u>8,622</u>	<u>3,450,972</u>
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	305,310	-	-	-	305,310
Other post-employment benefits payable	181,389	-	-	-	181,389
Bonds payable	-	-	282,809	-	282,809
Loans payable	16,323,140	3,779,398	17,013	-	20,119,551
Total non-current liabilities	<u>16,809,839</u>	<u>3,779,398</u>	<u>299,822</u>	<u>-</u>	<u>20,889,059</u>
<b>Total liabilities</b>	<u>19,842,210</u>	<u>4,035,503</u>	<u>453,696</u>	<u>8,622</u>	<u>24,340,031</u>
Net assets:					
Net investment in capital assets	55,705,409	698,601	3,898,770	754,771	61,057,551
Restricted for capital projects and debt service	3,981,980	-	210,343	66,329	4,258,652
Unrestricted	5,545,533	2,899,872	(651,694)	173,262	7,966,973
<b>Total net assets</b>	<u>65,232,922</u>	<u>3,598,473</u>	<u>3,457,419</u>	<u>994,362</u>	<u>73,283,176</u>
<b>Total liabilities and net assets</b>	<u>\$ 85,075,132</u>	<u>7,633,976</u>	<u>3,911,115</u>	<u>1,002,984</u>	<u>97,623,207</u>

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

<u>Assets</u>	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
<b>Current assets:</b>					
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	<u>9,932,937</u>	<u>448,622</u>	<u>134,764</u>	<u>203,354</u>	<u>10,719,677</u>
<b>Non-current assets:</b>					
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	<u>80,733,590</u>	<u>7,740,307</u>	<u>4,215,187</u>	<u>801,497</u>	<u>93,490,581</u>
<b>Total assets</b>	<u>\$ 90,666,527</u>	<u>8,188,929</u>	<u>4,349,951</u>	<u>1,004,851</u>	<u>104,210,258</u>
<b><u>Liabilities and Net Assets</u></b>					
<b>Current liabilities:</b>					
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
<b>Long-term liabilities – due within one year:</b>					
Compensated absences	90,563	-	-	-	90,563
Bonds payable	-	-	22,923	-	22,923
Loans payable	-	174,199	-	-	174,199
Total current liabilities	<u>3,063,996</u>	<u>270,786</u>	<u>66,365</u>	<u>10,939</u>	<u>3,412,086</u>
<b>Non-current liabilities:</b>					
<b>Long-term liabilities – due in more than one year:</b>					
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	<u>16,188,949</u>	<u>3,957,778</u>	<u>331,655</u>	<u>-</u>	<u>20,478,382</u>
<b>Total liabilities</b>	<u>19,252,945</u>	<u>4,228,564</u>	<u>398,020</u>	<u>10,939</u>	<u>23,890,468</u>
<b>Net assets:</b>					
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
<b>Total net assets</b>	<u>71,413,582</u>	<u>3,960,365</u>	<u>3,951,931</u>	<u>993,912</u>	<u>80,319,790</u>
<b>Total liabilities and net assets</b>	<u>\$ 90,666,527</u>	<u>8,188,929</u>	<u>4,349,951</u>	<u>1,004,851</u>	<u>104,210,258</u>

**North Marin Water District**  
**Combining Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2009**

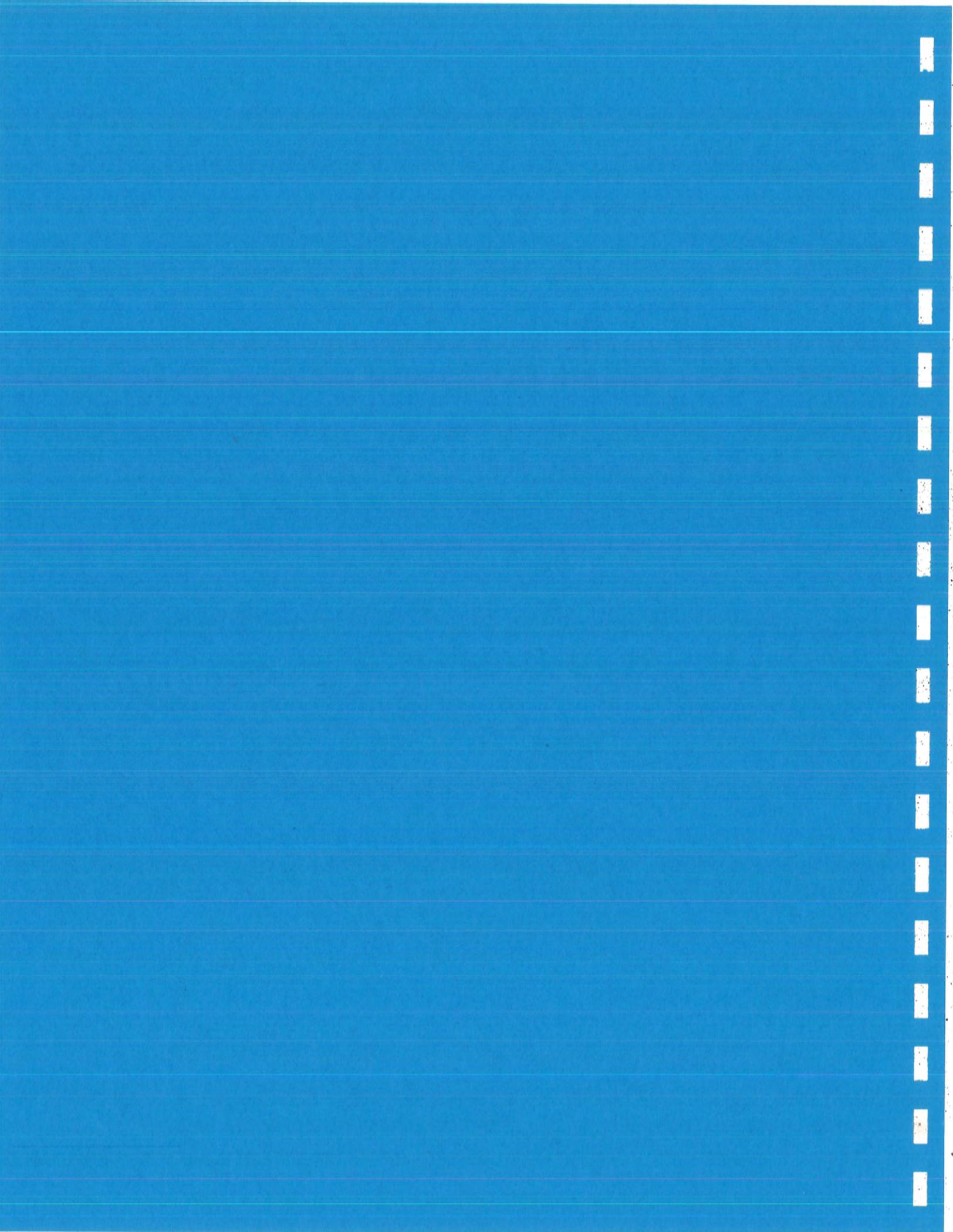
	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
Operating revenues:					
Water consumption sales	\$ 9,914,996	217,554	440,818	-	10,573,368
Bi-monthly meter service charge	1,503,641	1,646	76,120	-	1,581,407
Sewer service charges	-	-	-	147,918	147,918
Water conservation reimbursements	16,068	-	-	-	16,068
Other charges and services	204,686	222	2,598	27	207,533
<b>Total operating revenues</b>	<u>11,639,391</u>	<u>219,422</u>	<u>519,536</u>	<u>147,945</u>	<u>12,526,294</u>
Operating expenses:					
Source of supply	3,958,468	-	2,320	-	3,960,788
Pumping	289,644	1,791	47,801	-	339,236
Water facilities operations	552,750	11,149	14,969	-	578,868
Water treatment	1,593,593	100,053	87,870	-	1,781,516
Transmission and distribution	2,235,677	17,005	82,385	-	2,335,067
Sewage collection and treatment	-	-	-	98,715	98,715
Customer service	481,504	-	20,285	3,429	505,218
General and administrative	1,844,022	15,199	59,500	24,801	1,943,522
Improvement projects	1,312,198	170,772	72,252	34,191	1,589,413
Water conservation projects	507,260	-	-	-	507,260
<b>Total operating expenses</b>	<u>12,775,116</u>	<u>315,969</u>	<u>387,382</u>	<u>161,136</u>	<u>13,639,603</u>
Operating loss before overhead absorption	(1,135,725)	(96,547)	132,154	(13,191)	(1,113,309)
Overhead absorption	382,478	-	-	-	382,478
Operating loss before depreciation	(753,247)	(96,547)	132,154	(13,191)	(730,831)
Depreciation	(9,024,903)	(173,479)	(740,332)	(152,425)	(10,091,139)
<b>Operating loss</b>	<u>(9,778,150)</u>	<u>(270,026)</u>	<u>(608,178)</u>	<u>(165,616)</u>	<u>(10,821,970)</u>
Non-operating revenues(expenses):					
Property tax revenue	-	-	59,037	44,593	103,630
Investment earnings	328,410	79,437	1,338	4,496	413,681
Rental revenue	47,961	-	3,600	500	52,061
Interest expense – long-term debt	(382,613)	(99,195)	(31,506)	-	(513,314)
Wohler/Collector No. 6 agreement	(110,246)	-	-	-	(110,246)
Loss on sale/disposition of capital assets, net	-	-	-	-	-
Other non-operating revenues, net	131,448	(72,108)	2,024	1,778	63,142
<b>Total non-operating revenues, net</b>	<u>14,960</u>	<u>(91,866)</u>	<u>34,493</u>	<u>51,367</u>	<u>8,954</u>
<b>Net loss before capital contributions</b>	<u>(9,763,190)</u>	<u>(361,892)</u>	<u>(573,685)</u>	<u>(114,249)</u>	<u>(10,813,016)</u>
Capital contributions:					
Developers and others	2,720,346	-	4,443	105,699	2,830,488
Connection fees	862,184	-	74,730	9,000	945,914
<b>Capital contributions</b>	<u>3,582,530</u>	<u>-</u>	<u>79,173</u>	<u>114,699</u>	<u>3,776,402</u>
<b>Change in net assets</b>	<u>(6,180,660)</u>	<u>(361,892)</u>	<u>(494,512)</u>	<u>450</u>	<u>(7,036,614)</u>
Net assets, beginning of year	71,413,582	3,960,365	3,951,931	993,912	80,319,790
Net assets, end of year	<u>\$ 65,232,922</u>	<u>3,598,473</u>	<u>3,457,419</u>	<u>994,362</u>	<u>73,283,176</u>

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

	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
Operating revenues:					
Water consumption sales	\$ 9,030,312	173,992	403,186	-	9,607,490
Bi-monthly meter service charge	1,354,428	-	70,200	-	1,424,628
Sewer service charges	-	-	-	146,642	146,642
Water conservation reimbursements	394,398	-	-	-	394,398
Other charges and services	203,175	198	2,626	-	205,999
<b>Total operating revenues</b>	<u>10,982,313</u>	<u>174,190</u>	<u>476,012</u>	<u>146,642</u>	<u>11,779,157</u>
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
<b>Total operating expenses</b>	<u>12,113,198</u>	<u>171,893</u>	<u>593,479</u>	<u>159,824</u>	<u>13,038,394</u>
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)
<b>Operating loss</b>	<u>(2,187,051)</u>	<u>(91,912)</u>	<u>(204,385)</u>	<u>(38,161)</u>	<u>(2,521,509)</u>
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
Interest expense – long-term debt	(377,538)	(103,864)	(38,082)	-	(519,484)
Wohler/Collector No. 6 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
<b>Total non-operating revenues, net</b>	<u>134,041</u>	<u>(5,106)</u>	<u>14,268</u>	<u>54,008</u>	<u>197,211</u>
<b>Net loss before capital contributions</b>	<u>(2,053,010)</u>	<u>(97,018)</u>	<u>(190,117)</u>	<u>15,847</u>	<u>(2,324,298)</u>
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
<b>Capital contributions</b>	<u>6,569,222</u>	<u>-</u>	<u>471,674</u>	<u>20,995</u>	<u>7,061,891</u>
<b>Change in net assets</b>	<u>4,516,212</u>	<u>(97,018)</u>	<u>281,557</u>	<u>36,842</u>	<u>4,737,593</u>
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	<u>\$ 71,413,582</u>	<u>3,960,365</u>	<u>3,951,931</u>	<u>993,912</u>	<u>80,319,790</u>

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# **Statistical Information Section**



## North Marin Water District Statistical Section

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

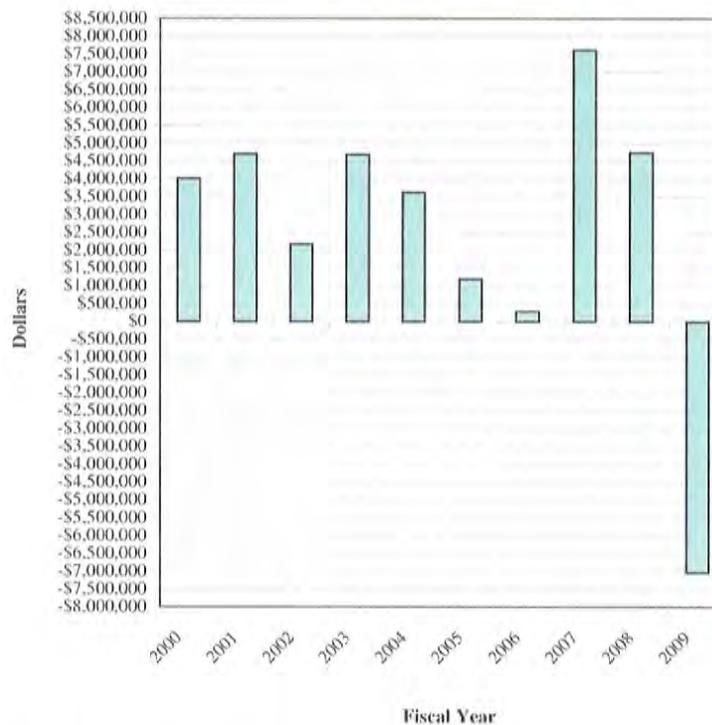
### Table of Contents

	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	45-49
Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	50-53
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	54-55
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	56
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	57

## North Marin Water District Changes in Net Assets and Net Assets by Component Last Ten Fiscal Years

	Fiscal Year				
	2000	2001	2002	2003	2004
Changes in net assets:					
Operating revenues (see schedule 2)	\$ 6,270,965	6,645,712	7,378,362	7,729,657	8,545,299
Operating expenses (see schedule 3)	(7,400,782)	(8,142,046)	(8,882,856)	(7,695,931)	(8,599,620)
Depreciation and amortization	(783,391)	(794,163)	(819,943)	(825,144)	(996,414)
<b>Operating income(loss)</b>	<b>(1,913,208)</b>	<b>(2,290,497)</b>	<b>(2,324,437)</b>	<b>(791,418)</b>	<b>(1,050,735)</b>
Net non-operating revenue(expense) (see schedule 4)	1,795,342	2,535,728	1,384,051	1,021,668	724,241
<b>Net income(loss) before capital contributions</b>	<b>(117,866)</b>	<b>245,231</b>	<b>(940,386)</b>	<b>230,250</b>	<b>(326,494)</b>
Capital contributions	4,136,703	4,457,450	3,110,881	4,454,904	3,951,431
<b>Changes in net assets</b>	<b>\$ 4,018,837</b>	<b>4,702,681</b>	<b>2,170,495</b>	<b>4,685,154</b>	<b>3,624,937</b>
Net assets by component:					
Invested in capital assets, net of related debt	\$ 35,009,573	33,313,207	35,532,397	49,666,111	54,732,557
Restricted	11,809,928	11,718,760	9,808,702	6,147,924	15,275,334
Unrestricted	6,990,062	5,906,489	5,517,210	9,410,355	(1,158,564)
<b>Total net assets</b>	<b>\$ 53,809,563</b>	<b>50,938,456</b>	<b>50,858,309</b>	<b>65,224,390</b>	<b>68,849,327</b>

Changes in Net Assets

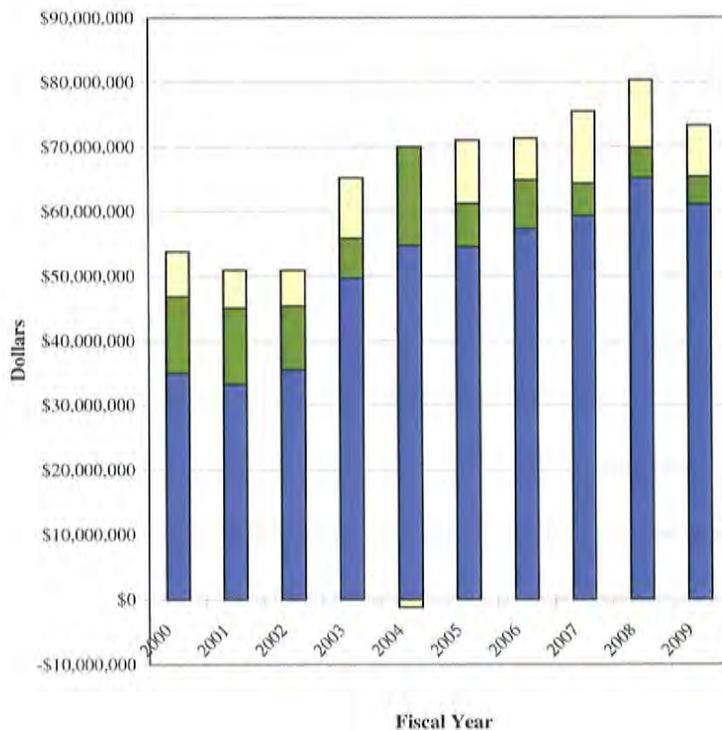


Source: North Marin Water District Audited Financial Statements

Schedule 1

Fiscal Year				
2005	2006	2007	2008	2009
9,545,264	10,288,824	11,848,037	11,779,157	12,526,294
(9,055,754)	(11,286,711)	(12,555,989)	(12,538,993)	(13,257,125)
(1,004,844)	(1,069,149)	(1,490,077)	(1,761,673)	(10,091,139)
(515,334)	(2,067,036)	(2,198,029)	(2,521,509)	(10,821,970)
(389,534)	230,326	1,178,739	197,211	8,954
(904,868)	(1,836,710)	(1,019,290)	(2,324,298)	(10,813,016)
2,099,524	2,133,298	8,639,031	7,061,891	3,776,402
1,194,656	296,588	7,619,741	4,737,593	(7,036,614)
54,510,568	57,344,482	59,290,284	65,099,863	61,057,551
6,721,908	7,504,340	4,994,444	4,743,194	4,304,331
9,785,723	6,465,970	11,179,233	10,476,733	7,921,294
71,018,199	71,314,792	75,463,961	80,319,790	73,283,176

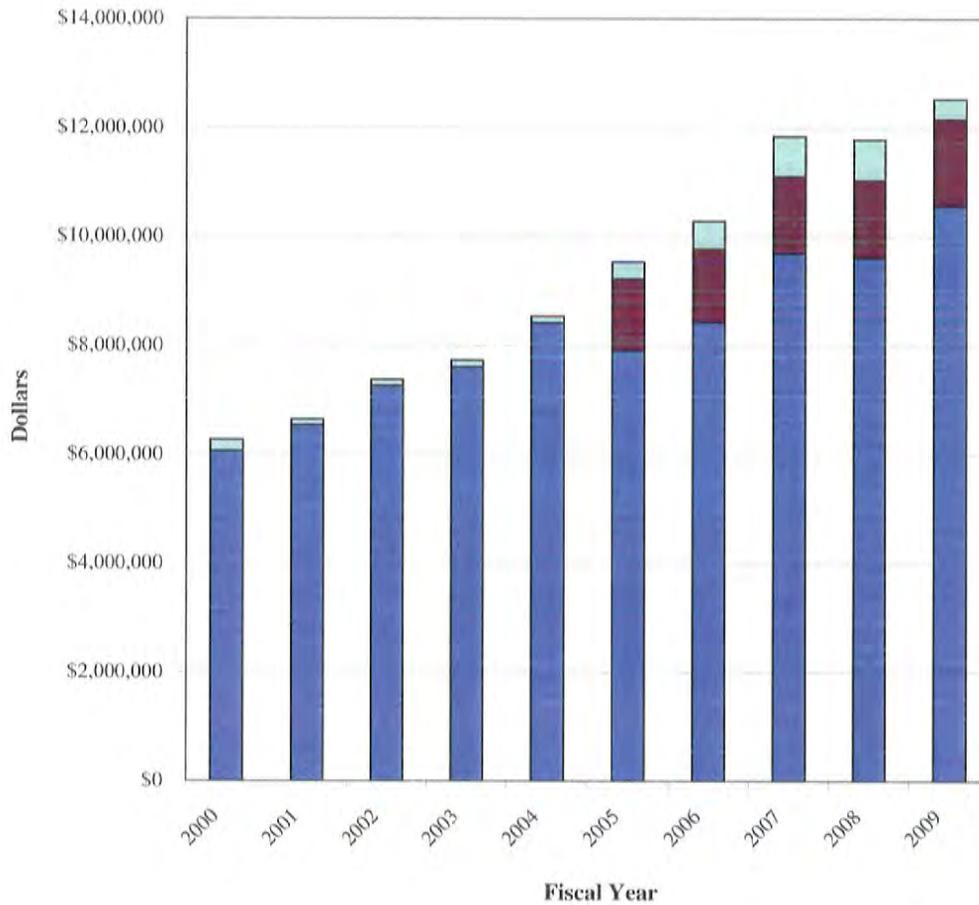
Net Assets by Component



**North Marin Water District  
Operating Revenue by Source  
Last Ten Fiscal Years**

**Schedule 2**

<b>Fiscal Year</b>		<b>Water Sales</b>	<b>Bi-Monthly Service Charges</b>	<b>Other Charges and Services</b>	<b>Total Operating Revenue</b>
2000	\$	6,059,821	N/A	211,144	6,270,965
2001		6,540,096	N/A	105,616	6,645,712
2002		7,265,822	N/A	112,540	7,378,362
2003		7,608,878	N/A	120,779	7,729,657
2004		8,420,132	N/A	125,167	8,545,299
2005		7,912,004	1,311,917	321,343	9,545,264
2006		8,432,210	1,338,533	518,081	10,288,824
2007		9,693,104	1,412,428	742,505	11,848,037
2008		9,607,490	1,424,628	747,039	11,779,157
2009		10,573,368	1,581,407	371,519	12,526,294

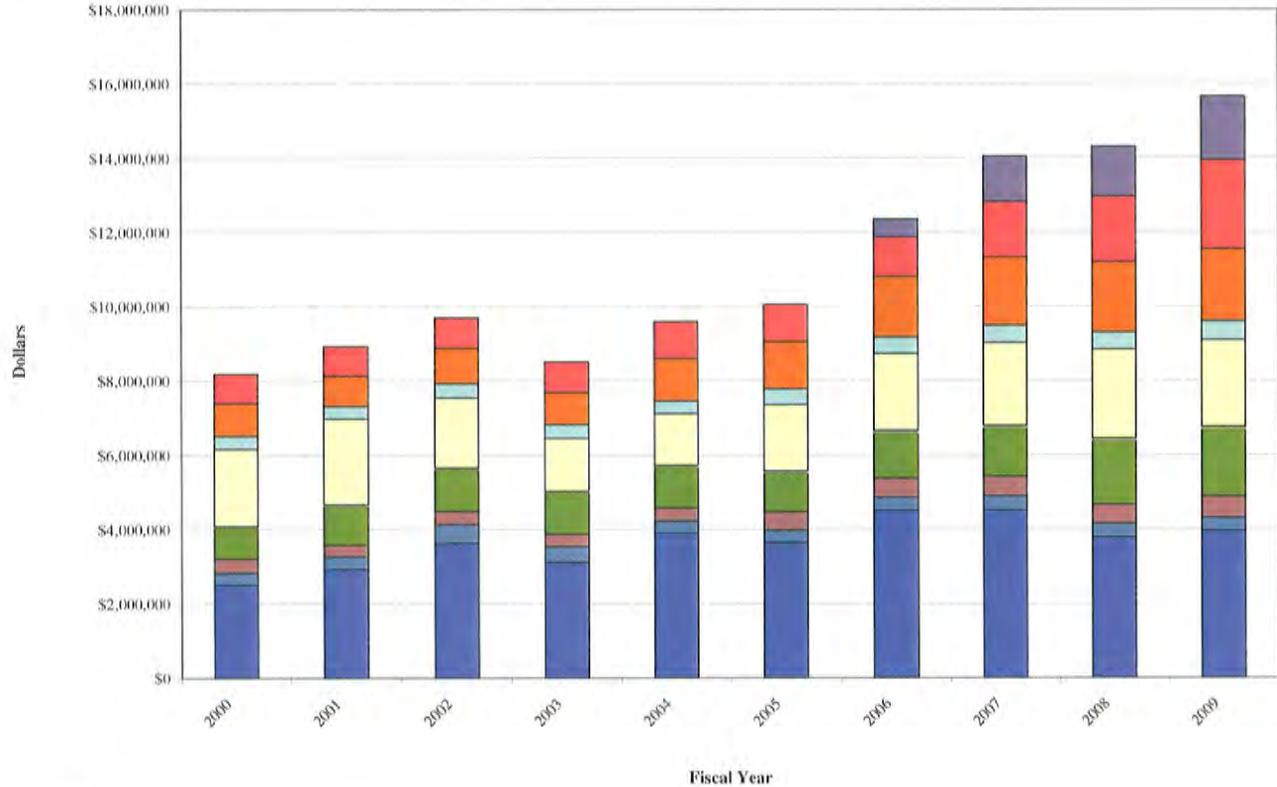


Source: North Marin Water District Audited Financial Statements

## North Marin Water District Operating Expenses by Activity Last Ten Fiscal Years

**Schedule 3**

Fiscal Year	Source of Supply	Pumping	Water Fac. Operations	Water Treatment	Sewage Coll. & Treat.	Transmission & Distribution	Customer Service	General and Administrative	Other Operating Expense	Depreciation and Amortization	Total Operating Expenses
2000	2,512,218	328,859	371,595	831,904	49,813	2,071,824	354,547	880,022		783,391	8,184,173
2001	2,933,913	344,555	305,280	1,042,460	50,200	2,300,320	347,789	817,529		794,163	8,936,209
2002	3,639,656	499,738	349,987	1,115,955	48,651	1,892,822	388,268	947,779		819,943	9,702,799
2003	3,122,041	422,584	336,696	1,100,737	54,303	1,423,429	365,446	870,695		825,144	8,521,075
2004	3,902,293	324,079	357,988	1,088,440	54,890	1,391,690	346,868	1,133,372		996,414	9,596,034
2005	3,654,013	324,111	500,523	1,028,268	68,113	1,783,140	425,700	1,271,886		1,004,844	10,060,598
2006	4,508,462	358,844	504,491	1,205,525	88,998	2,059,031	450,278	1,632,751	478,331 <sup>(1)</sup>	1,069,149	12,355,860
2007	4,513,365	381,725	518,996	1,303,083	78,328	2,222,348	474,082	1,835,667	1,228,395 <sup>(2)</sup>	1,490,077	14,046,066
2008	3,782,414	379,341	506,287	1,698,781	84,418	2,385,742	466,301	1,900,169	1,335,540 <sup>(2)</sup>	1,761,673	14,300,666
2009	3,960,788	339,236	578,868	1,781,516	98,715	2,335,067	505,218	1,943,522	1,714,195 <sup>(2)</sup>	2,400,106 <sup>(1)</sup>	15,657,231



Source: North Marin Water District Audited Financial Statements

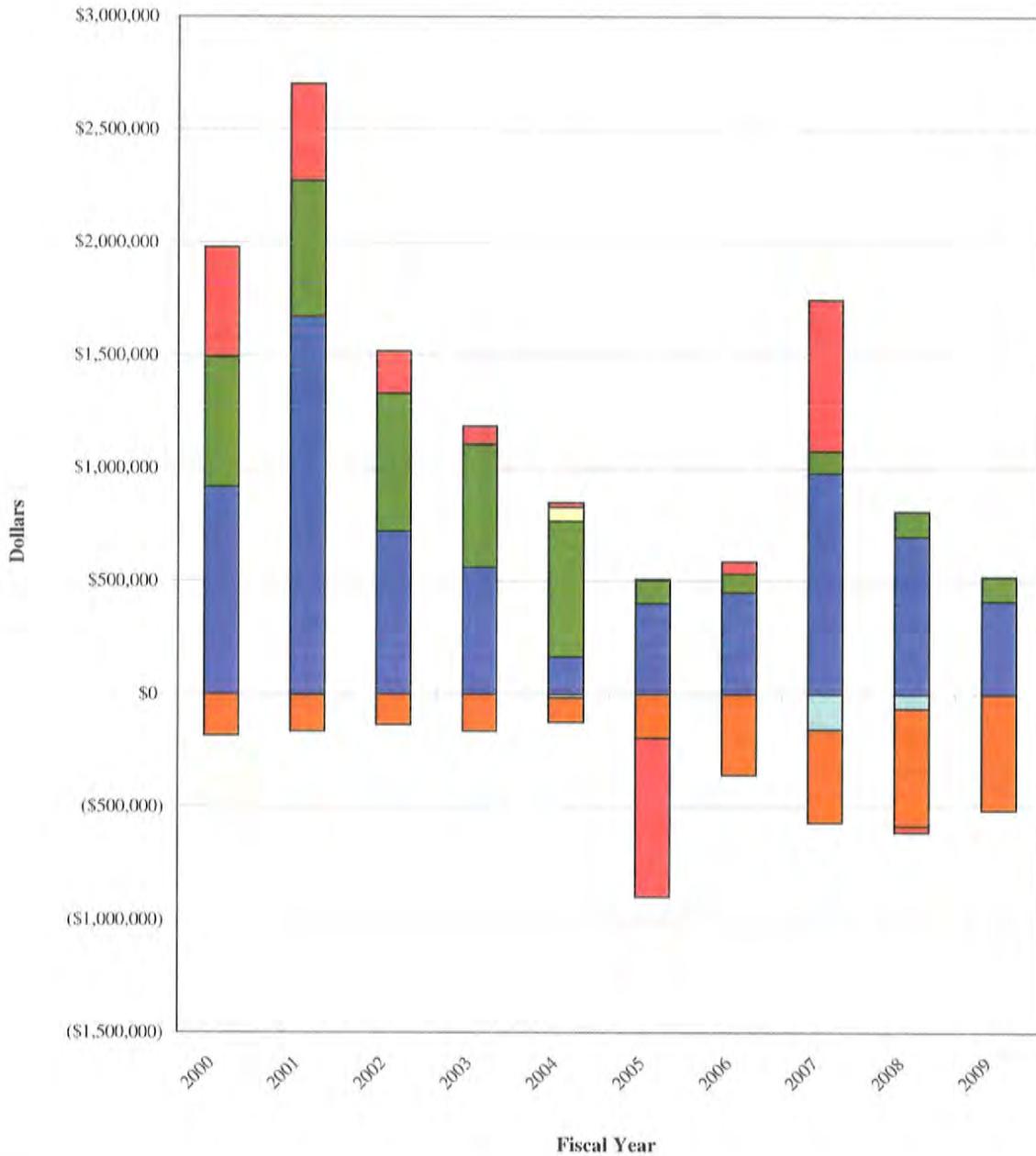
<sup>(1)</sup> Excludes \$7,691,033 depreciation due to change in lives of many assets

<sup>(2)</sup> Reduced by overhead absorption

**North Marin Water District  
Non-operating Revenues and Expenses  
Last Ten Fiscal Years**

**Schedule 4**

Fiscal Year	Investment Income <sup>(1)</sup>	Property Taxes	Grant Revenue	Gain/(Loss) on Sale of Assets	Interest Expense	Other Income & Expense, net	Net Non-operating Revenues/(Expenses)
2000	918,359	571,979	-	3,678	(183,439)	484,765	1,795,342
2001	1,670,885	602,894	-	(4,739)	(161,389)	428,077	2,535,728
2002	720,404	611,366	-	-	(135,667)	187,948	1,384,051
2003	562,005	542,631	-	3,635	(164,798)	78,195	1,021,668
2004	164,878	600,979	61,000	(15,799)	(107,839)	21,022	724,241
2005	402,249	100,708	-	6,015	(194,860)	(703,646)	(389,534)
2006	450,799	82,138	-	-	(357,937)	55,326	230,326
2007	978,923	97,919	-	(157,126)	(411,543)	670,566	1,178,739
2008	699,107	110,129	-	(64,347)	(519,484)	(28,194)	197,211
2009	413,681	103,630	-	-	(513,314)	4,957	8,954



**Notes:**

(1) Includes interest income and realized and unrealized gains and losses on investments.

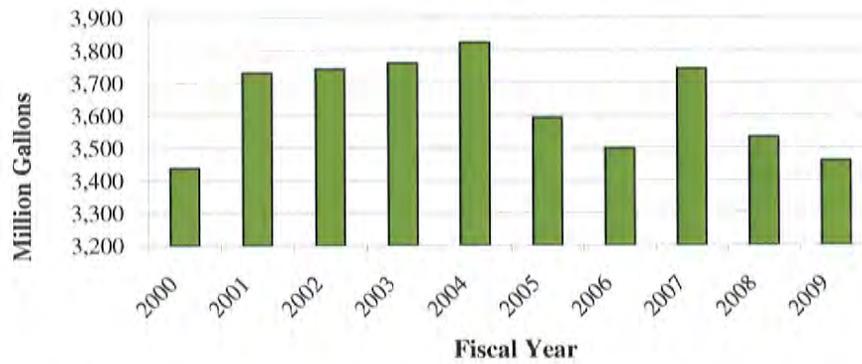
Source: North Marin Water District Audited Financial Statements

**North Marin Water District  
Revenue Base  
Last Ten Fiscal Years**

**Schedule 5**

**Revenue Base  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Water Consumption (Million Gallons)</b>
2000	3,438
2001	3,730
2002	3,743
2003	3,761
2004	3,824
2005	3,593
2006	3,498
2007	3,743
2008	3,533
2009	3,460



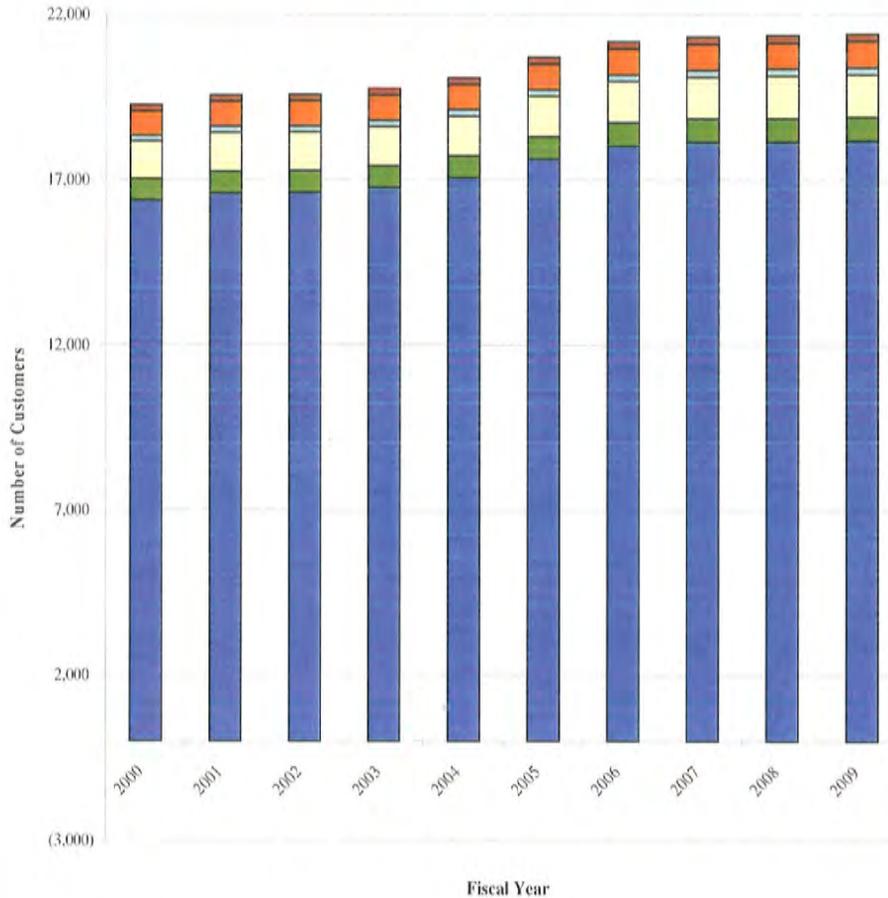
**Note:** See Schedule 2 "Revenue by Source" for information regarding water sales.

**Source:** Novato Water District Billing System

## North Marin Water District Customers by Type Last Ten Fiscal Years

Schedule 6

Fiscal Year	Single-Family Residential	Multi-Family Residential	Commerical/ Business	Government	West Marin Water	Oceana Marin Sewer	Total
2000	16,375	655	1,135	176	732	192	19,265
2001	16,601	647	1,177	194	749	197	19,565
2002	16,625	657	1,161	187	755	199	19,584
2003	16,768	657	1,190	193	755	205	19,768
2004	17,072	660	1,198	200	759	209	20,098
2005	17,642	672	1,219	207	767	215	20,722
2006	18,034	708	1,243	207	783	218	21,193
2007	18,146	712	1,253	214	789	220	21,334
2008	18,157	717	1,278	214	790	223	21,379
2009	18,197	720	1,280	219	793	225	21,434



Source: North Marin Water District - Finance Department

**North Marin Water District  
Revenue Rates  
Last Ten Fiscal Years**

**Schedule 7**

**Minimum Bimonthly Service Charge**

Meter Size	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09
5/8" & 3/4"	\$9.00	\$9.00	\$9.00	\$9.00	\$9.00	\$10.00	\$10.00	\$10.00	\$10.00	\$13.20
1"	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00	\$20.00	\$20.00	\$20.00	\$20.00	\$26.40
1 1/2"	\$22.00	\$22.00	\$22.00	\$22.00	\$22.00	\$24.00	\$24.00	\$24.00	\$24.00	\$32.40
2"	\$34.00	\$34.00	\$34.00	\$34.00	\$34.00	\$38.00	\$38.00	\$38.00	\$38.00	\$50.40
3"	\$68.00	\$68.00	\$68.00	\$68.00	\$68.00	\$75.00	\$75.00	\$75.00	\$75.00	\$99.60
4"	\$112.00	\$112.00	\$112.00	\$112.00	\$112.00	\$120.00	\$120.00	\$120.00	\$120.00	\$159.60
6"	\$226.00	\$226.00	\$226.00	\$226.00	\$226.00	\$251.00	\$251.00	\$251.00	\$251.00	\$334.80
8"	\$338.00	\$338.00	\$338.00	\$338.00	\$338.00	\$375.00	\$375.00	\$375.00	\$375.00	\$499.20

**Water Use Rate (per 1,000 Gallons)**

User Type	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09
<b>Residential</b>										
Zone A Base Rate <sup>(1)</sup>	\$1.26	\$1.30	\$1.48	\$1.58	\$1.64	\$2.01	\$2.21	\$2.27	\$2.27	\$3.02
Tier 1: 616-1845 gpd	N/A	\$3.61	\$3.61	\$4.81						
Tier 2: >1845 gpd	N/A	N/A	N/A	N/A	\$5.66	\$6.02	\$6.22	\$6.28	\$6.28	\$8.36
<b>Non-Residential</b>										
Zone A Base Rate <sup>(1)</sup>	\$1.26	\$1.30	\$1.48	\$1.58	\$1.64	\$2.01	\$2.21	\$2.41	\$2.61	\$3.48

**Notes:**

(1) Rates shown exclude additional elevation rate applicable to customers in upper elevation zones  
N/A - Rate class was not established during the period

**Source:** North Marin Water District Board of Directors approved rate ordinances and resolutions

**North Marin Water District  
Ten Largest Water Users  
Current Fiscal Year and Five Years Ago<sup>(1)</sup>**

**Schedule 8**

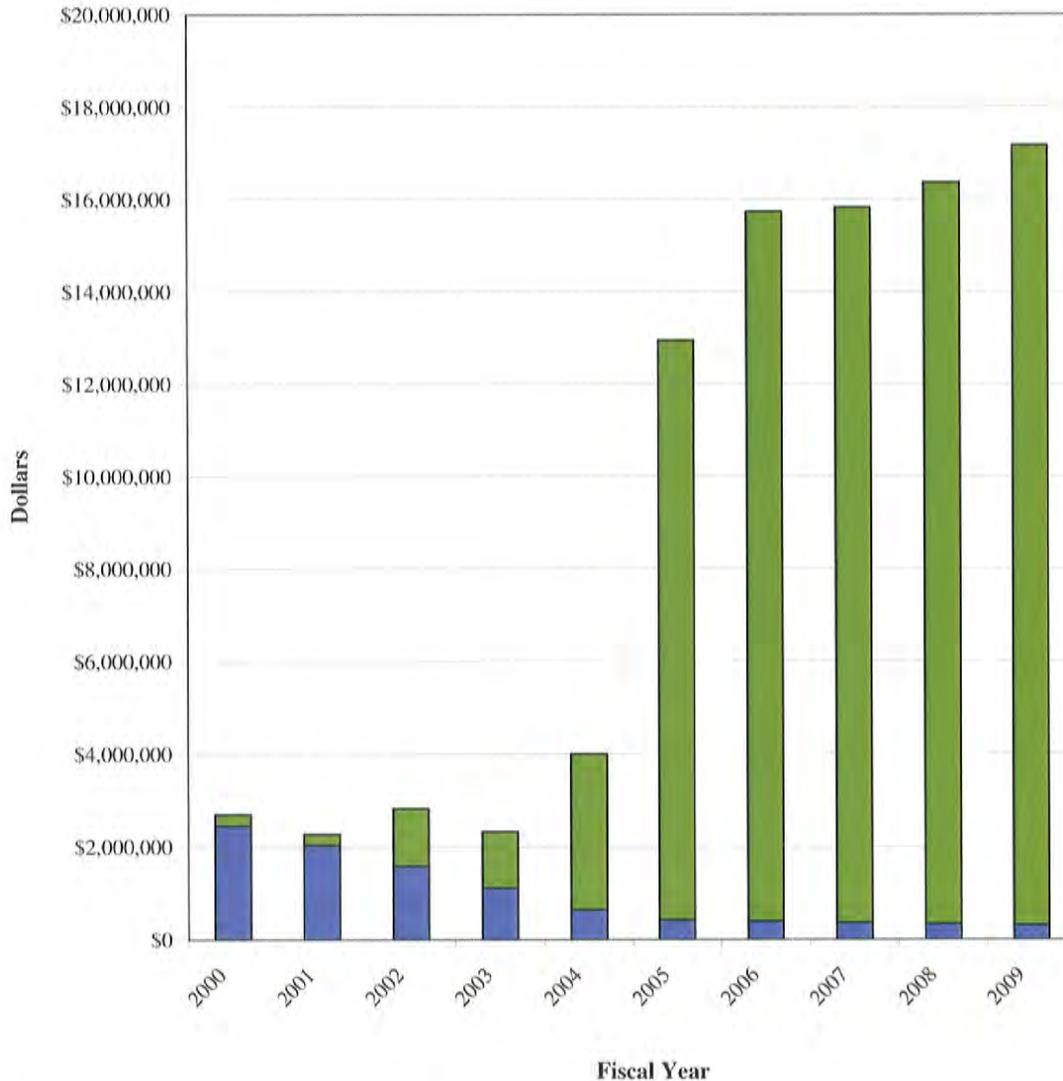
	<u><b>FY 2008/09</b></u>	<u><b>% of Total</b></u>	<u><b>FY 2003/04</b></u>	<u><b>% of Total</b></u>
1	City of Novato	2.0%	Coast Guard Spanish Housing	2.1%
2	Black Point Partnership	1.9%	Black Point Partnership	1.8%
3	Novato Unified School District	1.9%	City of Novato	1.7%
4	Coast Guard Spanish Housing	1.7%	Novato Unified School District	1.7%
5	Fireman's Fund	0.7%	Fireman's Fund	0.8%
6	Meadow Park HOA	0.7%	Lanham Village HOA	0.6%
7	Indian Valley Golf Course	0.7%	Indian Valley Golf Course	0.6%
8	Western Oaks Villa	0.5%	Meadow Park HOA	0.4%
9	Biomarin Pharmaceutical	0.4%	Marin Valley Mobile Country Club	0.4%
10	Lanham Village HOA	0.4%	Western Oaks Villa	0.4%
		<u>10.9%</u>		<u>10.6%</u>

Source : NMWD Billing System (1) Only Track back 5 years

**North Marin Water District  
Ratio of Outstanding Debt by Type  
Last Ten Fiscal Years**

**Schedule 9**

Fiscal Year		Bonds Payable	Drought & SRF Loan Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2000	\$	2,450,697	246,642	2,697,339	47.15	0.07%
2001		2,035,718	237,970	2,273,688	39.07	0.06%
2002		1,589,642	1,231,069	2,820,711	48.55	0.08%
2003		1,117,461	1,211,225	2,328,686	40.08	0.06%
2004		645,172	3,360,808	4,005,980	67.78	0.09%
2005		421,768	12,527,765	12,949,533	211.94	0.27%
2006		396,243	15,338,404	15,734,647	252.97	0.30%
2007		363,593	15,458,618	15,822,211	249.96	N/A
2008		335,801	16,020,049	16,355,850	258.39	N/A
2009		312,878	16,856,896	17,169,774	271.24	N/A



Source: North Marin Water District Audited Financial Statements

N/A - Data not available

**North Marin Water District  
Pledged-Revenue Coverage  
Last Ten Fiscal Years**

**Schedule 10**

Fiscal Year	Operating Revenues	Operating Expenses <sup>(1)</sup>	Net Available Revenues	Debt Service			Coverage Ratio
				Principal <sup>(2)</sup>	Interest	Total	
2000	\$ 6,270,965	(7,400,782)	(1,129,817)	406,260	183,440	589,700	(1.92)
2001	6,645,712	(8,142,046)	(1,496,334)	423,650	161,389	585,039	(2.56)
2002	7,378,362	(8,882,856)	(1,504,494)	455,312	135,667	590,979	(2.55)
2003	7,729,657	(7,695,931)	33,726	492,059	164,435	656,494	0.05
2004	8,545,299	(8,599,620)	(54,321)	776,157	107,843	884,000	(0.06)
2005	9,545,264	(9,055,754)	489,510	399,142	195,453	594,595	0.82
2006	10,089,848	(10,605,417)	(515,569)	210,070	357,936	568,006	(0.91)
2007	11,848,037	(11,327,594)	520,443	226,423	411,544	637,967	0.82
2008	11,779,157	(12,538,993)	(759,836)	523,976	130,192	654,168	(1.16)
2009	12,526,294	(13,257,125)	(730,831)	327,362	499,265	826,627	(0.88)

**Notes:**

(1) Operating expenses exclude depreciation expense.

(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

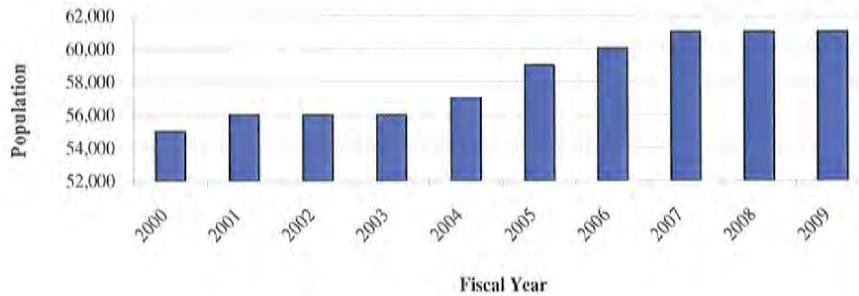
Source: North Marin Water District Audited Financial Statements

## North Marin Water District Demographics and Economics Statistics Last Ten Fiscal Years

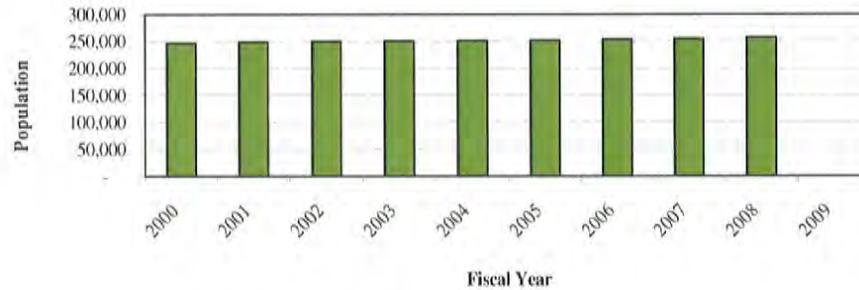
Schedule 11

Year	Novato <sup>(1)</sup>		County of Marin		
	Population	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2000	55,000	1.6%	246,334	\$ 16,765,789	68,061
2001	56,000	2.5%	248,994	16,899,722	67,872
2002	56,000	3.9%	250,090	16,158,935	64,612
2003	56,000	4.9%	250,804	16,340,714	65,153
2004	57,000	4.5%	251,202	18,114,794	72,112
2005	59,000	4.0%	252,116	19,763,926	78,392
2006	60,000	4.6%	253,818	21,184,396	83,463
2007	61,000	4.4%	255,080	N/A	N/A
2008	61,000	5.5%	257,406	N/A	N/A
2009	61,000	9.4%	N/A	N/A	N/A

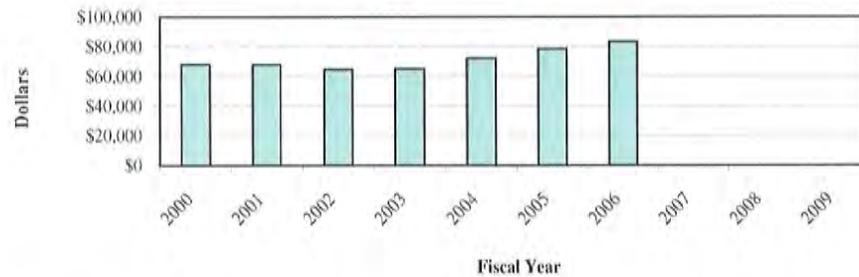
Population - Novato



Population - Marin County



Personal Income per Capita - Marin County



**Sources:** California Department of Finance, County of Marin, City of Novato, quickfacts.census.gov, Real Estate Center demographics and NMWD Annual Report of Population Estimate

**Notes:**

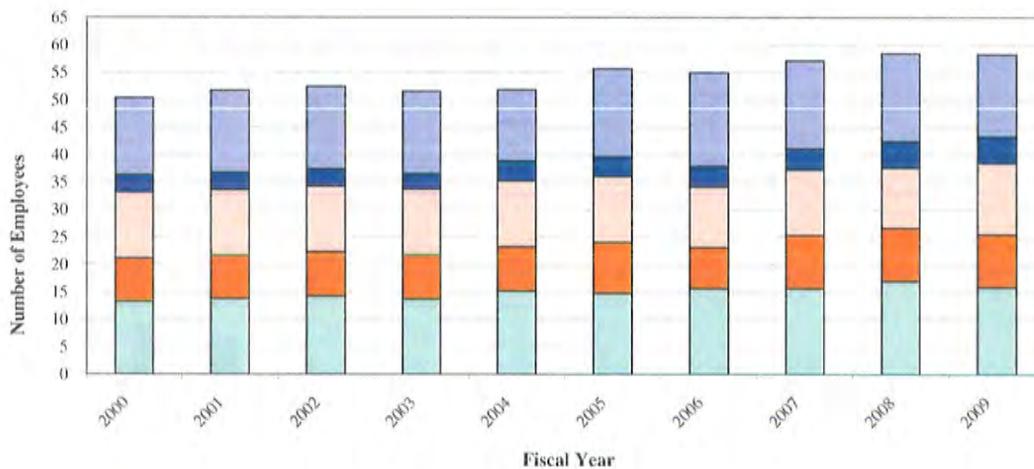
(1) District estimated

N/A - Information not available

## North Marin Water District Operating and Capacity Indicators Last Ten Fiscal Years

Schedule 12

Department	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Administrative Services	13	14	14	14	15	15	16	16	17	16
Engineering Services	8	8	8	8	8	9	8	10	10	10
Construction / Maintenance	12	12	12	12	12	12	11	12	11	13
Water Quality	3	3	3	3	4	4	4	4	5	5
Operations / Maintenance	14	15	15	15	13	16	17	16	16	15
	50	52	52	52	52	56	55	57	58	58



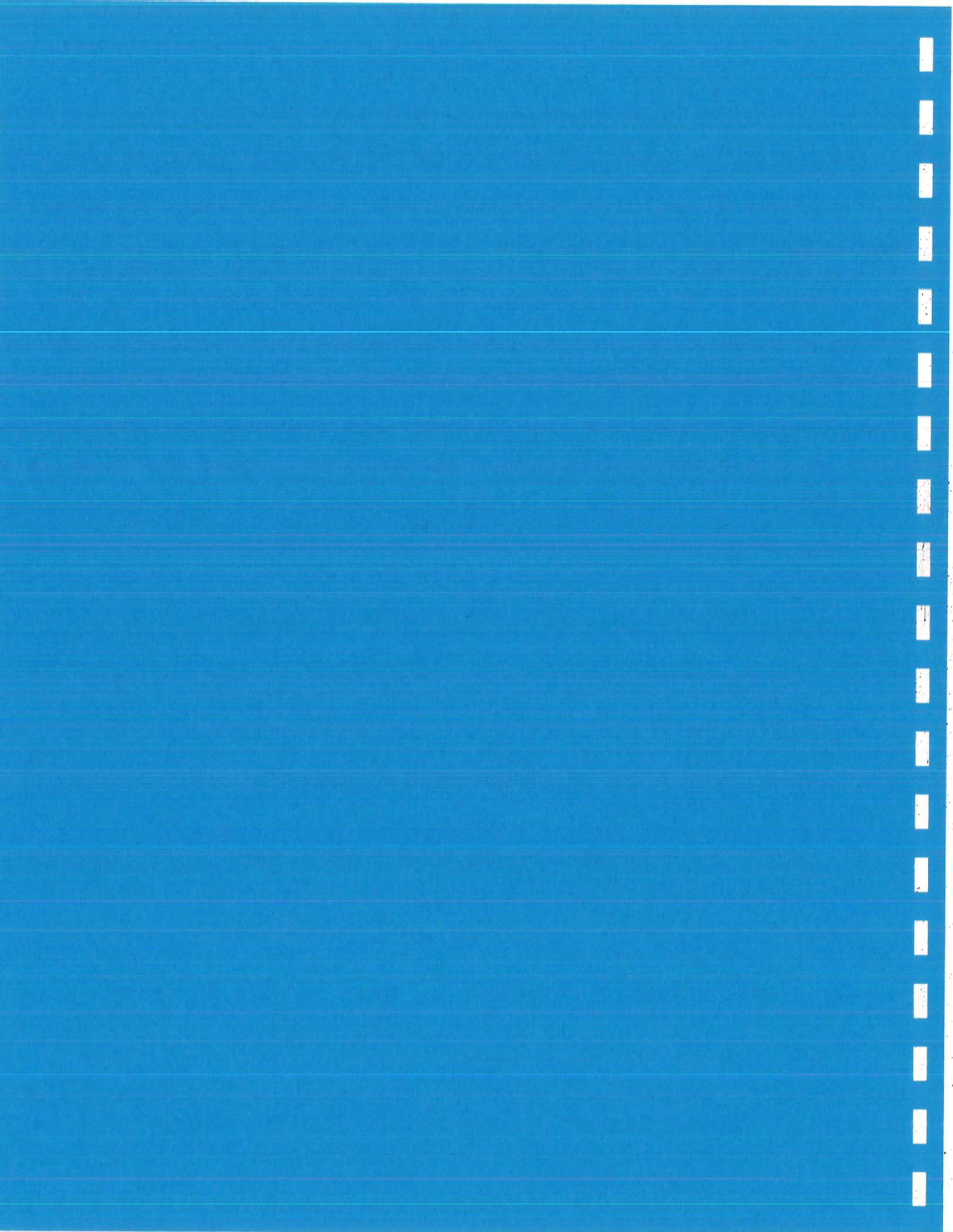
Source: North Marin Water District Overhead Payroll Worksheets for Pay Periods Ending June 30

### Other Operating and Capacity Indicators

Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Number of Fire Hydrants	System Storage Capacity (MG)
2000	100	298	2,311	29
2001	100	301	2,358	30
2002	100	304	2,408	30
2003	100	307	2,459	34
2004	100	310	2,501	34
2005	100	321	2,568	34
2006	100	324	2,670	34
2007	100	337	2,713	35
2008	100	341	2,749	35
2009	100	343	2,762	38

Source: North Marin Water District - Engineering Department

**Report on Internal Controls and Compliance**





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An Accountancy Corporation

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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, 2009, and have issued our report thereon dated August 31, 2009. 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.

August 31, 2009  
Cypress, California

*Charles Z. Fedak, CPA, MBA*  
An Accountancy Corporation

