



NORTH MARIN WATER DISTRICT

Novato, California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2012 and 2011





**NORTH MARIN
WATER DISTRICT**

Board of Directors as of June 30, 2012

Name	Title	Elected/ Appointed	Current Term
Stephen Petterle	President	Elected	12/11 - 12/15
Rick Fraites	Vice-President	Elected	12/09 - 12/13
Jack Baker	Director	Elected	12/11 - 12/15
Dennis J. Rodoni	Director	Elected	12/11 - 12/15
John C. Schoonover	Director	Elected	12/09 - 12/13

**Chris DeGabriele, 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 Years Ended June 30, 2012 and 2011

NORTH MARIN WATER DISTRICT

999 Rush Creek Place
Novato, California 94945

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

**North Marin Water District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2012 and 2011**

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Introductory Section



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WATER DISTRICT**

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September 30, 2012

Board of Directors
North Marin Water District

It is our pleasure to submit the Annual Financial Report for the North Marin Water District for the fiscal year ended June 30, 2012 and 2011, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and 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 immediately after the Independent Auditors' Report.

District Structure and Leadership

The North Marin Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The North Marin Water District has been providing water service to its customers since 1948. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The North Marin Water District employs 58 (52.5 full-time equivalent) employees, some of whom are part-time or temporary. There are currently 23 office positions and 35 field positions. The District's Board of Directors meets on the first and third Tuesdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

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 20,492 service connections. The District also provides water service to approximately 1,800 residents in the Point Reyes service area of West Marin County through 777 service connections and sewer service to approximately 500 residents in the Oceana Marin service area of West Marin County through 227 service connections.

Residential customers are 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 water supply from the Sonoma County Water Agency (Agency) with the balance derived from the District's Stafford Lake Reservoir and its Deer Island Recycled Water Facility. The District purchased approximately 2.0 billion gallons of water in fiscal year 2011 and 2.4 billion gallons of water in fiscal year 2012 from the Agency.

Economic Condition, Outlook and Major Initiatives

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

The Russian River water delivery system from Sonoma County Water Agency (Agency) typically provides 80% of Novato's water supply, but continues to have limited capacity in summer months. Novato Rainfall in FY 2012 totaled 17.15", approximately 10" less than the historical average annual rainfall. Yet ample water was available in Lakes Mendocino and Sonoma for fish, agriculture and urban uses on the Russian River system and no restrictions on the Russian River deliveries were necessary. North Marin's new Stafford Lake water treatment plant was only partially utilized to augment Russian River supplies with local water supply during the fiscal year due to low rainfall. The Deer Island recycled water treatment facility (a joint project between North Marin and Novato Sanitary District) delivered highly-treated recycled wastewater to irrigate Stone Tree Golf Course.

The Agency has abandoned its effort to construct previously contemplated necessary Russian River water production and delivery facilities (pumps and pipelines) to fulfill the new Restructured Agreement contract requirements for increased Russian River water. The Agency is now focused on compliance with the Biological Opinion for water supply in the Russian River watershed issued by the National Marine Fisheries Service, laying out the requirements to preserve, protect and restore the fisheries over the next 11 years and maintain the existing Russian River water supplies. Additionally, state legislation passed in November 2009 (SB7X-7) will force a 20% reduction in per capita water use by 2020. North Marin must achieve more water conservation and development of recycled water to further stretch our local source of supply in future years.

In response to the reduced water sales and the increased cost of purchased water, the Board of Directors authorized a series of three annual 11% water rate increases in June 2011.

In West Marin, normal year water supply conditions on Lagunitas Creek prevailed and customers experienced no water restrictions. Work on the treatment plant solids handling facility and replacement of Well #3 continued.

At \$544 per year, the cost of water service for a typical Novato single family home using 110,700 gallons of water a year is the sixth-lowest of urban area water purveyors. Water remains a good value for Novato customers.

District Water Supply

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

Stafford Lake lies four miles west of downtown Novato and collects the runoff from 8.3 square miles of watershed land adjacent to the upper reaches of Novato Creek. The lake has a surface area of 230 acres and holds 4,450 AF (acre-feet) (1,450 MG) of water. Water from Stafford Lake is fed into the 6 million gallons per day (mgd) treatment plant located just below the dam. In fiscal year 2011 and 2012, 2,714AF (884 MG) and 1,788 AF (586 MG), respectively, of water 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). The Coyote Dam and Lake Mendocino impound the Eel River diversions and winter runoff from the local watershed. Warm Springs Dam and Lake Sonoma impound winter runoff from the Dry Creek and Warm Springs local watersheds. Lakes Mendocino and Sonoma combined can store 367,500 acre feet to meet the regions' water supply needs. Releases from the lakes flow to a point about 10 miles upstream of Guerneville where six deep Ranney Collector wells collect river water that has been filtered through 60 to 90 feet of natural sand and gravel to perforated pipes located at the bottom of each well. The thick layer of sand and gravel through which the water must pass before reaching the intake pipes provides a highly-efficient, natural filtration process which, with chlorination treatment, produces a clear, potable, bacteria-free water. This water is then fed directly into the Agency's aqueduct system.

In fiscal year 2011 and 2012, the District received 6,177 AF (2,013 MG) and 7,401 AF (2,411 MG), respectively, of Russian River water. The District has an agreement in place with the Agency to provide sufficient supply and meet the District's current and future water supply needs. There continues to be competing interests for Russian River water, principally to protect steelhead and salmon listed as threatened species under the Endangered Species Act. 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 over the next 11 years 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 benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting 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 and certificates of deposit from local banks.

Water Rates and District Revenues

Revenue from user charges generated from District customers support 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 composed of a commodity (water use) charge and a fixed bimonthly service charge; whereas, sewer rates are composed 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 Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

Awards and Acknowledgements

For the third 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 2011 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.

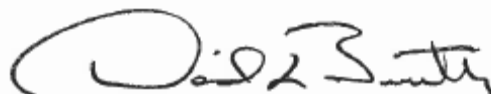
A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for 2012.

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

Respectfully submitted,

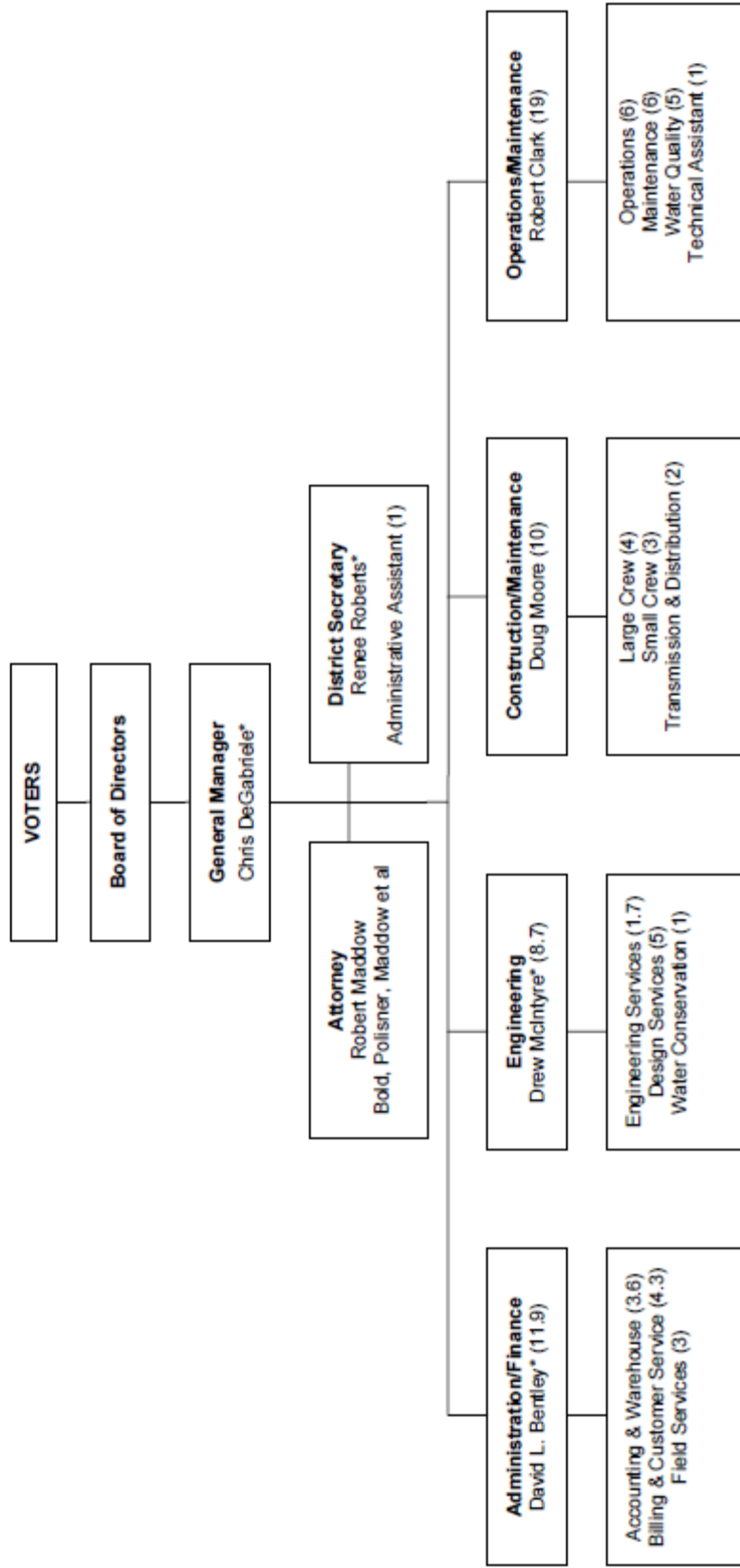


Chris DeGabriele
General Manager

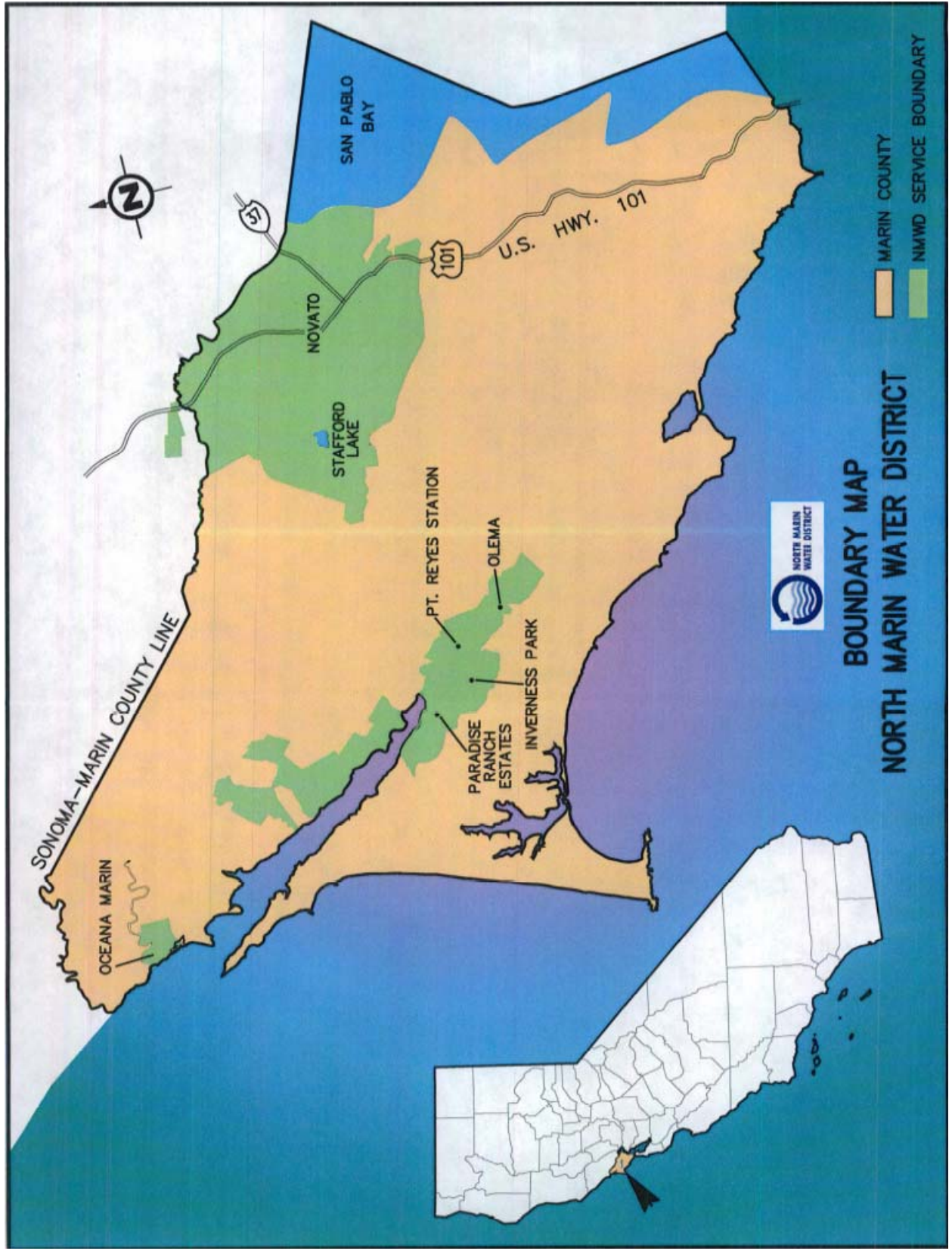


David L. Bentley
Auditor-Controller

North Marin Water District
 Organization Chart
 June 2012



*Also serves as District officer



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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danson

President

Jeffrey R. Emer

Executive Director

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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

We have audited the accompanying financial statements of the North Marin Water District (District) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the North Marin Water District as of June 30, 2012 and 2011, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on page 65.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 and the required supplementary information on page 44 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. 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.

Independent Auditor's Report, continued

Our audits were 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 45 through 48, and the statistical section on pages 49 through 64 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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2012

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2012 and 2011

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the North Marin Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. 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 2012, the District's net assets increased 3.8% or \$2,767,934 to \$76,061,390. In fiscal year 2011, the District's net assets increased 0.8% or \$628,894 to \$73,293,456
- In 2012, the District's operating revenues increased 11.9% or \$1,638,721 to \$15,435,733 due primarily to implemented rate increases and an increase in consumption from the prior year. In 2011, the District's operating revenues increased 11.4% or \$1,415,519 to \$13,797,012 due primarily to implemented rate increases.
- In 2012, the District's operating expenses before depreciation increased 6.2% or \$732,250 due primarily to a \$1,294,156 increase in purchased water expense. In 2011, the District's operating expenses before depreciation decreased 7.6% or \$1,204,760 due to primarily a \$1,286,036 decrease in expensed improvement project costs.

Required Financial Statements

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

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

Financial Analysis of the District

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

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2012 and 2011

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19 through 43.

Statement of Net Assets

Condensed Statements of Net Assets					
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
Assets:					
Current assets	\$ 18,315,830	6,311,477	12,004,353	6,873,912	(562,435)
Non-current assets	6,640,529	5,983,511	657,018	7,209,512	(1,226,001)
Capital assets, net	<u>89,703,025</u>	<u>83,053,832</u>	<u>6,649,193</u>	<u>80,953,926</u>	<u>2,099,906</u>
Total assets	<u>114,659,384</u>	<u>95,348,820</u>	<u>19,310,564</u>	<u>95,037,350</u>	<u>311,470</u>
Liabilities:					
Current liabilities	4,746,654	2,355,902	2,390,752	2,244,516	111,386
Non-current liabilities	<u>33,851,340</u>	<u>19,699,462</u>	<u>14,151,878</u>	<u>20,128,272</u>	<u>(428,810)</u>
Total liabilities	<u>38,597,994</u>	<u>22,055,364</u>	<u>16,542,630</u>	<u>22,372,788</u>	<u>(317,424)</u>
Net assets:					
Net investment in capital assets	61,882,478	63,542,479	(1,660,001)	60,880,162	2,662,317
Restricted for capital proj. and debt	2,993,055	3,171,305	(178,250)	5,321,639	(2,150,334)
Unrestricted	<u>11,185,857</u>	<u>6,579,672</u>	<u>4,606,185</u>	<u>6,462,761</u>	<u>116,911</u>
Total net assets	<u>76,061,390</u>	<u>73,293,456</u>	<u>2,767,934</u>	<u>72,664,562</u>	<u>628,894</u>
Total liabilities and net assets	<u>\$ 114,659,384</u>	<u>95,348,820</u>	<u>19,310,564</u>	<u>95,037,350</u>	<u>311,470</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$76,061,390 and \$73,293,456 as of June 30, 2012 and 2011, respectively.

By far the largest portion of the District's net assets (81% and 87% as of June 30, 2012 and 2011, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2012 and 2011, the District showed a positive balance in its unrestricted net assets of \$11,185,857 and \$6,579,672, respectively. See note 15 for the amount of spendable net assets that may be utilized in future years.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2012 and 2011

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets					
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 15,435,733	13,797,012	1,638,721	12,381,493	1,415,519
Non-operating revenue	536,744	322,266	214,478	457,569	(135,303)
Total revenue	<u>15,972,477</u>	<u>14,119,278</u>	<u>1,853,199</u>	<u>12,839,062</u>	<u>1,280,216</u>
Expense:					
Operating expense	13,242,635	12,320,678	921,957	13,451,355	(1,130,677)
Overhead absorption	(631,773)	(442,066)	(189,707)	(367,983)	(74,083)
Depreciation and amortization	2,726,598	2,660,418	66,180	2,659,883	535
Non-operating expense	1,068,062	736,829	331,233	712,787	24,042
Total expense	<u>16,405,522</u>	<u>15,275,859</u>	<u>1,129,663</u>	<u>16,456,042</u>	<u>(1,180,183)</u>
Net loss before capital contrib.	(433,045)	(1,156,581)	723,536	(3,616,980)	2,460,399
Capital contributions	3,200,979	1,785,475	1,415,504	2,998,366	(1,212,891)
Change in net assets	2,767,934	628,894	2,139,040	(618,614)	1,247,508
Net assets, beginning of year	<u>73,293,456</u>	<u>72,664,562</u>	<u>628,894</u>	<u>73,283,176</u>	<u>(618,614)</u>
Net assets, end of year	<u>\$ 76,061,390</u>	<u>73,293,456</u>	<u>2,767,934</u>	<u>72,664,562</u>	<u>628,894</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$2,767,934 and \$628,894 in the fiscal years ended June 30, 2012 and 2011, respectively.

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

In 2012, the District's operating revenues increased 11.9% or \$1,638,721 to \$15,435,733 due primarily to implemented rate increases and an increase in consumption from the prior year. In 2011, the District's operating revenues increased 11.4% or \$1,415,519 to \$13,797,012 due primarily to implemented rate increases.

In 2012, the District's operating expenses before depreciation increased 6.2% or \$732,250 due primarily to a \$1,294,156 increase in purchased water expense. In 2011, the District's operating expenses before depreciation decreased 7.6% or \$1,204,760 due to primarily a \$1,286,036 decrease in expensed improvement project costs.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2012 and 2011

Total District Revenues

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 12,156,765	11,334,728	822,037	10,086,100	1,248,628
Monthly meter service charge	2,860,630	2,109,255	751,375	1,913,170	196,085
Sewer service charges	157,311	149,820	7,491	148,427	1,393
Water conservation	16,095	4,095	12,000	24,295	(20,200)
Other charges and services	244,932	199,114	45,818	209,501	(10,387)
Total operating revenues	<u>15,435,733</u>	<u>13,797,012</u>	<u>1,638,721</u>	<u>12,381,493</u>	<u>1,415,519</u>
Non-operating revenues:					
Property tax revenue	101,559	96,768	4,791	100,220	(3,452)
Investment earnings	130,974	118,410	12,564	202,459	(84,049)
Rental revenue	69,206	68,062	1,144	51,884	16,178
Gain from dental liability reserve offset	174,119	-	174,119	-	-
Other non-operating revenues	60,886	39,026	21,860	103,006	(63,980)
Total non-operating revenues	<u>536,744</u>	<u>322,266</u>	<u>214,478</u>	<u>457,569</u>	<u>(135,303)</u>
Total revenues	<u>\$ 15,972,477</u>	<u>14,119,278</u>	<u>1,853,199</u>	<u>12,839,062</u>	<u>1,280,216</u>

In 2012 and 2011, total District revenues increased \$1,853,199 and \$1,280,217, respectively.

Total District Expenses

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
Operating expenses:					
Source of supply	\$ 5,150,183	3,856,027	1,294,156	3,497,565	358,462
Pumping	304,075	299,462	4,613	298,583	879
Water facilities operations	708,570	648,743	59,827	633,259	15,484
Water treatment	1,747,166	2,012,125	(264,959)	2,027,052	(14,927)
Transmission and distribution	2,373,132	2,400,638	(27,506)	2,450,765	(50,127)
Sewage collection and treatment	112,801	103,054	9,747	95,116	7,938
Customer service	580,534	564,940	15,594	535,401	29,539
General and administrative	1,990,455	1,886,541	103,914	1,984,300	(97,759)
Improvement projects	3,383	160,980	(157,597)	1,447,016	(1,286,036)
Water conservation	272,336	388,168	(115,832)	482,298	(94,130)
Overhead absorption	(631,773)	(442,066)	(189,707)	(367,983)	(74,083)
Depreciation and amortization	2,726,598	2,660,418	66,180	2,659,883	535
Total operating expenses	<u>15,337,460</u>	<u>14,539,030</u>	<u>798,430</u>	<u>15,743,255</u>	<u>(1,204,225)</u>
Non-operating expenses:					
Interest expense – long-term debt	665,713	490,601	175,112	513,763	(23,162)
Amortization of deferred charges	3,065	-	3,065	-	-
Allowance for impairment of emp. loans	390,000	-	390,000	-	-
Wohler/Collector No. 6 project	-	224,890	(224,890)	189,269	35,621
Other non-operating expenses	9,284	21,338	(12,054)	9,755	11,583
Total non-operating expenses	<u>1,068,062</u>	<u>736,829</u>	<u>331,233</u>	<u>712,787</u>	<u>24,042</u>
Total expenses	<u>\$ 16,405,522</u>	<u>15,275,859</u>	<u>1,129,663</u>	<u>16,456,042</u>	<u>(1,180,183)</u>

In 2012, total District expenses increased by \$1,129,663 and in 2011, total District expenses decreased by \$1,180,183.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2012 and 2011

Capital Asset Administration

Changes in capital asset amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 6,120,568	9,180,508	(2,617,203)	12,683,873
Depreciable assets	113,448,662	2,812,486	(95,583)	116,165,565
Accumulated depreciation	<u>(36,515,398)</u>	<u>(2,726,598)</u>	<u>95,583</u>	<u>(39,146,413)</u>
Total capital assets, net	<u>\$ 83,053,832</u>	<u>9,266,396</u>	<u>(2,617,203)</u>	<u>89,703,025</u>

Changes in capital asset amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 2,876,446	4,158,992	(914,870)	6,120,568
Depreciable assets	112,023,243	1,516,202	(90,783)	113,448,662
Accumulated depreciation	<u>(33,945,763)</u>	<u>(2,660,418)</u>	<u>90,783</u>	<u>(36,515,398)</u>
Total capital assets, net	<u>\$ 80,953,926</u>	<u>3,014,776</u>	<u>(914,870)</u>	<u>83,053,832</u>

At the end of fiscal year 2012 and 2011, the District's investment in capital assets amounted to \$89,703,025 and \$83,053,832, respectively, (net of accumulated depreciation). This investment in capital assets includes: land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-progress, etc. (See Note 10 for further information)

Debt Administration

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2012</u>
Long-term debt:				
Bonds payable	\$ 250,587	-	(41,384)	209,203
Loans payable	<u>19,260,766</u>	<u>13,277,764</u>	<u>(1,075,026)</u>	<u>31,463,504</u>
Total long-term debt	<u>\$ 19,511,353</u>	<u>13,277,764</u>	<u>(1,116,410)</u>	<u>31,672,707</u>

Changes in long-term debt amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2011</u>
Long-term debt:				
Bonds payable	\$ 282,809	-	(32,222)	250,587
Loans payable	<u>19,790,955</u>	<u>335,811</u>	<u>(866,000)</u>	<u>19,260,766</u>
Total long-term debt	<u>\$ 20,073,764</u>	<u>335,811</u>	<u>(898,222)</u>	<u>19,511,353</u>

(See Note 14 for further debt service information)

Requests for Information

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

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Basic Financial Statements

**North Marin Water District
Statements of Net Assets
June 30, 2012 and 2011**

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 3,440,996	915,270
Restricted – cash and cash equivalents (note 2)	6,068,240	1,447,293
Accrued interest receivable	12,441	11,665
Accounts receivable – water and sewer sales and services	3,079,366	2,447,954
Accounts receivable – governmental agencies	564,454	95,253
Accounts receivable – other	28,748	54,374
Capital grants and loan proceeds receivable	4,194,515	556,534
Note receivable – property tax from state (note 3)	7,839	7,697
Note receivable – Black Point Golf Links – current portion (note 4)	191,861	187,320
Notes receivable – employee computer loans (note 5)	6,143	7,195
Provision for pension related debt – current portion (note 6)	67,809	-
Materials and supplies inventory	612,966	552,753
Prepaid expenses and deposits	40,452	28,169
Total current assets	<u>18,315,830</u>	<u>6,311,477</u>
Non-current assets:		
Restricted – investments (note 2)	1,012,117	2,015,882
Internal balances (note 8)	-	-
Note receivable – Black Point Golf Links (note 4)	2,333,983	2,525,844
Notes receivable – employee housing assistance loans, net (note 7)	1,051,785	1,441,785
Provision for pension related debt (note 6)	2,153,768	-
Deferred charges, net (note 9)	88,876	-
Capital assets, not being depreciated (note 10)	12,683,873	6,120,568
Depreciable capital assets, net (note 10)	77,019,152	76,933,264
Total non-current assets	<u>96,343,554</u>	<u>89,037,343</u>
Total assets	<u>\$ 114,659,384</u>	<u>95,348,820</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,154,607	998,238
Accrued wages and related payables	179,485	345,588
Accrued claims payable (note 11)	21,783	14,400
Customer advances and deposits	274,382	286,112
Accrued interest payable – long-term debt	22,857	11,085
Long-term liabilities – due within one year:		
Compensated absences (note 12)	143,966	124,488
Bonds payable (note 14)	35,553	33,384
Loans payable (note 14)	846,212	542,607
Pension related debt (note 6)	67,809	-
Total current liabilities	<u>4,746,654</u>	<u>2,355,902</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 12)	431,897	373,464
Post employment benefits payable (note 13)	474,733	390,636
Bonds payable (note 14)	173,650	217,203
Loans payable (note 14)	30,617,292	18,718,159
Pension related debt (note 6)	2,153,768	-
Total non-current liabilities	<u>33,851,340</u>	<u>19,699,462</u>
Total liabilities	<u>38,597,994</u>	<u>22,055,364</u>
Net assets: (note 15)		
Investment in capital assets, net of related debt	61,882,478	63,542,479
Restricted for capital projects and debt service	2,993,055	3,171,305
Unrestricted	11,185,857	6,579,672
Total net assets	<u>76,061,390</u>	<u>73,293,456</u>
Total liabilities and net assets	<u>\$ 114,659,384</u>	<u>95,348,820</u>

See accompanying notes to the basic financial statements

North Marin Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Water consumption sales	\$ 12,156,765	11,334,728
Bi-monthly meter service charge	2,860,630	2,109,255
Sewer service charges	157,311	149,820
Water conservation	16,095	4,095
Other charges and services	<u>244,932</u>	<u>199,114</u>
Total operating revenues	<u>15,435,733</u>	<u>13,797,012</u>
Operating expenses:		
Source of supply	5,150,183	3,856,027
Pumping	304,075	299,462
Water facilities operations	708,570	648,743
Water treatment	1,747,166	2,012,125
Transmission and distribution	2,373,132	2,400,638
Sewage collection and treatment	112,801	103,054
Customer service	580,534	564,940
General and administrative	1,990,455	1,886,541
Improvement projects	3,383	160,980
Water conservation	<u>272,336</u>	<u>388,168</u>
Total operating expenses	<u>13,242,635</u>	<u>12,320,678</u>
Operating income before overhead absorption	2,193,098	1,476,334
Overhead absorption	<u>631,773</u>	<u>442,066</u>
Operating income before depreciation and amortization	2,824,871	1,918,400
Depreciation and amortization	<u>(2,726,598)</u>	<u>(2,660,418)</u>
Operating income(loss)	<u>98,273</u>	<u>(742,018)</u>
Non-operating revenues(expenses):		
Property tax revenue	101,559	96,768
Investment earnings	130,974	118,410
Rental revenue	69,206	68,062
Gain from dental liability reserve offset	174,119	-
Interest expense – long-term debt	(665,713)	(490,601)
Amortization of deferred charges	(3,065)	-
Allowance for impairment of employee housing loans	(390,000)	-
Wohler/Collector No. 6 project (note 19)	-	(224,890)
Other non-operating revenues	60,886	39,026
Other non-operating expenses	<u>(9,284)</u>	<u>(21,338)</u>
Total non-operating revenues, net	<u>(531,318)</u>	<u>(414,563)</u>
Net loss before capital contributions	<u>(433,045)</u>	<u>(1,156,581)</u>
Capital contributions:		
Developers and others	423,045	617,973
Contributed capital assets	224,252	492,398
Connection fees	1,005,680	387,610
Capital grants – federal	1,548,002	220,724
Capital grants – state and local	<u>-</u>	<u>66,770</u>
Capital contributions	<u>3,200,979</u>	<u>1,785,475</u>
Change in net assets	<u>2,767,934</u>	<u>628,894</u>
Net assets, beginning of year	<u>73,293,456</u>	<u>72,664,562</u>
Net assets, end of year	<u>\$ 76,061,390</u>	<u>73,293,456</u>

See accompanying notes to the basic financial statements

**North Marin Water District
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011**

	2012	2011
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 14,490,838	13,845,145
Cash paid to employees for salaries and wages	(4,237,965)	(4,237,429)
Cash paid to vendors and suppliers for materials and services	(6,132,631)	(7,627,597)
Net cash provided by operating activities	4,120,242	1,980,119
Cash flows from non-capital financing activities:		
Property tax revenue	101,559	95,831
Net cash provided by non-capital financing activities	101,559	95,831
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(9,375,791)	(4,760,323)
Proceeds from capital contributions and connection fees	2,514,997	1,613,955
Proceeds from principal issued on long-term debt	10,325,765	-
Cost of issuance of long-term debt	(91,941)	-
Principal paid on long-term debt	(1,116,410)	(898,222)
Interest paid on long-term debt	(653,941)	(492,010)
Net cash provided(used) by capital and related financing activities	1,602,679	(4,536,600)
Cash flows from investing activities:		
Proceeds from sale of investments	1,000,000	3,000,000
Purchases of investments	-	(2,000,000)
Principal received on notes receivable	187,320	179,851
Principal received(issued) on employee computer loans, net	1,052	(3,037)
Investment earnings	133,821	148,576
Net cash provided by investing activities	1,322,193	1,325,390
Net increase(decrease) in cash and cash equivalents	7,146,673	(1,135,260)
Cash and cash equivalents, beginning of year	2,362,563	3,497,823
Cash and cash equivalents, end of year	\$ 9,509,236	2,362,563
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 3,440,996	915,270
Restricted assets – cash and cash equivalents	6,068,240	1,447,293
Total cash and cash equivalents	\$ 9,509,236	2,362,563

Continued on next page

See accompanying notes to the basic financial statements

North Marin Water District
Statements of Cash Flows, continued
For the Year Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income(loss)	\$ 98,273	(742,018)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Deprecation	2,726,598	2,660,418
Rental revenue	69,206	68,062
Gain from dental liability reserve offset	174,119	-
Wohler/Collector No. 6 project	-	(224,890)
Other non-operating revenue	60,886	39,026
Other non-operating expenses	(9,284)	(21,338)
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water and sewer sales and services	(631,412)	(206,460)
Accounts receivable – governmental agencies	(469,201)	139,844
Accounts receivable – other	25,626	7,661
Materials and supplies inventory	(60,213)	(530)
Prepaid expenses and other deposits	(12,283)	13,948
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	2,156,369	101,684
Accrued wages and related payables	(166,103)	13,822
Accrued claims payable	7,383	-
Customer advances and deposits	(11,730)	(33,148)
Compensated absences	77,911	64,731
Post employment retirement benefits	84,097	99,307
Total adjustments	4,021,969	2,722,137
Net cash provided by operating activities	\$ 4,120,242	1,980,119
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	\$ 7,486	(24,868)
Contributed capital	224,252	492,398

See accompanying notes to the basic financial statements

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

The District's operations are accounted for by the following service areas, some of which were originally established as Improvement Districts. Although the Improvement Districts are legally separate organizations, they are reported herein as if they were part of the primary government because the primary government controls the Improvement Districts and the Board of Directors serve as their governing board. The following service areas are reported as blended component units.

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

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

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

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

B. Basis of Accounting and Measurement Focus

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

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

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

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

C. Financial Reporting

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

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

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

D. Assets, Liabilities and Net Assets

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

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

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

4. Accounts Receivable

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

5. Property Taxes

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

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

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

D. Assets, Liabilities and Net Assets, continued

6. Restricted Assets

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

7. Prepaid Expenses

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

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for capitalizing equipment purchases at \$5,000. Donated assets are recorded at estimated cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Dam – 100 years
- Transmission and distribution systems – 50 to 150 years
- Treatment plant – 20 to 50 years
- Sewer mains and pumps – 10 to 40 years
- Buildings and storage facilities – 35 years
- Equipment and vehicles – 5 to 10 years

9. Compensated Absences

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

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

10. Water and Sewer Sales

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

11. Capital Contributions

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

12. Capital and Operating Grants

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

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

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

D. Assets, Liabilities and Net Assets, continued

13. Budgetary Policies

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

14. Net Assets

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

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

(2) Cash and Investments

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 3,440,996	915,270
Restricted – cash and cash equivalents	6,068,240	1,447,293
Restricted – investments	<u>1,012,117</u>	<u>2,015,882</u>
Total cash and investments	<u>\$ 10,521,353</u>	<u>4,378,445</u>

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

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 350	350
Deposits with financial institutions	100,148	106,291
Deposits with County of Marin Treasury	332,654	231,742
Investments	<u>10,088,201</u>	<u>4,040,062</u>
Total cash and investments	<u>\$ 10,521,353</u>	<u>4,378,445</u>

**North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011**

(2) Cash and Investments

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
State and Local Agency Bonds	5 years	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 restrictions.

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

Investments Authorized by Debt Agreements

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

Custodial Credit Risk

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

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit), and, the District's investment policy that requires no more than two-thirds of the District's deposits in a depository shall be collateralized by mortgage-backed securities, with the remainder to be secured by non-mortgage-backed securities. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

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

Interest Rate Risk

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

Investments at June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
Local Agency Investment Fund	\$ 9,076,084	9,076,084	-	-
Certificates-of-deposit	1,000,000	1,000,000	-	-
Olema general obligation bond	12,117	-	-	12,117
Total	<u>\$ 10,088,201</u>	<u>10,076,084</u>	<u>-</u>	<u>12,117</u>

Investments at June 30, 2011, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
Local Agency Investment Fund	\$ 2,024,180	2,024,180	-	-
Certificates-of-deposit	2,000,000	2,000,000	-	-
Olema general obligation bond	15,882	-	-	15,882
Total	<u>\$ 4,040,062</u>	<u>4,024,180</u>	<u>-</u>	<u>15,882</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(2) Cash and Investments, continued

Credit Risk

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

Credit ratings at June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings AA+ to A-</u>
Local Agency Investment Fund	\$ 9,076,084	N/A	9,076,084	-
Certificates-of-deposit	1,000,000	N/A	1,000,000	-
Olema general obligation bond	12,117	A+	-	12,117
Total	\$ <u>10,088,201</u>		<u>10,076,084</u>	<u>12,117</u>

Credit ratings at June 30, 2011, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings AA+ to A-</u>
Local Agency Investment Fund	\$ 2,024,180	N/A	2,024,180	-
Certificates-of-deposit	2,000,000	N/A	2,000,000	-
Olema general obligation bond	15,882	A+	-	15,882
Total	\$ <u>4,040,062</u>		<u>4,024,180</u>	<u>15,882</u>

(3) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009 the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$6,760 and accrued interest of \$1,079 for a total of \$7,839 as of June 30, 2012. The borrowing by the State of California was recognized as a note receivable in the accompanying financial statements.

(4) Note Receivable – Black Point Golf Links

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

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Note receivable – Black Point Golf Links – current portion	\$ 191,861	187,320
Note receivable – Black Point Golf Links	2,333,983	2,525,844
Note receivable – Black Point Golf Links	\$ <u>2,525,844</u>	<u>2,713,164</u>

(5) Notes Receivable – Employee Computer Loans

The District allows employees to purchase personal computers and to secure a loan from the District to pay for the purchase of the computer up to \$3,500 per person. These employee computer loans are repaid to the District over a period of up to 36 months through payroll deduction with interest rates applied that are based on the District's investment portfolio return rate at the origination of the loan plus one percent. As of June 30, 2012 and 2011 the District had various outstanding loans totaling \$6,143 and \$7,195, respectively.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(6) Pension Related Debt – CalPERS Side-Fund

As of June 30, 2003, CalPERS implemented risk-pooling for the District’s agent multiple-employer public employee defined benefit pension plan. As a result, the District’s defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate (for fiscal year 2013 and beyond CalPERS reduced the rate to 7.50%). CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District’s annual required contribution to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make systematic pay-as-you-go payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District’s CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the CalPERS Side-Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27. The following provision and long-term debt has been recorded on the District’s financial statements as the District is making systematic pay-as-you-go payments to CalPERS each payroll period. The annual repayment schedule is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 67,809	158,292	226,101
2014	79,928	152,957	232,885
2015	93,166	146,706	239,872
2016	107,615	139,453	247,068
2017	123,371	131,109	254,480
2018-2022	906,764	484,839	1,391,603
2023-2025	<u>842,924</u>	<u>96,187</u>	<u>939,111</u>
Total	\$ 2,221,577	<u>1,309,543</u>	<u>3,531,120</u>
Less current portion	<u>(67,809)</u>		
Total non-current	\$ <u>2,153,768</u>		

(7) Notes Receivable – Employee Housing Assistance Loans

The District’s Employer Assisted Housing Program (Program) allows up to \$300,000 to be loaned to an employee for a period of up to 15 years for the purchase of a home within the District’s service area. This will allow the employee to respond rapidly to customer calls or emergencies affecting the operation of the District. Repayment is due upon sale of the employee’s residence, termination of employment, or other events as described in the Program documents. Interest earned on the loan is contingent upon and directly proportional to the appreciation in value occurring on the purchased property. The balance of the outstanding loans is 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:

<u>Origination</u>	<u>2012</u>	<u>2011</u>
August 2004	\$ 250,000	250,000
Sept. 2004	39,200	39,200
October 2006	300,000	300,000
Sept. 2007	140,000	140,000
Nov. 2007	150,000	150,000
July 2008	125,000	125,000
October 2008	192,585	192,585
June 2010	<u>245,000</u>	<u>245,000</u>
Sub-total	1,441,785	1,441,785
Allowance	<u>(390,000)</u>	-
Total	\$ <u>1,051,785</u>	<u>1,441,785</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(8) Internal Balances

Due To/From Other Funds

Internal balances consist of the following as of June 30, 2012 as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance	Novato Water	Novato Recycled	\$ <u>3,287,069</u>

Internal balances consist of the following as of June 30, 2011 as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance	Novato Water	West Marin	\$ 633,518
Advance	Novato Water	Novato Recycled	<u>1,175,098</u>
		Total	<u>\$ 1,808,616</u>

The Novato Water segment continues to advance the Novato Recycled segment funds for capital construction pending receipt of grant and loan funds. In 2012, the West Marin Water segment borrowed \$1.0 million from the Bank of Marin loan and repaid the Novato Water segment the balance owed. Interest accrues on the balance on a monthly basis as per District policy. (See the Supplementary Schedules on Pages 45 and 46 for further information)

(9) Deferred Charges

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Bank of Marin loan issuance costs	\$ 91,941	-
Accumulated amortization	<u>(3,065)</u>	-
Total deferred charges, net	<u>\$ 88,876</u>	<u>-</u>

(10) 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 at June 30, consists of the following projects:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Developer construction – Novato Water	\$ 1,065,958	881,226	842,504
Developer construction – Novato Recycled	-	-	-
Developer construction – West Marin Water	-	36,730	67,130
Developer construction – Oceana Marin Sewer	-	-	-
Other construction – Novato Water	297,002	2,379,878	1,840,102
Other construction – Novato Recycled	12,814	1,187,912	8,117,923
Other construction – West Marin Water	27,581	135,371	258,069
Other construction – Oceana Marin Sewer	-	26,360	85,054
Total construction-in-process per year	<u>\$ 1,403,355</u>	<u>4,647,477</u>	<u>11,210,782</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(10) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-process	<u>4,647,477</u>	<u>9,180,508</u>	<u>(2,617,203)</u>	<u>11,210,782</u>
Total non-depreciable assets	<u>6,120,568</u>	<u>9,180,508</u>	<u>(2,617,203)</u>	<u>12,683,873</u>
Depreciable assets:				
Distribution system	58,045,785	1,549,146	-	59,594,931
Treatment plant	22,162,002	-	-	22,162,002
Storage facilities	17,074,400	1,035,217	-	18,109,617
Transmission system	5,489,830	-	-	5,489,830
Source facilities	5,027,082	-	-	5,027,082
Sewer facilities	853,683	-	-	853,683
Structures and improvements	1,778,388	5,316	-	1,783,704
Other plant and equipment	<u>3,017,492</u>	<u>222,807</u>	<u>(95,583)</u>	<u>3,144,716</u>
Total depreciable assets	<u>113,448,662</u>	<u>2,812,486</u>	<u>(95,583)</u>	<u>116,165,565</u>
Accumulated depreciation:				
Distribution system	(19,933,831)	(1,175,614)	-	(21,109,445)
Treatment plant	(4,268,485)	(684,884)	-	(4,953,369)
Storage facilities	(4,233,100)	(363,433)	-	(4,596,533)
Transmission system	(3,080,746)	(87,287)	-	(3,168,033)
Source facilities	(1,460,756)	(89,324)	-	(1,550,080)
Sewer facilities	(395,603)	(28,565)	-	(424,168)
Structures and improvements	(1,026,860)	(34,344)	-	(1,061,204)
Other plant and equipment	<u>(2,116,017)</u>	<u>(263,147)</u>	<u>95,583</u>	<u>(2,283,581)</u>
Total accumulated depreciation	<u>(36,515,398)</u>	<u>(2,726,598)</u>	<u>95,583</u>	<u>(39,146,413)</u>
Total depreciable assets, net	<u>76,933,264</u>	<u>85,888</u>	<u>-</u>	<u>77,019,152</u>
Total capital assets, net	<u>\$ 83,053,832</u>	<u>9,266,396</u>	<u>(2,617,203)</u>	<u>89,703,025</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(10) Capital Assets, continued

Changes in capital assets for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-process	<u>1,403,355</u>	<u>4,158,992</u>	<u>(914,870)</u>	<u>4,647,477</u>
Total non-depreciable assets	<u>2,876,446</u>	<u>4,158,992</u>	<u>(914,870)</u>	<u>6,120,568</u>
Depreciable assets:				
Distribution system	56,696,191	1,349,594	-	58,045,785
Treatment plant	22,162,002	-	-	22,162,002
Storage facilities	17,045,704	28,696	-	17,074,400
Transmission system	5,489,830	-	-	5,489,830
Source facilities	5,027,082	-	-	5,027,082
Sewer facilities	853,683	-	-	853,683
Structures and improvements	1,778,388	-	-	1,778,388
Other plant and equipment	<u>2,970,363</u>	<u>137,912</u>	<u>(90,783)</u>	<u>3,017,492</u>
Total depreciable assets	<u>112,023,243</u>	<u>1,516,202</u>	<u>(90,783)</u>	<u>113,448,662</u>
Accumulated depreciation:				
Distribution system	(18,787,146)	(1,146,685)	-	(19,933,831)
Treatment plant	(3,583,566)	(684,919)	-	(4,268,485)
Storage facilities	(3,891,642)	(341,458)	-	(4,233,100)
Transmission system	(2,976,648)	(104,098)	-	(3,080,746)
Source facilities	(1,371,052)	(89,704)	-	(1,460,756)
Sewer facilities	(367,037)	(28,566)	-	(395,603)
Structures and improvements	(992,634)	(34,226)	-	(1,026,860)
Other plant and equipment	<u>(1,976,038)</u>	<u>(230,762)</u>	<u>90,783</u>	<u>(2,116,017)</u>
Total accumulated depreciation	<u>(33,945,763)</u>	<u>(2,660,418)</u>	<u>90,783</u>	<u>(36,515,398)</u>
Total depreciable assets, net	<u>78,077,480</u>	<u>(1,144,216)</u>	<u>-</u>	<u>76,933,264</u>
Total capital assets, net	<u>\$ 80,953,926</u>	<u>3,014,776</u>	<u>(914,870)</u>	<u>83,053,832</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(11) Accrued Claims Payable

The District self-insured its workers' compensation obligation from July 1, 2004 through June 30, 2008. The District 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. The District has engaged an outside claims administrator for claims adjustments. The District carried a workers' compensation excess insurance policy for claims that exceed \$750,000. An accrued claims payable balance of \$14,400 remained as of June 30, 2012. In fiscal year 2009, 2010 and 2011, the District purchased insurance to cover its workers' compensation obligation for these claims.

As of July 1, 2011, the District re-commenced self-insuring 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 reported (IBNR).

	2012	2011
The balance at June 30, consists of the following:		
Accrued claims payable, beginning of year	\$ 14,400	14,400
Claims recognized	40,433	-
Claims settled	(9,726)	-
Claims adjustments	(23,324)	-
Accrued claims payable, end of year	\$ 21,783	14,400

(12) Compensated Absences

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

Changes to compensated absences for 2012, were as follows:

Balance 2011	Earned	Taken	Balance 2012	Current Portion	Long-term Portion
\$ 497,952	910,498	(832,587)	575,863	143,966	431,897

Changes to compensated absences for 2011, were as follows:

Balance 2010	Earned	Taken	Balance 2011	Current Portion	Long-term Portion
\$ 433,221	842,623	(777,892)	497,952	124,488	373,464

(13) Post Employment Benefits Payable

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

Post Employment Benefits – Eligibility

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

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(13) Post Employment Benefits Payable, continued

Post Employment Benefits – Eligibility, continued

Members in the post employment benefit plan consisted of the following members as of June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Active plan members	53	52	56
Retirees and beneficiaries receiving benefits	32	33	32
Separated plan members entitled to but not yet receiving benefits	<u>3</u>	<u>2</u>	<u>2</u>
Total plan membership	<u><u>88</u></u>	<u><u>87</u></u>	<u><u>90</u></u>

Post Employment Benefits – Benefits Offered

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

Funding Policy

The District's *Annual Required Contribution (ARC)* is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 5.9% of the annual covered payroll.

The District funds the benefits on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual Cost

For the years ended June 30, 2012 and 2011, the District's annual ARC cost after adjustments was \$244,822 and \$246,391, respectively. The District's net other post employment benefits payable obligation amounted to \$474,733 and \$390,636 for the years ended June 30, 2012 and 2011, respectively. The District contributed \$160,725 and \$147,084 in age adjusted contributions for current retiree OPEB premiums for the years ended June 30, 2012 and 2011, respectively.

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 250,776	250,776	250,776
Interest on net OPEB obligation	19,532	14,566	9,069
Adjustment to annual required contribution	<u>(25,486)</u>	<u>(18,951)</u>	<u>(11,800)</u>
Total annual OPEB expense	244,822	246,391	248,045
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(160,725)</u>	<u>(147,084)</u>	<u>(138,105)</u>
Total change in net OPEB payable obligation	84,097	99,307	109,940
OPEB payable – beginning of year	<u>390,636</u>	<u>291,329</u>	<u>181,389</u>
OPEB payable – end of year	<u><u>\$ 474,733</u></u>	<u><u>390,636</u></u>	<u><u>291,329</u></u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(11) Other Post Employment Benefits Payable, continued

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>					
Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable	
2012	\$ 244,822	160,725	65.65%	\$ 474,733	
2011	246,391	147,084	59.70%	390,636	
2010	248,045	138,105	55.68%	291,329	

The most recent valuation (dated July 1, 2009) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,470,834. There are no Plan Assets because the District funds on a pay-as-you-go basis and maintains net assets equal to the remaining net other post employment benefits payable obligation. The Board of Directors of the District has designated \$3,065,753 and \$1,017,333, as of June 30, 2012 and 2011, respectively, of net assets to reserve for the actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2009 was \$4,418,559. The ratio of the unfunded actuarial accrued liability to annual covered payroll was 78.55%.

Actuarial Methods and Assumptions

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

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

Valuation date	July 1, 2009
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	20 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	5.00% – Projected at July 1, 2009
Projected salary increase	3.00%
Inflation - discount rate	5.00%
Individual salary growth	District annual COLA

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(14) Long-term Debt

Changes in long-term debt amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1973 General obligation bonds – PR-3	\$ 27,000	-	(13,000)	14,000	14,000
1975 General obligation bonds – OL-2	14,587	-	(3,384)	11,203	3,553
1980 Revenue bonds – PRE-1	101,000	-	(9,000)	92,000	10,000
1981 Revenue bonds – PR-6	108,000	-	(16,000)	92,000	8,000
Total bonds payable	<u>250,587</u>	<u>-</u>	<u>(41,384)</u>	<u>209,203</u>	<u>35,553</u>
Loans payable:					
1977 U.S. EDA loan – Novato Water	106,544	-	(12,926)	93,618	13,743
1977 U.S. EDA loan – West Marin	15,163	-	(1,921)	13,242	2,041
2005 DWR loan – Novato Water	15,206,512	-	(685,108)	14,521,404	348,707
2005 SWRCB loan – Novato Recycled	3,596,736	-	(187,045)	3,409,691	191,534
2011 SWRCB loan – Novato Recycled	335,811	5,277,764	-	5,613,575	-
2011 B of M loan – Novato Water	-	7,000,000	(188,026)	6,811,974	253,043
2011 B of M loan – West Marin	-	1,000,000	-	1,000,000	37,144
Total loans payable	<u>19,260,766</u>	<u>13,277,764</u>	<u>(1,075,026)</u>	<u>31,463,504</u>	<u>846,212</u>
Total long-term debt	<u>\$ 19,511,353</u>	<u>13,277,764</u>	<u>(1,116,410)</u>	<u>31,672,707</u>	<u>881,765</u>

Changes in long-term debt amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1973 General obligation bonds – PR-3	\$ 40,000	-	(13,000)	27,000	13,000
1975 General obligation bonds – OL-2	17,809	-	(3,222)	14,587	3,384
1980 Revenue bonds – PRE-1	110,000	-	(9,000)	101,000	9,000
1981 Revenue bonds – PR-6	115,000	-	(7,000)	108,000	8,000
Total bonds payable	<u>282,809</u>	<u>-</u>	<u>(32,222)</u>	<u>250,587</u>	<u>33,384</u>
Loans payable:					
1977 U.S. EDA loan – Novato Water	119,008	-	(12,464)	106,544	12,926
1977 U.S. EDA loan – West Marin	17,014	-	(1,851)	15,163	1,921
2005 DWR loan – Novato Water	15,875,535	-	(669,023)	15,206,512	340,715
2005 DWR loan – Novato Recycled	3,779,398	-	(182,662)	3,596,736	187,045
2011 SWRCB loan – Novato Recycled	-	335,811	-	335,811	-
Total loans payable	<u>19,790,955</u>	<u>335,811</u>	<u>(866,000)</u>	<u>19,260,766</u>	<u>542,607</u>
Total long-term debt	<u>\$ 20,073,764</u>	<u>335,811</u>	<u>(898,222)</u>	<u>19,511,353</u>	<u>575,991</u>

Bonds Payable

1973 General Obligation Bonds – Issue PR-3

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ <u>14,000</u>	<u>700</u>	<u>14,700</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(14) Long-Term Debt, continued

Bonds Payable, continued

1975 General Obligation Bonds – Issue OL-2

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,553	558	4,111
2014	3,731	382	4,113
2015	3,919	196	4,115
Total	\$ 11,203	<u>1,136</u>	<u>12,339</u>
Less current portion	<u>(3,553)</u>		
Total non-current	\$ <u>7,650</u>		

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>
2013	\$ 10,000	4,600	14,600
2014	10,000	4,100	14,100
2015	11,000	3,600	14,600
2016	11,000	3,050	14,050
2017	12,000	2,500	14,500
2018-2020	38,000	3,850	41,850
Total	\$ 92,000	<u>21,700</u>	<u>113,700</u>
Less current portion	<u>(10,000)</u>		
Total non-current	\$ <u>82,000</u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(14) Long-Term Debt, continued

Bonds Payable, continued

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>
2013	\$ -	2,400	2,400
2014	8,000	4,400	12,400
2015	9,000	3,975	12,975
2016	9,000	3,525	12,525
2017	10,000	3,050	13,050
2018-2022	<u>56,000</u>	<u>7,250</u>	<u>63,250</u>
Total	\$ 92,000	<u>24,600</u>	<u>116,600</u>
Less current portion	<u>(8,000)</u>		
Total non-current	\$ <u>84,000</u>		

Loans Payable

1977 U.S. EDA Loan – Novato Water segment

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 13,743	4,681	18,424
2014	14,440	3,984	18,424
2015	15,162	3,262	18,424
2016	15,920	2,504	18,424
2017	16,716	1,708	18,424
2018	<u>17,637</u>	<u>787</u>	<u>18,424</u>
Total	\$ 93,618	<u>16,926</u>	<u>110,544</u>
Less current portion	<u>(13,743)</u>		
Total non-current	\$ <u>79,875</u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(14) Long-Term Debt, continued

Loans Payable

1977 U.S. EDA Loan – West Marin segment

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,041	662	2,703
2014	2,145	558	2,703
2015	2,252	451	2,703
2016	2,363	340	2,703
2017	2,483	220	2,703
2018	1,958	145	2,103
Total	\$ 13,242	<u>2,376</u>	<u>15,618</u>
Less current portion	<u>(2,041)</u>		
Total non-current	\$ <u>11,201</u>		

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>
2013	\$ 348,707	173,530	522,237
2014	709,964	334,510	1,044,474
2015	727,034	317,441	1,044,475
2016	744,514	299,960	1,044,474
2017	762,413	282,062	1,044,475
2018-2022	4,095,998	1,126,374	5,222,372
2023-2027	4,612,650	609,722	5,222,372
2028-2030	2,520,124	91,062	2,611,186
Total	\$ 14,521,404	<u>3,234,661</u>	<u>17,756,065</u>
Less current portion	<u>(348,707)</u>		
Total non-current	\$ <u>14,172,697</u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(14) Long-Term Debt, continued

Loans Payable, continued

2005 SWRCB Loan – Novato Recycled Water segment

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 191,534	81,833	273,367
2014	196,131	77,236	273,367
2015	200,839	72,528	273,367
2016	205,658	67,709	273,367
2017	210,594	62,773	273,367
2018-2022	1,131,255	235,580	1,366,835
2023-2027	1,273,680	93,155	1,366,835
Total	\$ 3,409,691	690,814	4,100,505
Less current portion	(191,534)		
Total non-current	\$ 3,218,157		

2011 DWR Loan – 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 reconstruction of the recycled water expansion project – north service area. As of June 30, 2012, eligible costs for reimbursement were \$3,730,990 and accrued as a long-term debt liability on the financial statements.

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 reconstruction of the recycled water expansion project – south service area. As of June 30, 2012, eligible costs for reimbursement were \$1,882,585 and accrued as a long-term debt liability on the financial statements.

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

In October 2011, 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. The loan is scheduled to mature in September of fiscal year 2033. 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>
2013	\$ 290,187	262,613	552,800
2014	300,267	252,533	552,800
2015	310,697	242,103	552,800
2016	321,490	231,310	552,800
2017	332,657	220,143	552,800
2018-2022	1,844,856	919,144	2,764,000
2023-2027	2,188,320	575,680	2,764,000
2028-2033	2,223,500	171,967	2,395,467
Total	\$ 7,811,974	2,875,493	10,687,467
Less current portion	(290,187)		
Total non-current	\$ 7,521,787		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(15) Net Assets

Calculation of net assets per fund as of June 30, 2012, were as follows:

	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
Net investment in capital assets:					
Capital assets, not being depreciated	\$ 4,051,478	8,117,923	428,610	85,862	12,683,873
Depreciable capital assets, net	68,290,445	4,241,628	3,856,368	630,711	77,019,152
Capital project loan proceeds unused	3,067,228	-	784,932	-	3,852,160
Current:					
Bonds payable	-	-	(35,553)	-	(35,553)
Loans payable	(615,493)	(191,534)	(39,185)	-	(846,212)
Non-current:					
Bonds payable	-	-	(173,650)	-	(173,650)
Loans payable	(20,811,504)	(8,831,731)	(974,057)	-	(30,617,292)
Total net investment in capital assets	<u>53,982,154</u>	<u>3,336,286</u>	<u>3,847,465</u>	<u>716,573</u>	<u>61,882,478</u>
Restricted net assets:					
Connection fee reserve	757,461	-	-	49,957	807,418
Wohler pipeline reserve	398,721	-	-	-	398,721
Collector No. 6 reserve	1,729,274	-	-	-	1,729,274
Olema bond reserve	12,117	-	-	-	12,117
Cash reserve for debt service	-	-	47,964	-	47,964
Accrued interest for debt service	-	-	(2,439)	-	(2,439)
Total restricted net assets	<u>2,897,573</u>	<u>-</u>	<u>45,525</u>	<u>49,957</u>	<u>2,993,055</u>
Unrestricted net assets:					
Non-spendable net assets:					
Current:					
Materials and supplies inventory	612,966	-	-	-	612,966
Prepaid expenses and deposits	39,100	-	-	1,352	40,452
Non-current:					
Note receivable – Black Point Golf Links	-	2,333,983	-	-	2,333,983
Notes receivable – employee housing loans, net	1,051,785	-	-	-	1,051,785
Deferred charges, net	77,500	-	11,376	-	88,876
Total non-spendable net assets	<u>1,781,351</u>	<u>2,333,983</u>	<u>11,376</u>	<u>1,352</u>	<u>4,128,062</u>
Spendable net assets are designated as follows:					
Capital improvements reserve	-	-	-	-	-
Post employment benefits reserve	3,065,753	-	-	-	3,065,753
Operating reserve	4,062,707	(390,843)	47,103	273,075	3,992,042
Total spendable net assets	<u>7,128,460</u>	<u>(390,843)</u>	<u>47,103</u>	<u>273,075</u>	<u>7,057,795</u>
Total unrestricted net assets	<u>8,909,811</u>	<u>1,943,140</u>	<u>58,479</u>	<u>274,427</u>	<u>11,185,857</u>
Total net assets	<u>\$ 65,789,538</u>	<u>5,279,426</u>	<u>3,951,469</u>	<u>1,040,957</u>	<u>76,061,390</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

(15) Net Assets, continued

Calculation of net assets per fund as of June 30, 2011, were as follows:

	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
Net investment in capital assets:					
Capital assets, not being depreciated	\$ 4,629,976	1,187,912	275,511	27,169	6,120,568
Depreciable capital assets, net	67,939,084	4,361,579	3,960,806	671,795	76,933,264
Current:					
Bonds payable	-	-	(33,384)	-	(33,384)
Loans payable	(353,617)	(187,045)	(1,945)	-	(542,607)
Non-current:					
Bonds payable	-	-	(217,203)	-	(217,203)
Loans payable	(14,959,438)	(3,745,502)	(13,219)	-	(18,718,159)
Total net investment in capital assets	<u>57,256,005</u>	<u>1,616,944</u>	<u>3,970,566</u>	<u>698,964</u>	<u>63,542,479</u>
Restricted net assets:					
Connection fee reserve	407,278	-	252,898	77,292	737,468
Wohler pipeline reserve	458,166	-	-	-	458,166
Collector No. 6 reserve	1,882,017	-	-	-	1,882,017
Olema bond reserve	15,882	-	-	-	15,882
Cash reserve for debt service	-	33,217	50,313	-	83,530
Accrued interest for debt service	-	-	(5,758)	-	(5,758)
Total restricted net assets	<u>2,763,343</u>	<u>33,217</u>	<u>297,453</u>	<u>77,292</u>	<u>3,171,305</u>
Unrestricted net assets:					
Non-spendable net assets:					
Current:					
Materials and supplies inventory	552,753	-	-	-	552,753
Prepaid expenses and deposits	26,703	-	-	1,466	28,169
Non-current:					
Note receivable – Black Point Golf Links	-	2,525,844	-	-	2,525,844
Notes receivable – employee housing loans	1,441,785	-	-	-	1,441,785
Total non-spendable net assets	<u>2,021,241</u>	<u>2,525,844</u>	<u>-</u>	<u>1,466</u>	<u>4,548,551</u>
Spendable net assets are designated as follows:					
Capital improvements reserve	930,472	-	-	-	930,472
Post employment benefits reserve	1,017,333	-	-	-	1,017,333
Operating reserve	714,260	(318,136)	(552,643)	239,835	83,316
Total spendable net assets	<u>2,662,065</u>	<u>(318,136)</u>	<u>(552,643)</u>	<u>239,835</u>	<u>2,031,121</u>
Total unrestricted net assets	<u>4,683,306</u>	<u>2,207,708</u>	<u>(552,643)</u>	<u>241,301</u>	<u>6,579,672</u>
Total net assets	<u>\$ 64,702,654</u>	<u>3,857,869</u>	<u>3,715,376</u>	<u>1,017,557</u>	<u>73,293,456</u>

**North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011**

(16) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the plan assets held in trust at June 30, 2012 and 2011 was \$3,406,553 and \$3,041,455, respectively.

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

(17) Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal year 2012, 2011 and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2012, 2011 and 2010, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2009-2010	\$ 1,035,867	100%	-	14.432%
2010-2011	913,677	100%	-	18.154%
2011-2012	1,031,112	100%	-	18.947%

(18) 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 \$53,505,000 property and equipment policy, a \$3.0 million public official's policy and a \$500,000 employee fidelity bond.

**North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011**

(19) 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 Agency'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, 2012, the District's reserve balances for these obligations were \$398,721 (Wohler Pipeline) and \$1,729,274 (Collector #6).

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 to \$0.2981 per kilowatt hour over a 20-year contract period. Also, in February 2012, 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 and the districts capital replacement reserve. The District has committed to approximately \$4,032,852 of open construction contracts as of June 30, 2012. These include:

<u>Project Name</u>	<u>Total Approved Contract</u>	<u>Balance to Complete</u>
Recycled water expansion project	\$ 9,629,098	3,885,534
Marin-Sonoma Narrows aqueduct project	281,280	30,843
West Marin treatment plant solids handling	38,740	7,590
Point Reyes well no. 3 replacement	108,885	108,885
Total	<u>\$ 10,058,003</u>	<u>4,032,852</u>

Grant Awards

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

Litigation

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

(20) Subsequent Event

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2012, which is the date the financial statements were available to be issued.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2012 and 2011

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. 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. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. 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. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2012. 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 Years Ended June 30, 2012 and 2011

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

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. 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. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. 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. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Required Supplementary Information

North Marin Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Years Ended June 30, 2012 and 2011

Funded Status and Funding Progress

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2009	\$ -	3,470,834	3,470,834	0.00%	\$ 4,418,559	78.55%
7/1/2006	\$ -	2,637,574	2,637,574	0.00%	\$ 4,262,790	61.87%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2013 based on the year ending June 30, 2012.

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Supplemental Information

Combining Schedules

North Marin Water District
Combining Schedule of Net Assets
For the Year Ended June 30, 2012

<u>Assets</u>	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
Current assets:					
Cash and cash equivalents	\$ 3,149,581	-	-	291,415	3,440,996
Restricted – cash and cash equivalents	5,183,387	-	832,896	51,957	6,068,240
Accrued interest receivable	12,441	-	-	-	12,441
Accounts receivable – water and sewer sales	2,825,719	137,020	113,873	2,754	3,079,366
Accounts receivable – governmental agencies	564,454	-	-	-	564,454
Accounts receivable – other	28,063	-	627	58	28,748
Capital grants and loan proceeds receivable	-	4,194,515	-	-	4,194,515
Note receivable – property tax from state	-	-	3,795	4,044	7,839
Note receivable – Black Point Golf Links	-	191,861	-	-	191,861
Notes receivable – employee computer loans	6,143	-	-	-	6,143
Provision for pension related debt – current portion	67,809	-	-	-	67,809
Materials and supplies inventory	612,966	-	-	-	612,966
Prepaid expenses and deposits	39,100	-	-	1,352	40,452
Total current assets	<u>12,489,663</u>	<u>4,523,396</u>	<u>951,191</u>	<u>351,580</u>	<u>18,315,830</u>
Non-current assets:					
Restricted – investments	1,012,117	-	-	-	1,012,117
Internal balances	3,287,069	(3,287,069)	-	-	-
Note receivable – Black Point Golf Links	-	2,333,983	-	-	2,333,983
Notes receivable – employee housing loans, net	1,051,785	-	-	-	1,051,785
Provision for pension related debt	2,153,768	-	-	-	2,153,768
Deferred charges, net	77,500	-	11,376	-	88,876
Capital assets, not being depreciated	4,051,478	8,117,923	428,610	85,862	12,683,873
Depreciable capital assets, net	68,290,445	4,241,628	3,856,368	630,711	77,019,152
Total non-current assets	<u>79,924,162</u>	<u>11,406,465</u>	<u>4,296,354</u>	<u>716,573</u>	<u>96,343,554</u>
Total assets	<u>\$ 92,413,825</u>	<u>15,929,861</u>	<u>5,247,545</u>	<u>1,068,153</u>	<u>114,659,384</u>
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,537,372	1,602,009	-	15,226	3,154,607
Accrued wages and related payables	131,921	9,152	28,713	9,699	179,485
Accrued claims payable	20,440	272	800	271	21,783
Customer advances and deposits	230,703	-	41,679	2,000	274,382
Accrued interest payable – long-term debt	4,681	15,737	2,439	-	22,857
Long-term liabilities – due within one year:					
Compensated absences	143,966	-	-	-	143,966
Bonds payable	-	-	35,553	-	35,553
Loans payable	615,493	191,534	39,185	-	846,212
Pension related debt	67,809	-	-	-	67,809
Total current liabilities	<u>2,752,385</u>	<u>1,818,704</u>	<u>148,369</u>	<u>27,196</u>	<u>4,746,654</u>
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	431,897	-	-	-	431,897
Other post-employment benefits payable	474,733	-	-	-	474,733
Bonds payable	-	-	173,650	-	173,650
Loans payable	20,811,504	8,831,731	974,057	-	30,617,292
Pension related debt	2,153,768	-	-	-	2,153,768
Total non-current liabilities	<u>23,871,902</u>	<u>8,831,731</u>	<u>1,147,707</u>	<u>-</u>	<u>33,851,340</u>
Total liabilities	<u>26,624,287</u>	<u>10,650,435</u>	<u>1,296,076</u>	<u>27,196</u>	<u>38,597,994</u>
Net assets:					
Net investment in capital assets	53,982,154	3,336,286	3,847,465	716,573	61,882,478
Restricted for capital projects and debt service	2,897,573	-	45,525	49,957	2,993,055
Unrestricted	8,909,811	1,943,140	58,479	274,427	11,185,857
Total net assets	<u>65,789,538</u>	<u>5,279,426</u>	<u>3,951,469</u>	<u>1,040,957</u>	<u>76,061,390</u>
Total liabilities and net assets	<u>\$ 92,413,825</u>	<u>15,929,861</u>	<u>5,247,545</u>	<u>1,068,153</u>	<u>114,659,384</u>

See accompanying notes to the basic financial statements

North Marin Water District
Combining Schedule of Net Assets
For the Year Ended June 30, 2011

<u>Assets</u>	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Total</u>
Current assets:					
Cash and cash equivalents	\$ 678,119	-	-	237,151	915,270
Restricted – cash and cash equivalents	1,008,421	33,217	326,863	78,792	1,447,293
Accrued interest receivable	11,665	-	-	-	11,665
Accounts receivable – water and sewer sales	2,242,296	113,108	89,567	2,983	2,447,954
Accounts receivable – governmental agencies	95,253	-	-	-	95,253
Accounts receivable – other	43,315	-	6,426	4,633	54,374
Capital grants and loan proceeds receivable	-	556,534	-	-	556,534
Note receivable – property tax from state	-	-	3,726	3,971	7,697
Note receivable – Black Point Golf Links	-	187,320	-	-	187,320
Notes receivable – employee computer loans	7,195	-	-	-	7,195
Materials and supplies inventory	552,753	-	-	-	552,753
Prepaid expenses and deposits	26,703	-	-	1,466	28,169
Total current assets	<u>4,665,720</u>	<u>890,179</u>	<u>426,582</u>	<u>328,996</u>	<u>6,311,477</u>
Non-current assets:					
Investments	-	-	-	-	-
Restricted – investments	2,015,882	-	-	-	2,015,882
Internal balances	1,808,616	(1,175,098)	(633,518)	-	-
Note receivable – Black Point Golf Links	-	2,525,844	-	-	2,525,844
Notes receivable – employee housing loans	1,441,785	-	-	-	1,441,785
Capital assets, not being depreciated	4,629,976	1,187,912	275,511	27,169	6,120,568
Depreciable capital assets, net	<u>67,939,084</u>	<u>4,361,579</u>	<u>3,960,806</u>	<u>671,795</u>	<u>76,933,264</u>
Total non-current assets	<u>77,835,343</u>	<u>6,900,237</u>	<u>3,602,799</u>	<u>698,964</u>	<u>89,037,343</u>
Total assets	<u>\$ 82,501,063</u>	<u>7,790,416</u>	<u>4,029,381</u>	<u>1,027,960</u>	<u>95,348,820</u>
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 995,258	-	-	2,980	998,238
Accrued wages and related payables	320,821	-	18,844	5,923	345,588
Accrued claims payable	14,400	-	-	-	14,400
Customer advances and deposits	260,960	-	23,652	1,500	286,112
Accrued interest payable – long-term debt	5,327	-	5,758	-	11,085
Long-term liabilities – due within one year:					
Compensated absences	124,488	-	-	-	124,488
Bonds payable	-	-	33,384	-	33,384
Loans payable	<u>353,617</u>	<u>187,045</u>	<u>1,945</u>	<u>-</u>	<u>542,607</u>
Total current liabilities	<u>2,074,871</u>	<u>187,045</u>	<u>83,583</u>	<u>10,403</u>	<u>2,355,902</u>
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	373,464	-	-	-	373,464
Other post-employment benefits payable	390,636	-	-	-	390,636
Bonds payable	-	-	217,203	-	217,203
Loans payable	<u>14,959,438</u>	<u>3,745,502</u>	<u>13,219</u>	<u>-</u>	<u>18,718,159</u>
Total non-current liabilities	<u>15,723,538</u>	<u>3,745,502</u>	<u>230,422</u>	<u>-</u>	<u>19,699,462</u>
Total liabilities	<u>17,798,409</u>	<u>3,932,547</u>	<u>314,005</u>	<u>10,403</u>	<u>22,055,364</u>
Net assets:					
Net investment in capital assets	57,256,005	1,616,944	3,970,566	698,964	63,542,479
Restricted for capital projects and debt service	2,763,343	33,217	297,453	77,292	3,171,305
Unrestricted	<u>4,683,306</u>	<u>2,207,708</u>	<u>(552,643)</u>	<u>241,301</u>	<u>6,579,672</u>
Total net assets	<u>64,702,654</u>	<u>3,857,869</u>	<u>3,715,376</u>	<u>1,017,557</u>	<u>73,293,456</u>
Total liabilities and net assets	<u>\$ 82,501,063</u>	<u>7,790,416</u>	<u>4,029,381</u>	<u>1,027,960</u>	<u>95,348,820</u>

See accompanying notes to the basic financial statements

North Marin Water District
Combining Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

	<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	\$ 11,419,959	218,588	518,218	-	12,156,765
Bi-monthly meter service charge	2,741,700	3,347	115,583	-	2,860,630
Sewer service charges	-	-	-	157,311	157,311
Water conservation	16,095	-	-	-	16,095
Other charges and services	240,459	402	4,071	-	244,932
Total operating revenues	<u>14,418,213</u>	<u>222,337</u>	<u>637,872</u>	<u>157,311</u>	<u>15,435,733</u>
Operating expenses:					
Source of supply	5,128,688	-	21,495	-	5,150,183
Pumping	284,766	1,083	18,226	-	304,075
Water facilities operations	633,521	45,440	29,609	-	708,570
Water treatment	1,564,461	71,500	111,205	-	1,747,166
Transmission and distribution	2,248,716	4,323	120,093	-	2,373,132
Sewage collection and treatment	-	-	-	112,801	112,801
Customer service	554,531	-	23,367	2,636	580,534
General and administrative	1,886,007	20,579	60,587	23,282	1,990,455
Improvement projects	3,383	-	-	-	3,383
Water conservation	270,328	-	2,008	-	272,336
Total operating expenses	<u>12,574,401</u>	<u>142,925</u>	<u>386,590</u>	<u>138,719</u>	<u>13,242,635</u>
Operating income before overhead absorption	1,843,812	79,412	251,282	18,592	2,193,098
Overhead absorption	625,664	1,237	3,642	1,230	631,773
Operating income before depreciation	2,469,476	80,649	254,924	19,822	2,824,871
Depreciation	(2,372,380)	(162,965)	(150,169)	(41,084)	(2,726,598)
Operating income(loss)	<u>97,096</u>	<u>(82,316)</u>	<u>104,755</u>	<u>(21,262)</u>	<u>98,273</u>
Non-operating revenues(expenses):					
Property tax revenue	-	-	58,293	43,266	101,559
Investment earnings	66,246	63,342	-	1,386	130,974
Rental revenue	65,282	-	3,424	500	69,206
Gain from dental liability reserve offset	174,119	-	-	-	174,119
Interest expense – long-term debt	(540,648)	(106,855)	(18,210)	-	(665,713)
Amortization of deferred charges	(3,065)	-	-	-	(3,065)
Allowance for impairment of employee housing loans	(390,000)	-	-	-	(390,000)
Wohler/Collector No. 6 project	-	-	-	-	-
Other non-operating revenues	59,968	-	723	195	60,886
Other non-operating expenses	(4,688)	(616)	(3,295)	(685)	(9,284)
Total non-operating revenues, net	<u>(572,786)</u>	<u>(44,129)</u>	<u>40,935</u>	<u>44,662</u>	<u>(531,318)</u>
Net income(loss) before capital contributions	<u>(475,690)</u>	<u>(126,445)</u>	<u>145,690</u>	<u>23,400</u>	<u>(433,045)</u>
Capital contributions:					
Developers and others	369,242	-	53,803	-	423,045
Contributed capital assets	224,252	-	-	-	224,252
Connection fees	969,080	-	36,600	-	1,005,680
Capital grants – federal	-	1,548,002	-	-	1,548,002
Capital grants – state and local	-	-	-	-	-
Capital contributions	<u>1,562,574</u>	<u>1,548,002</u>	<u>90,403</u>	<u>-</u>	<u>3,200,979</u>
Change in net assets	<u>1,086,884</u>	<u>1,421,557</u>	<u>236,093</u>	<u>23,400</u>	<u>2,767,934</u>
Net assets, beginning of year	64,702,654	3,857,869	3,715,376	1,017,557	73,293,456
Net assets, end of year	<u>\$ 65,789,538</u>	<u>5,279,426</u>	<u>3,951,469</u>	<u>1,040,957</u>	<u>76,061,390</u>

See accompanying notes to the basic financial statements

North Marin Water District
Combining Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011

	<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	\$ 10,649,051	196,183	489,494	-	11,334,728
Bi-monthly meter service charge	2,012,351	2,690	94,214	-	2,109,255
Sewer service charges	-	-	-	149,820	149,820
Water conservation	4,095	-	-	-	4,095
Other charges and services	195,355	290	3,469	-	199,114
Total operating revenues	<u>12,860,852</u>	<u>199,163</u>	<u>587,177</u>	<u>149,820</u>	<u>13,797,012</u>
Operating expenses:					
Source of supply	3,837,120	-	18,907	-	3,856,027
Pumping	268,370	-	31,092	-	299,462
Water facilities operations	575,595	27,183	45,965	-	648,743
Water treatment	1,814,045	85,549	112,531	-	2,012,125
Transmission and distribution	2,327,910	2,455	70,273	-	2,400,638
Sewage collection and treatment	-	-	-	103,054	103,054
Customer service	540,053	-	22,109	2,778	564,940
General and administrative	1,779,125	18,177	66,880	22,359	1,886,541
Improvement projects	152,779	-	8,201	-	160,980
Water conservation	382,901	-	5,267	-	388,168
Total operating expenses	<u>11,677,898</u>	<u>133,364</u>	<u>381,225</u>	<u>128,191</u>	<u>12,320,678</u>
Operating income before overhead absorption	1,182,954	65,799	205,952	21,629	1,476,334
Overhead absorption	442,066	-	-	-	442,066
Operating income before depreciation	1,625,020	65,799	205,952	21,629	1,918,400
Depreciation	(2,309,166)	(163,166)	(147,002)	(41,084)	(2,660,418)
Operating income(loss)	<u>(684,146)</u>	<u>(97,367)</u>	<u>58,950</u>	<u>(19,455)</u>	<u>(742,018)</u>
Non-operating revenues(expenses):					
Property tax revenue	-	-	55,776	40,992	96,768
Investment earnings	47,104	68,751	-	2,555	118,410
Rental revenue	63,934	-	3,628	500	68,062
Interest expense – long-term debt	(380,788)	(90,811)	(19,002)	-	(490,601)
Wohler/Collector No. 6 project	(224,890)	-	-	-	(224,890)
Other non-operating revenues	38,832	-	85	109	39,026
Other non-operating expenses	(3,186)	-	(17,387)	(765)	(21,338)
Total non-operating revenues, net	<u>(458,994)</u>	<u>(22,060)</u>	<u>23,100</u>	<u>43,391</u>	<u>(414,563)</u>
Net income(loss) before capital contributions	<u>(1,143,140)</u>	<u>(119,427)</u>	<u>82,050</u>	<u>23,936</u>	<u>(1,156,581)</u>
Capital contributions:					
Developers and others	581,243	-	36,730	-	617,973
Contributed capital assets	492,398	-	-	-	492,398
Connection fees	371,460	-	16,150	-	387,610
Capital grants – federal	-	220,724	-	-	220,724
Capital grants – state and local	13,582	53,188	-	-	66,770
Capital contributions	<u>1,458,683</u>	<u>273,912</u>	<u>52,880</u>	<u>-</u>	<u>1,785,475</u>
Change in net assets	<u>315,543</u>	<u>154,485</u>	<u>134,930</u>	<u>23,936</u>	<u>628,894</u>
Net assets, beginning of year	64,387,111	3,703,384	3,580,446	993,621	72,664,562
Net assets, end of year	\$ <u>64,702,654</u>	<u>3,857,869</u>	<u>3,715,376</u>	<u>1,017,557</u>	<u>73,293,456</u>

See accompanying notes to the basic financial statements

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Statistical Information Section

**North Marin Water District
Statistical Section**

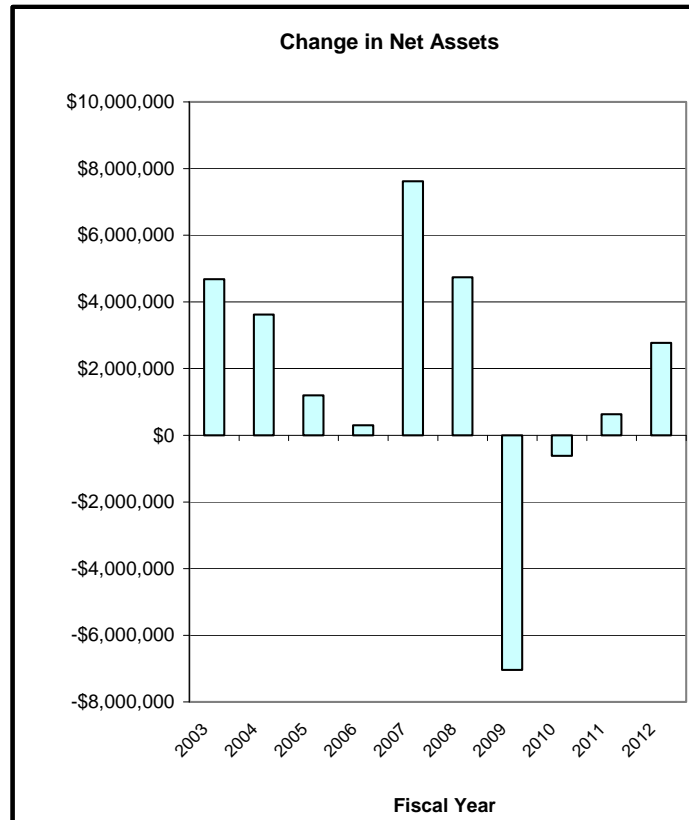
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Table of Contents

	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	50-54
Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	55-58
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.	59-60
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	61-62
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.	63-64

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

	Fiscal Year		
	2003	2004	2005
Change in net assets:			
Operating revenues (see schedule 2)	\$7,729,657	\$8,545,299	\$9,545,264
Operating expenses (see schedule 3)	(7,695,931)	(8,599,620)	(9,055,754)
Depreciation and amortization	(825,144)	(996,414)	(1,004,844)
Operating income(loss)	(\$791,418)	(\$1,050,735)	(\$515,334)
Net non-op revenue(expense) (see schedule 4)	1,021,668	724,241	(389,534)
Net income(loss) before capital contributions	\$230,250	(\$326,494)	(\$904,868)
Capital contributions	4,454,904	3,951,431	2,099,524
Change in net assets	\$4,685,154	\$3,624,937	\$1,194,656
Net assets by component:			
Invested in capital assets, net of related debt	\$49,666,111	\$54,732,557	\$54,510,568
Restricted	6,147,924	15,275,334	6,721,908
Unrestricted	9,410,355	(1,158,564)	9,785,723
Total net assets	\$65,224,390	\$68,849,327	\$71,018,199

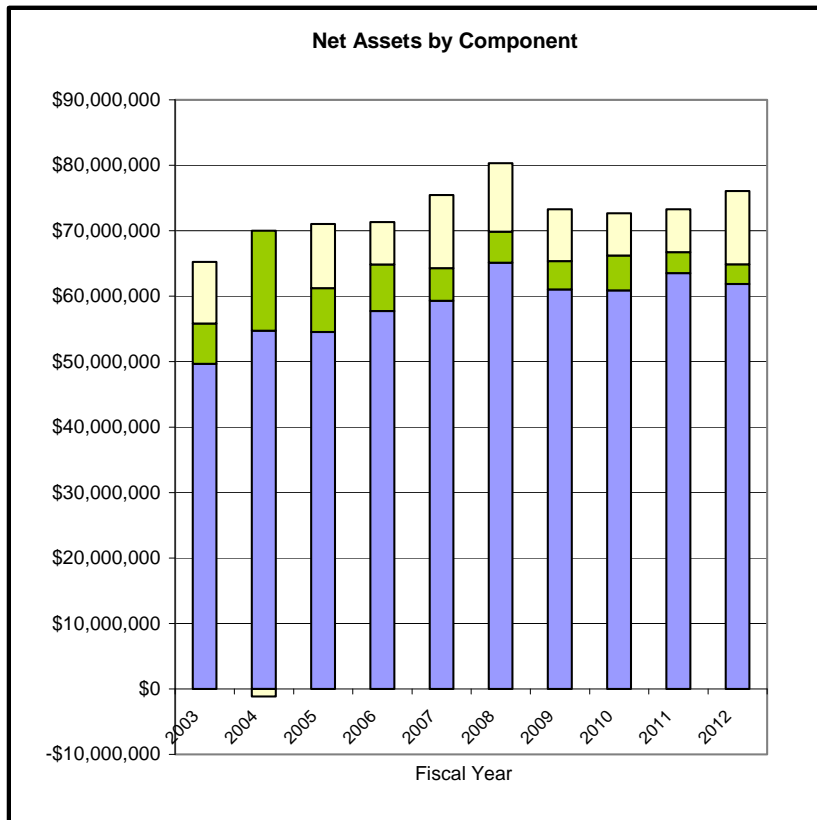


Source: North Marin Water District Audited Financial Statements

Schedule 1

Fiscal Year

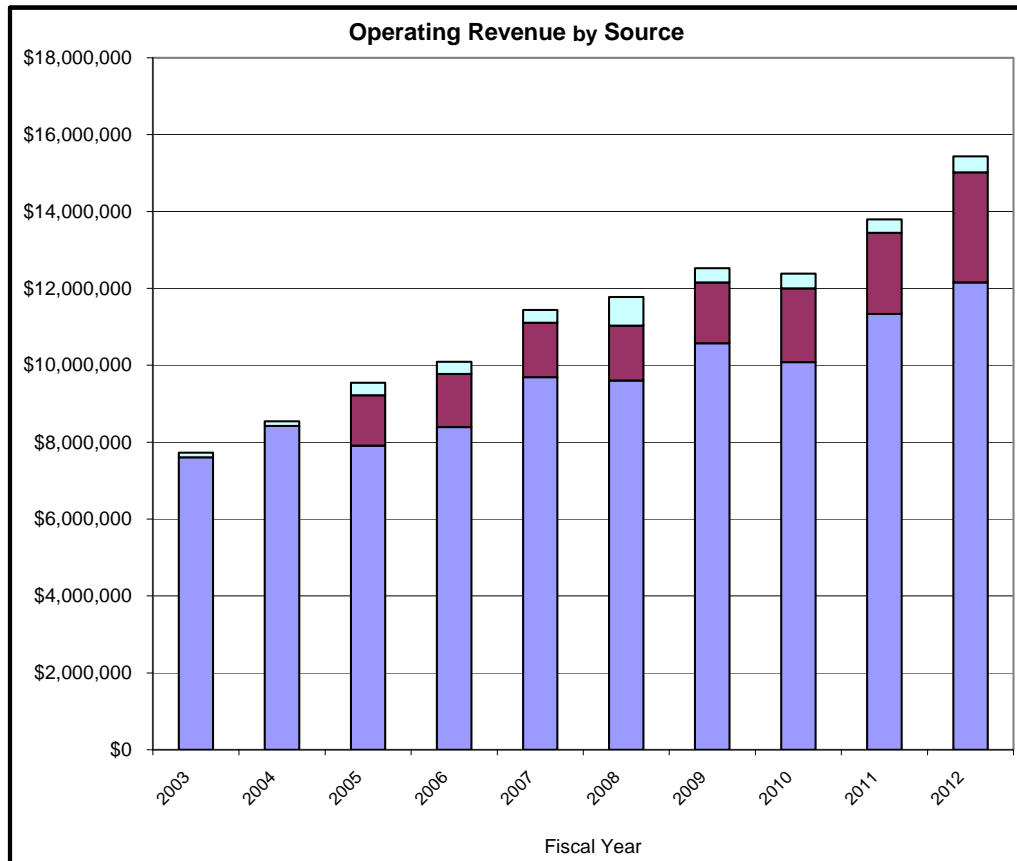
2006	2007	2008	2009	2010	2011	2012
\$10,089,848	\$11,848,037	\$11,779,157	\$12,526,294	\$12,381,493	\$13,797,012	\$15,435,733
(10,605,417)	(12,555,989)	(12,538,993)	(13,257,125)	(13,083,372)	(11,878,612)	(12,610,862)
(1,069,150)	(1,490,077)	(1,761,673)	(10,091,139)	(2,659,883)	(2,660,418)	(2,726,598)
(\$1,584,719)	(\$2,198,029)	(\$2,521,509)	(\$10,821,970)	(\$3,361,762)	(\$742,018)	\$98,273
(251,982)	1,178,739	197,211	8,954	(255,218)	(414,563)	(531,318)
(\$1,836,701)	(\$1,019,290)	(\$2,324,298)	(\$10,813,016)	(\$3,616,980)	(\$1,156,581)	(\$433,045)
2,133,298	8,639,031	7,061,891	3,776,402	2,998,366	1,785,475	3,200,979
\$296,597	\$7,619,741	\$4,737,593	(\$7,036,614)	(\$618,614)	\$628,894	\$2,767,934
\$57,718,713	\$59,290,284	\$65,099,863	\$61,057,551	\$60,880,162	\$63,542,479	\$61,882,478
7,130,109	4,994,444	4,743,194	4,304,331	5,321,639	3,171,305	2,993,055
6,465,974	11,179,233	10,476,733	7,921,294	6,462,761	6,579,672	11,185,857
\$71,314,796	\$75,463,961	\$80,319,790	\$73,283,176	\$72,664,562	\$73,293,456	\$76,061,390



**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
2003	7,608,878	N/A	120,779	7,729,657
2004	8,420,132	N/A	125,167	8,545,299
2005	7,912,004	1,311,917	321,343	9,545,264
2006	8,396,113	1,374,630	319,105	10,089,848
2007	9,693,104	1,412,428	335,692	11,441,224
2008	9,607,490	1,424,628	747,039	11,779,157
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

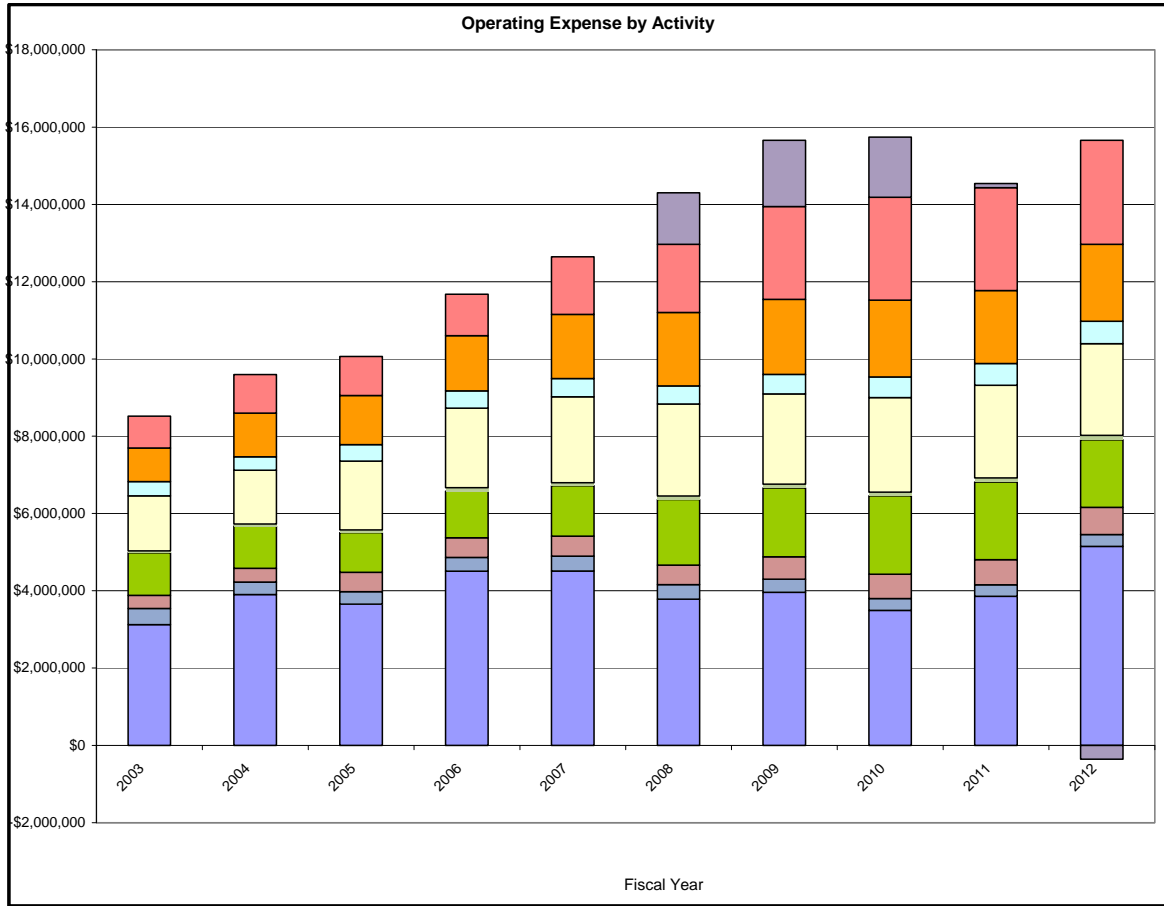


Source: North Marin Water District Audited Financial Statements

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	Other Op Expense (2)	Deprec and Amortization	Total Op Expense
2003	3,122,041	422,584	336,696	1,100,737	54,303	1,423,429	365,446	870,695	-	825,144	8,521,075
2004	3,902,293	324,079	357,988	1,088,440	54,890	1,391,690	346,868	1,133,372	-	996,414	9,596,034
2005	3,654,013	324,111	500,523	1,028,268	68,113	1,783,140	425,700	1,271,886	-	1,004,844	10,060,598
2006	4,508,463	358,844	504,493	1,205,527	88,997	2,059,033	450,280	1,429,780	-	1,069,150	11,674,567
2007	4,513,365	381,723	518,996	1,303,084	78,331	2,222,327	474,082	1,663,330	-	1,490,077	12,645,315
2008	3,782,414	379,341	506,287	1,698,781	84,418	2,385,742	466,301	1,900,169	1,335,540	1,761,673	14,300,666
2009	3,960,788	339,236	578,868	1,781,516	98,715	2,335,067	505,218	1,943,522	1,714,195	2,400,106	15,657,231
2010	3,497,565	298,583	633,259	2,027,052	95,116	2,450,765	535,401	1,984,300	1,561,331	2,659,883	15,743,255
2011	3,856,027	299,462	648,743	2,012,125	103,054	2,400,638	564,940	1,886,541	107,082	2,660,418	14,539,030
2012	5,150,183	304,075	708,570	1,747,166	112,801	2,373,132	580,534	1,990,455	(356,054)	2,690,535	15,301,397



Source: North Marin Water District Audited Financial Statements

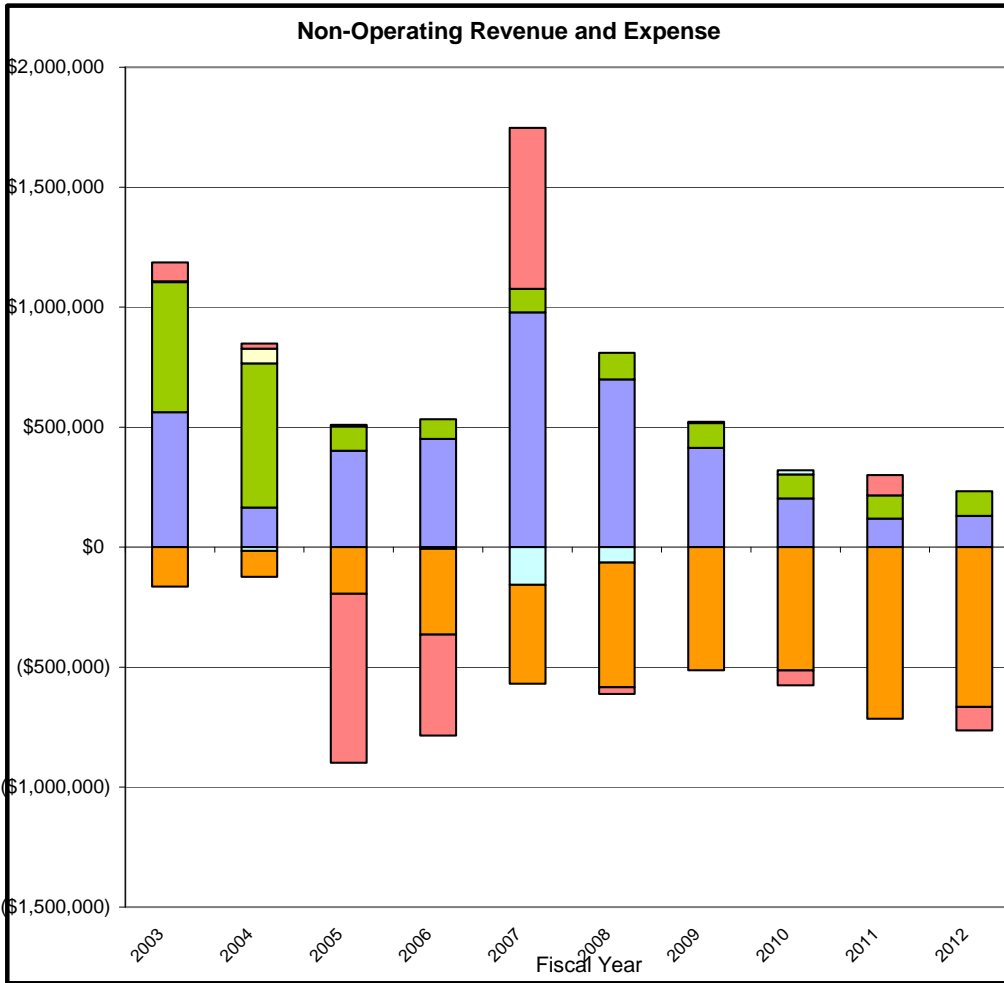
(1) FY09 Excludes \$7,691,033 depreciation due to change in asset lives

(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	Grant Revenue	Gain/(Loss) on Asset Sales	Interest Expense	Other Inc & Exp, net	Net Non-Op Rev/(Exp)
2003	562,005	542,631	-	3,635	(164,798)	78,195	1,021,668
2004	164,878	600,979	61,000	(15,799)	(107,839)	21,022	724,241
2005	402,249	100,708	-	6,015	(194,860)	(703,646)	(389,534)
2006	450,799	82,137	-	(7,178)	(357,793)	(419,947)	(251,982)
2007	978,923	97,919	-	(157,126)	(411,543)	670,566	1,178,739
2008	699,107	110,129	-	(64,347)	(519,484)	(28,194)	197,211
2009	413,681	103,630	-	-	(513,314)	4,957	8,954
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)



Notes:

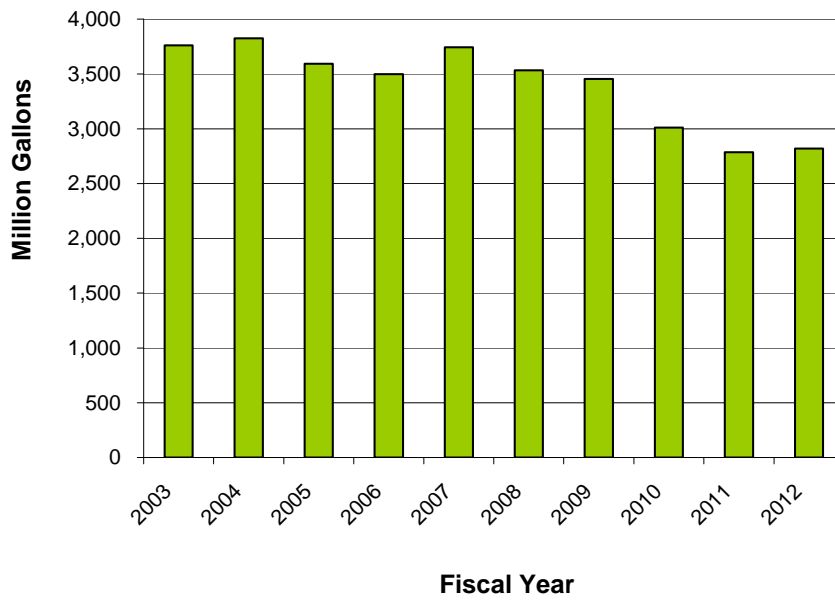
(1) Includes interest income and realized and unrealized gains and losses on investments.

Source: North Marin Water District Audited Financial Statements

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

Schedule 5

Fiscal Year	Water Consumption (Million Gallons)
2003	3,761
2004	3,824
2005	3,593
2006	3,498
2007	3,743
2008	3,533
2009	3,454
2010	3,011
2011	2,786
2012	2,820



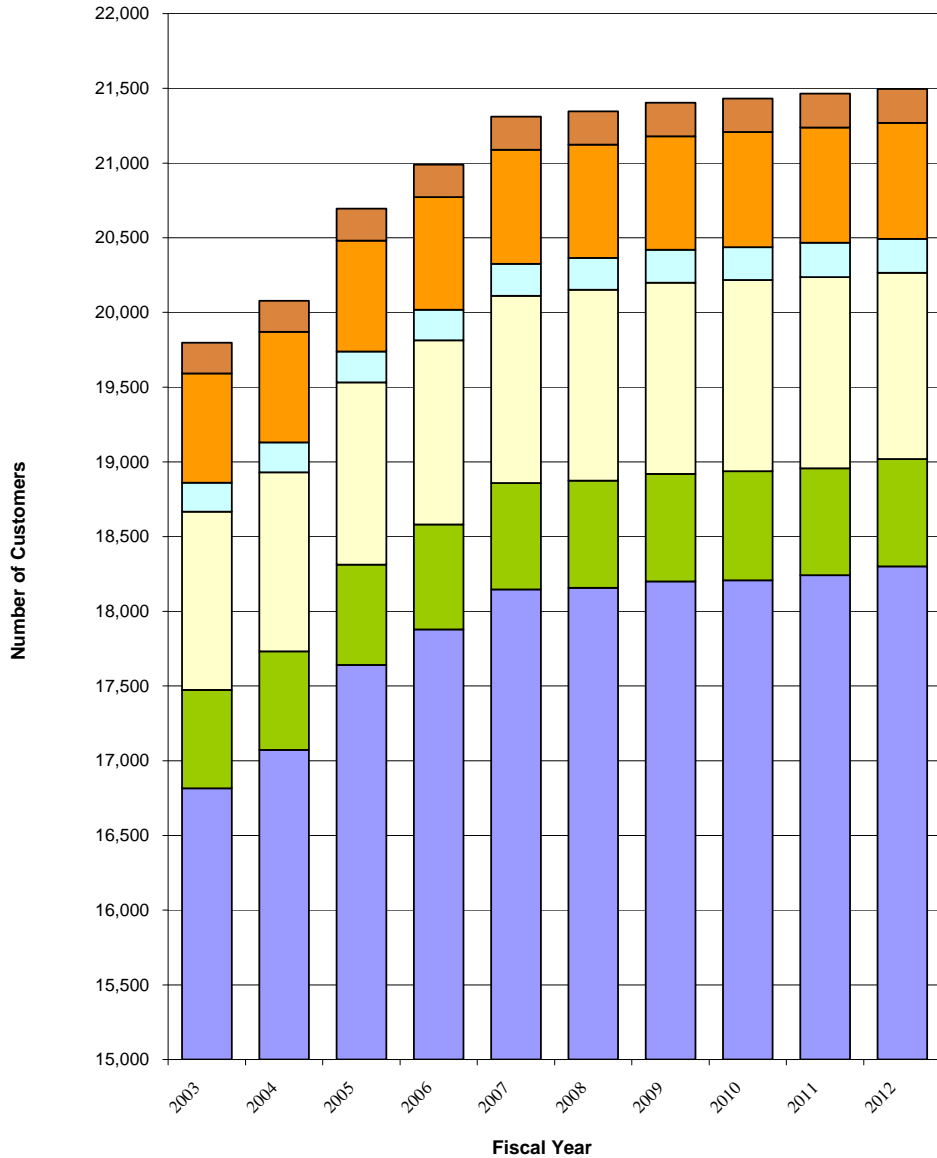
Note: See Schedule 2 "Revenue by Source" for information regarding water sales.

Source: Novato Water District Billing System

North Marin Water District Customers by Type Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type						Total
	Single-Family Residential	Multi-Family Residential	Commerical/ Business	Government	West Marin Water	Oceana Marin Sewer	
2003	16,815	659	1,193	194	731	205	19,797
2004	17,072	660	1,198	200	740	209	20,079
2005	17,641	672	1,219	207	741	215	20,695
2006	17,879	702	1,232	205	755	216	20,989
2007	18,146	712	1,253	214	765	220	21,310
2008	18,157	717	1,278	214	758	223	21,347
2009	18,200	720	1,280	219	760	225	21,404
2010	18,208	730	1,280	220	769	225	21,432
2011	18,242	715	1,280	230	770	227	21,464
2012	18,300	720	1,246	226	777	227	21,496



Source: North Marin Water District - Finance Department

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

Schedule 7

Bimonthly Service Charge

Meter Size	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12
5/8" & 3/4"	\$9.00	\$9.00	\$10.00	\$10.00	\$10.00	\$10.00	\$13.20	\$14.40	\$20.00	\$25.00
1"	\$18.00	\$18.00	\$20.00	\$20.00	\$20.00	\$20.00	\$26.40	\$28.80	\$40.00	\$50.00
1 1/2"	\$22.00	\$22.00	\$24.00	\$24.00	\$24.00	\$24.00	\$32.40	\$35.30	\$49.00	\$61.00
2"	\$34.00	\$34.00	\$38.00	\$38.00	\$38.00	\$38.00	\$50.40	\$54.95	\$76.00	\$95.00
3"	\$68.00	\$68.00	\$75.00	\$75.00	\$75.00	\$75.00	\$99.60	\$108.55	\$151.00	\$189.00
4"	\$112.00	\$112.00	\$120.00	\$120.00	\$120.00	\$120.00	\$159.60	\$173.95	\$242.00	\$303.00
6"	\$226.00	\$226.00	\$251.00	\$251.00	\$251.00	\$251.00	\$334.80	\$364.95	\$507.00	\$634.00
8"	\$338.00	\$338.00	\$375.00	\$375.00	\$375.00	\$375.00	\$499.20	\$544.15	\$756.00	\$945.00

Water Use Rate (per 1,000 Gallons)

User Type	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12
<u>Residential</u>										
Zone A Base Rate ⁽¹⁾	\$1.58	\$1.64	\$2.01	\$2.21	\$2.27	\$2.27	\$3.02	\$3.29	\$3.49	\$3.73
Tier 1: 616-1845 gpd	N/A	N/A	N/A	N/A	\$3.61	\$3.61	\$4.81	\$5.24	\$5.55	\$5.94
Tier 2: >1845 gpd	N/A	\$5.66	\$6.02	\$6.22	\$6.28	\$6.28	\$8.36	\$9.11	\$9.66	\$10.34
<u>Non-Residential</u>										
Zone A Base Rate ⁽¹⁾	\$1.58	\$1.64	\$2.01	\$2.21	\$2.41	\$2.61	\$3.48	\$3.62	\$3.84	\$4.11

Notes:

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

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

**North Marin Water District
Ten Largest Water Customers by Revenue
Current Fiscal Year and Ten Years Ago⁽¹⁾**

Schedule 8

	<u>FY 2011/12</u>	<u>% of Total</u>	<u>FY 2001/02</u>	<u>% of Total</u>
1	City of Novato	2.0%	City of Novato	1.6%
2	Novato Unified School District	1.6%	Novato Unified School District	1.6%
3	Stone Tree Golf Course	1.4%	Stone Tree Golf Course	1.4%
4	Biomarin Pharmaceutical	0.7%	Fireman's Fund	0.9%
5	Coast Guard Spanish Housom	0.7%	Indian Valley Golf Course	0.5%
6	Fireman's Fund	0.7%	Marin Valley Mobile Country Club	0.5%
7	Meadow Park HOA	0.6%	Marion Park Apartments	0.5%
8	Bay Vista Apartments	0.6%	Vintage Oak Shopping Ctr	0.4%
9	Indian Valley Golf Course	0.5%	Western Oaks Village	0.4%
10	Marion Park Apartments	0.5%	Seascape Village HOA	0.4%
		<u>9.3%</u>		<u>8.1%</u>
	Total Water Service Revenue	\$14,770,000		\$6,870,000

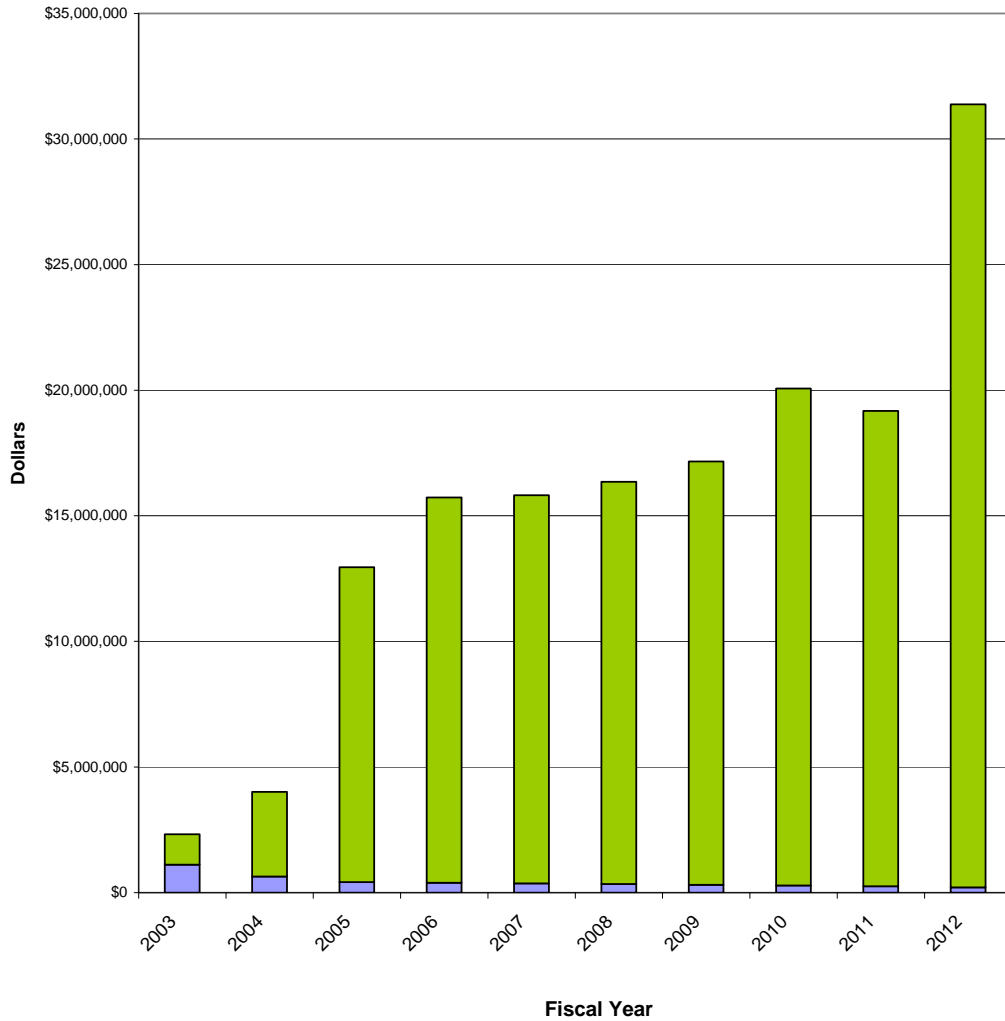
Source : NMWD Billing System

Source: NMWD CORE billing system (t:\acexcel\wtr use\top revenue 2002_2012.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
2003	1,117,461	1,211,225	2,328,686	41.58	0.06%
2004	645,172	3,360,808	4,005,980	70.28	0.10%
2005	421,768	12,527,765	12,949,533	219.48	0.28%
2006	396,243	15,338,404	15,734,647	262.24	0.31%
2007	363,593	15,458,618	15,822,211	259.38	0.29%
2008	335,801	16,020,049	16,355,850	268.13	0.30%
2009	312,878	16,856,896	17,169,774	281.47	0.33%
2010	282,809	19,790,955	20,073,764	329.08	0.36%
2011	250,587	18,924,944	19,175,531	314.35	0.33%
2012	209,203	31,173,317	31,382,520	514.47	0.55%



Source: North Marin Water District Audited Financial Statements

N/A - Data not available

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

Schedule 10

Fiscal Year	Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Available Revenues	Debt Service			Coverage Ratio
				Principal ⁽³⁾	Interest	Total	
2003	14,447,286	(8,769,666)	5,677,620	492,059	164,435	656,494	8.65
2004	14,882,477	(10,138,573)	4,743,904	776,157	197,588	973,745	4.87
2005	12,915,014	(10,520,105)	2,394,909	399,142	295,881	695,023	3.45
2006	13,493,285	(11,769,614)	1,723,671	210,070	465,060	675,130	2.55
2007	22,670,973	(13,149,592)	9,521,381	226,423	413,111	639,534	14.89
2008	19,760,967	(12,627,537)	7,133,430	171,909	519,485	691,394	10.32
2009	16,962,380	(13,257,125)	3,705,255	319,248	513,314	832,562	4.45
2010	15,548,029	(13,083,372)	2,464,657	1,064,677	511,849	1,576,526	1.56
2011	15,617,259	(11,878,612)	3,738,647	1,123,113	490,601	1,613,714	2.32
2012	17,437,042	(12,610,862)	4,826,180	1,108,247	644,968	1,753,215	2.75

Notes:

- (1) Revenues includes Connection Fee Revenue, Contributions in Aid, Interest Revenue, Rent & Lease Revenue, other non-operating revenue
- (2) Operating expenses exclude depreciation expense.
- (3) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

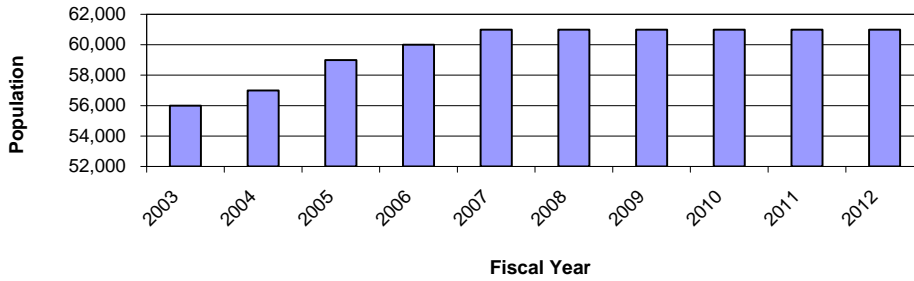
Source: North Marin Water District Audited Financial Statements

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

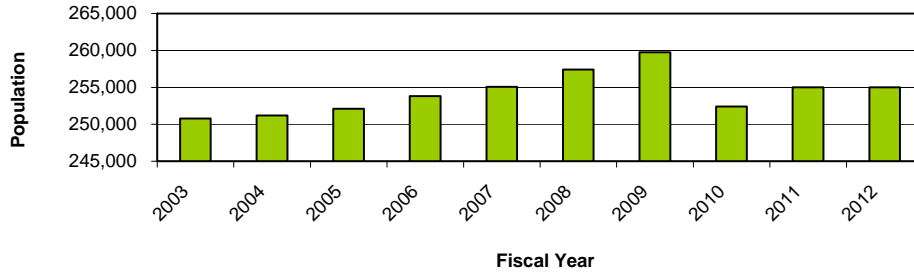
Schedule 11

Year	Novato ⁽¹⁾		County of Marin		
	Population	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2003	56,000	6.3%	250,804	16,340,714	65,153
2004	57,000	5.6%	251,202	18,114,794	72,112
2005	59,000	4.8%	252,116	19,763,926	78,392
2006	60,000	4.5%	253,818	21,800,000	85,888
2007	61,000	4.4%	255,080	22,600,000	88,600
2008	61,000	5.6%	257,406	23,200,000	90,130
2009	61,000	9.6%	259,772	22,400,000	86,229
2010	61,000	9.4%	252,409	22,800,000	90,330
2011	61,000	9.1%	255,015	24,300,000	95,289
2012	61,000	7.9%	255,031	23,920,000	93,793

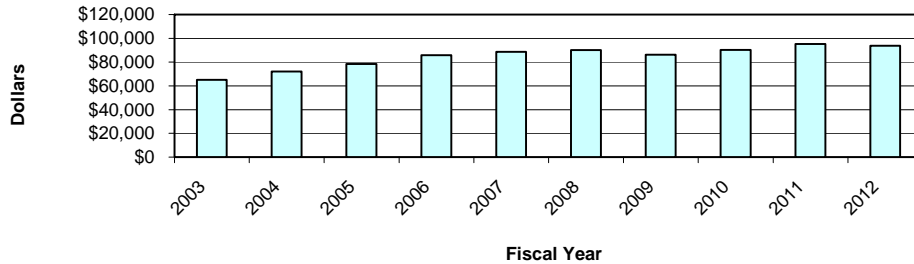
Population - Novato



Population - Marin County



Personal Income per Capita - Marin County



Sources: California Department of Finance, County of Marin, City of Novato, quickfacts.census.gov, Real Estate Center demographics, NMWD Annual Report population estimate, Google Public Data

Notes:

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

N/A - Information not available

North Marin Water District
Demographics and Economics Statistics – Ten Largest Employers
Current Year **Schedule 12**

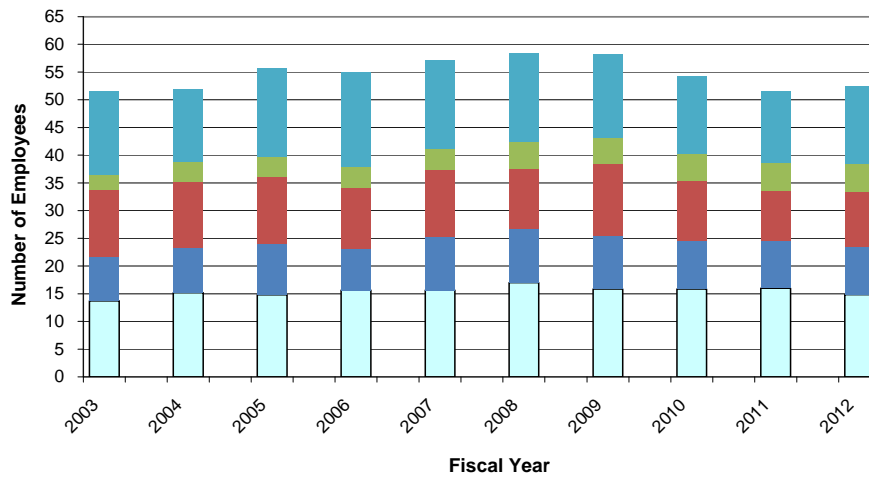
FY 2011/2012				FY 2001/2002			
Employer	Number of Employees	Rank	Percent of Total Employment	Employer	Number of Employees	Rank	Percent of Total Employment
Novato Unified School District	1,281	1	5.50%	Fireman's Fund	2600	1	9.89%
BioMarin Pharmaceuticals	907	2	3.89%	Novato Unified School District	879	2	3.34%
Fireman's Fund	742	3	3.18%	Greenpoint Mortgage	620	3	2.36%
Cagwin & Dorward	396	4	1.70%	Marin Independent Journal	315	4	1.20%
2K/Visual Concepts Entertainme	340	5	1.46%	Novato Community Hospital	315	5	1.20%
Novato Community Hospital	291	6	1.25%	Costco Wholesale	250	6	0.95%
Target Store	291	7	1.25%	Travelsmith Clothing	250	7	0.95%
Costco Wholesale	273	8	1.17%	City of Novato	250	8	0.95%
Buck Institute	262	9	1.12%	Birkenstock	230	9	0.87%
Safeway Stores	249	10	1.07%	Brayton and Associates	230	10	0.87%
Brayton Purcell	235	11	1.01%	Target Store	219	11	0.83%
	5,267		22.61%		6,158		23.41%

Source: City of Novato

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

Schedule 13

Department	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Administrative Services	14	15	15	16	16	17	16	16	16	15
Engineering Services	8	8	9	8	10	10	10	9	9	9
Construction / Maintenance	12	12	12	11	12	11	13	11	9	10
Water Quality	3	4	4	4	4	5	5	5	5	5
Operations / Maintenance	15	13	16	17	16	16	15	14	13	14
	<u>52</u>	<u>52</u>	<u>56</u>	<u>55</u>	<u>57</u>	<u>58</u>	<u>58</u>	<u>54</u>	<u>52</u>	<u>53</u>



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

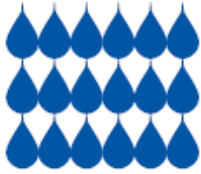
**North Marin Water District
Other Operating and Capacity Indicators
Last Ten Fiscal Years**

Schedule 14

Other Operating and Capacity Indicators				
Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Number of Fire Hydrants	System Storage Capacity (MG)
2002	100	304	2,408	30
2003	100	307	2,459	34
2004	100	310	2,501	34
2005	100	321	2,568	34
2006	100	324	2,670	34
2007	100	337	2,713	35
2008	100	341	2,749	35
2009	100	343	2,762	38
2010	100	345	2,773	38
2011	100	346	2,785	38
2012	100	348	2,785	38

Source: North Marin Water District - Engineering Department

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
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An Accountancy Corporation

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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 the basic financial statements of the North Marin Water District (District) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
September 30, 2012