



NORTH MARIN WATER DISTRICT

Novato, California

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018**





**NORTH MARIN
WATER DISTRICT**

Name	Title	Elected/ Appointed	Current Term
Rick Fraités	President	Elected	12/13 - 12/18
Jack Baker	Vice-President	Elected	12/15 - 12/20
James Grossi	Director	Appointed	08/17 - 12/18
Michael Joly	Director	Appointed	02/17 - 12/18
Stephen Petterle	Director	Elected	12/15 - 12/20

**Drew McIntyre, General Manager
North Marin Water District
999 Rush Creek Place
Novato, California 94945
(415) 897-4133 – www.nmwd.com**

North Marin Water District
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

NORTH MARIN WATER DISTRICT

999 Rush Creek Place
Novato, California 94945

Prepared by:
Finance Department
Julie Blue, Auditor-Controller

**North Marin Water District
Comprehensive Annual Financial Report
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Introductory Section



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December 4, 2018

Board of Directors
North Marin Water District

It is our pleasure to submit the Annual Financial Report for the North Marin Water District (District) for the fiscal year ended June 30, 2018, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared the data incorporated in this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and 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 the Governmental Accounting Standards Board believes necessary to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found on page 10 of this report.

District Structure and Leadership

The District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The 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. As of June 30, 2018, the District employed 54 regular employees, plus temporary and seasonal employees as the workload dictates. There are currently 21 office positions and 32 field positions.. The District's Board of Directors meets on the first and third Tuesday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

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 Oceana Marin subdivision adjacent to Dillon Beach.

The District provides water service to approximately 61,000 residents in the greater Novato area through 20,543 potable water service connections and 66 recycled water connections. The District also provides water service to approximately 1,800 residents in the Point Reyes service area of West Marin County through 783 service connections and sewer service to approximately 500 residents in the Oceana Marin service area of West Marin County through 232 service connections.

District Services, continued

Residential customers comprise approximately 93% of the District's customer base and consume approximately 80% of the water produced annually by the District. The District purchases approximately 80% of its Novato water supply from the Sonoma County Water Agency (Agency) with the balance derived from the District's Stafford Lake Reservoir and some recycled water. The District purchased approximately 2.1 billion gallons of water in fiscal year 2018 and 1.7 billion gallons in 2017 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 operated by the Agency typically provides 80% of Novato's water supply. Novato rainfall in fiscal year 2018 totaled 20.5" which was about 76% of the historical average annual rainfall. In fiscal year 2018 ample water was available in Lake Sonoma for fish, agriculture and urban use on the lower Russian River system and no restrictions on the Russian River water deliveries were imposed. North Marin's Stafford Lake water treatment plant produced 646 million gallons of water to augment Russian River supplies with local water supply during the fiscal year. Recycled water treatment facilities at Novato Sanitary District, Las Gallinas Valley Sanitary District and North Marin's Deer Island treatment facilities combined to provide 156 million gallons of highly-treated recycled wastewater to irrigate landscape within the District's service territory.

The Agency has deferred its plan to construct previously contemplated Russian River water production and delivery facilities (pumps and pipelines) to fulfill the Restructured Agreement contract requirements for increased Russian River water. The Agency is now focused on compliance with the Biological Opinion in the Russian River watershed issued by the National Marine Fisheries Service, laying out the requirements to preserve, protect and restore the fisheries and maintain the existing Russian River water supplies. Additionally, state legislation passed in November 2009 (SB7X-7) requires a 20% reduction in per capita water use by 2020. The District has already achieved the SB7X-7 goal, but continues to strive to achieve more water conservation and development of recycled water to further stretch its local source of supply in future years.

A 4.5% rate increase for customers in the Novato service area was authorized by the Board of Directors effective June 1, 2018. At \$718 per year, the cost of water service for a typical Novato detached single-family home using 86,600 gallons of water a year remains a good value for Novato customers.

In West Marin, normal year water supply conditions existed on Lagunitas Creek.

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 2018 and 2017, 1,982 AF (646 MG) and 2,320 AF (756 MG) respectively, was produced by 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). Lake Mendocino’s Coyote Dam impounds the Eel River diversions and winter runoff from the local watershed. Lake Sonoma’s Warm Springs Dam impounds winter runoff from the Dry Creek and Warm Springs watersheds. Lakes Mendocino and Sonoma combined can store 367,500 acre feet to meet the regions’ water supply needs, which totaled 46,100 acre feet in fiscal year 2018. 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.

During the fiscal years 2018 and 2017, the District received 6,104 AF (2,054 MG) and 5,158 AF (1,681 MG) respectively, of Russian River water. The District has an agreement in place with the Agency to provide sufficient supply to meet the District’s current and future water supply needs. There continues to be competing interests for Russian River water, principally to protect steelhead and salmon listed as threatened species under the Endangered Species Act. The Biological Opinion for water supply in the Russian River watershed has been issued by the National Marine Fisheries Service laying out the requirements to preserve, protect and restore the fisheries and maintain the existing Russian River water supplies. 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 benefit 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 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” standard. The objective of the Investment Policy is safety, maturity and yield. District funds are invested in the State Treasurer’s Local Agency Investment Fund, corporate medium-term notes and time certificates of deposit.

Water Rates and District Revenues

Revenue from user charges generated from District customers supports District operations. Accordingly, water and sewer rates are reviewed annually. 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 comprised of a commodity (water use) charge and a bi-monthly service charge; whereas, sewer rates are comprised exclusively of a fixed 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 Fedak and Brown LLP has conducted the audit of the District’s financial statements. Their unmodified Independent Auditor’s Report appears in the Financial Section.

Awards and Acknowledgements

For the eighth consecutive year, the District was awarded the Government Finance Officers Association of the United States and Canada’s (GFOA) *Certificate of Achievement for Excellence in Financial Reporting* for its 2017 and 2016 Consolidated Annual Financial Report (CAFR). 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.

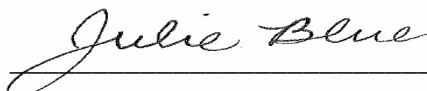
A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for 2018.

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,



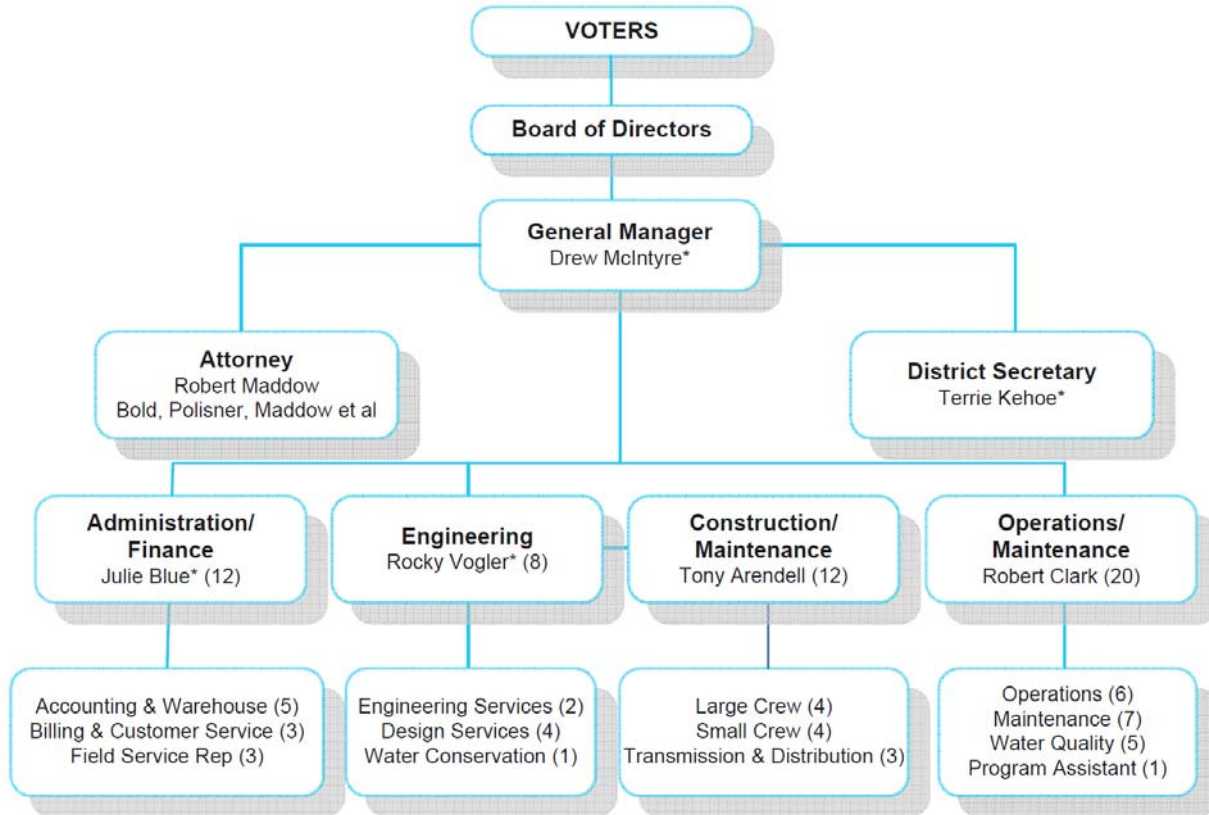
Drew McIntyre
General Manager



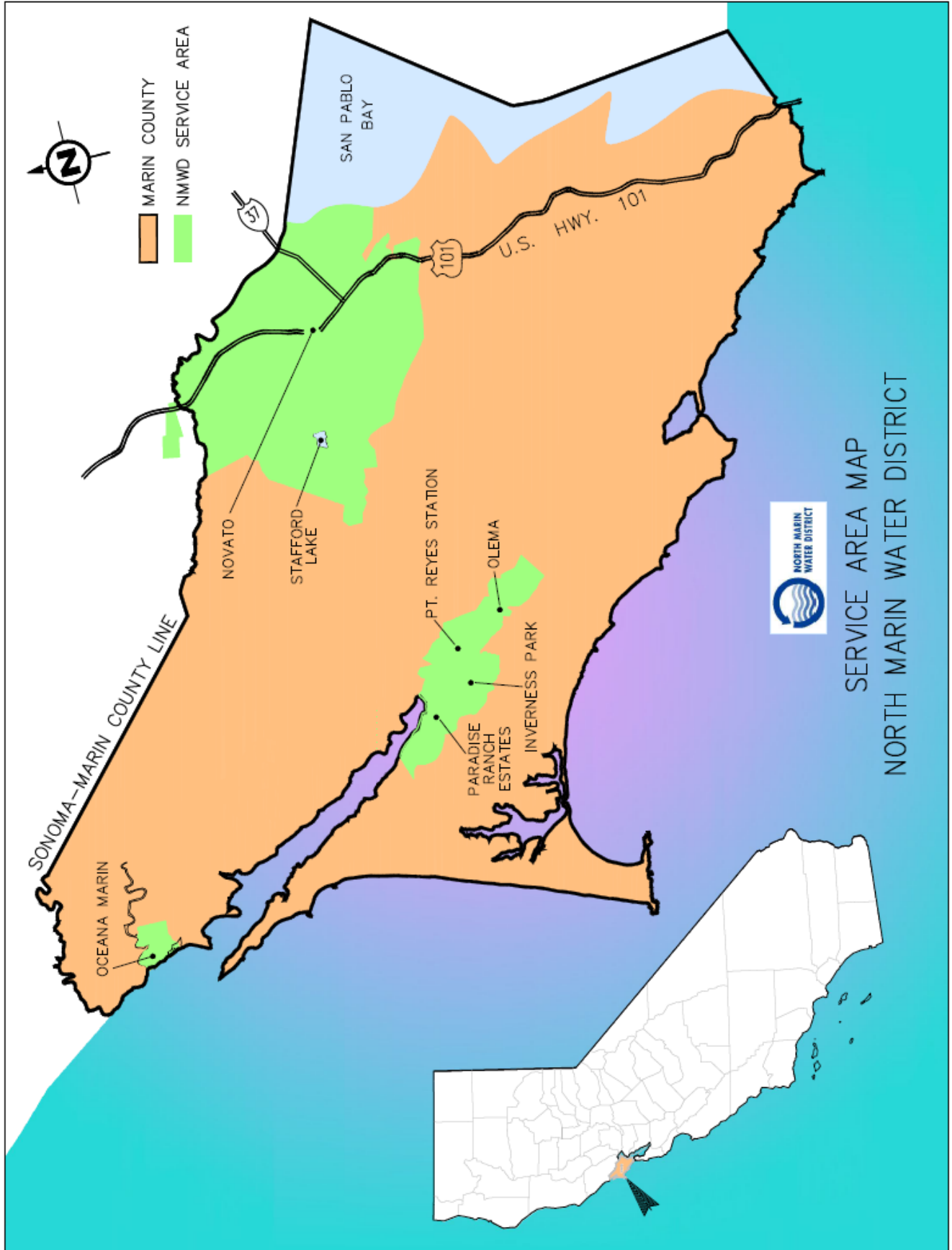
Julie Blue
Auditor-Controller

North Marin Water District Organizational Chart

**As of
June 30, 2018**



* Also serves as District Officer





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**North Marin Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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Financial Section



Charles Z. Fedak, CPA, MBA
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Independent Auditor's Report

Board of Directors
North Marin Water District
Novato, California

Report on the Financial Statements

We have audited the accompanying financial statements of the North Marin Water District (District), which comprises the statement of net position as of June 30, 2018, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Marin Water District as of June 30, 2018, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 10 through 15 and the required supplementary information on pages 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Independent Auditor's Report, continued

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As part of our audit of the June 30, 2018, financial statements, we audited the adjustments described in note 13. An adjustment was recognized for the District's total other post-employment benefits liability; and has reclassified its employer pension contributions from expense to deferred outflows of resources and recorded a prior period adjustment to restate net position as of June 30, 2017.

As discussed in Note 1.C to the financial statements, in June 30, 2018, the District adopted new accounting guidance *Governmental Accounting Standards Board Statement Nos. 75 and 74*. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 7, the supplementary information of combining schedules on pages 55 through 56, and the statistical section on pages 57 through 72 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information of combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2018, 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* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 73 and 74.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 4, 2018

North Marin Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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 year ended June 30, 2018. 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

- In fiscal year 2018, the District's net position increased 2.8% or \$2,911,473 to \$106,823,445. The increase of \$2,911,473 was primarily due to increases of \$1,860,518 from ongoing operations and \$4,265,041 from capital contributions, which was offset by the effect of a \$3,214,086 restatement to net position related to the implementation of GASB 75. (See note 13 for further information).
- In fiscal year 2018, the District's operating revenues increased 18.1% or \$3,390,618 to \$22,094,094.
- In fiscal year 2018, the District's operating expenses before depreciation increased 9.0% or \$1,361,343 to \$16,461,030.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position 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 Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital 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 Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps the reader answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows 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.

These two statements report the District's *net position* and changes in it. One can think of the District's net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one 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.

North Marin Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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 21 through 51.

Statements of Net Position

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Assets:			
Current assets	\$ 19,686,189	16,343,722	3,342,467
Non-current assets	7,080,538	6,473,193	607,345
Capital assets, net	<u>136,589,808</u>	<u>128,580,395</u>	<u>8,009,413</u>
Total assets	<u>163,356,535</u>	<u>151,397,310</u>	<u>11,959,225</u>
Deferred outflows of resources	<u>3,538,325</u>	<u>2,931,861</u>	<u>606,464</u>
Liabilities:			
Current liabilities	6,218,548	6,429,846	(211,298)
Non-current liabilities	<u>52,966,629</u>	<u>43,331,998</u>	<u>9,634,631</u>
Total liabilities	<u>59,185,177</u>	<u>49,761,844</u>	<u>9,423,333</u>
Deferred inflows of resources	<u>886,238</u>	<u>655,355</u>	<u>230,883</u>
Net position:			
Net investment in capital assets	102,392,652	98,131,574	4,261,078
Restricted for capital projects and debt	2,183,812	2,140,681	43,131
Unrestricted	<u>2,246,981</u>	<u>3,639,717</u>	<u>(1,392,736)</u>
Total net position	<u>\$ 106,823,445</u>	<u>103,911,972</u>	<u>2,911,473</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of the District exceeded liabilities and deferred inflows by \$106,823,445 as of June 30, 2018.

By far the largest portion of the District's net position (96% as of June 30, 2018) 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 2018, the District showed a positive balance in its unrestricted net position of \$2,246,981. See note 12 for the amount of spendable net position that may be utilized in future years.

North Marin Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenue:			
Operating revenue	\$ 22,094,094	18,703,476	3,390,618
Non-operating revenue	503,856	505,230	(1,374)
Total revenue	<u>22,597,950</u>	<u>19,208,706</u>	<u>3,389,244</u>
Expense:			
Operating expense	16,461,030	15,099,687	1,361,343
Depreciation and amortization	3,434,069	3,416,411	17,658
Non-operating expense	842,333	810,060	32,273
Total expense	<u>20,737,432</u>	<u>19,326,158</u>	<u>1,411,274</u>
Net income(expense) before capital contributions	1,860,518	(117,452)	1,977,970
Capital contributions	<u>4,265,041</u>	<u>11,643,388</u>	<u>(7,378,347)</u>
Change in net position	<u>6,125,559</u>	<u>11,525,936</u>	<u>(5,400,377)</u>
Net position, beginning of year	103,911,972	92,386,036	11,525,936
Prior period adjustment	<u>(3,214,086)</u>	-	<u>(3,214,086)</u>
Net position, beginning of year – as restated	<u>100,697,886</u>	<u>92,386,036</u>	<u>8,311,850</u>
Net position, end of year	<u>\$ 106,823,445</u>	<u>103,911,972</u>	<u>2,911,473</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased 2.8% or \$2,911,473 to \$106,823,445 which was due to increases of \$1,860,518 from ongoing operations and \$4,265,041 from capital contributions, which was offset by the effect of a \$3,214,086 restatement to net position related to the implementation of GASB 75. (See note 13 for further information).

A closer examination of the sources of changes in net position:

In 2018, the District's total revenues increased by 17.6% or \$3,389,244 to \$22,597,950. The District's operating revenues increased by 18.1% or \$3,390,618 to \$22,094,094 due primarily to increase of \$2,962,703 in water consumption sales, \$229,466 in bi-monthly service charges, and \$155,846 in water sales to other agency.

In 2018, the District's non-operating revenues decreased by 0.3% or \$1,374 to \$503,856 due primarily to a decrease of \$88,285 in other non-operating revenues, offset by increases of \$52,822 in investment earnings and \$22,255 in rental revenue.

In 2018, the District's capital contributions decreased by 63.4% or \$7,378,347 to \$4,265,041 due primarily to decreases of \$6,556,345 in state and local capital grants and \$2,662,698 in federal capital grants, offset by increases of \$1,419,881 in developer contributions and \$420,815 in connection fees.

North Marin Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Statements of Revenues, Expenses and Changes in Net Position, continued

In 2018, the District's total expenses including depreciation increased by 7.3% or \$1,411,274 to \$20,737,432. The District's operating expenses increased 9.0% or \$1,361,343 to \$16,461,030 due primarily to increases of \$990,407 in source of supply, \$220,197 in water treatment, \$164,322 in transmission and distribution, \$142,358 in water facilities operations, \$75,014 in pumping expense, and \$65,975 in customer service expense, which were offset by a decrease of \$292,732 in general administrative expense.

In 2018, the District's depreciation and amortization increased by 0.5% or \$17,658 to \$3,434,069 due primarily to maturing of existing capital assets depreciation.

In 2018, the District's non-operating expenses increased by 4.0% or \$32,273 to \$842,333 due primarily to an increase of \$86,180 in debt issuance costs, offset by a decrease of interest expense on long-term debt.

Total District Revenues

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating revenues:			
Water consumption sales	\$ 16,764,567	13,801,864	2,962,703
Monthly meter service charge	4,564,228	4,334,762	229,466
Sewer service charges	239,890	215,989	23,901
Water sale to other agency	155,846	-	155,846
Other charges and services	369,563	350,861	18,702
Total operating revenues	<u>22,094,094</u>	<u>18,703,476</u>	<u>3,390,618</u>
Non-operating revenues:			
Property tax revenue	109,927	107,210	2,717
Investment earnings	182,169	129,347	52,822
Interest earnings from note – BPGL	48,536	39,419	9,117
Rental revenue	105,406	83,151	22,255
Other non-operating revenues	57,818	146,103	(88,285)
Total non-operating revenues	<u>503,856</u>	<u>505,230</u>	<u>(1,374)</u>
Total revenues	<u>\$ 22,597,950</u>	<u>19,208,706</u>	<u>3,389,244</u>

In 2018, total District revenues increased \$3,389,244.

North Marin Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Total District Expenses

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Operating expenses including depreciation expense:			
Source of supply	\$ 5,569,766	4,579,359	990,407
Pumping	426,356	351,342	75,014
Water facilities operations	1,079,917	937,559	142,358
Water treatment	2,567,146	2,346,949	220,197
Transmission and distribution	3,387,559	3,223,237	164,322
Sewage collection and treatment	163,957	151,205	12,752
Customer service	742,164	676,189	65,975
General and administrative	2,169,660	2,462,392	(292,732)
Water conservation	354,505	371,455	(16,950)
Depreciation and amortization	<u>3,434,069</u>	<u>3,416,411</u>	<u>17,658</u>
Total operating expenses including depreciation expense	<u>19,895,099</u>	<u>18,516,098</u>	<u>1,379,001</u>
Non-operating expenses:			
Interest expense – long-term debt	747,118	791,211	(44,093)
Debt issuance costs	86,180	-	86,180
Other non-operating expenses	<u>9,035</u>	<u>18,849</u>	<u>(9,814)</u>
Total non-operating expenses	<u>842,333</u>	<u>810,060</u>	<u>32,273</u>
Total expenses	<u>\$ 20,737,432</u>	<u>19,326,158</u>	<u>1,411,274</u>

In 2018, total District expenses increased by \$1,411,274.

Capital Asset Administration

Changes in capital asset amounts for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2018</u>
Capital assets:				
Non-depreciable assets	\$ 16,027,426	11,587,138	(1,649,966)	25,964,598
Depreciable assets	166,801,583	1,509,157	(177,830)	168,132,910
Accumulated depreciation	<u>(54,248,614)</u>	<u>(3,434,069)</u>	<u>174,983</u>	<u>(57,507,700)</u>
Total capital assets, net	<u>\$ 128,580,395</u>	<u>9,662,226</u>	<u>(1,652,813)</u>	<u>136,589,808</u>

At the end of fiscal year 2018, the District's investment in capital assets amounted to \$136,589,808, (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 6 for further information)

North Marin Water District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Debt Administration

Changes in long-term debt amounts for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2018</u>
Long-term debt:				
Bonds payable	\$ 94,000	-	(22,000)	72,000
Loans payable	<u>31,922,939</u>	<u>7,383,204</u>	<u>(1,792,680)</u>	<u>37,513,463</u>
Total long-term debt	<u>\$ 32,016,939</u>	<u>7,383,204</u>	<u>(1,792,680)</u>	<u>37,585,463</u>

(See note 9 for further 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, Telephone: (415) 897-4133.

Basic Financial Statements

**North Marin Water District
Statement of Net Position
June 30, 2018**

	2018
Current assets:	
Cash and cash equivalents (note 2)	\$ 3,484,730
Restricted – cash and cash equivalents (note 2)	1,450,786
Restricted – investments (note 2)	6,469,611
Accrued interest receivable	84,055
Accounts receivable – water and sewer sales and services	4,513,370
Accounts receivable – governmental agencies	69,830
Accounts receivable – other	10,550
Capital grants and loan proceeds receivable	2,270,095
Notes receivable (note 3)	296,420
Notes receivable – employee housing assistance loans, net (note 4)	495,000
Materials and supplies inventory	471,314
Prepaid expenses and deposits	70,428
	19,686,189
Total current assets	
Non-current assets:	
Restricted – investments (note 2)	3,701,301
Notes receivable (note 3)	2,665,037
Notes receivable – employee housing assistance loans, net (note 4)	714,200
Capital assets, not being depreciated (note 6)	25,964,598
Depreciable capital assets, net (note 6)	110,625,210
	143,670,346
Total non-current assets	
	163,356,535
Total assets	
Deferred outflows of resources:	
Deferred pension outflows (note 11)	3,538,325
	3,538,325
Total deferred outflows of resources	
	\$ 3,538,325

Continued on next page

See accompanying notes to the basic financial statements

North Marin Water District
Statement of Net Position, continued
June 30, 2018

	2018
Current liabilities:	
Accounts payable and accrued expenses	\$ 2,641,524
Accrued wages and related payables	272,429
Accrued claims payable (note 7)	97,581
Customer advances and deposits	1,066,100
Accrued interest payable – long-term debt	136,334
Long-term liabilities – due within one year:	
Compensated absences (note 8)	121,864
Bonds payable (note 9)	24,000
Loans payable (note 9)	1,858,716
Total current liabilities	6,218,548
Non-current liabilities:	
Long-term liabilities – due in more than one year:	
Compensated absences (note 8)	365,593
Bonds payable (note 9)	48,000
Loans payable (note 9)	35,654,747
Total other post-employment benefits liability (note 10)	4,123,565
Net pension liability (note 11)	12,774,724
Total non-current liabilities	52,966,629
Total liabilities	59,185,177
Deferred inflows of resources:	
Deferred other post-employment benefits inflows (note 10)	158,611
Deferred pension inflows (note 11)	727,627
Total deferred inflows of resources	886,238
Net position: (note 12, 13)	
Net investment in capital assets	102,392,652
Restricted for capital projects and debt service	2,183,812
Unrestricted	2,246,981
Total net position	\$ 106,823,445

See accompanying notes to the basic financial statements

North Marin Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

	2018
Operating revenues:	
Water consumption sales	\$ 16,764,567
Bi-monthly meter service charge	4,564,228
Sewer service charges	239,890
Water sale to other agency	155,846
Other charges and services	369,563
Total operating revenues	22,094,094
Operating expenses:	
Source of supply	5,569,766
Pumping	426,356
Water facilities operations	1,079,917
Water treatment	2,567,146
Transmission and distribution	3,387,559
Sewage collection and treatment	163,957
Customer service	742,164
General and administrative	2,169,660
Water conservation	354,505
Total operating expenses	16,461,030
Operating income before depreciation	5,633,064
Depreciation expense – capital recovery	(3,434,069)
Operating income	2,198,995
Non-operating revenues(expenses):	
Property tax revenue	109,927
Investment earnings	182,169
Interest earnings from note receivable – BPGL	48,536
Rental revenue	105,406
Interest expense – long-term debt	(747,118)
Other non-operating revenues	57,818
Other non-operating expenses	(9,035)
Debt issuance costs	(86,180)
Total non-operating revenues, net	(338,477)
Net (expense) income before capital contributions	1,860,518
Capital contributions:	
Developers and others	2,216,734
Connection fees	1,455,400
Capital grants – federal	24,101
Capital grants – state and local	568,806
Capital contributions	4,265,041
Change in net position	6,125,559
Net position, beginning of year – as restated (note 13)	100,697,886
Net position, end of year	\$ 106,823,445

See accompanying notes to the basic financial statements

**North Marin Water District
Statement of Cash Flows
For the Year Ended June 30, 2018**

	<u>2018</u>
Cash flows from operating activities:	
Cash receipts from customers and others	\$ 21,254,606
Cash paid to employees for salaries and wages	(5,962,511)
Cash paid to vendors and suppliers for materials and services	<u>(7,008,503)</u>
Net cash provided by operating activities	<u>8,283,592</u>
Cash flows from non-capital financing activities:	
Property tax revenue	<u>109,927</u>
Net cash provided by non-capital financing activities	<u>109,927</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(11,008,171)
Proceeds from capital contributions and connection fees	4,265,041
Proceeds from principal issued on long-term debt	7,383,204
Costs paid on debt issuance	86,180
Principal paid on long-term debt	(1,814,680)
Interest paid on long-term debt	<u>(717,426)</u>
Net cash used in capital and related financing activities	<u>(1,805,852)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	2,735,242
Purchases of investments	(5,956,352)
Principal received on notes receivable	253,189
Principal issued on notes receivable	(1,695,758)
Principal issued on employee housing assistance loans	(250,000)
Investment earnings	<u>143,440</u>
Net cash used in investing activities	<u>(4,770,239)</u>
Net increase in cash and cash equivalents	1,817,428
Cash and cash equivalents, beginning of year	<u>3,118,088</u>
Cash and cash equivalents, end of year	\$ <u>4,935,516</u>
Reconciliation of cash and cash equivalents to statement of financial position:	
Cash and cash equivalents	\$ 3,484,730
Restricted assets – cash and cash equivalents	<u>1,450,786</u>
Total cash and cash equivalents	\$ <u>4,935,516</u>

Continued on next page

See accompanying notes to the basic financial statements

**North Marin Water District
Statement of Cash Flows, continued
For the Year Ended June 30, 2018**

	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>2,198,995</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense – capital recovery	3,434,069
Rental revenue	105,406
Other non-operating revenue	57,818
Other non-operating expenses	(9,035)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
(Increase)Decrease in assets:	
Accounts receivable – water and sewer sales and services	(989,514)
Accounts receivable – governmental agencies	(24,733)
Accounts receivable – other	11,535
Materials and supplies inventory	22,787
Prepaid expenses and other deposits	26,728
Increase in deferred outflows of resources	
Pension related	(606,464)
Increase(Decrease) in liabilities:	
Accounts payable and accrued expenses	(879,558)
Accrued wages and related payables	11,093
Accrued claims payable	(94,541)
Customer advances and deposits	297,216
Compensated absences	(162,474)
Other post-employment benefit liability	2,919,446
Net pension liability	1,733,935
Increase in deferred inflows of resources	
Other post-employment benefits related	158,611
Pension related	<u>72,272</u>
Total adjustments	<u>6,084,597</u>
Net cash provided by operating activities	\$ <u>8,283,592</u>
Non-cash investing, capital and financing transactions:	
Change in fair value of investments	\$ <u>31,416</u>
Change in capital contributions – grants	\$ <u>3,781,780</u>

See accompanying notes to the basic financial statements

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(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. 61, *The Financial Reporting Entity*. 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 enterprise fund was formed by the District in 2007 to account for the operation of the District's recycled water treatment and distribution system.

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 value. 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 Year Ended June 30, 2018

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

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits - OPEB).

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

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 position 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. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. 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.

6. 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 Office 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 Year Ended June 30, 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

7. 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.

8. Prepaid Expenses

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

9. 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 to 150 years
- Treatment plant – 20 to 50 years
- Sewer mains and pumps – 10 to 40 years
- Buildings and storage facilities – 35 to 50 years
- Equipment and vehicles – 5 to 10 years

10. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow which is equal to the employer contributions made after the measurement date of the total OPEB liability. This amount will be amortized-in-full against the total OPEB liability in the next fiscal year.

Pensions

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year.
- Deferred outflow for the net changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.
- Deferred outflow for the net change due to differences in the changes in proportions of the net pension liability which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

11. 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 accrues 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. Employees hired after 10/1/2000 may apply their unused sick leave credit to enhance CalPERS retirement benefits but are not eligible to receive any pay for accrued unused sick leave from the District.

12. Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB plan (Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: July 1, 2017
- Measurement Date: June 30, 2018
- Measurement Period: July 1, 2017 to June 30, 2018

13. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2016
- Measurement Date: June 30, 2017
- Measurement Period: July 1, 2016 to June 30, 2017

13. Deferred Inflows of Resources

The statement of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred inflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

13. Deferred Inflows of Resources, continued

Pensions

- Deferred inflow for the net differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.
- Deferred inflow for the net difference in actual and proportionate share of employer contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

14. Water and Sewer Sales

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

15. 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.

16. Capital and Operating Grants

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

17. 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.

18. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

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

19. Reclassification

The District has reclassified certain prior year information to conform to current year presentations.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(2) Cash and Investments

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

		<u>2018</u>
Cash and cash equivalents	\$	3,484,730
Restricted – cash and cash equivalents		<u>1,450,786</u>
Total cash and cash equivalents	\$	<u>4,935,516</u>
Restricted – investments	\$	6,469,611
Restricted – investments non-current		<u>3,701,301</u>
Total restricted investments	\$	<u>10,170,912</u>
Total cash and investments	\$	<u><u>15,106,428</u></u>

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

		<u>2018</u>
Cash on hand	\$	350
Deposits with financial institutions		148,673
Deposits with County of Marin Treasury		957,605
Investments		<u>13,999,800</u>
Total cash and investments	\$	<u><u>15,106,428</u></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.

<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	100%	None
U.S. Treasury Obligations	5 years**	100%	None
U.S. Agency Securities	5 years**	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Non-negotiable Certificates of Deposit	1 year	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Repurchase agreements	30 days	100%	None
Money Market Mutual Funds	N/A	20%	10%
California Local Agency Investment Fund (LAIF)	N/A	100%	None
California Asset Management Program (CAMP)	N/A	100%	None

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

** 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 Year Ended June 30, 2018

(2) Cash and Investments, continued

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.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance notice.
- LAIF Online will adhere to the same timelines as used for phone transactions.

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 Year Ended June 30, 2018

(2) Cash and Investments, continued

Interest Rate Risk, continued

Investments at June 30, 2018, 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>
Local Agency Investment Fund	\$ 3,828,888	3,828,888	-
Certificates-of-deposit	4,703,000	1,489,000	3,214,000
U.S. Treasury note	2,478,199	1,990,898	487,301
U.S. Agency securities	2,989,713	2,989,713	-
Total	<u>\$ 13,999,800</u>	<u>10,298,499</u>	<u>3,701,301</u>

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, 2018, 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>AA+ to AA-</u>
Local Agency Investment Fund	\$ 3,821,716	N/A	3,821,716	-
Certificates-of-deposit	4,703,000	N/A	4,703,000	-
U.S. Treasury note	2,485,371	AA+	-	2,485,371
U.S. Agency securities	2,989,713	AA+	-	2,989,713
Total	<u>\$ 13,999,800</u>		<u>8,524,716</u>	<u>5,475,084</u>

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investments at June 30, 2018:

<u>Investment Type</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Certificates-of-deposit	\$ 4,703,000	-	4,703,000	-
U.S. Treasury note	2,485,371	2,485,371	-	-
U.S. Agency securities	2,989,713	2,989,713	-	-
Total investments measured at fair value	10,178,084	<u>5,475,084</u>	<u>4,703,000</u>	<u>-</u>
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	3,821,716			
Total	<u>\$ 13,999,800</u>			

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(3) Notes Receivable

Changes in notes receivable amounts for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2018</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Notes receivable:						
Black Point Golf Links	\$ 1,518,888	-	(216,271)	1,302,617	221,514	1,081,103
Marin Country Club	-	1,695,758	(36,918)	1,658,840	74,906	1,583,934
Total notes receivable	<u>\$ 1,518,888</u>	<u>1,695,758</u>	<u>(253,189)</u>	<u>2,961,457</u>	<u>296,420</u>	<u>2,665,037</u>

Black Point Golf Links

The District has entered into a contractual agreement with Black Point Golf Links, which now goes by Stone Tree Golf Club, whereby the golf club agreed to reimburse the District for construction costs incurred for a new recycled water pipeline, in-lieu of connection fees. The reimbursement is collected in bi-monthly installments through February 2024, including interest at a rate of 2.40%.

As of June 30, the amount receivable under the contract is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 221,514	29,057	250,571
2020	226,884	23,688	250,572
2021	232,383	18,189	250,572
2022	238,017	12,555	250,572
2023	243,787	6,785	250,572
2024	140,032	1,249	141,281
Total	1,302,617	<u>91,523</u>	<u>1,394,140</u>
Less: current portion:	<u>(221,514)</u>		
Total Long-term	<u>\$ 1,081,103</u>		

Marin Country Club

On June 10, 2015, the District entered into a contractual agreement with the Marin Country Club, which whereby the Country Club agreed to reimburse the District for construction costs incurred for a new recycled water facility, in-lieu of connection fees. Marin Country Club is the primary customer of the Central Service Area pipeline of which this receivable contributes significantly to related District debt. (See note 11 for further information). The reimbursement is collected in bi-monthly installments through November 2047, including interest at a rate ranging from 1.00% to 2.80%.

As of June 30, the amount receivable under the contract is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 74,906	23,402	98,308
2020	76,360	21,948	98,308
2021	77,847	20,459	98,306
2022	79,372	18,935	98,307
2023	80,932	17,375	98,307
2024-2028	404,557	62,251	466,808
2029-2033	205,960	38,309	244,269
2034-2038	216,511	27,758	244,269
2039-2043	227,601	16,667	244,268
2044-2047	214,793	5,048	219,841
Total	1,658,839	<u>252,152</u>	<u>1,910,991</u>
Less: current portion:	<u>(74,906)</u>		
Total Long-term	<u>\$ 1,583,933</u>		

**North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018**

(4) 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 balance of the outstanding loans may be offset by an allowance representing the impairment in value due to the decline in market value of the homes financed since the loan inception date.

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:

Origination	2018
August 2004	\$ 250,000
Sept. 2004	39,200
Nov. 2007	150,000
June 2010	245,000
March 2015	250,000
June 2018	275,000
Total	1,209,200
Less: current portion:	(495,000)
Total Long-term	\$ 714,200

(5) Internal Balances

Due To/From Other Funds and Transfers

Internal balances consist of the following as of June 30, 2018, as follows:

Purpose	Receivable Fund	Payable Fund	Amount
Advance	Novato Recycled	Novato Water	\$ <u>543,218</u>

Transfers between funds as of June 30, 2018, was as follows:

Purpose	Transfer From	Transfer To	Amount
Capital Contribution	Novato Water	Novato Recycled	\$ <u>5,481,925</u>

In 2018, the Novato Water system transferred \$5,481,925, in net position to the Novato Recycled system for the local share of the North/South Recycled Water Expansion, SRF loan payments and grant administration costs. (See the Supplementary Schedules on pages 55 through 56 for further information)

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(6) 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:

The balance of construction-in-progress at June 30 consists of the following projects:

	2018
Developer construction – Novato Water	\$ 535,686
Other construction – Novato Water	7,753,464
Other construction – Novato Recycled	15,623,282
Other construction – West Marin Water	443,808
Other construction – Oceana Marin Sewer	135,267
Total construction-in-progress per year	\$ 24,491,507

Changes in capital assets for the year were as follows:

	Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-progress	14,554,335	11,587,138	(1,649,966)	24,491,507
Total non-depreciable assets	16,027,426	11,587,138	(1,649,966)	25,964,598
Depreciable assets:				
Distribution system	83,757,326	820,384	-	84,577,710
Treatment plant	21,184,413	-	-	21,184,413
Storage facilities	20,903,086	96,508	-	20,999,594
Transmission system	28,896,399	509,228	-	29,405,627
Source facilities	5,596,066	-	-	5,596,066
Sewer facilities	1,193,077	9,953	-	1,203,030
Structures and improvements	1,902,893	-	-	1,902,893
Other plant and equipment	3,368,323	73,084	(177,830)	3,263,577
Total depreciable assets	166,801,583	1,509,157	(177,830)	168,132,910
Accumulated depreciation:				
Distribution system	(28,995,554)	(1,707,635)	-	(30,703,189)
Treatment plant	(8,281,847)	(695,172)	-	(8,977,019)
Storage facilities	(6,579,383)	(425,998)	-	(7,005,381)
Transmission system	(3,728,626)	(244,366)	-	(3,972,992)
Source facilities	(2,069,261)	(114,856)	-	(2,184,117)
Sewer facilities	(604,149)	(26,774)	-	(630,923)
Structures and improvements	(1,262,416)	(41,440)	-	(1,303,856)
Other plant and equipment	(2,727,378)	(177,828)	174,983	(2,730,223)
Total accumulated depreciation	(54,248,614)	(3,434,069)	174,983	(57,507,700)
Total depreciable assets, net	112,552,969	(1,924,912)	(2,847)	110,625,210
Total capital assets, net	\$ 128,580,395	9,662,226	(1,652,813)	136,589,808

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(7) Accrued Claims Payable

The District self-insures its workers' compensation obligation and established a risk financing internal service fund where assets are set aside for claim settlements associated with the risk of loss up to certain limits for workers' compensation claims.

Settled claims have not exceeded 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 paid.

The balance at June 30 consists of the following:

	2018
Accrued claims payable, beginning of year	\$ 192,122
Current year claims recognized	26,420
Current year claims paid	(14,509)
Prior year claims incurred	28,340
Prior year claims paid	(134,792)
Accrued claims payable, end of year	\$ 97,581

(8) Compensated Absences

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

Changes to compensated absences for 2018 were as follows:

Balance 2017	Earned	Taken	Balance 2018	Current Portion	Long-term Portion
\$ 649,931	936,608	(1,099,082)	487,457	121,864	365,593

(9) Long-term Debt

Changes in long-term debt amounts for 2018 were as follows:

	Balance 2017	Additions	Principal Payments	Balance 2018	Current Portion	Long-term Portion
Long-term debt:						
Bonds payable:						
1980 Revenue bonds – PRE-1	\$ 38,000	-	(12,000)	26,000	13,000	13,000
1981 Revenue bonds – PR-6	56,000	-	(10,000)	46,000	11,000	35,000
Total bonds payable	94,000	-	(22,000)	72,000	24,000	48,000
Loans payable:						
1977 U.S. EDA loan – Novato Water	17,679	-	(17,679)	-	-	-
1977 U.S. EDA loan – West Marin Water	1,963	-	(1,963)	-	-	-
2005 DWR loan – Novato Water	10,840,721	-	(790,074)	10,050,647	402,132	9,648,515
2005 SWRCB loan – Novato Recycled	2,404,935	-	(215,648)	2,189,287	220,824	1,968,463
2011-2012 SWRCB loans – Novato Recycled N & S	8,053,559	-	(422,954)	7,630,605	433,018	7,197,587
2011 B of M loan – Novato Water	5,455,915	-	(300,284)	5,155,631	310,707	4,844,924
2011 B of M loan – West Marin Water	800,868	-	(44,078)	756,790	45,608	711,182
2016 SWRCB Loan – Novato Recycled Central	4,347,299	2,783,204	-	7,130,503	206,427	6,924,076
2018 JP Morgan Chase Loan – Novato Water	-	4,600,000	-	4,600,000	240,000	4,360,000
Total loans payable	31,922,939	7,383,204	(1,792,680)	37,513,463	1,858,716	35,654,747
Total long-term debt	\$ 32,016,939	7,383,204	(1,814,680)	37,585,463	1,882,716	35,702,747

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(9) Long-term Debt, continued

Bonds Payable

1980 Revenue Bonds – Issue PRE-1

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 13,000	1,300	14,300
2020	13,000	650	13,650
Total	26,000	1,950	27,950
Less current portion	(13,000)		
Total non-current	\$ 13,000		

1981 Revenue Bonds – Issue PR-6

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 11,000	2,025	13,025
2020	11,000	1,475	12,475
2021	12,000	900	12,900
2022	12,000	300	12,300
Total	46,000	4,700	50,700
Less current portion	(11,000)		
Total non-current	\$ 35,000		

Loans Payable

1977 U.S. EDA Loan – Novato Water segment

In August 1977, the District secured a \$351,770 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 was scheduled to mature in 2018. Principal and interest are payable annually on July 1st at a rate of 5.000%. At June 30, 2018, the loan was paid in full.

1977 U.S. EDA Loan – West Marin Water segment

In August 1977, the District secured a \$46,000 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 was scheduled to mature in 2018. Principal and interest are payable annually on July 1st at a rate of 5.000%. At June 30, 2018, the loan was paid in full.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(9) Long-Term Debt, continued

Loans Payable, continued

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 1st and July 1st.

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>
2019	\$ 402,132	244,959	647,091
2020	818,737	225,738	1,044,475
2021	838,422	206,052	1,044,474
2022	858,580	185,895	1,044,475
2023	879,223	165,251	1,044,474
2024-2028	4,723,551	498,821	5,222,372
2029-2030	<u>1,530,002</u>	<u>36,712</u>	<u>1,566,714</u>
Total	10,050,647	<u>1,563,428</u>	<u>11,614,075</u>
Less current portion	<u>(402,132)</u>		
Total non-current	<u>\$ 9,648,515</u>		

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 the Deer Island Recycled Water Facility.

As noted in note 3, the District entered into a contractual agreement with Black Point Golf Links whereby the golf course agreed to reimburse the District for construction costs incurred for the new recycled water facility, in-lieu of connection fees. Black Point Golf Links, as the major customer of the recycled water facility, contributes significantly to the repayment of this loan through the repayment of the note receivable to the District.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 220,824	52,543	273,367
2020	226,124	47,243	273,367
2021	231,551	41,816	273,367
2022	237,108	36,259	273,367
2023	242,798	30,569	273,367
2023-2027	<u>1,030,882</u>	<u>62,586</u>	<u>1,093,468</u>
Total	2,189,287	<u>271,016</u>	<u>2,460,303</u>
Less current portion	<u>(220,824)</u>		
Total non-current	<u>\$ 1,968,463</u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(9) Long-Term Debt, continued

Loans Payable, continued

2011-2012 SWRCB Loans – Novato Recycled Water segment – North and South Service Areas

In fiscal year 2011, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a loan in an amount not-to-exceed \$4,364,335 with an interest rate of 2.60% per annum for the construction of the Recycled Water Expansion project – North Service Area. As of June 30, 2013, eligible costs for reimbursement were \$4,364,335 plus \$11,270 in capitalized interest charges for a total loan of \$4,375,605. Principal and interest payments of \$281,892 are due and payable annually on the loan until fiscal year 2033.

In fiscal year 2012, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a loan in an amount not-to-exceed \$5,480,740 with an interest rate of 2.20% per annum for the construction of the Recycled Water Expansion project – South Service Area. As of June 30, 2014, eligible costs for reimbursement were \$5,357,887 plus \$4,065 in capitalized interest charges for a total loan of \$5,361,952. Principal and interest payments of \$332,407 are due and payable annually on the loan until fiscal year 2034. Future annual debt service payments on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 433,018	181,281	614,299
2020	443,323	170,976	614,299
2021	453,876	160,423	614,299
2022	464,681	149,618	614,299
2023	475,745	138,554	614,299
2024-2028	2,554,204	517,291	3,071,495
2029-2033	2,707,684	198,047	2,905,731
2034	98,074	2,157	100,231
Total	7,630,605	1,518,347	9,148,952
Less current portion	<u>(433,018)</u>		
Total non-current	\$ <u>7,197,587</u>		

2011 Bank of Marin Loan – Novato Water and West Marin Water segments

In October 2013, the District entered into a loan agreement with the Bank of Marin for a 20-year \$8.0 million construction loan with an interest rate of 3.42% per annum for the North Marin Aqueduct Energy Efficiency Project and West Marin water improvements. The loan is scheduled to mature in September of fiscal year 2032. A principal and interest payment of \$46,067 is payable monthly on the 27th day of each month. Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 356,315	196,485	552,800
2020	368,180	184,620	552,800
2021	381,461	171,339	552,800
2022	394,701	158,099	552,800
2023	408,400	144,400	552,800
2024-2028	2,264,139	499,861	2,764,000
2029-2032	1,739,225	103,443	1,842,668
Total	5,912,421	1,458,247	7,370,668
Less current portion	<u>(356,315)</u>		
Total non-current	\$ <u>5,556,106</u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(9) Long-Term Debt, continued

Loans Payable, continued

2016 SWRCB Loan – Novato Recycled Water segment – Central Service Area

In fiscal year 2016, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for financing the construction of the Recycled Water Expansion project – Central Service Area for an amount not-to-exceed \$10,450,708. Of this amount, \$7,130,503 is a 30-year loan at 1% interest and \$3,320,205 is grant funded. As of June 30, 2018, eligible costs for reimbursement were \$2,2783,204.

As noted in note 3, the District entered into a contractual agreement with the Marin Country Club whereby the Country Club agreed to reimburse the District for construction costs incurred for a new recycled water pipeline, in-lieu of connection fees. Marin Country Club is the primary customer of the Central Service Area pipeline of which this receivable contributes significantly to the District's repayment of this loan.

Principal and interest payments on the loan are due each year on December 31st maturing in fiscal year 2048. Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 206,427	53,287	259,714
2020	207,292	68,931	276,223
2021	209,056	67,168	276,224
2022	211,147	65,077	276,224
2023	213,258	62,966	276,224
2024-2028	1,098,709	282,411	1,381,120
2029-2033	1,154,754	226,365	1,381,119
2034-2038	1,213,658	167,461	1,381,119
2039-2043	1,275,568	105,553	1,381,121
2044-2048	1,340,634	40,486	1,381,120
Total	7,130,503	<u>1,139,705</u>	<u>8,270,208</u>
Less current portion	<u>(206,427)</u>		
Total non-current	\$ <u>6,924,076</u>		

2018 JP Morgan Chase Loan

In fiscal year 2018, the District entered into an agreement with JP Morgan Chase Bank for a loan in an amount of \$4,600,000 with an interest rate of 2.69% per annum for financing the acquisition and construction of the automated meter information system throughout the District's Novato service area. Principal and interest payments on the loan are due semi-annually on September 1st and March 1st maturing in fiscal year 2033. Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 240,000	116,522	356,522
2020	260,000	117,284	377,284
2021	270,000	110,290	380,290
2022	275,000	103,027	378,027
2023	280,000	95,630	375,630
2024-2028	1,530,000	360,191	1,890,191
2029-2033	1,745,000	143,242	1,888,242
Total	4,600,000	<u>1,046,186</u>	<u>5,646,186</u>
Less current portion	<u>(240,000)</u>		
Total non-current	\$ <u>4,360,000</u>		

**North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018**

(10) Other Post-employment Benefits (OPEB) Plan

General Information about the OPEB Plan

Plan Description

The District offers other post-employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits.

Benefits Provided

For retirees between the ages of 55 to 65 with a minimum of 12 years of service, who retired prior to January 1, 2013, the District's contribution toward the chosen medical plan will be 90% of the Kaiser Basic Medical Plan premium amount. For retirees between the ages of 55 to 65 with a minimum of 12 years of service, who retire on or after January 1, 2013, the District's contribution toward the chosen plan will be 85% of the Kaiser Basic Medical Plan premium amount. The District will make a monthly contribution toward the cost of health insurance coverage for all other retirees based on the contract effective at the time of their retirement.

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

	2018
Inactive employees or beneficiaries currently receiving benefit payments	34
Inactive employees entitled to but not receiving benefit payments	4
Active employees	53
Total Plan membership	91

Contributions

The Plan and its contribution requirements for eligible retired employees of the District are established and may be amended by the Board of Directors. 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. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's contributions were \$375,787 which included \$304,254 of pay-as-you-go contributions and \$71,533 in an implicit subsidy. At June 30, 2018, the contributions were reclassified from expense to reduce the total OPEB liability.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial Assumptions

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	3.62 percent
Healthcare cost trend rates	6.00 percent for 2017, 5.00 percent for 2018, 5.00 percent for 2019, and 5.00 percent for 2020 and later years
Retirees' share of benefit-related costs	10 percent of projected health insurance premiums for retirees between ages 55 to 65 with a minimum 12 years of service who retired prior to January 1, 2013. 15 percent of projected health insurance premiums for retirees between ages 55 to 65 with a minimum 12 years of service who retired after January 1, 2013.

**North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018**

(10) Other Post-employment Benefits (OPEB) Plan, continued

Total OPEB Liability, continued

Actuarial Assumptions, continued

Notes:

The discount rate was based on the Municipal Bond 20-Year High Grade Rate Index.

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the July 1, 2017 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.00 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Total OPEB Liability

		<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$	<u>4,418,205</u>
Changes for the year:		
Service cost		145,989
Interest		132,454
Changes in benefit terms		-
Difference between expected and actual experience		-
Changes in assumptions or other inputs		(197,296)
Benefit payments		<u>(375,787)</u>
Net changes		<u>(294,640)</u>
Balance at June 30, 2018	\$	<u><u>4,123,565</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62 percent) or 1-percentage-point higher (4.62 percent) than the current discount rate:

		<u>Discount Rate - 1% (2.62%)</u>		<u>Current Discount Rate (3.62%)</u>		<u>Discount Rate + 1% (4.62%)</u>
District's Total OPEB liability	\$	<u>4,542,175</u>		<u>4,123,565</u>		<u>3,762,403</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(10) Other Post-employment Benefits (OPEB) Plan, continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease (5.00% decreasing to 4.00%)	Healthcare Cost Trend Rates (6.00% decreasing to 5.00%)	1% Increase (7.00% decreasing to 6.00%)
District's Total OPEB liability	\$ <u>3,934,508</u>	<u>4,123,565</u>	<u>4,345,977</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$239,758.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	(158,611)
Total	\$ -	<u>(158,611)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Actuarially Determined Deferred Outflows and (Inflows) - OPEB Plan		
<u>Fiscal Year Ending June 30:</u>	<u>Net, Differences between Expected and Actual Experience</u>	<u>Net, Deferred Outflows/(Inflows) of Resources</u>
2019	\$ (38,685)	\$ (38,685)
2020	(38,685)	(38,685)
2021	(38,685)	(38,685)
2022	(38,685)	(38,685)
2023	(3,871)	(3,871)
Thereafter	-	-
Total	\$ <u>(158,611)</u>	\$ <u>(158,611)</u>

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

See page 52 for the Required Supplementary Schedule.

**North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018**

(11) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. For employees hired prior to January 1, 2013, who are current members of CalPERS or a reciprocal agency as of December 31, 2012 and have not been separated from service from such agency for more than six months, the retirement benefit is 2.5% @ 55 years of age; highest single year of compensation. All other employees hired on or after January 1, 2013, the retirement benefit is 2.0% @ 62 years of age; 3 year final compensation.

The Plans' provision and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous Plan	
	Tier 1	Tier 2
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.946%	6.250%
Required employer contribution rates	10.110%	6.533%

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(11) Defined Benefit Pension Plan, continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal year ended June 30, 2018 the contributions for the Plan were as follows:

	Miscellaneous Plan
	2018
Contributions – employer	\$ <u>1,017,325</u>

Net Pension Liability

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
	2018
Miscellaneous Plan	\$ <u>12,774,724</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the pool. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The Districts' proportion of the net pension liability was based on a projection of the Districts' long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's change in the proportionate share of the net pension liability for the Plan as of the measurement date June 30, 2017, was as follows:

	Miscellaneous
Proportion – June 30, 2016	0.12759%
Proportion – June 30, 2017	0.12881%
Change – Increase (Decrease)	0.00122%

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2018, the District recognized pension expense of \$2,217,067.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(11) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date at June 30, 2017	\$ 1,017,325	-
Net, differences between actual and expected experience	-	(210,531)
Net, changes in assumptions	1,810,636	-
Net differences between projected and actual earnings on plan investments	443,293	-
Net, differences between actual contribution and proportionate share of contribution	-	(517,096)
Net, change due to differences in proportion of net pension liability	<u>267,071</u>	<u>-</u>
Total	<u>\$ 3,538,325</u>	<u>(727,627)</u>

As of June 30 2018, employer pension contributions of \$1,017,325, reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

At June 30, 2018, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense (income) as follows.

Actuarially Determined Deferred Outflows and (Inflows) - Miscellaneous Plan

<u>Fiscal Year Ending June 30:</u>	<u>Net, Differences between Expected and Actual Experience</u>	<u>Net, Changes in Assumptions</u>	<u>Net, Differences between Projected and Actual Earnings Pension Plan Investments</u>	<u>Net, Differences between Actual Contribution and Proportionate Share of Contribution</u>	<u>Net, Changes Due to Differences in Proportions</u>	<u>Net, Deferred Outflows/(Inflows) of Resources</u>
2019	\$ (68,002)	569,317	(27,007)	(278,697)	206,385	\$ 401,996
2020	(79,728)	687,387	518,497	(161,031)	59,668	1,024,793
2021	(62,801)	553,932	160,215	(77,368)	1,018	574,996
2022	-	-	(208,412)	-	-	(208,412)
2023	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-
Total	<u>\$ (210,531)</u>	<u>1,810,636</u>	<u>443,293</u>	<u>(517,096)</u>	<u>267,071</u>	<u>\$ 1,793,373</u>

**North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018**

(11) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation report was determined using the following actuarial assumptions:

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used above was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018**

(11) Defined Benefit Pension Plan, continued

Discount Rate, continued

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1–10*</u>	<u>Real Return Year 11+**</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	<u>100.0%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The table below presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

At June 30, 2018, the discount rate comparison was the following:

	<u>Discount Rate - 1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate + 1% (8.15%)</u>
District's Net Pension Liability \$	<u>19,235,760</u>	<u>12,774,724</u>	<u>7,423,578</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 53-54 for Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2018, the District reported no payables for the outstanding amount of contribution to the pension plan

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(12) Net Position

Calculation of net position per fund as of June 30, 2018, was 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	\$ 9,658,022	15,623,282	547,219	136,075	25,964,598
Depreciable capital assets, net	87,515,008	17,204,048	5,119,254	786,900	110,625,210
Capital project loan proceeds unused	35,534	2,904,879	447,894	-	3,388,307
Current:					
Bonds payable	-	-	(24,000)	-	(24,000)
Loans payable	(952,839)	(860,269)	(45,608)	-	(1,858,716)
Non-current:					
Bonds payable	-	-	(48,000)	-	(48,000)
Loans payable	(18,853,439)	(16,090,126)	(711,182)	-	(35,654,747)
Total net investment in capital assets	<u>77,402,286</u>	<u>18,781,814</u>	<u>5,285,577</u>	<u>922,975</u>	<u>102,392,652</u>
Restricted net position:					
Connection fee reserve	-	-	103,296	-	103,296
Wohler pipeline reserve	415,728	-	-	-	415,728
Collector No. 6 reserve	1,634,579	-	-	-	1,634,579
Cash reserve for debt service	-	-	30,534	-	30,534
Accrued interest for debt service	-	-	(325)	-	(325)
Total restricted net position	<u>2,050,307</u>	<u>-</u>	<u>133,505</u>	<u>-</u>	<u>2,183,812</u>
Unrestricted net position:					
Non-spendable net position:					
Current:					
Materials and supplies inventory	471,314	-	-	-	471,314
Prepaid expenses and deposits	54,324	-	12,150	3,954	70,428
Notes receivable – employee housing loans	495,000	-	-	-	495,000
Non-current:					
Notes receivable	-	2,665,037	-	-	2,665,037
Notes receivable – employee housing loans	714,200	-	-	-	714,200
Total non-spendable net position	<u>1,734,838</u>	<u>2,665,037</u>	<u>12,150</u>	<u>3,954</u>	<u>4,415,979</u>
Total spendable net position (deficit)*	<u>(6,976,369)</u>	<u>3,318,029</u>	<u>1,000,262</u>	<u>489,080</u>	<u>(2,168,998)</u>
Total unrestricted net position	<u>(5,241,531)</u>	<u>5,983,066</u>	<u>1,012,412</u>	<u>493,034</u>	<u>2,246,981</u>
Total net position	<u>\$ 74,211,062</u>	<u>24,764,880</u>	<u>6,431,494</u>	<u>1,416,009</u>	<u>106,823,445</u>

* Deficit is primarily due to recognition of GASBs 68 and 75.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(13) Adjustment to Net Position

Other Post-employment Benefits (OPEB) – GASB 75 Implementation

In fiscal year 2018, the District implemented GASB pronouncements 74 and 75 to recognize its total other post-employment benefits (OPEB) liability. As a result of the implementation, the District recognized the OPEB liability and recorded a prior period adjustment, a (decrease) to net position, of \$4,418,205 at July 1, 2017. The District recorded a prior period adjustment, an increase to net position, to reclassify from liabilities to net position, the prior year's OPEB liability, recognized in accordance with GASB 45, of \$1,204,119 at July 1, 2017.

The adjustment to net position is as follows:

Net position at July 1, 2017, as previously stated	\$ 103,911,972
Effect of adjustment to record total other post-employment benefits liability	(4,418,205)
Effect of adjustment to remove other post-employment benefits liability under GASB 45	1,204,119
Total adjustment to net position	<u>(3,214,086)</u>
Net position at July 1, 2017, as restated	<u>\$ 100,697,886</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, 2018, was \$6,500,484.

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 position.

(15) 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 a \$10.0 million excess general liability policy with a \$1.0 million self-insured retention limit, a \$60,275,000 property and equipment policy, a \$1.0 million public official's liability policy, a \$1.0 million cyber liability policy, a \$572,000 vehicle physical damage policy, and a \$500,000 employee fidelity bond policy.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(16) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2018, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(16) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(16) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 89, continued

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(17) Commitments and Contingencies

Wohler/Collector No. 6 Agreement

The District is party to an agreement with the Sonoma County Water Agency (SCWA) that provides, among other matters, that the District is obligated to pay for a prorated share of certain SCWA's costs to improve or expand the SCWA'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 SCWA and may not withhold payment pending resolution of disputes, if any, which might exist between the District and SCWA. At June 30, 2018, the District's reserve balances for these obligations were \$416,369 (Wohler Pipeline) and \$1,637,095 (Collector #6).

North Marin Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

(17) Commitments and Contingencies, continued

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 pays NSD \$20 per year for an annual lease of the site for the Deer Island Recycled Water Treatment Facility which is owned and operated by the District.

Solar Power Services, Facilities and Site Agreement

In February 2012, the District entered into a Solar Power Services Agreement to purchase all the solar power generated from the Solar Power Generating Facility constructed near the District's Stafford Treatment Plant facilities at a Take-or-Pay price of \$0.1700 per kilowatt hour escalating 3.0% annually to \$0.2981 per kilowatt hour over a 20-year contract period. Also, in February 2013, the District executed a 20-year lease with the Solar Services company to construct the Solar Power Generating Facility on District land for a land lease of \$100 for the period (or \$5 per year).

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. The District also improves and modifies its existing infrastructure and finances such improvements from its reserves. The District has committed to approximately \$200,585 in remaining costs of existing District capital projects as of June 30, 2018.

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit 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.

(18) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of December 4, 2018, which is the date the financial statements were available to be issued.

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Required Supplementary Information

North Marin Water District
Schedule of Changes in the District Total OPEB Liability and Related Ratios
As of June 30, 2018
Last Ten Years*

	<u>6/30/2018</u>
Total OPEB Liability	
Service cost	\$ 145,989
Interest	132,454
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(197,296)
Benefit payments	<u>(375,787)</u>
Net change in total OPEB liability	(294,640)
Total OPEB liability - beginning	<u>4,418,205</u>
Total OPEB liability - ending	\$ <u>4,123,565</u>
Covered employee payroll	\$ <u>5,635,521</u>
Total OPEB liability as a percentage of covered employee payroll	<u>73.17%</u>

Notes:

* Historical information presented above follows the measurement periods for which GASB 74 & 75 were applicable. The fiscal year ended June 30, 2018, (valuation date of June 30, 2017) was the first year of implementation required by GASB 74 & 75, therefore only one year is shown.

North Marin Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last Ten Years*

Description	Measurement Dates			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's proportion of the net pension liability	0.12881%	0.12759%	0.12558%	0.10769%
District's proportionate share of the net pension liability	\$ 12,774,724	11,040,789	8,619,837	6,701,264
District's covered-employee payroll	\$ 4,600,500	4,542,666	4,305,518	4,106,287
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	277.68%	243.05%	200.20%	163.20%
Plan's fiduciary net position as a percentage of the total pension liability	72.80%	73.98%	78.63%	83.47%

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2017, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement date June 30, 2017, the discount rate was reduced from 7.65% percent to 7.15% percent.

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71; therefore only four years are shown.

North Marin Water District
Schedules of Pension Plan Contributions
As of June 30, 2018
Last Ten Years*

<u>Description</u>	<u>Fiscal Year 6/30/2018</u>	<u>Fiscal Year 6/30/2017</u>	<u>Fiscal Year 6/30/2016</u>	<u>Fiscal Year 6/30/2015</u>
Actuarially determined contribution	\$ 1,037,552	926,656	836,212	930,146
Contributions in relation to the actuarially determined contribution	<u>(1,017,325)</u>	<u>(926,448)</u>	<u>(828,792)</u>	<u>(669,066)</u>
Contribution deficiency (excess)	<u>\$ 20,227</u>	<u>208</u>	<u>7,420</u>	<u>261,080</u>
District's covered payroll	<u>\$ 4,600,500</u>	<u>4,542,666</u>	<u>4,305,518</u>	<u>4,106,287</u>
Contribution's as a percentage of covered-employee payroll	<u>22.11%</u>	<u>20.39%</u>	<u>19.25%</u>	<u>16.29%</u>

Notes:

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, (valuation date of June 30, 2014) was the first year of implementation required by GASB 68 & 71; therefore only four years are shown.

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Supplemental Information

Combining Schedules

North Marin Water District
Combining Schedule of Net Position
For the Year Ended June 30, 2018

	Novato Water	Novato Recycled	West Marin Water	Oceana Marin Sewer	Total
Current assets:					
Cash and cash equivalents	\$ -	2,028,452	894,884	561,394	3,484,730
Restricted – cash and cash equivalents	-	869,672	581,104	10	1,450,786
Restricted – investments	6,469,611	-	-	-	6,469,611
Accrued interest receivable	84,055	-	-	-	84,055
Accounts receivable – water and sewer sales	3,935,703	391,744	182,875	3,048	4,513,370
Accounts receivable – governmental agencies	69,830	-	-	-	69,830
Accounts receivable – other	10,550	-	-	-	10,550
Capital grants and loan proceeds receivable	-	2,270,095	-	-	2,270,095
Notes receivable	-	296,420	-	-	296,420
Notes receivable – employee housing loans, net	495,000	-	-	-	495,000
Materials and supplies inventory	471,314	-	-	-	471,314
Prepaid expenses and deposits	54,324	-	12,150	3,954	70,428
Total current assets	11,590,387	5,856,383	1,671,013	568,406	19,686,189
Non-current assets:					
Restricted – investments	3,701,301	-	-	-	3,701,301
Internal balances (note 5)	(543,218)	543,218	-	-	-
Notes receivable	-	2,665,037	-	-	2,665,037
Notes receivable – employee housing loans, net	714,200	-	-	-	714,200
Capital assets, not being depreciated	9,658,022	15,623,282	547,219	136,075	25,964,598
Depreciable capital assets, net	87,515,008	17,204,048	5,119,254	786,900	110,625,210
Total non-current assets	101,045,313	36,035,585	5,666,473	922,975	143,670,346
Total assets	112,635,700	41,891,968	7,337,486	1,491,381	163,356,535
Deferred outflows of resources:					
Deferred pension outflows	3,538,325	-	-	-	3,538,325
Total deferred outflows of resources	3,538,325	-	-	-	3,538,325
Current liabilities:					
Accounts payable and accrued expenses	\$ 2,535,120	45,328	-	61,076	2,641,524
Accrued wages and related payables	212,372	20,301	30,451	9,305	272,429
Accrued claims payable	90,652	2,342	3,513	1,074	97,581
Customer advances and deposits	1,010,123	10,297	41,763	3,917	1,066,100
Accrued interest payable – long-term debt	36,434	98,425	1,475	-	136,334
Long-term liabilities – due within one year:					
Compensated absences	121,864	-	-	-	121,864
Bonds payable	-	-	24,000	-	24,000
Loans payable	952,839	860,269	45,608	-	1,858,716
Total current liabilities	4,959,404	1,036,962	146,810	75,372	6,218,548
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	365,593	-	-	-	365,593
Bonds payable	-	-	48,000	-	48,000
Loans payable	18,853,439	16,090,126	711,182	-	35,654,747
Other post-employment benefits liability	4,123,565	-	-	-	4,123,565
Net pension liability	12,774,724	-	-	-	12,774,724
Total non-current liabilities	36,117,321	16,090,126	759,182	-	52,966,629
Total liabilities	41,076,725	17,127,088	905,992	75,372	59,185,177
Deferred inflows of resources:					
Deferred other post-employment benefits inflows	158,611	-	-	-	158,611
Deferred pension inflows	727,627	-	-	-	727,627
Total deferred inflows of resources	886,238	-	-	-	886,238
Net position:					
Net investment in capital assets	77,402,286	18,781,814	5,285,577	922,975	102,392,652
Restricted for capital projects and debt service	2,050,307	-	133,505	-	2,183,812
Unrestricted	(5,241,531)	5,983,066	1,012,412	493,034	2,246,981
Total net position	\$ 74,211,062	24,764,880	6,431,494	1,416,009	106,823,445

See accompanying notes to the basic financial statements

North Marin Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

	<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	\$ 15,149,251	914,863	700,453	-	16,764,567
Bi-monthly meter service charge	4,353,168	33,850	177,210	-	4,564,228
Sewer service charges	-	-	-	239,890	239,890
Water sale to other agency	155,846	-	-	-	155,846
Other charges and services	361,539	26	7,398	600	369,563
Total operating revenues	20,019,804	948,739	885,061	240,490	22,094,094
Operating expenses:					
Source of supply	5,356,748	199,340	13,678	-	5,569,766
Pumping	372,601	2,781	50,974	-	426,356
Water facilities operations	923,736	103,387	52,794	-	1,079,917
Water treatment	2,377,531	19,838	169,777	-	2,567,146
Transmission and distribution	3,242,993	20,856	123,710	-	3,387,559
Sewage collection and treatment	-	-	-	163,957	163,957
Customer service	711,431	919	27,224	2,590	742,164
General and administrative	2,002,414	53,882	86,494	26,870	2,169,660
Water conservation projects	344,890	-	9,615	-	354,505
Total operating expenses	15,332,344	401,003	534,266	193,417	16,461,030
Operating income before depreciation	4,687,460	547,736	350,795	47,073	5,633,064
Depreciation	(2,730,867)	(473,970)	(191,950)	(37,282)	(3,434,069)
Operating income(loss)	1,956,593	73,766	158,845	9,791	2,198,995
Non-operating revenues(expenses):					
Property tax revenue	-	-	53,227	56,700	109,927
Investment earnings	127,724	25,609	21,753	7,083	182,169
Interest earnings(loss) from note receivable – BPGL	-	48,536	-	-	48,536
Rental revenue	99,906	-	5,000	500	105,406
Interest expense – long-term debt	(472,593)	(243,795)	(30,730)	-	(747,118)
Debt issuance costs	(86,180)	-	-	-	(86,180)
Other non-operating revenues	51,649	4,548	18	1,603	57,818
Other non-operating expenses	(7,460)	-	(763)	(812)	(9,035)
Total non-operating revenues, net	(286,954)	(165,102)	48,505	65,074	(338,477)
Net income(loss) before capital contributions	1,669,639	(91,336)	207,350	74,865	1,860,518
Capital contributions:					
Developers and others	533,970	1,682,520	-	244	2,216,734
Connection fees	1,387,000	-	68,400	-	1,455,400
Capital grants – federal	-	24,101	-	-	24,101
Capital grants – state and local	47,618	521,188	-	-	568,806
Capital contributions	1,968,588	2,227,809	68,400	244	4,265,041
Change in net position	3,638,227	2,136,473	275,750	75,109	6,125,559
Net position transfer (note 5)	(5,481,925)	5,481,925	-	-	-
Net position, beginning of year - as restated	76,054,760	17,146,482	6,155,744	1,340,900	100,697,886
Net position, end of year	\$ 74,211,062	24,764,880	6,431,494	1,416,009	106,823,445

See accompanying notes to the basic financial statements

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Statistical Information Section

**North Marin Water District
Statistical Section**

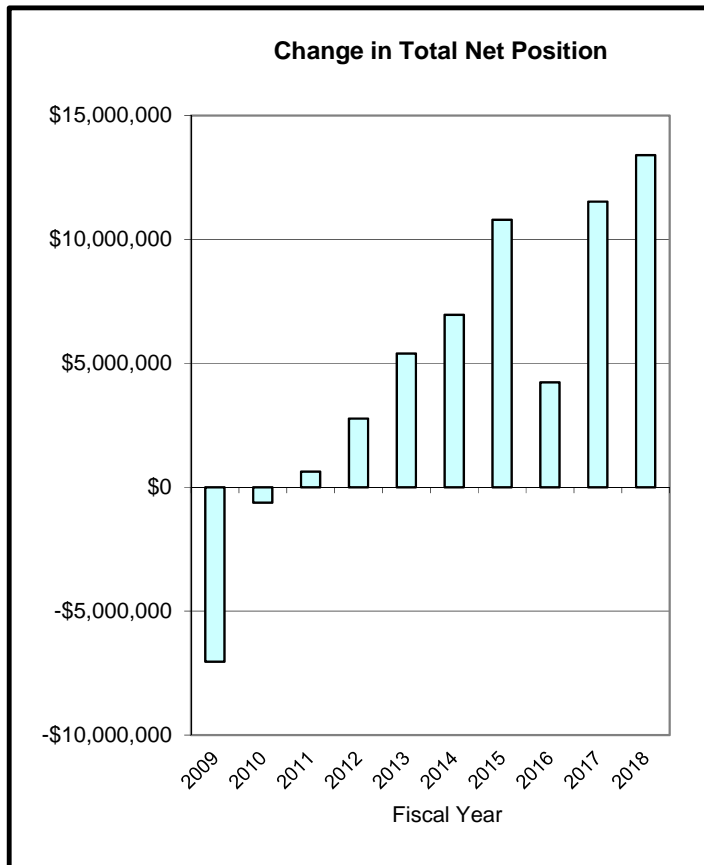
This part of the District's comprehensive annual financial report presents detailed information as context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the District's overall financial health.

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Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	58-62
Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	63-66
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.	67-68
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	69-70
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.	71-72

**North Marin Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years**

	Fiscal Year		
	2009	2010	2011
Change in net assets:			
Operating revenues (see schedule 2)	\$12,526,294	\$12,381,493	\$13,797,012
Operating expenses (see schedule 3)	(13,257,125)	(13,083,372)	(11,878,612)
Depreciation and amortization	(10,091,139) ⁽¹⁾	(2,659,883)	(2,660,418)
Operating income(loss)	(\$10,821,970)	(\$3,361,762)	(\$742,018)
Net non-op revenue(expense) (see schedule 4)	8,954	(255,218)	(414,563)
Net income(loss) before capital contributions	(\$10,813,016)	(\$3,616,980)	(\$1,156,581)
Capital contributions	3,776,402	2,998,366	1,785,475
Change in net position	(\$7,036,614)	(\$618,614)	\$628,894
Net position by component:			
Net investment in capital assets	\$61,057,551	\$60,880,162	\$63,542,479
Restricted	4,304,331	5,321,639	3,171,305
Unrestricted	7,921,294	6,462,761	6,579,672
Prior period adjustment	-	-	-
Total net position	\$73,283,176	\$72,664,562	\$73,293,456



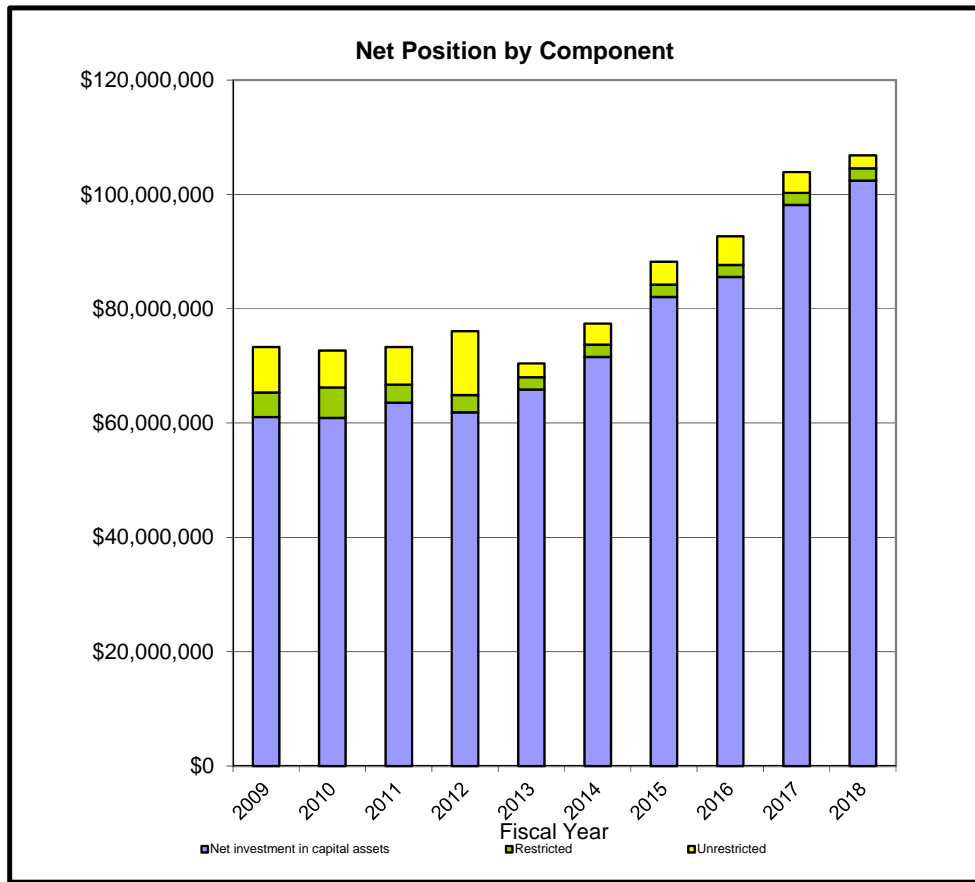
Source: North Marin Water District Audited Financial Statements

⁽¹⁾ Asset lives were adjusted in Fiscal Year 2009 which resulted in a large depreciation adjustment

**North Marin Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years, continued**

Schedule 1

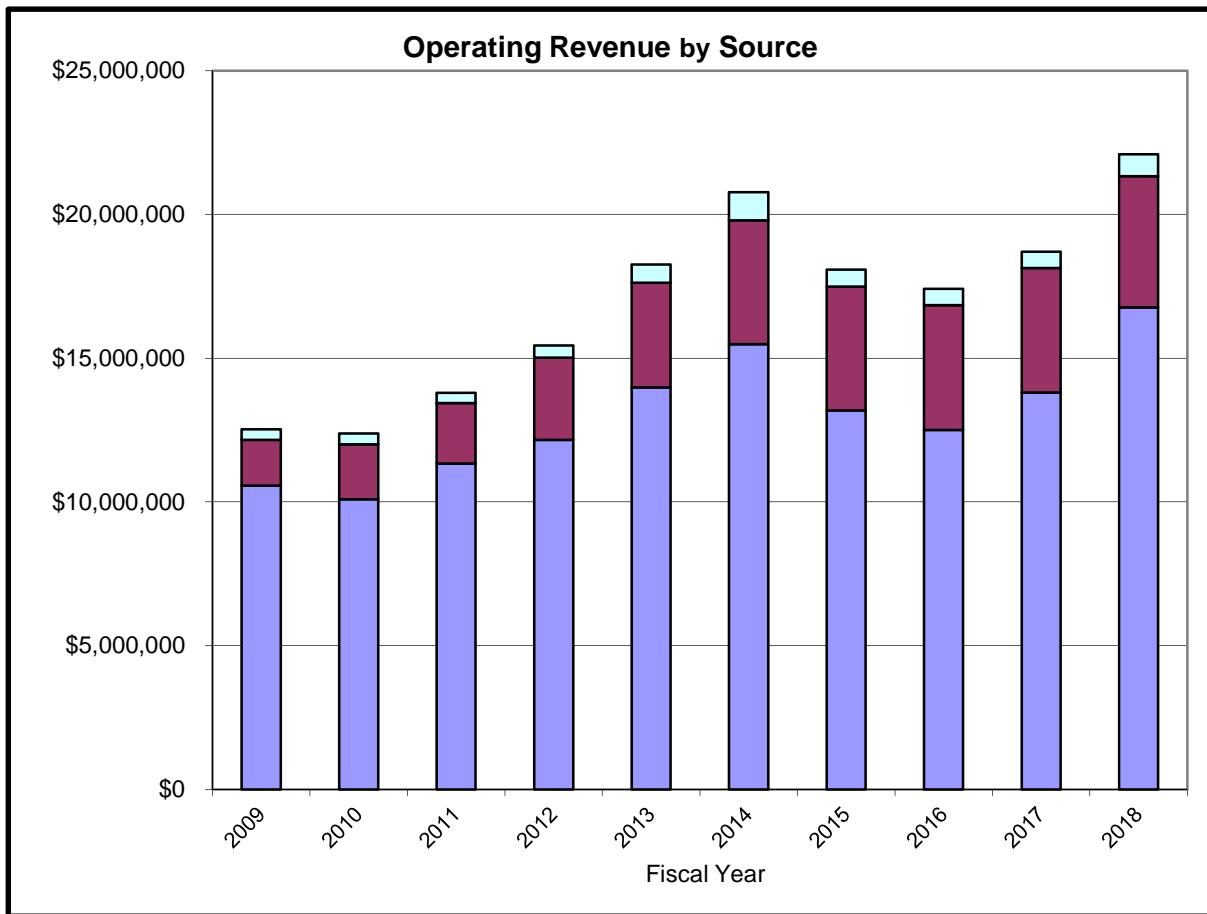
Fiscal Year						
2012	Restated 2013	Restated 2014	2015	2016	2017	2018
\$15,435,733	\$18,256,638	\$20,772,429	\$18,081,308	\$17,411,543	\$18,703,476	\$22,094,094
(12,610,862)	(13,140,845)	(13,309,833)	(13,328,124)	(13,704,737)	(15,099,687)	(16,461,030)
(2,726,598)	(2,793,360)	(3,128,302)	(3,183,725)	(3,286,353)	(3,416,411)	(3,434,069)
\$98,273	\$2,322,433	\$4,334,294	\$1,569,459	\$420,453	\$187,378	\$2,198,995
(531,318)	(285,490)	(518,474)	(488,661)	(328,734)	(304,830)	(338,477)
(\$433,045)	\$2,036,943	\$3,815,820	\$1,080,798	\$91,719	(\$117,452)	\$1,860,518
3,200,979	3,357,870	3,144,256	9,714,111	4,139,047	11,643,388	4,265,041
<u>\$2,767,934</u>	<u>\$5,394,813</u>	<u>\$6,960,076</u>	<u>\$10,794,909</u>	<u>\$4,230,766</u>	<u>\$11,525,936</u>	<u>\$6,125,559</u>
\$61,882,478	\$65,839,724	\$71,538,168	\$82,037,287	\$85,542,035	\$98,131,574	\$102,392,652
2,993,055	2,186,452	2,156,020	2,170,429	2,122,980	2,140,681	2,183,812
11,185,857	2,404,385	3,696,449	3,977,830	5,007,769	3,639,717	2,246,981
-	-	-	-	-	(3,214,096)	-
<u>\$76,061,390</u>	<u>\$70,430,561</u>	<u>\$77,390,637</u>	<u>\$88,185,546</u>	<u>\$92,672,784</u>	<u>\$100,697,876</u>	<u>\$106,823,445</u>



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

Schedule 2

Fiscal Year	Water Sales	Bi-Monthly Service Charges	Other Charges and Services	Total Operating Revenue
2009	10,573,368	1,581,407	371,519	12,526,294
2010	10,086,100	1,913,170	382,223	12,381,493
2011	11,334,728	2,109,255	353,029	13,797,012
2012	12,156,765	2,860,630	418,338	15,435,733
2013	13,987,034	3,630,425	639,178	18,256,638
2014	15,480,438	4,308,584	983,407	20,772,429
2015	13,180,015	4,312,108	589,188	18,081,311
2016	12,508,927	4,331,899	570,717	17,411,543
2017	13,801,864	4,334,762	566,850	18,703,476
2018	16,764,567	4,564,228	765,299	22,094,094

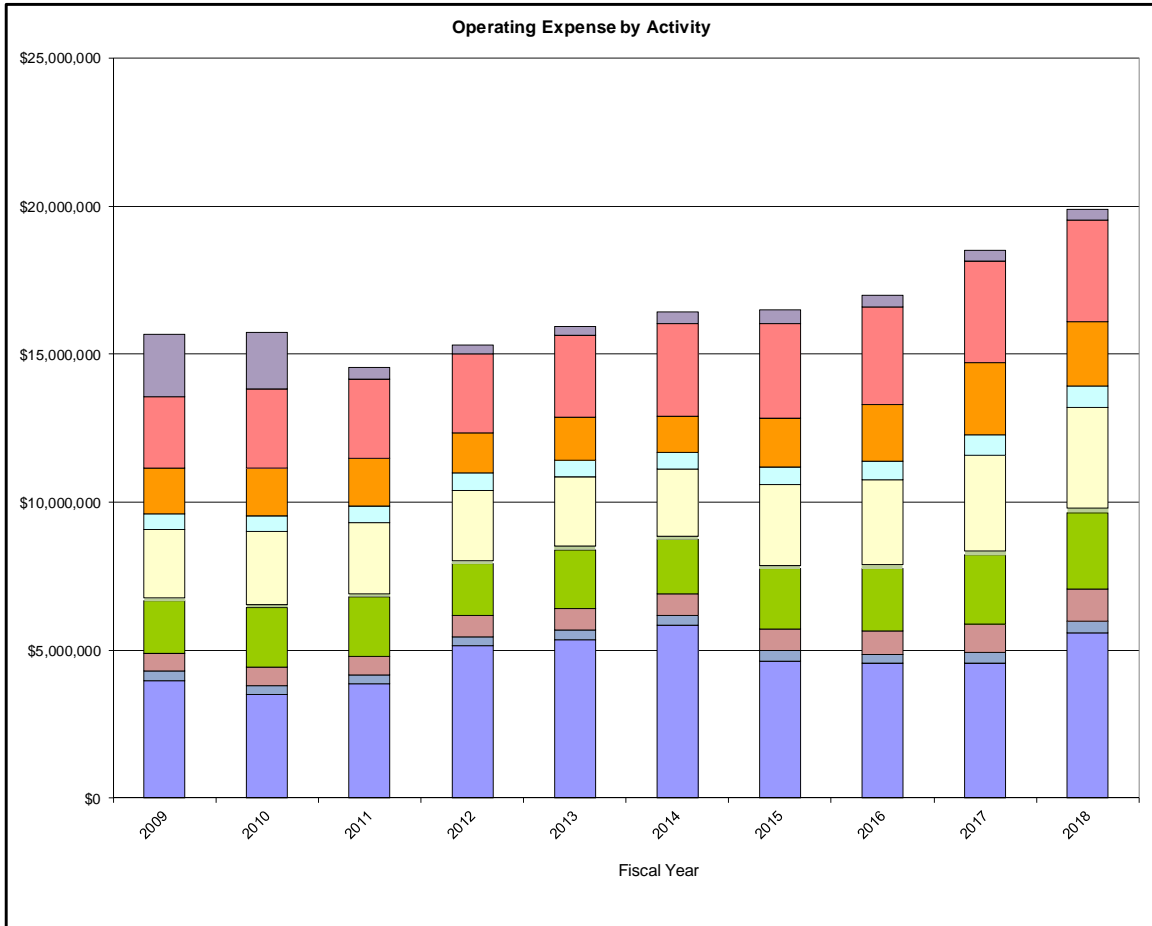


Source: North Marin Water District Audited Financial Statements

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

Schedule 3

Fiscal Year	Source of Supply	Pumping	Operations	Water Treatment	Sewage Coll. & Treat.	Transmission & Distrib	Customer Service	General & Admin (2)	Other Op Expense	Deprec and Amortization (1)	Total Op Expense
2009	3,960,788	339,236	578,868	1,781,516	98,715	2,335,067	505,218	1,561,044	2,096,673	2,400,106	15,657,231
2010	3,497,565	298,583	633,259	2,027,052	95,116	2,450,765	535,401	1,616,317	1,929,314	2,659,883	15,743,255
2011	3,856,027	299,462	648,743	2,012,125	103,054	2,400,638	564,940	1,605,455	388,168	2,660,418	14,539,030
2012	5,150,183	304,075	708,570	1,747,166	112,801	2,373,132	580,534	1,358,682	275,719	2,690,535	15,301,397
2013	5,342,988	351,816	716,780	1,986,904	127,903	2,340,330	552,202	1,449,793	272,107	2,784,670	15,925,493
2014	5,834,854	341,597	742,706	1,815,429	120,548	2,270,764	550,709	1,221,849	411,377	3,128,302	16,438,135
2015	4,624,655	352,007	751,940	2,020,865	108,928	2,727,168	588,579	1,673,156	478,360	3,183,725	16,509,383
2016	4,565,833	281,255	797,806	2,099,887	134,193	2,871,290	628,981	1,934,011	391,481	3,286,353	16,991,090
2017	4,579,359	351,342	937,559	2,346,949	151,205	3,223,237	676,189	2,462,392	371,455	3,416,411	18,516,098
2018	5,569,766	426,356	1,079,917	2,567,146	163,957	3,387,559	742,164	2,169,660	354,505	3,434,069	19,895,099



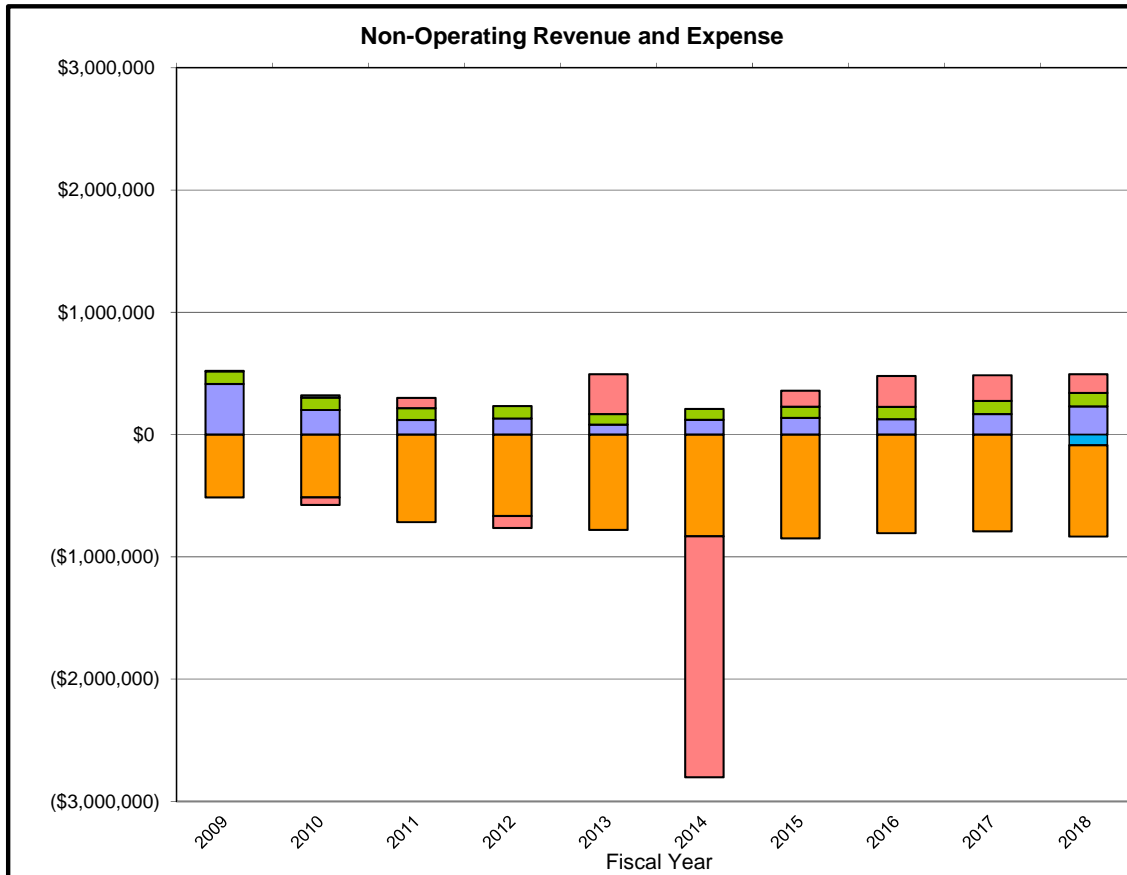
Source: North Marin Water District Audited Financial Statements

- (1) FY09 Excludes \$7,691,033 depreciation due to change in asset lives
- (2) Reduced by overhead absorption

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

Schedule 4

Fiscal Year	Investment Income ⁽¹⁾	Property Taxes	Gain/(Loss) on Asset Sales	Debt Issuance Costs	Interest Expense	Other Inc & Exp, net	Net Non-Op Rev/(Exp)
2009	413,681	103,630	-	-	(513,314)	4,957	8,954
2010	202,459	100,220	17,796	-	(513,763)	(61,930)	(255,218)
2011	118,410	96,768	-	-	(715,491)	85,750	(414,563)
2012	130,974	101,559	-	-	(665,713)	(98,138)	(531,318)
2013	80,713	88,088	-	-	(778,762)	324,471	(285,490)
2014	120,671	90,071	-	-	(830,830)	(1,972,027) ⁽²⁾	(2,592,115)
2015	135,307	94,391	-	-	(847,950)	129,591	(488,661)
2016	125,078	102,259	-	-	(807,035)	250,969	(328,729)
2017	168,766	107,210	-	-	(791,211)	210,405	(304,830)
2018	230,705	109,927	-	(86,180)	(747,118)	154,189	(338,477)



Notes:

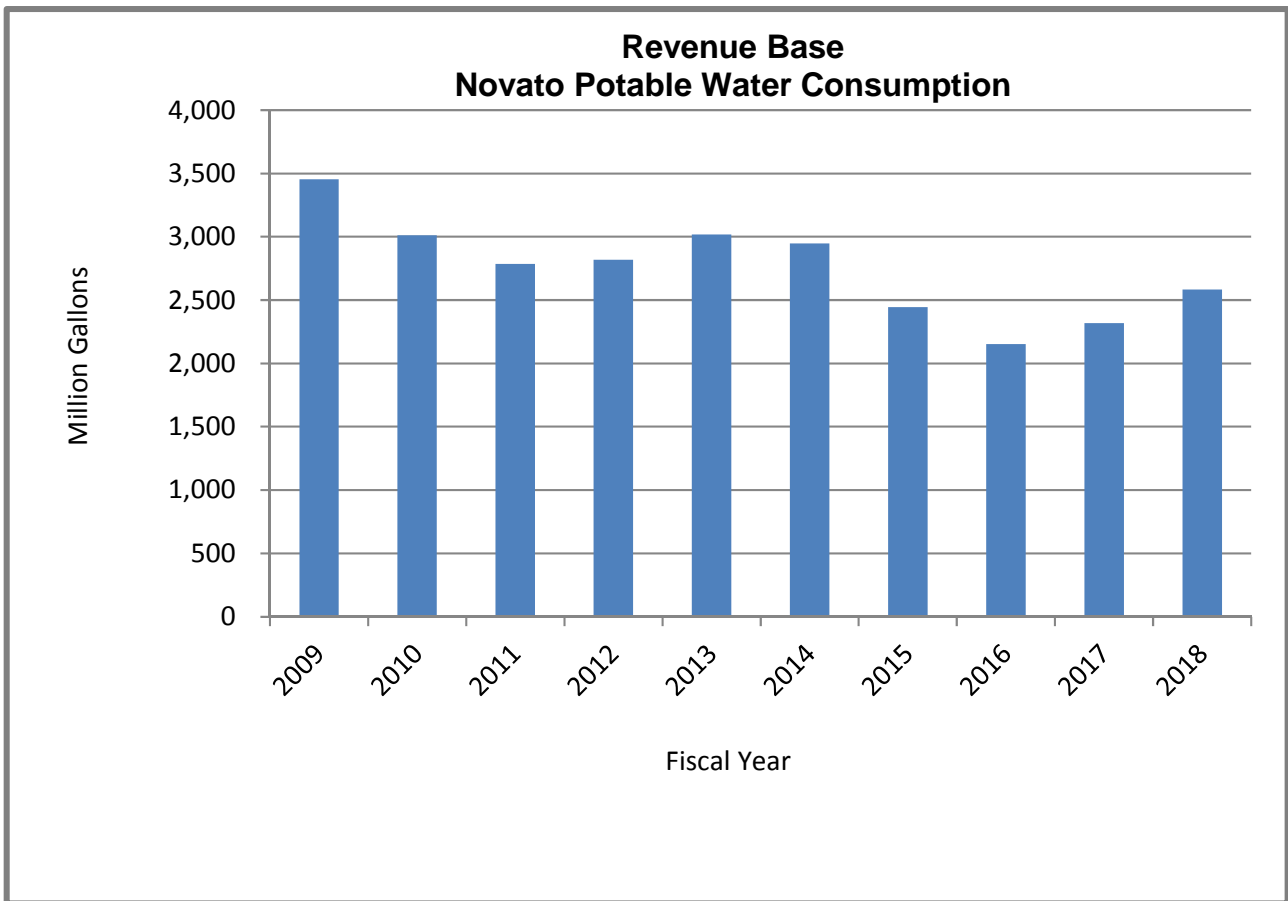
- (1) Includes interest income and realized and unrealized gains and losses on investments.
- (2) Includes CalPERS Side Fund Payoff (\$2,073,701).

Source: North Marin Water District Audited Financial Statements

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

Schedule 5

Fiscal Year	Novato Potable Water Consumption (Million Gallons)
2009	3,454
2010	3,011
2011	2,786
2012	2,820
2013	3,018
2014	2,948
2015	2,444
2016	2,152
2017	2,317
2018	2,584



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	Customer Type					West Marin Water	Oceana Marin Sewer	Total
	Novato Potable & Recycled			Government	Recycled			
	Single-Family Residential	Multi-Family Residential	Commerical/ Business					
2009	18,197	720	1,280	219	-	760	225	21,401
2010	18,208	730	1,280	220	3	769	225	21,435
2011	18,239	715	1,280	230	3	770	227	21,464
2012	18,298	720	1,246	226	2	777	227	21,496
2013	18,350	687	1,222	233	17	776	227	21,512
2014	18,491	699	1,222	231	44	776	229	21,692
2015	18,541	698	1,226	230	44	778	229	21,746
2016	18,561	704	1,239	232	44	780	230	21,790
2017	18,631	700	1,254	229	47	780	231	21,872
2018	18,449	699	1,217	220	53	785	232	21,655

Source: North Marin Water District - Finance Department

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

Schedule 7

Bimonthly Service Charge											
Meter Size	6/30/09	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	
5/8" & 3/4"	\$ 13.20	\$ 14.40	\$ 20.00	\$ 25.00	\$ 30.00	\$ 30.00	\$ 30.00	\$ 30.00	\$ 31.50	\$ 33.00	
1"	26.40	28.80	40.00	50.00	60.00	60.00	60.00	60.00	63.00	66.00	
1 1/2"	32.40	35.30	49.00	61.00	73.00	73.00	73.00	73.00	77.00	80.50	
2"	50.40	54.95	76.00	95.00	114.00	114.00	114.00	114.00	120.00	125.50	
3"	99.60	108.55	151.00	189.00	227.00	227.00	227.00	227.00	238.00	248.50	
4"	159.60	173.95	242.00	303.00	364.00	364.00	364.00	364.00	382.00	399.00	
6"	334.80	364.95	507.00	634.00	761.00	761.00	761.00	761.00	799.00	835.00	
8"	499.20	544.15	756.00	945.00	1,134.00	1,134.00	1,134.00	1,134.00	1,191.00	1,244.50	

Water Use Rate (per 1,000 Gallons)											
User Type	6/30/09	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	
<u>Residential Zone A</u>											
Base Rate ⁽¹⁾	\$ 3.02	\$ 3.29	\$ 3.49	\$ 3.73	\$ 4.03	\$ 4.29	\$ 4.46	\$ 4.77	\$ 5.01	\$ 5.24	
Tier 1: 616-1845 gpd	4.81	5.24	5.55	5.94	6.42	6.84	7.11	7.61	7.99	8.35	
Tier 2: >1845 gpd	8.36	9.11	9.66	10.34	11.17	11.90	12.38	13.25	13.91	14.54	
<u>Non-Residential Zone A</u>											
Base Rate ⁽¹⁾	3.48	3.62	3.84	4.11	4.44	4.73	4.92	5.26	5.52	5.77	
Seasonal Rate	-	3.90	4.13	4.42	4.77	5.08	5.28	5.65	5.93	6.20	

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 approved rates

**North Marin Water District
Ten Largest Water Customers by Revenue
Current Fiscal Year and Ten Years Ago**

Schedule 8

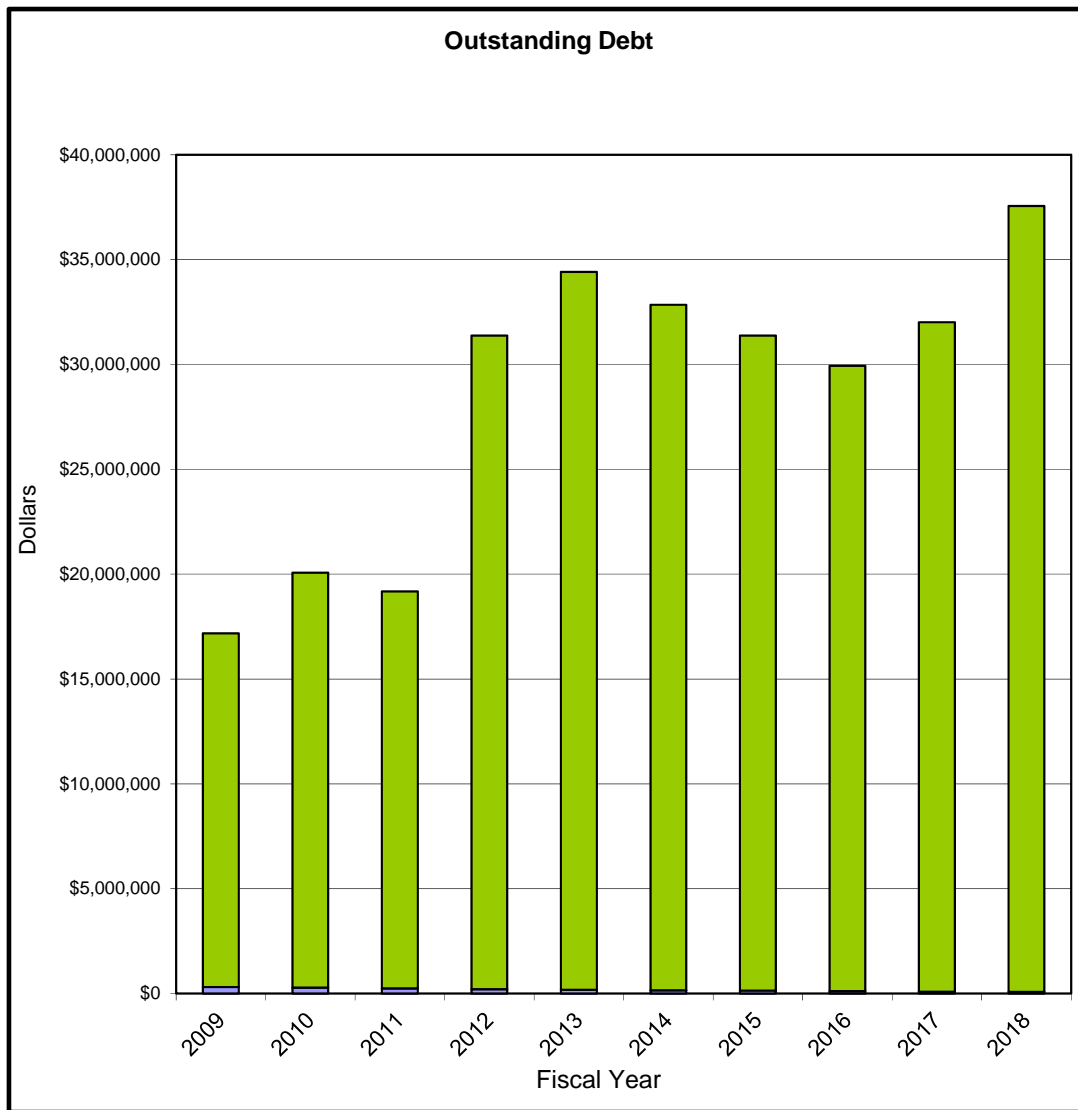
	FY 2017/18	% of Total	FY 2007/08	% of Total
1	City of Novato	2.9%	City Of Novato	1.9%
2	StoneTree Golf	2.1%	StoneTree Golf	1.8%
3	Novato Unified School District	2.1%	Coast Guard Spanish Housing	1.7%
4	BioMarin Pharmatutical	1.4%	Novato Unified School District	1.7%
5	Fireman's Fund	0.9%	Meadow Park Hamilton	0.7%
6	Meadow Park Hamilton	0.9%	Fireman's Fund	0.7%
7	Indian Valley Golf	0.8%	Indian Valley Golf	0.6%
8	Coast Guard Spanish Housing	0.6%	Bay Vista Apartments	0.5%
9	Marion Park Apartments	0.6%	Marin Valley Mobile Country Club	0.4%
10	Bay Vista Apartments	0.6%	Western Oaks Village Hoa	0.4%
		<u>12.8%</u>		<u>10.5%</u>
	Total Water Service Revenue	\$22,094,094		\$11,779,157

Source: NMWD CORE billing system (t:\ac\excel\wtr use\top revenue 2007_2017.xlsx\top 10

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

Schedule 9

Fiscal Year	Bonds Payable	Loans Payable	Total		
			Debt	Per Capita	As a Share of Personal Income ⁽¹⁾
2009	\$ 312,878	16,856,896	17,169,774	\$ 281.47	0.33%
2010	282,809	19,790,955	20,073,764	329.08	0.34%
2011	250,587	18,924,944	19,175,531	314.35	0.30%
2012	209,203	31,173,317	31,382,520	514.47	0.48%
2013	181,652	34,241,715	34,423,367	564.32	0.54%
2014	159,916	32,687,391	32,847,307	538.48	0.49%
2015	136,000	31,237,390	31,373,390	514.32	0.46%
2016	116,000	29,823,693	29,939,693	490.81	0.43%
2017	94,000	31,922,939	32,016,939	524.87	0.45%
2018	72,000	37,493,365	37,565,365	615.83	0.51%



Source: North Marin Water District Audited Financial Statements

⁽¹⁾ Per Capita/Personal Income per Capita (See Schedule 11)

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

Schedule 10

Fiscal Year	Revenue ⁽¹⁾	Expense ⁽²⁾	Net Available	Debt Service		Total	Coverage
			Revenue	Principal	Interest		Ratio
2009	\$ 14,131,892	(13,257,125)	874,767	319,248	513,314	\$ 832,562	1.05
2010	14,635,090	(13,102,113)	1,532,977	690,462	694,044	1,384,506	1.11
2011	14,506,888	(11,905,026)	2,601,862	644,740	740,416	1,385,156	1.88
2012	16,789,744	(12,610,862)	4,178,882	1,116,410	654,484	1,770,894	2.36
2013	19,761,431	(13,284,705)	6,476,726	1,337,041	778,762	2,115,803	3.05
2014	21,364,965	(13,437,213)	7,927,752	1,618,138	830,830	2,448,968	3.24
2015	19,308,316	(13,424,517)	5,883,799	1,686,523	847,951	2,534,474	2.32
2016	18,191,410	(13,727,613)	4,463,797	1,721,904	807,034	2,528,938	1.77
2017	20,209,860	(15,118,535)	5,091,325	1,769,241	757,781	2,527,022	2.01
2018	24,062,837	(16,470,062)	7,592,775	1,368,254	833,197	2,201,451	3.45

Notes:

- (1) Revenues includes Connection Fee Revenue, Interest Revenue, Rent & Lease Revenue, other non-operating revenue
(2) Expense excludes depreciation and interest expense.

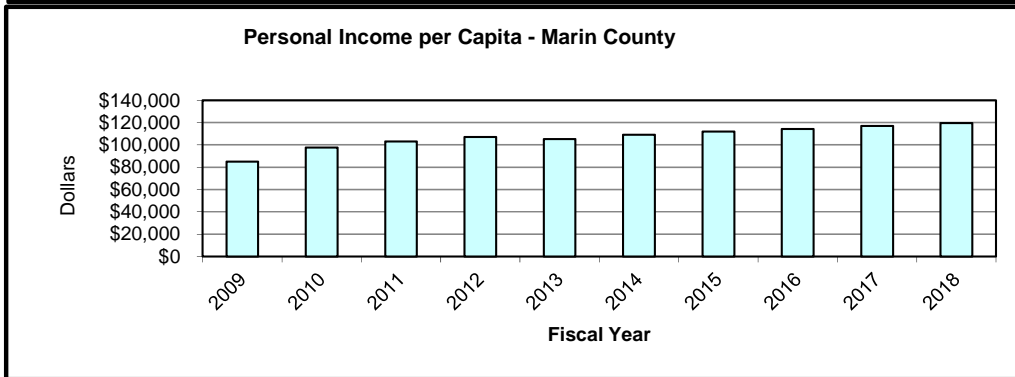
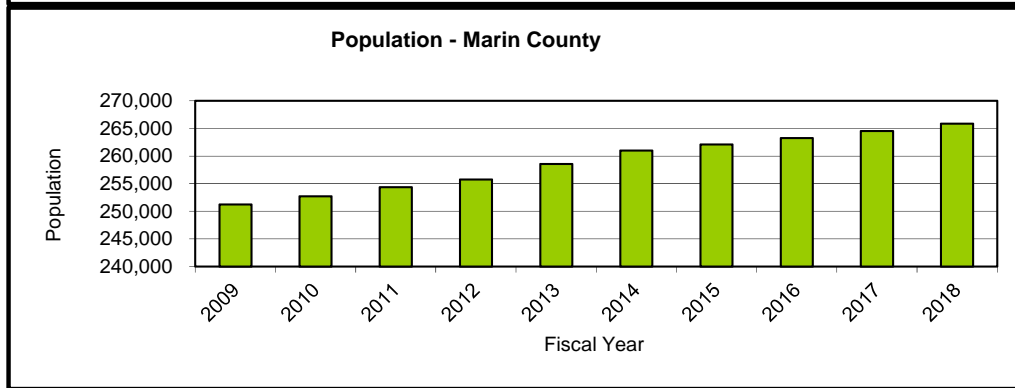
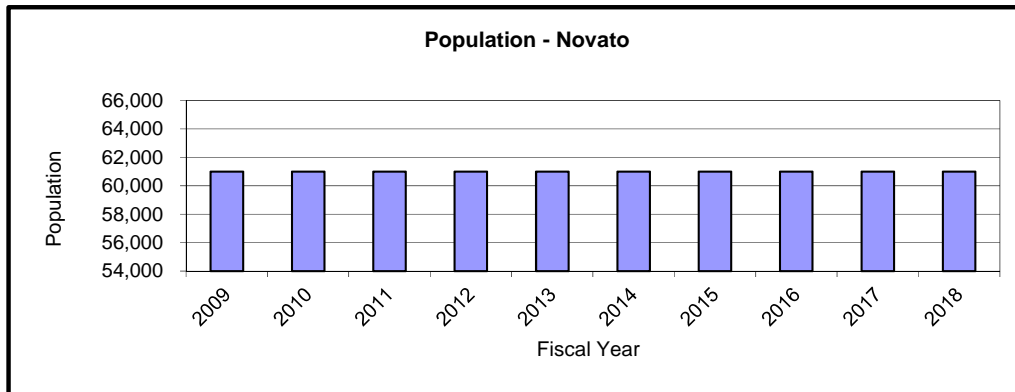
Source: North Marin Water District Audited Financial Statements

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

Schedule 11

Year	Novato Service Area ⁽¹⁾		County of Marin		
	Estimated Population	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2009	61,000	9.6%	251,230	\$21,376,407	\$85,087
2010	61,000	7.7%	252,708	\$24,653,687	\$97,558
2011	61,000	7.4%	254,389	\$26,250,147	\$103,189
2012	61,000	6.5%	255,765	\$27,360,972	\$106,977
2013	61,000	5.3%	258,569	\$27,220,334	\$105,273
2014	61,000	4.1%	261,033	\$28,455,468	\$109,011
2015	61,000	3.5%	262,105	\$29,332,433	\$111,911
2016	61,000	3.5%	263,257	\$30,059,737	\$114,184
2017	61,000	3.1%	264,535	\$30,945,833	\$116,982
2018	61,000	2.6%	265,891	\$31,803,488	\$119,611



Sources: NMWD Annual Report population estimate, County of Marin Economic Forecast at <http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/areaselection.asp?tableName=Labforce> and http://www.dot.ca.gov/hq/tp/offices/eab/socio_economic_files/2017/Marin.pdf

Notes:

(1) District estimates (t:\ac\excel\annual report\population est.xls)

**North Marin Water District
Demographics and Economics Statistics – Ten Largest Employers
Current Year**

Schedule 12

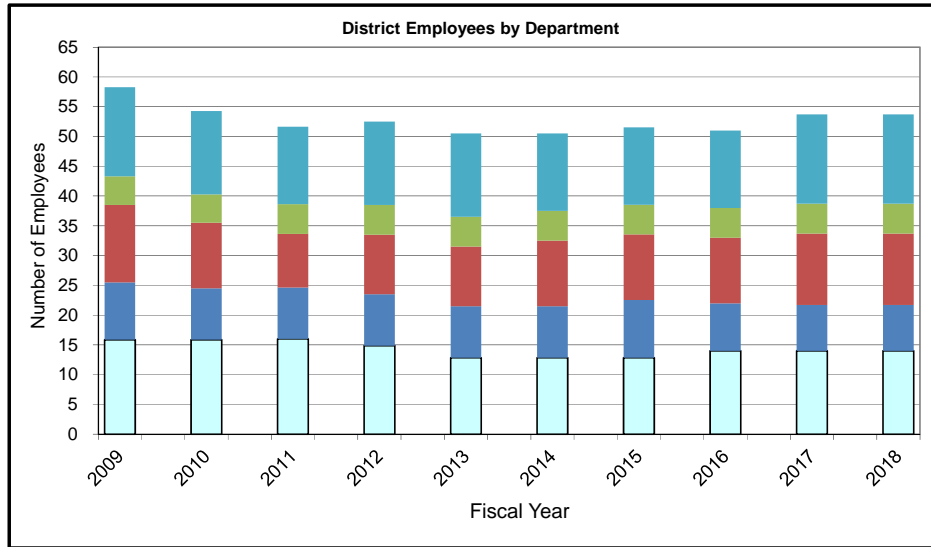
FY 2017/2018			FY 2007/2008		
Employer	Number of Employees	Percent of Total Employment	Employer	Number of Employees	Percent of Total Employment
1 BioMarin Pharamaceutical	979	3.31%	Novato Unified School District	1,284	5.28%
2 Novato Unified School District	837	2.83%	Fireman's Fund	1,078	4.44%
3 2K/Visual Concepts Entertainment	585	1.98%	BioMarin Pharamaceutical	465	1.91%
4 Bradley Electric	336	1.14%	City of Novato	222	0.91%
5 Novato Community Hospital	312	1.05%	Novato Community Hospital	360	1.48%
6 Novato Healthcare Center	308	1.04%	Brayton Purcell, LLP	320	1.32%
7 Costco Wholesale	300	1.01%	Target Store	300	1.23%
8 City of Novato	287	0.97%	Bradley Electric	280	1.15%
9 Ultragenix	281	0.95%	Costco Wholesale	257	1.06%
10 Safeway Stores	275	0.93%	Safeway Stores	240	0.99%
	4,500	15.73%		4,806	19.78%

Source: City of Novato and <http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/areaselection.asp?tableName=Labforce>

**North Marin Water District
Operating and Capacity Indicators – Total Employees
Last Ten Fiscal Years**

Schedule 13

Department	Fiscal Year End									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Administrative Services	16	16	16	15	13	13	13	14	14	14
Engineering Services	10	9	9	9	9	9	10	8	8	8
Construction /Maintenance	13	11	9	10	10	11	11	11	12	12
Water Quality	5	5	5	5	5	5	5	5	5	5
Operations / Maintenance	15	14	13	14	14	13	13	13	15	15
	<u>58</u>	<u>54</u>	<u>52</u>	<u>53</u>	<u>51</u>	<u>51</u>	<u>52</u>	<u>51</u>	<u>54</u>	<u>54</u>



Source: North Marin Water District Overhead Payroll Worksheets for Pay Periods Ending June 30
 Note: Excludes temporary employees

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

Schedule 14

Other Operating and Capacity Indicators				
Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Number of Fire Hydrants	System Storage Capacity (MG)
2009	100	343	2,762	38
2010	100	345	2,773	38
2011	100	346	2,785	38
2012	100	348	2,785	38
2013	100	356	2,797	39
2014	100	356	2,805	39
2015	100	357	2,808	39
2016	100	358	2,814	39
2017	100	364	2,824	39
2018	100	364	2,842	40

Source: North Marin Water District - Engineering Department

Report on Internal Controls and Compliance



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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Marin Water District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 4, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

**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, continued***

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 4, 2018