



NORTH MARIN WATER DISTRICT

Novato, California

Comprehensive Annual Financial Report For the Fiscal Years Ended June 30, 2014 and 2013





**NORTH MARIN
WATER DISTRICT**

Name	Title	Elected/ Appointed	Current Term
Dennis J. Rodoni	President	Elected	12/11 - 12/15
Jack Baker	Vice-President	Elected	12/11 - 12/15
Rick Fraites	Director	Elected	12/13 - 12/17
Stephen Petterle	Director	Elected	12/11 - 12/15
John C. Schoonover	Director	Elected	12/13 - 12/17

**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, 2014 and 2013

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, 2014 and 2013**

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Introductory Section



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September 30, 2014

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Board of Directors
North Marin Water District

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It is our pleasure to submit the Annual Financial Report for the North Marin Water District for the fiscal year ended June 30, 2014 and 2013, 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 56 (50.5 full-time equivalent) employees, some of whom are part-time or temporary. There are currently 23 office positions and 33 field positions. The District's Board of Directors meets on the first and third Tuesday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

District Services

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

The District provides water service to approximately 61,000 residents in the greater Novato area through 20,505 potable water service connections and 44 recycled water connections. The District also provides water service to approximately 1,800 residents in the Point Reyes service area of West Marin County through 776 service connections and sewer service to approximately 500 residents in the Oceana Marin service area of West Marin County through 229 service connections.

District Services, continued

Residential customers comprise approximately 93% of the District's customer base and consume approximately 80% of the water produced annually by the District. The District purchases approximately 80% of its Novato water supply from the Sonoma County Water Agency (Agency) with the balance derived from the District's Stafford Lake Reservoir and some recycled water. The District purchased approximately 2.6 billion gallons and 2.4 billion gallons of water in fiscal year 2014 and 2013, respectively, 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 operated by the Agency typically provides 80% of Novato's water supply, but continues to have limited capacity in summer months. Novato Rainfall in FY 2014 totaled 12.74", which was approximately 15.5" less than the historical average annual rainfall and the third driest year on record. In January 2014, the Governor declared a drought emergency in California and requested all residents reduce water use by 20%. On April 1 the North Marin Board of Directors declared a water shortage and adopted emergency water conservation ordinance to reduce water use by 20% compared to the same billing period last year. Yet ample water was available in Lake Sonoma for fish, agriculture and urban use on the lower Russian River system and no restrictions on the Russian River water deliveries were imposed. North Marin's Stafford Lake water treatment plant produced 479 million gallons of water to augment Russian River supplies with local water supply during the fiscal year. Recycled water treatment facilities at Novato Sanitary District, Las Gallinas Valley Sanitary District and North Marin's Deer Island combined to provide 132 million gallons of highly-treated recycled wastewater to irrigate turf within the District's service territory.

The Agency has deferred its plan to construct previously contemplated necessary Russian River water production and delivery facilities (pumps and pipelines) to fulfill the Restructured Agreement contract requirements for increased Russian River water. The Agency is now focused on compliance with the Biological Opinion 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 and maintain the existing Russian River water supplies. Additionally, state legislation passed in November 2009 (SB7X-7) requires a 20% reduction in per capita water use by 2020. North Marin must achieve more water conservation and development of recycled water to further stretch its local source of supply in future years.

A 6.5% commodity rate increase for customers in the Novato service area was authorized by the Board of Directors effective June 1, 2014. No increase in the bimonthly service charge was implemented.

In West Marin, dry year water supply conditions on Lagunitas Creek became effective on April 1 when a water shortage was declared and emergency water conservation ordinance enacted. Work on the grant funded \$1.3M Gallagher pipeline commenced and is scheduled to be completed by the close of calendar year 2014.

At \$656 per year, the cost of water service for a typical Novato single family home using 107,600 gallons of water a year 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 2014 and 2013, 1,470 AF (479 MG) and 2,316 AF (755 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, which totaled 54,244 acre feet in fiscal year 2014. Releases from the lakes flow to a point about 10 miles upstream of Guerneville where six deep Ranney Collector wells collect river water that has been filtered through 60 to 90 feet of natural sand and gravel to perforated pipes located at the bottom of each well. The thick layer of sand and gravel through which the water must pass before reaching the intake pipes provides a highly-efficient, natural filtration process which, with chlorination treatment, produces a clear, potable, bacteria-free water. This water is then fed directly into the Agency’s aqueduct system.

During the fiscal years 2014 and 2013, the District received 8,126 AF (2,648 MG) and 7,439 AF (2,424MG), respectively, of Russian River water. The District has an agreement in place with the Agency to provide sufficient supply to meet the District’s current and future water supply needs. There continues to be competing interests for Russian River water, principally to protect steelhead and salmon listed as threatened species under the Endangered Species Act. The Biological Opinion for water supply in the Russian River watershed has been issued by the National Marine Fisheries Service laying out the requirements to preserve, protect and restore the fisheries and maintain the existing Russian River water supplies. The District continues to actively support the necessary development of the Russian River water supply and protection of the Russian River fisheries.

Internal Control Structure

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

Budgetary Control

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

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the “prudent person” standard. The objective of the Investment Policy is safety, maturity and yield. District funds are invested in the State Treasurer’s Local Agency Investment Fund, corporate medium-term notes and time certificates of deposit.

Water Rates and District Revenues

Revenue from user charges generated from District customers supports District operations. Accordingly, water and sewer rates are reviewed annually. Water and sewer rates are user charges imposed on customers for services and are the primary component of the District’s revenue. Water rates are comprised of a commodity (water use) charge and a bimonthly service charge; whereas, sewer rates are comprised exclusively of a fixed charge.

Audit and Financial Reporting

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

Awards and Acknowledgements

For the fifth 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 2013 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.

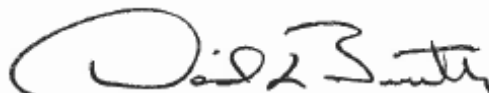
A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for 2014.

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,



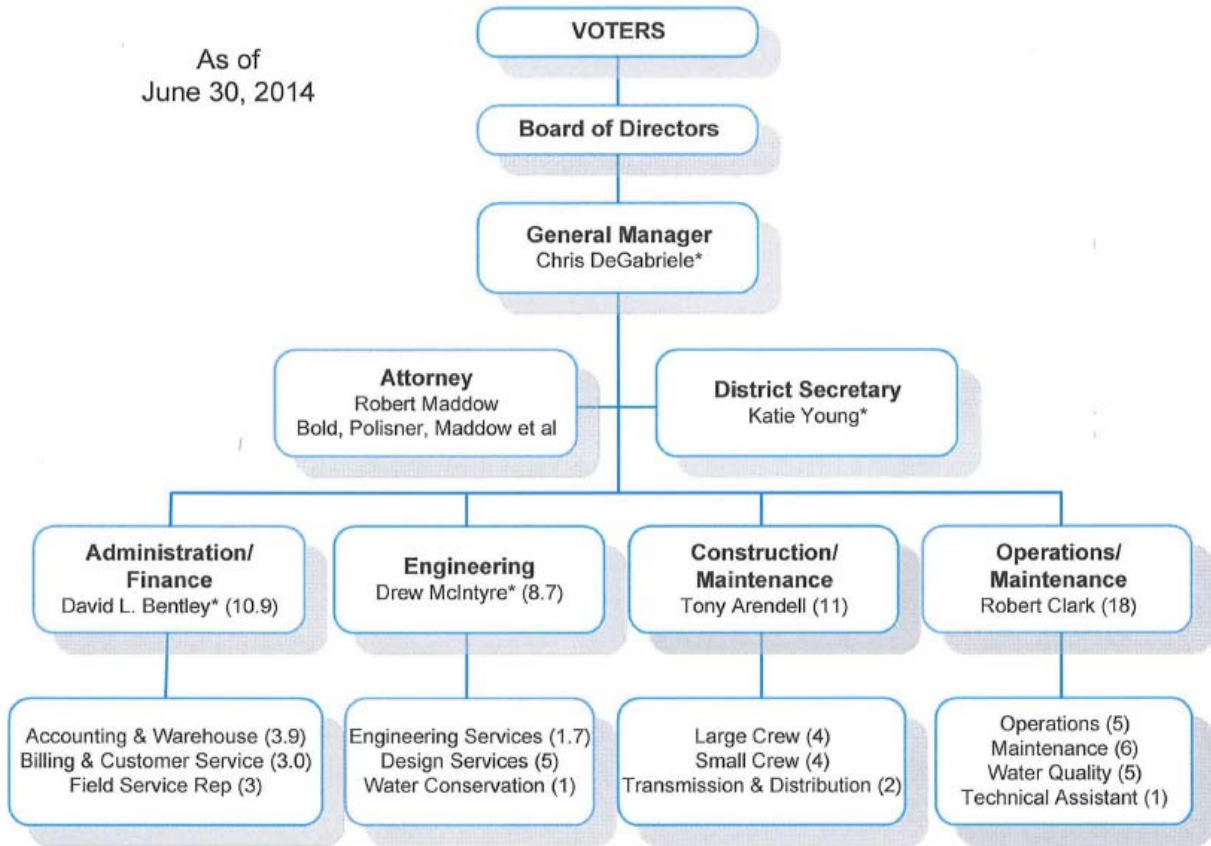
Chris DeGabriele
General Manager



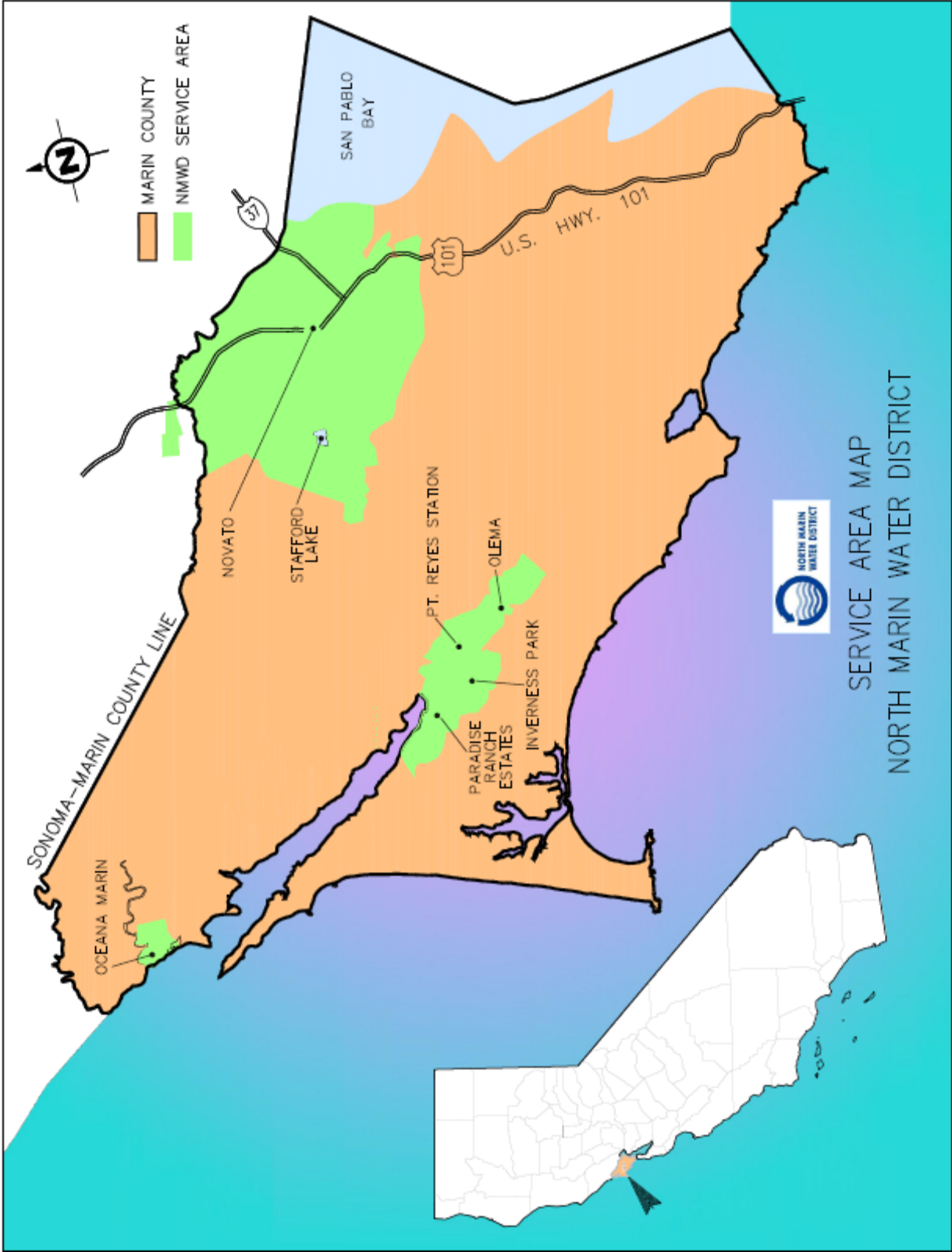
David L. Bentley
Auditor-Controller

North Marin Water District Organizational Chart

As of
June 30, 2014



* Also Serves as District Officer



SERVICE AREA MAP
NORTH MARIN WATER DISTRICT



Government Finance Officers Association

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

Presented to

**North Marin Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

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Financial Section



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

Board of Directors
North Marin Water District
Novato, California

Report on the Financial Statements

We have audited the accompanying financial statements of the North Marin Water District (District), which comprises the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Marin Water District as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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.

Other Matters

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 46 through 49, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 65 and 66.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation

Cypress, California
September 30, 2014

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

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, 2014 and 2013. 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 2014, the District's net position increased 2.5% or \$2,006,596 to \$83,103,874. In fiscal year 2013, the District's net position increased 6.6% or \$5,035,888 to \$81,097,278.
- In 2014, the District's operating revenues increased 11.6% or \$2,120,983 to \$20,377,621 due primarily to implemented rate increases. In 2013, the District's operating revenues increased 18.3% or \$2,820,905 to \$18,256,638 due primarily to implemented rate increases and an 8% increase in water consumption from the prior year
- In 2014, the District's operating expenses before depreciation increased 7.8% or \$1,028,011 due primarily to an \$883,262 increase in source of supply expense. In 2013, the District's operating expenses before depreciation increased 4.2% or \$529,983 due primarily to a \$192,805 increase in source of supply expense and a \$239,760 increase in water treatment expense.

Required Financial Statements

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

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps 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, 2014 and 2013

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

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.

Statements of Net Position

Condensed Statements of Net Position					
	2014	2013	Change	2012	Change
Assets:					
Current assets	\$ 13,544,533	16,390,195	(2,845,662)	18,315,974	(1,925,779)
Non-current assets	9,429,420	8,549,393	880,027	6,640,385	1,909,008
Capital assets, net	98,696,826	96,202,212	2,494,614	89,703,025	6,499,187
Total assets	121,670,779	121,141,800	528,979	114,659,384	6,482,416
Liabilities:					
Current liabilities	5,896,266	3,771,012	2,125,254	4,746,798	(975,786)
Non-current liabilities	32,670,639	36,273,510	(3,602,871)	33,851,196	2,422,314
Total liabilities	38,566,905	40,044,522	(1,477,617)	38,597,994	1,446,528
Net position:					
Net investment in capital assets	71,538,168	65,839,724	5,698,444	61,882,478	3,957,246
Restricted for capital projects and debt	2,156,020	2,186,452	(30,432)	2,993,055	(806,603)
Unrestricted	9,409,686	13,071,102	(3,661,416)	11,185,857	1,885,245
Total net position	83,103,874	81,097,278	2,006,596	76,061,390	5,035,888
Total liabilities and net position	\$ 121,670,779	121,141,800	528,979	114,659,384	6,482,416

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$83,103,874 and \$81,097,278 as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (86% and 81% as of June 30, 2014 and 2013, 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 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$9,409,686 and \$13,071,102, respectively. See note 13 for the amount of spendable net position that may be utilized in future years.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 20,377,621	18,256,638	2,120,983	15,435,733	2,820,905
Non-operating revenue	439,736	348,443	91,293	528,368	(179,925)
Total revenue	<u>20,817,357</u>	<u>18,605,081</u>	<u>2,212,276</u>	<u>15,964,101</u>	<u>2,640,980</u>
Expense:					
Operating expense	14,168,856	13,140,845	1,028,011	12,610,862	529,983
Depreciation and amortization	3,128,302	2,793,360	334,942	2,726,598	66,762
Non-operating expense	3,031,911	633,933	2,397,978	1,059,686	(425,753)
Total expense	<u>20,329,069</u>	<u>16,568,138</u>	<u>3,760,931</u>	<u>16,397,146</u>	<u>170,992</u>
Net income(loss) before cap. con.	488,288	2,036,943	(1,548,655)	(433,045)	2,469,988
Capital contributions	1,518,308	2,998,945	(1,480,637)	3,200,979	(202,034)
Change in net position	<u>2,006,596</u>	<u>5,035,888</u>	<u>(3,029,292)</u>	<u>2,767,934</u>	<u>2,267,954</u>
Net position, beginning of year	<u>81,097,278</u>	<u>76,061,390</u>	<u>5,035,888</u>	<u>73,293,456</u>	<u>2,767,934</u>
Net position, end of year	<u>\$ 83,103,874</u>	<u>81,097,278</u>	<u>2,006,596</u>	<u>76,061,390</u>	<u>5,035,888</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$2,006,596 and \$5,035,888 in the fiscal years ended June 30, 2014 and 2013, respectively.

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

In 2014, the District's operating revenues increased 11.6% or \$2,120,983 to \$20,377,621 due primarily to implemented rate increases. In 2013, the District's operating revenues increased 18.3% or \$2,820,905 to \$18,256,638 due primarily to implemented rate increases and an 8% increase in water consumption from the prior year

In 2014, the District's operating expenses before depreciation increased 7.8% or \$1,028,011 due primarily to an \$883,262 increase in source of supply expense. In 2013, the District's operating expenses before depreciation increased 4.2% or \$529,983 due primarily to a \$192,805 increase in source of supply expense and a \$239,760 increase in water treatment expense.

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Total District Revenues

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 15,085,630	13,987,034	1,098,596	12,156,765	1,830,269
Monthly meter service charge	4,308,584	3,630,425	678,159	2,860,630	769,795
Sewer service charges	177,970	157,992	19,978	157,311	681
Water conservation	4,410	1,260	3,150	16,095	(14,835)
Other charges and services	801,027	479,927	321,100	244,932	234,995
Total operating revenues	<u>20,377,621</u>	<u>18,256,638</u>	<u>2,120,983</u>	<u>15,435,733</u>	<u>2,820,905</u>
Non-operating revenues:					
Property tax revenue	90,071	88,088	1,983	101,559	(13,471)
Investment earnings	66,612	22,002	44,610	59,346	(37,344)
Interest earnings from note – BPGL	54,059	58,711	(4,652)	63,252	(4,541)
Rental revenue	89,593	71,850	17,743	69,206	2,644
Gain from dental liability reserve offset	-	-	-	174,119	(174,119)
Other non-operating revenues	139,401	107,792	31,609	60,886	46,906
Total non-operating revenues	<u>439,736</u>	<u>348,443</u>	<u>91,293</u>	<u>528,368</u>	<u>(179,925)</u>
Total revenues	<u>\$ 20,817,357</u>	<u>18,605,081</u>	<u>2,212,276</u>	<u>15,964,101</u>	<u>2,640,980</u>

In 2014 and 2013, total District revenues increased \$2,212,276 and \$2,640,980, respectively.

Total District Expenses

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>
Operating expenses:					
Source of supply	\$ 6,226,250	5,342,988	883,262	5,150,183	192,805
Pumping	362,997	351,816	11,181	304,075	47,741
Water facilities operations	785,143	716,780	68,363	708,570	8,210
Water treatment	1,930,110	1,986,926	(56,816)	1,747,166	239,760
Transmission and distribution	2,416,368	2,340,330	76,038	2,373,132	(32,802)
Sewage collection and treatment	120,548	127,903	(7,355)	112,801	15,102
Customer service	587,067	552,202	34,865	580,534	(28,332)
General and administrative	1,301,139	1,449,793	(148,654)	1,358,682	91,111
Improvement projects	-	-	-	3,383	(3,383)
Water conservation	439,234	272,107	167,127	272,336	(229)
Depreciation and amortization	3,128,302	2,793,360	334,942	2,726,598	66,762
Total operating expenses	<u>17,297,158</u>	<u>15,934,205</u>	<u>1,362,953</u>	<u>15,337,460</u>	<u>596,745</u>
Non-operating expenses:					
Interest expense – long-term debt	830,830	778,763	52,067	657,337	121,426
Amortization of deferred charges	-	88,876	(88,876)	3,065	85,811
Allowance for impairment of emp. loans	(110,000)	(280,000)	170,000	390,000	(670,000)
CalPERS side-fund payoff	2,073,701	-	2,073,701	-	-
Other non-operating expenses	237,380	46,294	191,086	9,284	37,010
Total non-operating expenses	<u>3,031,911</u>	<u>633,933</u>	<u>2,397,978</u>	<u>1,059,686</u>	<u>(425,753)</u>
Total expenses	<u>\$ 20,329,069</u>	<u>16,568,138</u>	<u>3,760,931</u>	<u>16,397,146</u>	<u>170,992</u>

In 2014 and 2013, total District expenses increased by \$3,760,931 and \$170,992, respectively

North Marin Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2014 and 2013

Capital Asset Administration

Changes in capital asset amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2014</u>
Capital assets:				
Non-depreciable assets	\$ 13,666,696	4,873,071	(11,617,522)	6,922,245
Depreciable assets	124,183,143	12,383,025	(202,364)	136,363,804
Accumulated depreciation	<u>(41,647,627)</u>	<u>(3,128,302)</u>	<u>186,706</u>	<u>(44,589,223)</u>
Total capital assets, net	<u>\$ 96,202,212</u>	<u>14,127,794</u>	<u>(11,633,180)</u>	<u>98,696,826</u>

Changes in capital asset amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 12,683,873	9,123,016	(8,140,193)	13,666,696
Depreciable assets	116,165,565	8,309,724	(292,146)	124,183,143
Accumulated depreciation	<u>(39,146,413)</u>	<u>(2,793,360)</u>	<u>292,146</u>	<u>(41,647,627)</u>
Total capital assets, net	<u>\$ 89,703,025</u>	<u>14,639,380</u>	<u>(8,140,193)</u>	<u>96,202,212</u>

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$98,696,826 and \$96,202,212, respectively, (net of accumulated depreciation). This investment in capital assets includes: land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-progress, etc. (See Note 8 for further information)

Debt Administration

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2014</u>
Long-term debt:				
Bonds payable	\$ 181,652	-	(21,736)	159,916
Loans payable	<u>34,241,714</u>	<u>42,079</u>	<u>(1,596,402)</u>	<u>32,687,391</u>
Total long-term debt	<u>\$ 34,423,366</u>	<u>42,079</u>	<u>(1,618,138)</u>	<u>32,847,307</u>

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2013</u>
Long-term debt:				
Bonds payable	\$ 209,203	-	(27,551)	181,652
Loans payable	<u>31,463,504</u>	<u>4,081,903</u>	<u>(1,303,693)</u>	<u>34,241,714</u>
Total long-term debt	<u>\$ 31,672,707</u>	<u>4,081,903</u>	<u>(1,331,244)</u>	<u>34,423,366</u>

(See Note 12 for further information)

Requests for Information

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

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Basic Financial Statements

**North Marin Water District
Statements of Net Position
June 30, 2014 and 2013**

<i>Assets</i>	2014	2013
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,234,452	3,326,264
Restricted – cash and cash equivalents (note 2)	3,317,531	3,693,349
Accrued interest receivable	13,561	10,772
Accounts receivable – water and sewer sales and services	3,217,333	3,433,180
Accounts receivable – governmental agencies	835,976	845,079
Accounts receivable – other	38,212	86,261
Capital grants and loan proceeds receivable	65,159	4,060,378
Note receivable – Black Point Golf Links – current portion (note 3)	201,276	196,513
Notes receivable – employee computer loans (note 4)	590	2,138
Provision for pension related debt – current portion (note 5)	-	79,928
Materials and supplies inventory	582,837	609,237
Prepaid expenses and deposits	37,606	47,096
Total current assets	<u>13,544,533</u>	<u>16,390,195</u>
Non-current assets:		
Restricted – investments (note 2)	6,244,026	3,006,442
Internal balances (note 7)	-	-
Note receivable – Black Point Golf Links (note 3)	1,936,194	2,137,470
Notes receivable – employee housing assistance loans, net (note 6)	1,249,200	1,331,785
Provision for pension related debt (note 5)	-	2,073,696
Capital assets, not being depreciated (note 8)	6,922,245	13,666,696
Depreciable capital assets, net (note 8)	91,774,581	82,535,516
Total non-current assets	<u>108,126,246</u>	<u>104,751,605</u>
Total assets	<u>\$ 121,670,779</u>	<u>121,141,800</u>
<i>Liabilities and Net Position</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,325,903	1,501,045
Accrued wages and related payables	224,157	207,539
Accrued claims payable (note 9)	24,956	22,476
Customer advances and deposits	1,738,183	482,414
Accrued interest payable – long-term debt	118,124	71,816
Long-term liabilities – due within one year:		
Compensated absences (note 10)	148,657	149,008
Bonds payable (note 12)	23,916	21,731
Loans payable (note 12)	1,292,370	1,235,055
Pension related debt (note 5)	-	79,928
Total current liabilities	<u>5,896,266</u>	<u>3,771,012</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 10)	445,971	447,025
Other post-employment benefits payable (note 11)	693,647	586,209
Bonds payable (note 12)	136,000	159,921
Loans payable (note 12)	31,395,021	33,006,659
Pension related debt (note 5)	-	2,073,696
Total non-current liabilities	<u>32,670,639</u>	<u>36,273,510</u>
Total liabilities	<u>38,566,905</u>	<u>40,044,522</u>
Net position: (note 13)		
Net investment in capital assets	71,538,168	65,839,724
Restricted for capital projects and debt service	2,156,020	2,186,452
Unrestricted	9,409,686	13,071,102
Total net position	<u>83,103,874</u>	<u>81,097,278</u>
Total liabilities and net position	<u>\$ 121,670,779</u>	<u>121,141,800</u>

See accompanying notes to the basic financial statements

North Marin Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water consumption sales	\$ 15,085,630	13,987,034
Bi-monthly meter service charge	4,308,584	3,630,425
Sewer service charges	177,970	157,992
Water conservation	4,410	1,260
Other charges and services	801,027	479,927
Total operating revenues	20,377,621	18,256,638
Operating expenses:		
Source of supply	6,226,250	5,342,988
Pumping	362,997	351,816
Water facilities operations	785,143	716,780
Water treatment	1,930,110	1,986,926
Transmission and distribution	2,416,368	2,340,330
Sewage collection and treatment	120,548	127,903
Customer service	587,067	552,202
General and administrative	1,301,139	1,449,793
Water conservation	439,234	272,107
Total operating expenses	14,168,856	13,140,845
Operating income before depreciation	6,208,765	5,115,793
Depreciation expense – capital recovery	(3,128,302)	(2,793,360)
Operating income	3,080,463	2,322,433
Non-operating revenues(expenses):		
Property tax revenue	90,071	88,088
Investment earnings	66,612	22,002
Interest earnings from note receivable – BPGL	54,059	58,711
Rental revenue	89,593	71,850
Interest expense – long-term debt	(830,830)	(778,763)
Amortization of deferred charges	-	(88,876)
Change in allowance for impairment of employee housing loans	110,000	280,000
CalPERS side-fund payoff (note 5)	(2,073,701)	-
Other non-operating revenues	139,401	107,792
Other non-operating expenses	(237,380)	(46,294)
Total non-operating revenues, net	(2,592,175)	(285,490)
Net income before capital contributions	488,288	2,036,943
Capital contributions:		
Developers and others	399,005	305,847
Contributed capital assets	6,600	55,298
Connection fees	152,800	876,350
Capital grants – federal	138,073	1,232,700
Capital grants – state and local	821,830	528,750
Capital contributions	1,518,308	2,998,945
Change in net position	2,006,596	5,035,888
Net position, beginning of year	81,097,278	76,061,390
Net position, end of year	\$ 83,103,874	81,097,278

See accompanying notes to the basic financial statements

**North Marin Water District
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash receipts from customers and others	\$ 20,879,614	17,744,328
Cash paid to employees for salaries and wages	(4,410,443)	(4,348,543)
Cash paid to vendors and suppliers for materials and services	(9,834,446)	(10,126,648)
Net cash provided by operating activities	<u>6,634,725</u>	<u>3,269,137</u>
Cash flows from non-capital financing activities:		
Property tax revenue	90,071	95,927
Net cash provided by non-capital financing activities	<u>90,071</u>	<u>95,927</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,445,989)	(9,242,979)
Proceeds from capital contributions and connection fees	5,554,717	3,077,784
Proceeds from principal issued on long-term debt	42,079	4,081,903
Principal paid on long-term debt	(1,618,138)	(1,331,244)
Interest paid on long-term debt	(784,522)	(729,804)
Net cash used in capital and related financing activities	<u>(2,251,853)</u>	<u>(4,144,340)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	-	1,000,000
Purchases of investments	(3,233,004)	(3,002,994)
Principal received on notes receivable	196,513	191,861
Principal received(issued) on employee computer loans, net	1,548	4,005
Investment earnings	94,370	96,781
Net cash used in investing activities	<u>(2,940,573)</u>	<u>(1,710,347)</u>
Net increase(decrease) in cash and cash equivalents	1,532,370	(2,489,623)
Cash and cash equivalents, beginning of year	7,019,613	9,509,236
Cash and cash equivalents, end of year	\$ <u>8,551,983</u>	<u>7,019,613</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 5,234,452	3,326,264
Restricted assets – cash and cash equivalents	3,317,531	3,693,349
Total cash and cash equivalents	<u>\$ 8,551,983</u>	<u>7,019,613</u>

Continued on next page

See accompanying notes to the basic financial statements

North Marin Water District
Statements of Cash Flows, continued
For the Year Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,080,463	2,322,433
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense – capital recovery	3,128,302	2,793,360
Rental revenue	89,593	71,850
CalPERS side-fund payoff	(2,073,701)	-
Other non-operating revenue	139,401	107,792
Other non-operating expenses	(237,380)	(46,294)
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water and sewer sales and services	215,847	(353,814)
Accounts receivable – governmental agencies	9,103	(280,625)
Accounts receivable – other	48,049	(57,513)
Materials and supplies inventory	19,800	3,729
Prepaid expenses and other deposits	9,490	(6,644)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	824,858	(1,653,562)
Accrued wages and related payables	16,618	28,054
Accrued claims payable	2,480	693
Customer advances and deposits	1,255,769	208,032
Compensated absences	(1,405)	20,170
Other post-employment retirement benefits	107,438	111,476
Total adjustments	3,554,262	946,704
Net cash provided by operating activities	\$ 6,634,725	3,269,137
Non-cash investing, capital and financing transactions:		
Change in fair value of investments	\$ 11,756	(14,399)
Contributed capital	6,600	55,298

See accompanying notes to the basic financial statements

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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

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

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

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

Novato Recycled Water System – This enterprise fund was formed by the District in 2007 to account for the operation of the District's recycled water treatment and distribution system.

B. Basis of Accounting and Measurement Focus

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

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

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

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

C. Financial Reporting

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

D. Assets, Liabilities and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

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

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

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

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

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

D. Assets, Liabilities and Net Position, 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 reflect 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 to 50 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 accrues a liability for such accumulated and unpaid vacation time.

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

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 position and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net position.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

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

D. Assets, Liabilities and Net Position, 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 Position

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

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

(2) Cash and Investments

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

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 5,234,452	3,326,264
Restricted – cash and cash equivalents	3,317,531	3,693,349
Restricted – investments	<u>6,244,026</u>	<u>3,006,442</u>
Total cash and investments	<u>\$ 14,796,009</u>	<u>10,026,055</u>

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

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 350	350
Deposits with financial institutions	382,168	101,258
Deposits with County of Marin Treasury	528,020	424,258
Investments	<u>13,885,471</u>	<u>9,500,189</u>
Total cash and investments	<u>\$ 14,796,009</u>	<u>10,026,055</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(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.

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

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

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

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, 2014 and 2013

(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, 2014, 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	\$ 7,643,726	7,643,726	-	-
Certificates-of-deposit	3,226,000	3,226,000	-	-
Corporate medium-term notes	2,010,509	-	2,010,509	-
U.S. Treasury note	1,001,133	-	1,001,133	-
Olema general obligation bond	4,103	-	4,103	-
Total	\$ 13,885,471	10,869,726	3,015,745	-

Investments at June 30, 2013, 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	\$ 6,493,745	6,493,745	-	-
Certificates-of-deposit	992,000	992,000	-	-
Corporate medium-term notes	2,002,255	-	-	2,002,255
Olema general obligation bond	12,189	-	12,189	-
Total	\$ 9,500,189	7,485,745	12,189	2,002,255

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(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, 2014, 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 AA-</u>
Local Agency Investment Fund	\$ 7,643,726	N/A	7,643,726	-
Certificates-of-deposit	3,226,000	N/A	3,226,000	-
Corporate medium-term notes	2,010,509	A-	-	2,010,509
U.S. Treasury note	1,001,133	AA+	-	1,001,133
Olema general obligation bond	4,103	A+	-	4,103
Total	\$ 13,885,471		10,869,726	3,015,745

Credit ratings at June 30, 2013, 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 AA-</u>
Local Agency Investment Fund	\$ 6,493,745	N/A	6,493,745	-
Certificates-of-deposit	992,000	N/A	992,000	-
Corporate medium-term notes	2,002,255	A-	-	2,002,255
Olema general obligation bond	12,189	A+	-	12,189
Total	\$ 9,500,189		7,485,745	2,014,444

(3) Note Receivable – Black Point Golf Links

The District has entered into a contractual agreement with Black Point Golf Links whereby the golf course agreed to reimburse the District for construction costs incurred for a new recycled water facility, 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>2014</u>	<u>2013</u>
Note receivable – Black Point Golf Links – current portion	\$ 201,276	196,513
Note receivable – Black Point Golf Links	1,936,194	2,137,470
Note receivable – Black Point Golf Links	\$ 2,137,470	2,333,983

(4) 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, 2014 and 2013 the District had various outstanding loans totaling \$590 and \$2,138, respectively.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(5) 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 contribution volatility 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 District paid-off the CalPERS side-fund balance of \$2,073,701 in June 2014.

(6) 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>2014</u>	<u>2013</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
June 2010	245,000	245,000
Sub-total	1,249,200	1,441,785
Allowance	-	(110,000)
Total	\$ 1,249,200	1,331,785

In October 2013, The District acquired the 1st trust deed in the above noted October 2008 note receivable, and combined it with the 2nd trust deed ownership of \$192,585; therefore, capitalizing the purchase of the home as a capital asset.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(7) Internal Balances

Due To/From Other Funds and Transfers

Internal balances consist of the following, as of June 30, 2013:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance	Novato Water	Novato Recycled	\$ <u>4,755,421</u>

Transfers between funds as of June 30, 2014:

<u>Purpose</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Advance	Novato Water	Novato Recycled	\$ <u>1,550,201</u>

Transfers between funds as of June 30, 2013:

<u>Purpose</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Advance	Novato Water	Novato Recycled	\$ <u>1,970,400</u>

The Novato Water system advanced the Novato Recycled system funds for capital construction pending receipt of grant and loan funds, as of June 30, 2013. The advance was paid in fiscal year 2014 from the receipt of grant and loan funds. Interest was accrued on the balance on a monthly basis as per District policy. In 2014 and 2013, the Novato Water system transferred \$1,550,201 and \$1,970,400, respectively, in net position to the Novato Recycled system for the local share of the North/South Recycled Water Expansion, SRF loan payments and grant administration costs. (See the Supplementary Schedules on pages 45 through 48 for further information)

(8) Capital Assets

Construction-In-Progress

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

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Developer construction – Novato Water	\$ 842,504	965,313	641,858
Developer construction – Novato Recycled	-	-	-
Developer construction – West Marin Water	67,130	-	5,239
Developer construction – Oceana Marin Sewer	-	5,000	-
Other construction – Novato Water	1,840,102	1,619,299	4,280,383
Other construction – Novato Recycled	8,117,923	8,806,758	4,024
Other construction – West Marin Water	258,069	565,161	497,995
Other construction – Oceana Marin Sewer	85,054	232,074	19,655
Total construction-in-progress per year	\$ <u>11,210,782</u>	<u>12,193,605</u>	<u>5,449,154</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(8) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-progress	12,193,605	4,873,071	(11,617,522)	5,449,154
Total non-depreciable assets	<u>13,666,696</u>	<u>4,873,071</u>	<u>(11,617,522)</u>	<u>6,922,245</u>
Depreciable assets:				
Distribution system	68,070,235	10,550,206	(15,658)	78,604,783
Treatment plant	21,060,231	-	-	21,060,231
Storage facilities	18,396,517	476,000	-	18,872,517
Transmission system	5,489,830	-	-	5,489,830
Source facilities	5,294,920	337,211	-	5,632,131
Sewer facilities	917,452	237,073	-	1,154,525
Structures and improvements	1,905,340	579,767	-	2,485,107
Other plant and equipment	3,048,618	202,768	(186,706)	3,064,680
Total depreciable assets	<u>124,183,143</u>	<u>12,383,025</u>	<u>(202,364)</u>	<u>136,363,804</u>
Accumulated depreciation:				
Distribution system	(22,492,024)	(1,555,861)	-	(24,047,885)
Treatment plant	(5,492,576)	(698,771)	-	(6,191,347)
Storage facilities	(4,961,686)	(385,721)	-	(5,347,407)
Transmission system	(3,255,321)	(87,287)	-	(3,342,608)
Source facilities	(1,637,856)	(104,951)	-	(1,742,807)
Sewer facilities	(456,334)	(44,132)	-	(500,466)
Structures and improvements	(1,096,658)	(44,212)	-	(1,140,870)
Other plant and equipment	(2,255,172)	(207,367)	186,706	(2,275,833)
Total accumulated depreciation	<u>(41,647,627)</u>	<u>(3,128,302)</u>	<u>186,706</u>	<u>(44,589,223)</u>
Total depreciable assets, net	<u>82,535,516</u>	<u>9,254,723</u>	<u>(15,658)</u>	<u>91,774,581</u>
Total capital assets, net	<u>\$ 96,202,212</u>	<u>14,127,794</u>	<u>(11,633,180)</u>	<u>98,696,826</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(8) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land and land rights	\$ 1,473,091	-	-	1,473,091
Construction-in-progress	11,210,782	9,123,016	(8,140,193)	12,193,605
Total non-depreciable assets	<u>12,683,873</u>	<u>9,123,016</u>	<u>(8,140,193)</u>	<u>13,666,696</u>
Depreciable assets:				
Distribution system	59,594,931	7,179,100	1,296,204	68,070,235
Treatment plant	22,162,002	194,433	(1,296,204)	21,060,231
Storage facilities	18,109,617	286,900	-	18,396,517
Transmission system	5,489,830	-	-	5,489,830
Source facilities	5,027,082	267,838	-	5,294,920
Sewer facilities	853,683	63,769	-	917,452
Structures and improvements	1,783,704	121,636	-	1,905,340
Other plant and equipment	3,144,716	196,048	(292,146)	3,048,618
Total depreciable assets	<u>116,165,565</u>	<u>8,309,724</u>	<u>(292,146)</u>	<u>124,183,143</u>
Accumulated depreciation:				
Distribution system	(21,109,445)	(1,382,579)	-	(22,492,024)
Treatment plant	(4,953,369)	(539,207)	-	(5,492,576)
Storage facilities	(4,596,533)	(365,153)	-	(4,961,686)
Transmission system	(3,168,033)	(87,288)	-	(3,255,321)
Source facilities	(1,550,080)	(87,776)	-	(1,637,856)
Sewer facilities	(424,168)	(32,166)	-	(456,334)
Structures and improvements	(1,061,204)	(35,454)	-	(1,096,658)
Other plant and equipment	(2,283,581)	(263,737)	292,146	(2,255,172)
Total accumulated depreciation	<u>(39,146,413)</u>	<u>(2,793,360)</u>	<u>292,146</u>	<u>(41,647,627)</u>
Total depreciable assets, net	<u>77,019,152</u>	<u>5,516,364</u>	<u>-</u>	<u>82,535,516</u>
Total capital assets, net	<u>\$ 89,703,025</u>	<u>14,639,380</u>	<u>(8,140,193)</u>	<u>96,202,212</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(9) Accrued Claims Payable

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).

The balance at June 30, consists of the following:	2014	2013	
Accrued claims payable, beginning of year	\$ 22,476	21,783	
Claims recognized	(5,496)	8,076	
Claims settled	(2,450)	(1,243)	
Claims adjustments	10,426	(6,140)	
Accrued claims payable, end of year	<u>\$ 24,956</u>	<u>22,476</u>	

(10) Compensated Absences

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

Changes to compensated absences for 2014, were as follows:

<u>Balance 2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2014</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 596,033	838,331	(839,736)	594,628	148,657	445,971

Changes to compensated absences for 2013, were as follows:

<u>Balance 2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2013</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$ 575,863	913,324	(893,154)	596,033	149,008	447,025

(11) Other 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.

Other 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, 2014 and 2013

(11) Other Post-Employment Benefits Payable, continued

Other Post-Employment Benefits – Eligibility, continued

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Active plan members	51	51	53
Retirees and beneficiaries receiving benefits	32	34	32
Separated plan members entitled to but not yet receiving benefits	<u>3</u>	<u>3</u>	<u>3</u>
Total plan membership	<u><u>86</u></u>	<u><u>88</u></u>	<u><u>88</u></u>

Other Post-Employment Benefits – Benefits Offered

The District offers other post-employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. 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. For retirees between the ages of 55 to 65 with a minimum of 12 years services, who retired prior to January 1, 2013, the District's contribution toward the chosen medical plan will be 90% of the Kaiser Basic Medical Plan premium amount. For retirees between the ages of 55 to 65 with a minimum of 12 years services, who retire on or after January 1, 2013, the District's contribution toward the chosen plan will be 85% of the Kaiser Basic Medical Plan premium amount. The District will make a monthly contribution toward the cost of health insurance coverage for all other retirees based on the contract effective at the time of their retirement.

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, 2014 and 2013, the District's annual ARC cost after adjustments were \$286,640 and \$286,640, respectively. The District's net other post employment benefits payable obligation amounted to \$693,647 and \$586,209 for the years ended June 30, 2014 and 2013, respectively. The District contributed \$168,750 and \$166,699 in retiree benefit contributions for current retiree OPEB premiums for the years ended June 30, 2014 and 2013, respectively.

The balance at June 30, consists of the following:	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 286,640	286,640	250,776
Interest on net OPEB obligation	23,448	18,989	19,532
Interest earnings on irrevocable trust balance	-	-	-
Adjustment to annual required contribution	<u>(33,900)</u>	<u>(27,454)</u>	<u>(25,486)</u>
Total annual OPEB expense	<u>276,188</u>	<u>278,175</u>	<u>244,822</u>
Contributions made:			
Contributions made to irrevocable trust	-	-	-
Retiree benefit payments paid outside of a trust	<u>(168,750)</u>	<u>(166,699)</u>	<u>(160,725)</u>
Total contributions made	<u>(168,750)</u>	<u>(166,699)</u>	<u>(160,725)</u>
Total change in net OPEB payable obligation	107,438	111,476	84,097
OPEB payable - beginning of year	<u>586,209</u>	<u>474,733</u>	<u>390,636</u>
OPEB payable - end of year	<u><u>\$ 693,647</u></u>	<u><u>586,209</u></u>	<u><u>474,733</u></u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(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 2014 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Contributions Made to Trust	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2014	\$ 276,188	-	168,750	61.10%	\$ 693,647
2013	278,175	-	166,699	59.93%	586,209
2012	244,822	-	160,725	65.65%	474,733

The most recent valuation (dated July 1, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,130,628. There are no Plan Assets because the District funds on a pay-as-you-go basis and maintains net position equal to the remaining net other post employment benefits payable obligation. The Board of Directors of the District has designated \$3,310,725 and \$3,189,034, as of June 30, 2014 and 2013, respectively, of net position 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, 2014 was \$4,410,443. The ratio of the unfunded actuarial accrued liability to annual covered payroll was 70.98%.

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, 2012	
Actuarial cost method	Projected Unit Credit	
Amortization method	30-year level dollar, open period	
Remaining amortization period	24 years as of the valuation date	
Asset valuation method	20 year level contribution	
Actuarial assumptions:		
Investment rate of return	4.00%	
Projected salary increase	3.00%	
Inflation - discount rate	4.00%	
Healthcare cost trend rate	Fiscal Year	Percentage
	2012	8.0%
	2013	7.0%
	2014	6.0%
	2015+	5.0%

See Page 44 for the Schedules of Funding Status for the postemployment defined benefit plan, which presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(12) Long-term Debt

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1975 General obligation bonds – OL-2	\$ 7,652	-	(3,736)	3,916	3,916
1980 Revenue bonds – PRE-1	82,000	-	(10,000)	72,000	11,000
1981 Revenue bonds – PR-6	92,000	-	(8,000)	84,000	9,000
Total bonds payable	<u>181,652</u>	<u>-</u>	<u>(21,736)</u>	<u>159,916</u>	<u>23,916</u>
Loans payable:					
1977 U.S. EDA loan – Novato Water	79,875	-	(14,430)	65,445	15,152
1977 U.S. EDA loan – West Marin Water	11,201	-	(2,144)	9,057	2,250
2005 DWR loan – Novato Water	13,819,824	-	(718,449)	13,101,375	365,676
2005 SWRCB loan – Novato Recycled	3,218,157	-	(196,131)	3,022,026	200,839
2011 SWRCB loan – Novato Recycled	9,590,697	42,079	(364,798)	9,267,978	397,767
2011 B of M loan – Novato Water	6,559,082	-	(261,992)	6,297,090	270,827
2011 B of M loan – West Marin Water	962,878	-	(38,458)	924,420	39,859
Total loans payable	<u>34,241,714</u>	<u>42,079</u>	<u>(1,596,402)</u>	<u>32,687,391</u>	<u>1,292,370</u>
Total long-term debt	<u>\$ 34,423,366</u>	<u>42,079</u>	<u>(1,618,138)</u>	<u>32,847,307</u>	<u>1,316,286</u>

Changes in long-term debt amounts for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable:					
1973 General obligation bonds – PR-3	\$ 14,000	-	(14,000)	-	-
1975 General obligation bonds – OL-2	11,203	-	(3,551)	7,652	3,731
1980 Revenue bonds – PRE-1	92,000	-	(10,000)	82,000	10,000
1981 Revenue bonds – PR-6	92,000	-	-	92,000	8,000
Total bonds payable	<u>209,203</u>	<u>-</u>	<u>(27,551)</u>	<u>181,652</u>	<u>21,731</u>
Loans payable:					
1977 U.S. EDA loan – Novato Water	93,618	-	(13,743)	79,875	14,440
1977 U.S. EDA loan – West Marin Water	13,242	-	(2,041)	11,201	2,145
2005 DWR loan – Novato Water	14,521,404	-	(701,580)	13,819,824	357,090
2005 SWRCB loan – Novato Recycled	3,409,691	-	(191,534)	3,218,157	196,131
2011 SWRCB loan – Novato Recycled	5,613,575	4,081,903	(104,781)	9,590,697	364,798
2011 B of M loan – Novato Water	6,811,974	-	(252,892)	6,559,082	261,993
2011 B of M loan – West Marin Water	1,000,000	-	(37,122)	962,878	38,458
Total loans payable	<u>31,463,504</u>	<u>4,081,903</u>	<u>(1,303,693)</u>	<u>34,241,714</u>	<u>1,235,055</u>
Total long-term debt	<u>\$ 31,672,707</u>	<u>4,081,903</u>	<u>(1,331,244)</u>	<u>34,423,366</u>	<u>1,256,786</u>

Bonds Payable

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>
2015	\$ <u>3,916</u>	<u>196</u>	<u>4,112</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(12) Long-Term Debt, continued

Bonds Payable, continued

1980 Revenue Bonds – Issue PRE-1

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 11,000	3,600	14,600
2016	11,000	3,050	14,050
2017	12,000	2,500	14,500
2018	12,000	1,900	13,900
2019	13,000	1,300	14,300
2020	13,000	650	13,650
Total	\$ 72,000	13,000	85,000
Less current portion	(11,000)		
Total non-current	\$ 61,000		

1981 Revenue Bonds – Issue PR-6

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 9,000	3,975	12,975
2016	9,000	3,525	12,525
2017	10,000	3,050	13,050
2018	10,000	2,550	12,550
2019	11,000	2,025	13,025
2020-2022	35,000	2,675	37,675
Total	\$ 84,000	17,800	101,800
Less current portion	(9,000)		
Total non-current	\$ 75,000		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(12) Long-Term Debt, continued

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>
2015	\$ 15,152	3,262	18,414
2016	15,920	2,504	18,424
2017	16,716	1,708	18,424
2018	17,657	787	18,444
Total	\$ 65,445	<u>8,261</u>	<u>73,706</u>
Less current portion	<u>(15,152)</u>		
Total non-current	<u>\$ 50,293</u>		

1977 U.S. EDA Loan – West Marin segment

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,250	451	2,701
2016	2,363	340	2,703
2017	2,483	220	2,703
2018	1,961	145	2,106
Total	\$ 9,057	<u>1,156</u>	<u>10,213</u>
Less current portion	<u>(2,250)</u>		
Total non-current	<u>\$ 6,807</u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(12) Long-Term Debt, continued

Loans Payable

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>
2015	\$ 365,676	156,561	522,237
2016	744,514	299,960	1,044,474
2017	762,413	282,062	1,044,475
2018	780,744	263,730	1,044,474
2019	799,515	244,959	1,044,474
2020-2024	4,295,324	927,048	5,222,372
2025-2029	4,837,119	385,253	5,222,372
2030	516,070	6,168	522,238
Total	\$ 13,101,375	<u>2,565,741</u>	<u>15,667,116</u>
Less current portion	<u>(365,676)</u>		
Total non-current	\$ <u>12,735,699</u>		

2005 SWRCB Loan – Novato Recycled Water segment

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

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 200,839	72,528	273,367
2016	205,658	67,709	273,367
2017	210,594	62,773	273,367
2018	215,648	57,719	273,367
2019	220,824	52,543	273,367
2020-2024	1,186,207	180,628	1,366,835
2025-2027	782,256	37,845	820,101
Total	\$ 3,022,026	<u>531,745</u>	<u>3,553,771</u>
Less current portion	<u>(200,839)</u>		
Total non-current	\$ <u>2,821,187</u>		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(12) Long-Term Debt, continued

Loans Payable, continued

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 construction of the Recycled Water Expansion project – North Service Area. As of June 30, 2013, eligible costs for reimbursement were \$4,364,335 plus \$11,270 in capitalized interest charges for a total loan of \$4,375,605. Principal and interest payments of \$281,892 are due and payable annually on the loan until fiscal year 2033.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 397,767	216,532	614,299
2016	403,526	210,773	614,299
2017	413,125	201,174	614,299
2018	422,954	191,345	614,299
2019	433,018	181,281	614,299
2020-2024	2,324,700	746,795	3,071,495
2025-2029	2,615,061	456,434	3,071,495
2030-2034	2,257,827	133,837	2,391,664
Total	9,267,978	2,338,171	11,606,149
Less current portion	(397,767)		
Total non-current	\$ 8,870,211		

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

In October 2013, the District entered into a loan agreement with the Bank of Marin for a 20-year \$8.0 million construction loan with an interest rate of 3.42% per annum for the North Marin Aqueduct Energy Efficiency Project and West Marin water improvements. The loan is scheduled to mature in September of fiscal year 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>
2015	\$ 310,686	242,114	552,800
2016	321,490	231,310	552,800
2017	332,657	220,143	552,800
2018	344,213	208,587	552,800
2019	356,169	196,631	552,800
2020-2024	1,975,249	788,751	2,764,000
2025-2029	2,342,989	421,011	2,764,000
2030-2032	1,238,057	51,811	1,289,868
Total	\$ 7,221,510	2,360,358	9,581,868
Less current portion	(310,686)		
Total non-current	\$ 6,910,824		

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(13) Net Position

Calculation of net position per fund as of June 30, 2014, 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	\$ 6,291,113	4,025	606,644	20,463	6,922,245
Depreciable capital assets, net	67,875,520	19,041,202	4,021,117	836,742	91,774,581
Capital project loan proceeds unused	4,435,827	614,299	638,523	-	5,688,649
Current:					
Bonds payable	-	-	(23,916)	-	(23,916)
Loans payable	(651,655)	(598,605)	(42,110)	-	(1,292,370)
Non-current:					
Bonds payable	-	-	(136,000)	-	(136,000)
Loans payable	(18,812,255)	(11,691,398)	(891,368)	-	(31,395,021)
Total net investment in capital assets	<u>59,138,550</u>	<u>7,369,523</u>	<u>4,172,890</u>	<u>857,205</u>	<u>71,538,168</u>
Restricted net position:					
Connection fee reserve	-	-	170,481	-	170,481
Wohler pipeline reserve	395,314	-	-	-	395,314
Collector No. 6 reserve	1,554,276	-	-	-	1,554,276
Olema bond reserve	3,916	-	-	-	3,916
Cash reserve for debt service	-	-	33,485	-	33,485
Accrued interest for debt service	-	-	(1,452)	-	(1,452)
Total restricted net position	<u>1,953,506</u>	<u>-</u>	<u>202,514</u>	<u>-</u>	<u>2,156,020</u>
Unrestricted net position:					
Non-spendable net position:					
Current:					
Materials and supplies inventory	582,837	-	-	-	582,837
Prepaid expenses and deposits	36,364	-	-	1,242	37,606
Non-current:					
Note receivable – Black Point Golf Links	-	1,936,194	-	-	1,936,194
Notes receivable – employee housing loans, net	1,249,200	-	-	-	1,249,200
Total non-spendable net position	<u>1,868,401</u>	<u>1,936,194</u>	<u>-</u>	<u>1,242</u>	<u>3,805,837</u>
Spendable net position are designated as follows:					
Other post-employment benefits reserve	3,310,725	-	-	-	3,310,725
Operating reserve	1,054,336	723,423	241,277	274,088	2,293,124
Total spendable net position	<u>4,365,061</u>	<u>723,423</u>	<u>241,277</u>	<u>274,088</u>	<u>5,603,849</u>
Total unrestricted net position	<u>6,233,462</u>	<u>2,659,617</u>	<u>241,277</u>	<u>275,330</u>	<u>9,409,686</u>
Total net position	<u>\$ 67,325,518</u>	<u>10,029,140</u>	<u>4,616,681</u>	<u>1,132,535</u>	<u>83,103,874</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(13) Net Position, continued

Calculation of net position per fund as of June 30, 2013, 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	\$ 3,942,108	8,806,758	679,948	237,882	13,666,696
Depreciable capital assets, net	67,806,510	10,237,067	3,835,247	656,692	82,535,516
Capital project loan proceeds unused	2,928,882	622,735	509,261	-	4,060,878
Current:					
Bonds payable	-	-	(21,731)	-	(21,731)
Loans payable	(633,523)	(560,929)	(40,603)	-	(1,235,055)
Non-current:					
Bonds payable	-	-	(159,921)	-	(159,921)
Loans payable	(19,825,258)	(12,247,925)	(933,476)	-	(33,006,659)
Total net investment in capital assets	<u>54,218,719</u>	<u>6,857,706</u>	<u>3,868,725</u>	<u>894,574</u>	<u>65,839,724</u>
Restricted net position:					
Connection fee reserve	13	-	166,144	-	166,157
Wohler pipeline reserve	403,678	-	-	-	403,678
Collector No. 6 reserve	1,573,822	-	-	-	1,573,822
Olema bond reserve	12,189	-	-	-	12,189
Cash reserve for debt service	-	-	34,681	-	34,681
Accrued interest for debt service	-	-	(4,075)	-	(4,075)
Total restricted net position	<u>1,989,702</u>	<u>-</u>	<u>196,750</u>	<u>-</u>	<u>2,186,452</u>
Unrestricted net position:					
Non-spendable net position:					
Current:					
Materials and supplies inventory	609,237	-	-	-	609,237
Prepaid expenses and deposits	38,248	-	7,832	1,016	47,096
Non-current:					
Note receivable – Black Point Golf Links	-	2,137,470	-	-	2,137,470
Notes receivable – employee housing loans, net	1,331,785	-	-	-	1,331,785
Total non-spendable net position	<u>1,979,270</u>	<u>2,137,470</u>	<u>7,832</u>	<u>1,016</u>	<u>4,125,588</u>
Spendable net position are designated as follows:					
Other post-employment benefits reserve	3,189,034	-	-	-	3,189,034
Operating reserve	5,862,220	(377,031)	92,863	178,428	5,756,480
Total spendable net position	<u>9,051,254</u>	<u>(377,031)</u>	<u>92,863</u>	<u>178,428</u>	<u>8,945,514</u>
Total unrestricted net position	<u>11,030,524</u>	<u>1,760,439</u>	<u>100,695</u>	<u>179,444</u>	<u>13,071,102</u>
Total net position	<u>\$ 67,238,945</u>	<u>8,618,145</u>	<u>4,166,170</u>	<u>1,074,018</u>	<u>81,097,278</u>

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(14) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the plan assets held in trust at June 30, 2014 and 2013 was \$4,396,985 and \$3,794,645, 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 position.

(15) Defined Benefit Pension Plan

Plan Description

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

Funding Policy and Annual Pension Cost

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8.00% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Beginning January 1, 2013, District employees began contributing 3.20% of their 8.00% member rate with the District contributing the remaining 4.80%. The District's labor agreement with its employees association requires that employees pay the full 8.00%, phased in annually each October 1st, by 2016. 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 2014, 2013 and 2012 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.

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. The District filed a Certification of Memorandum of Understanding (MOU) Impairment with CalPERS prior to January 1, 2013. All District employees, including those employees hired on or after January 1, 2013 contribute 3.2% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

**North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013**

(15) Defined Benefit Pension Plan, continued

For fiscal years 2014, 2013 and 2012, 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>
2011-2012	\$ 1,031,112	100%	-	18.154%
2012-2013	1,068,211	100%	-	18.947%
2013-2014	819,854	100%	-	20.035%

See Page 44 for the Schedules of Funding Status for the defined benefit pension plan.

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	June 30, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	19 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(16) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance policies with a variety of coverage including a \$10.0 million excess general liability policy with a \$1.0 million self-insured retention limit, a \$54,624,000 property and equipment policy, a \$1.0 million public official's policy and a \$500,000 employee fidelity bond.

(17) Commitments and Contingencies

Wohler/Collector No. 6 Agreement

The District is party to an agreement with the Sonoma County Water Agency (SCWA) that provides, among other matters, that the District is obligated to pay for a prorated share of certain SCWA's costs to improve or expand the SCWA's water utility plant. The agreement expires on June 30, 2040 and is subject to renewal for 40-year terms. Under the agreement, the District is obligated to pay promptly all billings from the SCWA and may not withhold payment pending resolution of disputes, if any, which might exist between the District and SCWA. At June 30, 2014, the District's reserve balances for these obligations were \$395,314 (Wohler Pipeline) and \$1,554,276 (Collector #6).

North Marin Water District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(17) Commitments and Contingencies, continued

Novato Sanitary District

The District has entered into a contract with the Novato Sanitary District (NSD) which requires NSD to supply secondary treated effluent of sufficient quantity to the District for the recycled water treatment operation. The District pays NSD \$20 per year for an annual lease of the site for the Deer Island recycled water treatment facility which is owned and operated by the District.

Solar Power Services, Facilities and Site Agreement

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

Construction Contracts

The District has a variety of agreements with developers and private parties relating to the installation, improvement or modification of transmission facilities and distribution systems within its service area. The financing of such improvements is provided primarily from advances for construction. The District also improves and modifies its existing infrastructure and finances such improvements from its reserves. The District has committed to approximately \$12,124,617 in remaining costs of existing District capital projects as of June 30, 2014.

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.

(18) Subsequent Event

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of September 30, 2014, 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, 2014 and 2013

(19) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

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.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. 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. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. 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
Schedules of Funding Status
For the Years Ended June 30, 2014 and 2013**

1. Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS Miscellaneous 2.5% at 55 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013*
1. Plan's accrued liability	\$ 33,289,875	34,616,392	-
2. Plan's side fund	(2,272,881)	(2,221,577)	-
3. Pool's accrued liability	2,135,350,204	2,254,622,362	-
4. Pool's side fund	(117,829,589)	(107,443,058)	-
5. Pool's actuarial value of assets (AVA) including receivables	1,724,200,585	1,837,489,422	-
6. Plan's actuarial value of assets (AVA) including receivables $[(1+2) / (3+4) \times 5]$	26,507,545	27,722,477	-
7. Pool's market value of assets (MVA) including receivables	1,543,100,350	1,545,132,565	-
8. Plan's market value of assets (MVA) including receivables $[(1+2) / (3+4) \times 7]$	23,723,343	23,311,646	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (a-b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	\$ 33,289,875	23,723,343	9,566,532	71.3%	\$ 3,965,056
June 30, 2012	34,616,392	23,311,646	11,304,746	67.3%	4,023,393
June 30, 2013	*	-	-	0.0%	-

* CalPERS has not provided the information for this period as of the date of the audit report.

2. Other Post-Employment Benefits Payable

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)
July 1, 2012	\$ -	3,130,628	3,130,628	0.00%	\$ 4,348,543	71.99%
July 1, 2009	-	2,601,556	2,601,556	0.00%	4,418,559	58.88%
July 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 2016 based on the year ending June 30, 2015. (See Notes 11 and 13 for District other post-employment benefits reserve designations)

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Supplemental Information

Combining Schedules

North Marin Water District
Combining Schedule of Net Position
For the Year Ended June 30, 2014

<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	\$ 4,443,465	438,053	70,039	282,895	5,234,452
Restricted – cash and cash equivalents	1,860,743	614,299	842,489	-	3,317,531
Accrued interest receivable	13,561	-	-	-	13,561
Accounts receivable – water and sewer sales	2,800,170	260,116	154,721	2,326	3,217,333
Accounts receivable – governmental agencies	835,976	-	-	-	835,976
Accounts receivable – other	29,947	8,265	-	-	38,212
Capital grants and loan proceeds receivable	-	-	65,159	-	65,159
Note receivable – Black Point Golf Links	-	201,276	-	-	201,276
Notes receivable – employee computer loans	590	-	-	-	590
Provision for pension related debt – current portion	-	-	-	-	-
Materials and supplies inventory	582,837	-	-	-	582,837
Prepaid expenses and deposits	36,364	-	-	1,242	37,606
Total current assets	10,603,653	1,522,009	1,132,408	286,463	13,544,533
Non-current assets:					
Restricted – investments	6,244,026	-	-	-	6,244,026
Internal balances	-	-	-	-	-
Note receivable – Black Point Golf Links	-	1,936,194	-	-	1,936,194
Notes receivable – employee housing loans, net	1,249,200	-	-	-	1,249,200
Provision for pension related debt	-	-	-	-	-
Capital assets, not being depreciated	6,291,113	4,025	606,644	20,463	6,922,245
Depreciable capital assets, net	67,875,520	19,041,202	4,021,117	836,742	91,774,581
Total non-current assets	81,659,859	20,981,421	4,627,761	857,205	108,126,246
Total assets	\$ 92,263,512	22,503,430	5,760,169	1,143,668	121,670,779
<i>Liabilities and Net Position</i>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 2,267,636	57,520	-	747	2,325,903
Accrued wages and related payables	175,973	12,956	26,600	8,628	224,157
Accrued claims payable	23,492	411	795	258	24,956
Customer advances and deposits	1,715,436	-	21,247	1,500	1,738,183
Accrued interest payable – long-term debt	3,272	113,400	1,452	-	118,124
Long-term liabilities – due within one year:					
Compensated absences	148,657	-	-	-	148,657
Bonds payable	-	-	23,916	-	23,916
Loans payable	651,655	598,605	42,110	-	1,292,370
Pension related debt	-	-	-	-	-
Total current liabilities	4,986,121	782,892	116,120	11,133	5,896,266
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	445,971	-	-	-	445,971
Other post-employment benefits payable	693,647	-	-	-	693,647
Bonds payable	-	-	136,000	-	136,000
Loans payable	18,812,255	11,691,398	891,368	-	31,395,021
Pension related debt	-	-	-	-	-
Total non-current liabilities	19,951,873	11,691,398	1,027,368	-	32,670,639
Total liabilities	24,937,994	12,474,290	1,143,488	11,133	38,566,905
Net position:					
Net investment in capital assets	59,138,550	7,369,523	4,172,890	857,205	71,538,168
Restricted for capital projects and debt service	1,953,506	-	202,514	-	2,156,020
Unrestricted	6,233,462	2,659,617	241,277	275,330	9,409,686
Total net position	67,325,518	10,029,140	4,616,681	1,132,535	83,103,874
Total liabilities and net position	\$ 92,263,512	22,503,430	5,760,169	1,143,668	121,670,779

See accompanying notes to the basic financial statements

North Marin Water District
Combining Schedule of Net Position
For the Year Ended June 30, 2013

<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	\$ 3,134,222	-	-	192,042	3,326,264
Restricted – cash and cash equivalents	2,371,904	622,735	698,710	-	3,693,349
Accrued interest receivable	10,772	-	-	-	10,772
Accounts receivable – water and sewer sales	3,091,103	189,562	150,777	1,738	3,433,180
Accounts receivable – governmental agencies	613,517	231,562	-	-	845,079
Accounts receivable – other	85,261	-	-	1,000	86,261
Capital grants and loan proceeds receivable	-	4,060,378	-	-	4,060,378
Note receivable – Black Point Golf Links	-	196,513	-	-	196,513
Notes receivable – employee computer loans	2,138	-	-	-	2,138
Provision for pension related debt – current portion	79,928	-	-	-	79,928
Materials and supplies inventory	609,237	-	-	-	609,237
Prepaid expenses and deposits	38,248	-	7,832	1,016	47,096
Total current assets	<u>10,036,330</u>	<u>5,300,750</u>	<u>857,319</u>	<u>195,796</u>	<u>16,390,195</u>
Non-current assets:					
Restricted – investments	3,006,442	-	-	-	3,006,442
Internal balances	4,755,421	(4,755,421)	-	-	-
Note receivable – Black Point Golf Links	-	2,137,470	-	-	2,137,470
Notes receivable – employee housing loans, net	1,331,785	-	-	-	1,331,785
Provision for pension related debt	2,073,696	-	-	-	2,073,696
Capital assets, not being depreciated	3,942,108	8,806,758	679,948	237,882	13,666,696
Depreciable capital assets, net	67,806,510	10,237,067	3,835,247	656,692	82,535,516
Total non-current assets	<u>82,915,962</u>	<u>16,425,874</u>	<u>4,515,195</u>	<u>894,574</u>	<u>104,751,605</u>
Total assets	<u>\$ 92,952,292</u>	<u>21,726,624</u>	<u>5,372,514</u>	<u>1,090,370</u>	<u>121,141,800</u>
<u>Liabilities and Net Position</u>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 1,269,462	226,071	-	5,512	1,501,045
Accrued wages and related payables	164,207	8,612	25,627	9,093	207,539
Accrued claims payable	21,285	247	697	247	22,476
Customer advances and deposits	459,762	938	20,214	1,500	482,414
Accrued interest payable – long-term debt	3,984	63,757	4,075	-	71,816
Long-term liabilities – due within one year:					
Compensated absences	149,008	-	-	-	149,008
Bonds payable	-	-	21,731	-	21,731
Loans payable	633,523	560,929	40,603	-	1,235,055
Pension related debt	79,928	-	-	-	79,928
Total current liabilities	<u>2,781,159</u>	<u>860,554</u>	<u>112,947</u>	<u>16,352</u>	<u>3,771,012</u>
Non-current liabilities:					
Long-term liabilities – due in more than one year:					
Compensated absences	447,025	-	-	-	447,025
Other post-employment benefits payable	586,209	-	-	-	586,209
Bonds payable	-	-	159,921	-	159,921
Loans payable	19,825,258	12,247,925	933,476	-	33,006,659
Pension related debt	2,073,696	-	-	-	2,073,696
Total non-current liabilities	<u>22,932,188</u>	<u>12,247,925</u>	<u>1,093,397</u>	<u>-</u>	<u>36,273,510</u>
Total liabilities	<u>25,713,347</u>	<u>13,108,479</u>	<u>1,206,344</u>	<u>16,352</u>	<u>40,044,522</u>
Net position:					
Net investment in capital assets	54,218,719	6,857,706	3,868,725	894,574	65,839,724
Restricted for capital projects and debt service	1,989,702	-	196,750	-	2,186,452
Unrestricted	11,030,524	1,760,439	100,695	179,444	13,071,102
Total net position	<u>67,238,945</u>	<u>8,618,145</u>	<u>4,166,170</u>	<u>1,074,018</u>	<u>81,097,278</u>
Total liabilities and net position	<u>\$ 92,952,292</u>	<u>21,726,624</u>	<u>5,372,514</u>	<u>1,090,370</u>	<u>121,141,800</u>

See accompanying notes to the basic financial statements

North Marin Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Inter-District Eliminations</u>	<u>Total</u>
Operating revenues:						
Water consumption sales	\$ 13,736,015	715,711	633,904	-	-	15,085,630
Bi-monthly meter service charge	4,112,544	27,002	169,038	-	-	4,308,584
Sewer service charges	-	-	-	177,970	-	177,970
Water conservation projects	4,410	-	-	-	-	4,410
Other charges and services	793,907	712	6,268	140	-	801,027
Total operating revenues	18,646,876	743,425	809,210	178,110	-	20,377,621
Operating expenses:						
Source of supply	6,033,812	171,265	21,173	-	-	6,226,250
Pumping	329,909	2,574	30,514	-	-	362,997
Water facilities operations	654,217	77,010	53,916	-	-	785,143
Water treatment	1,767,930	15,764	146,416	-	-	1,930,110
Transmission and distribution	2,244,648	25,154	146,566	-	-	2,416,368
Sewage collection and treatment	-	-	-	120,548	-	120,548
Customer service	560,499	-	24,333	2,235	-	587,067
General and administrative	1,222,340	21,502	41,561	15,736	-	1,301,139
Water conservation projects	429,444	-	9,790	-	-	439,234
Total operating expenses	13,242,799	313,269	474,269	138,519	-	14,168,856
Operating income before depreciation	5,404,077	430,156	334,941	39,591	-	6,208,765
Depreciation	(2,445,635)	(470,894)	(154,749)	(57,024)	-	(3,128,302)
Operating income(loss)	2,958,442	(40,738)	180,192	(17,433)	-	3,080,463
Non-operating revenues(expenses):						
Property tax revenue	-	-	45,184	44,887	-	90,071
Investment earnings	86,083	1,148	3,293	1,051	(24,963)	66,612
Interest earnings from note receivable – BPGL	-	54,059	-	-	-	54,059
Rental revenue	85,058	-	4,035	500	-	89,593
Interest expense – long-term debt	(508,269)	(306,608)	(40,916)	-	24,963	(830,830)
Amortization of deferred charges	-	-	-	-	-	-
Allowance for impairment of employee housing loans	110,000	-	-	-	-	110,000
CalPERS side-fund payoff	(2,073,701)	-	-	-	-	(2,073,701)
Other non-operating revenues	139,252	-	149	-	-	139,401
Other non-operating expenses	(198,856)	(2,111)	(35,525)	(888)	-	(237,380)
Total non-operating revenues, net	(2,360,433)	(253,512)	(23,780)	45,550	-	(2,592,175)
Net income(loss) before capital contributions	598,009	(294,250)	156,412	28,117	-	488,288
Capital contributions:						
Developers and others	393,766	-	5,239	-	-	399,005
Contributed capital assets	6,600	-	-	-	-	6,600
Connection fees	99,600	-	22,800	30,400	-	152,800
Capital grants – federal	-	138,073	-	-	-	138,073
Capital grants – state and local	538,799	16,971	266,060	-	-	821,830
Capital contributions	1,038,765	155,044	294,099	30,400	-	1,518,308
Change in net position	1,636,774	(139,206)	450,511	58,517	-	2,006,596
Net position transfer	(1,550,201)	1,550,201	-	-	-	-
Net position, beginning of year	67,238,945	8,618,145	4,166,170	1,074,018	-	81,097,278
Net position, end of year	\$ 67,325,518	10,029,140	4,616,681	1,132,535	-	83,103,874

See accompanying notes to the basic financial statements

North Marin Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

	<u>Novato Water</u>	<u>Novato Recycled</u>	<u>West Marin Water</u>	<u>Oceana Marin Sewer</u>	<u>Inter-District Eliminations</u>	<u>Total</u>
Operating revenues:						
Water consumption sales	\$ 13,037,719	334,435	614,880	-	-	13,987,034
Bi-monthly meter service charge	3,484,240	7,501	138,684	-	-	3,630,425
Sewer service charges	-	-	-	157,992	-	157,992
Water conservation projects	1,260	-	-	-	-	1,260
Other charges and services	474,339	510	5,078	-	-	479,927
Total operating revenues	16,997,558	342,446	758,642	157,992	-	18,256,638
Operating expenses:						
Source of supply	5,240,210	80,617	22,161	-	-	5,342,988
Pumping	323,223	398	28,195	-	-	351,816
Water facilities operations	615,691	66,623	34,466	-	-	716,780
Water treatment	1,830,439	42,868	113,619	-	-	1,986,926
Transmission and distribution	2,177,332	38,276	124,722	-	-	2,340,330
Sewage collection and treatment	-	-	-	127,903	-	127,903
Customer service	528,093	-	21,947	2,162	-	552,202
General and administrative	1,369,979	15,852	45,864	18,098	-	1,449,793
Water conservation projects	266,250	-	5,857	-	-	272,107
Total operating expenses	12,351,217	244,634	396,831	148,163	-	13,140,845
Operating income before depreciation	4,646,341	97,812	361,811	9,829	-	5,115,793
Depreciation	(2,425,744)	(174,242)	(148,654)	(44,720)	-	(2,793,360)
Operating income(loss)	2,220,597	(76,430)	213,157	(34,891)	-	2,322,433
Non-operating revenues(expenses):						
Property tax revenue	-	-	44,987	43,101	-	88,088
Investment earnings	194,366	58,711	3,252	724	(176,340)	80,713
Rental revenue	67,433	-	3,917	500	-	71,850
Gain from dental liability reserve offset	-	-	-	-	-	-
Interest expense – long-term debt	(573,539)	(337,480)	(44,084)	-	176,340	(778,763)
Amortization of deferred charges	(77,500)	-	(11,376)	-	-	(88,876)
Allowance for impairment of employee housing loans	280,000	-	-	-	-	280,000
Other non-operating revenues	86,437	115	1,987	19,253	-	107,792
Other non-operating expenses	(7,033)	(38,047)	(588)	(626)	-	(46,294)
Total non-operating revenues, net	(29,836)	(316,701)	(1,905)	62,952	-	(285,490)
Net income(loss) before capital contributions	2,190,761	(393,131)	211,252	28,061	-	2,036,943
Capital contributions:						
Developers and others	302,298	-	(1,451)	5,000	-	305,847
Contributed capital assets	55,298	-	-	-	-	55,298
Connection fees	871,450	-	4,900	-	-	876,350
Capital grants – federal	-	1,232,700	-	-	-	1,232,700
Capital grants – state and local	-	528,750	-	-	-	528,750
Capital contributions	1,229,046	1,761,450	3,449	5,000	-	2,998,945
Change in net position	3,419,807	1,368,319	214,701	33,061	-	5,035,888
Net position transfer	(1,970,400)	1,970,400	-	-	-	-
Net position, beginning of year	65,789,538	5,279,426	3,951,469	1,040,957	-	76,061,390
Net position, end of year	\$ 67,238,945	8,618,145	4,166,170	1,074,018	-	81,097,278

See accompanying notes to the basic financial statements

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Statistical Information Section

**North Marin Water District
Statistical Section**

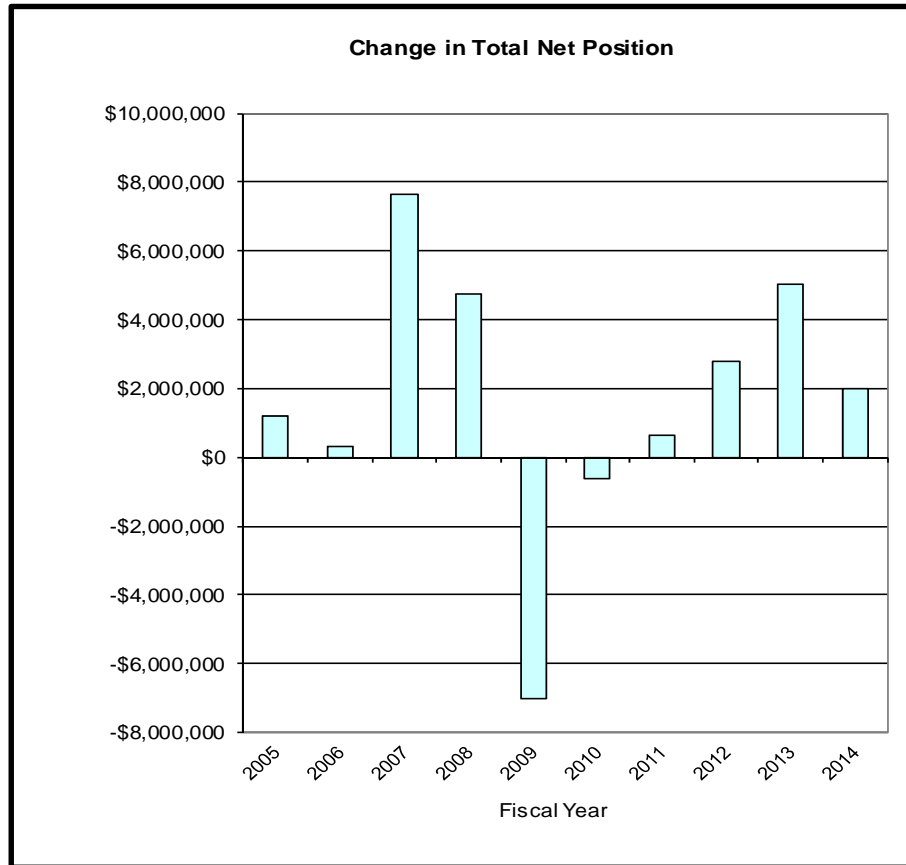
This part of the District’s comprehensive annual financial report presents detailed information as context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the District’s overall financial health.

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	<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 Position and Net Position by Component Last Ten Fiscal Years

	Fiscal Year		
	2005	2006	2007
Change in net assets:			
Operating revenues (see schedule 2)	\$9,545,264	\$10,089,848	\$11,848,037
Operating expenses (see schedule 3)	(9,055,754)	(10,605,417)	(12,555,989)
Depreciation and amortization	(1,004,844)	(1,069,150)	(1,490,077)
Operating income(loss)	(\$515,334)	(\$1,584,719)	(\$2,198,029)
Net non-op revenue(expense) (see schedule 4)	(389,534)	(251,982)	1,178,739
Net income(loss) before capital contributions	(\$904,868)	(\$1,836,701)	(\$1,019,290)
Capital contributions	2,099,524	2,133,298	8,639,031
Change in net position	\$1,194,656	\$296,597	\$7,619,741
Net position by component:			
Net investment in capital assets	\$54,510,568	\$57,718,713	\$59,290,284
Restricted	6,721,908	7,130,109	4,994,444
Unrestricted	9,785,723	6,465,974	11,179,233
Total net position	\$71,018,199	\$71,314,796	\$75,463,961



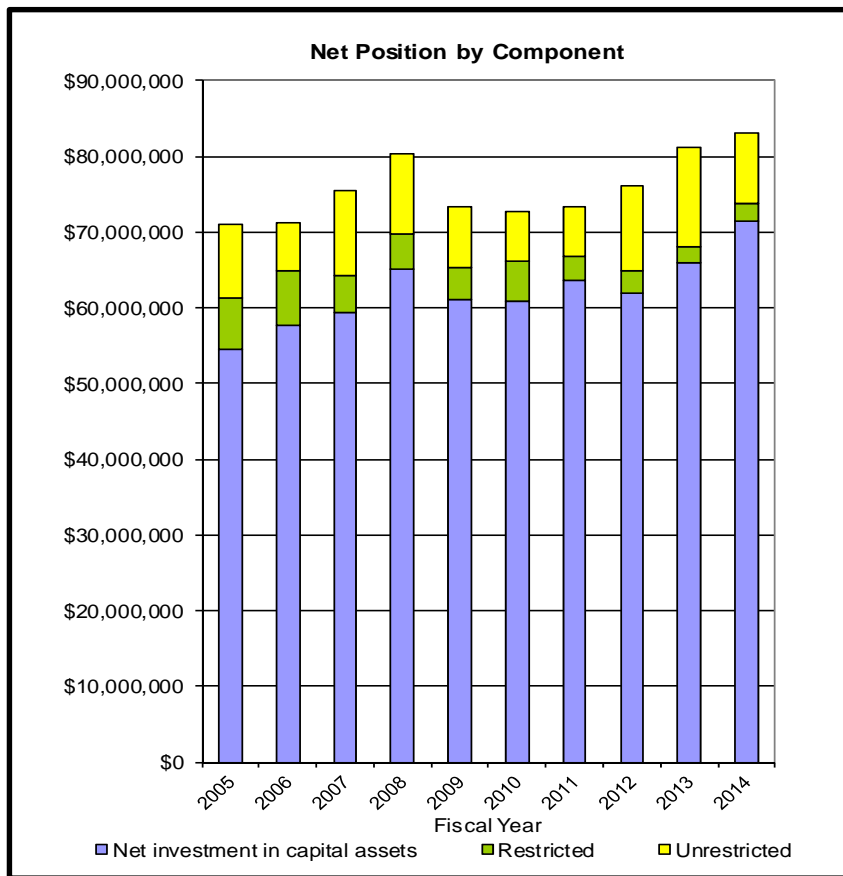
Source: North Marin Water District Audited Financial Statements

(1) Asset lives were adjusted in November 2008 which resulted in a large depreciation adjustment

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

Schedule 1

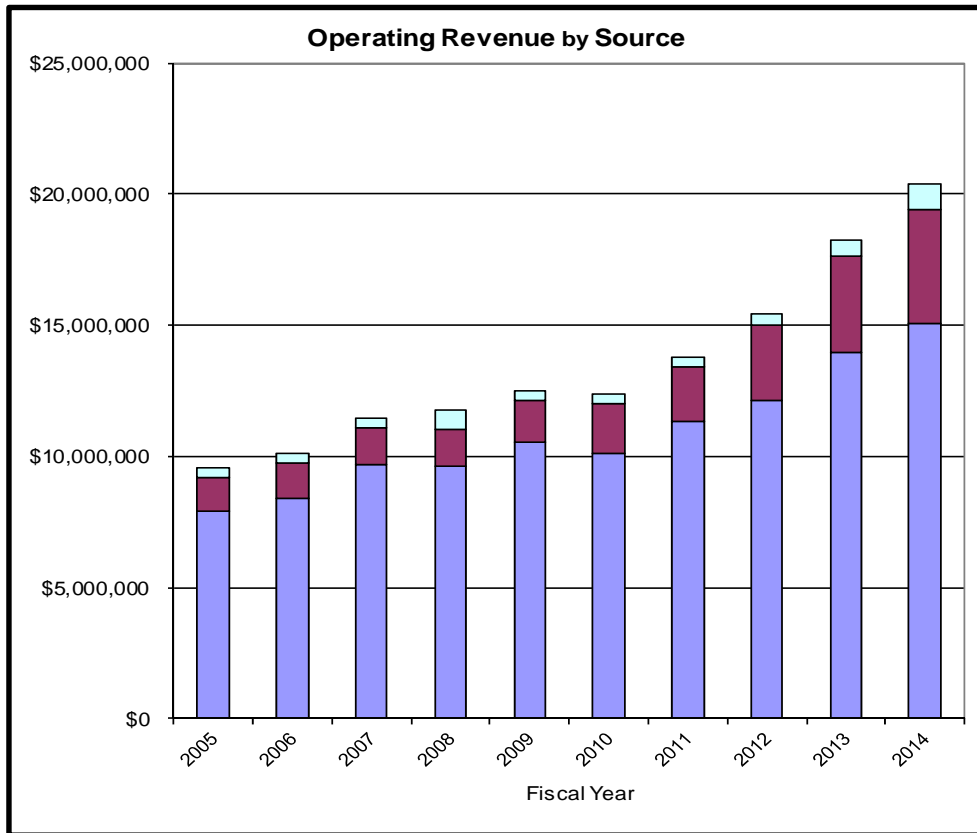
Fiscal Year						
2008	2009	2010	2011	2012	2013	2014
\$11,779,157	\$12,526,294	\$12,381,493	\$13,797,012	\$15,435,733	\$18,256,638	\$20,377,621
(12,538,993)	(13,257,125)	(13,083,372)	(11,878,612)	(12,610,862)	(13,140,845)	(14,168,856)
(1,761,673)	(10,091,139) ⁽¹⁾	(2,659,883)	(2,660,418)	(2,726,598)	(2,793,360)	(3,128,302)
(\$2,521,509)	(\$10,821,970)	(\$3,361,762)	(\$742,018)	\$98,273	\$2,322,433	\$3,080,463
197,211	8,954	(255,218)	(414,563)	(531,318)	(285,490)	(2,592,175)
(\$2,324,298)	(\$10,813,016)	(\$3,616,980)	(\$1,156,581)	(\$433,045)	\$2,036,943	\$488,288
7,061,891	3,776,402	2,998,366	1,785,475	3,200,979	2,998,945	1,518,308
<u>\$4,737,593</u>	<u>(\$7,036,614)</u>	<u>(\$618,614)</u>	<u>\$628,894</u>	<u>\$2,767,934</u>	<u>\$5,035,888</u>	<u>\$2,006,596</u>
\$65,099,863	\$61,057,551	\$60,880,162	\$63,542,479	\$61,882,478	\$65,839,724	\$71,538,168
4,743,194	4,304,331	5,321,639	3,171,305	2,993,055	2,186,452	2,156,020
10,476,733	7,921,294	6,462,761	6,579,672	11,185,857	13,071,102	9,409,686
<u>\$80,319,790</u>	<u>\$73,283,176</u>	<u>\$72,664,562</u>	<u>\$73,293,456</u>	<u>\$76,061,390</u>	<u>\$81,097,278</u>	<u>\$83,103,874</u>



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

Schedule 2

Fiscal Year	Water Sales	Bi-Monthly Service Charges	Other Charges and Services	Total Operating Revenue
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
2013	13,987,034	3,630,425	639,178	18,256,638
2014	15,085,630	4,308,584	983,407	20,377,621

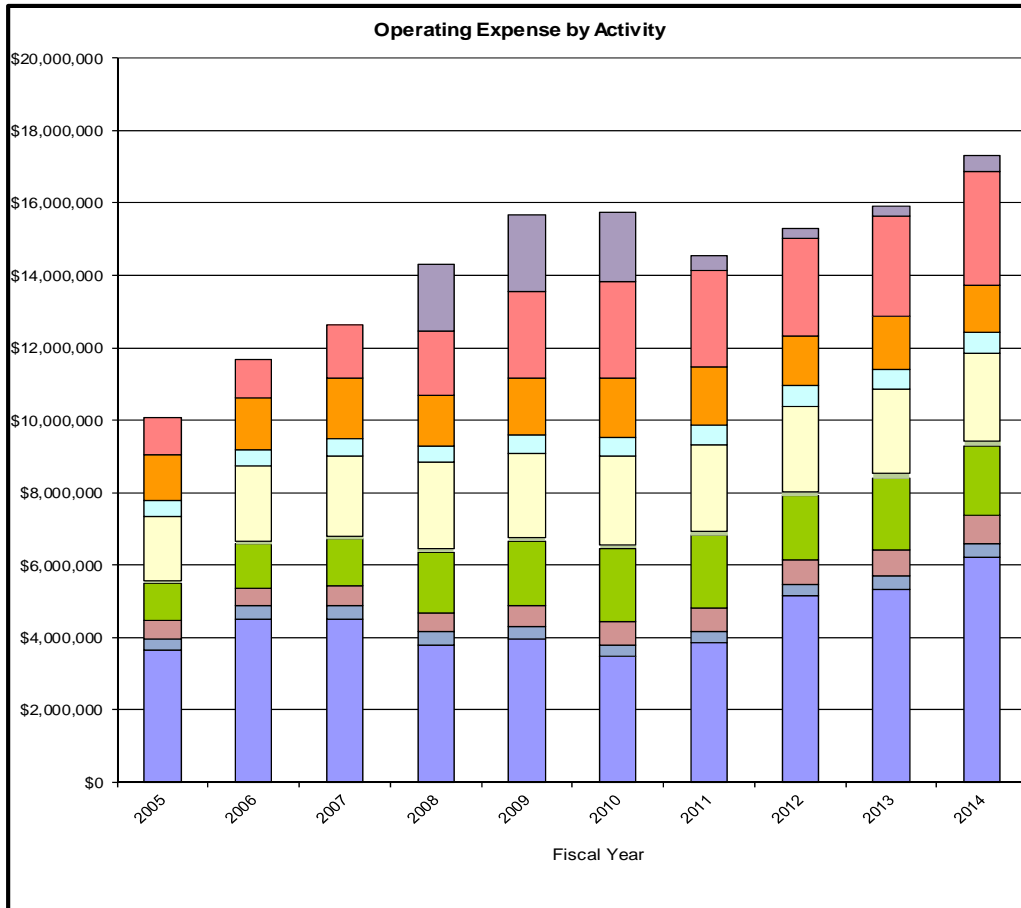


Source: North Marin Water District Audited Financial Statements

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

Schedule 3

Fiscal Year	Source of Supply	Pumping	Operations	Water Treatment	Sewage Coll. & Treat.	Transmission & Distrib	Customer Service	General & Admin (2)	Other Op Expense	Deprec and Amortization (1)	Total Op Expense
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	1,400,768	1,834,941	1,761,673	14,300,666
2009	3,960,788	339,236	578,868	1,781,516	98,715	2,335,067	505,218	1,561,044	2,096,673	2,400,106	15,657,231
2010	3,497,565	298,583	633,259	2,027,052	95,116	2,450,765	535,401	1,616,317	1,929,314	2,659,883	15,743,255
2011	3,856,027	299,462	648,743	2,012,125	103,054	2,400,638	564,940	1,605,455	388,168	2,660,418	14,539,030
2012	5,150,183	304,075	708,570	1,747,166	112,801	2,373,132	580,534	1,358,682	275,719	2,690,535	15,301,397
2013	5,342,988	351,816	716,780	1,986,904	127,903	2,340,330	552,202	1,449,793	272,107	2,784,670	15,925,493
2014	6,226,250	362,997	785,143	1,930,110	120,548	2,416,368	587,067	1,301,139	439,234	3,128,302	17,297,158



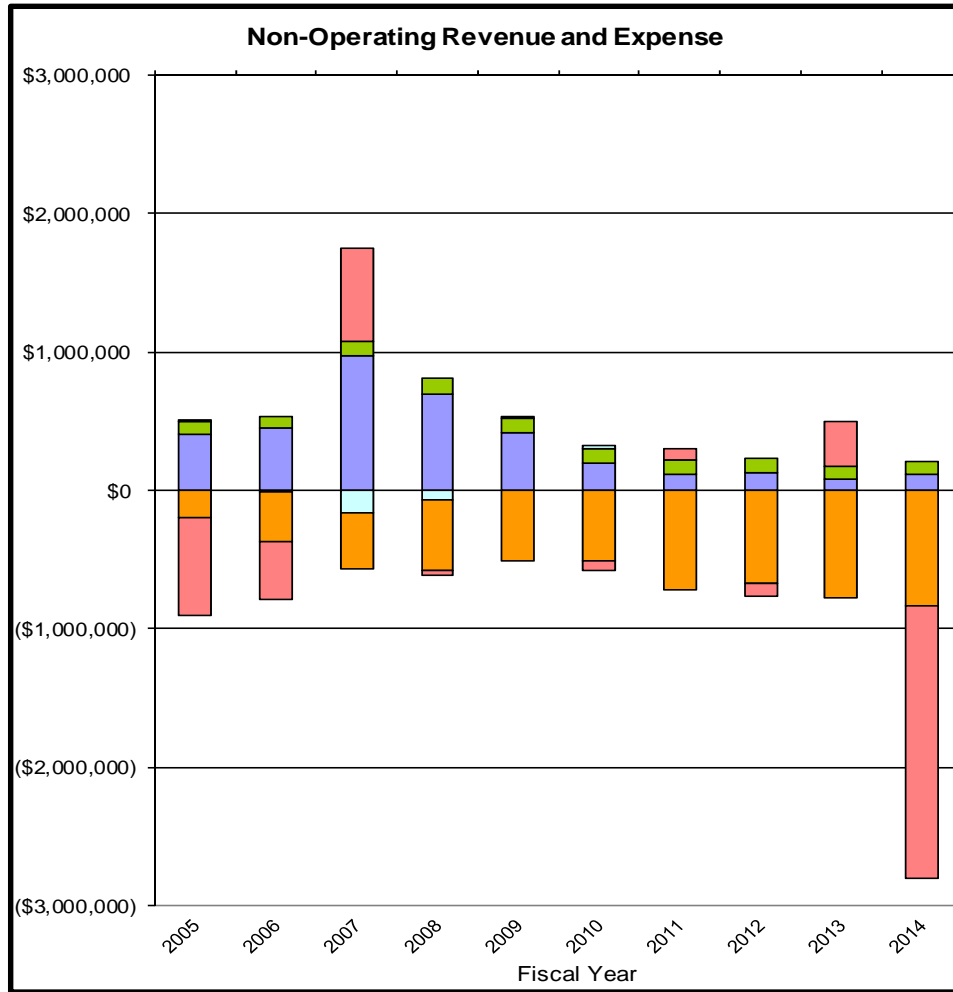
Source: North Marin Water District Audited Financial Statements

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

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

Schedule 4

Fiscal Year	Investment Income ⁽¹⁾	Property Taxes	Gain/(Loss) on Asset Sales	Interest Expense	Other Inc & Exp, net	Net Non-Op Rev/(Exp)
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)
2013	80,713	88,088	-	(778,762)	324,471	(285,490)
2014	120,671	90,071	-	(830,830)	(1,972,087) ⁽²⁾	(2,592,175)



Notes:

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

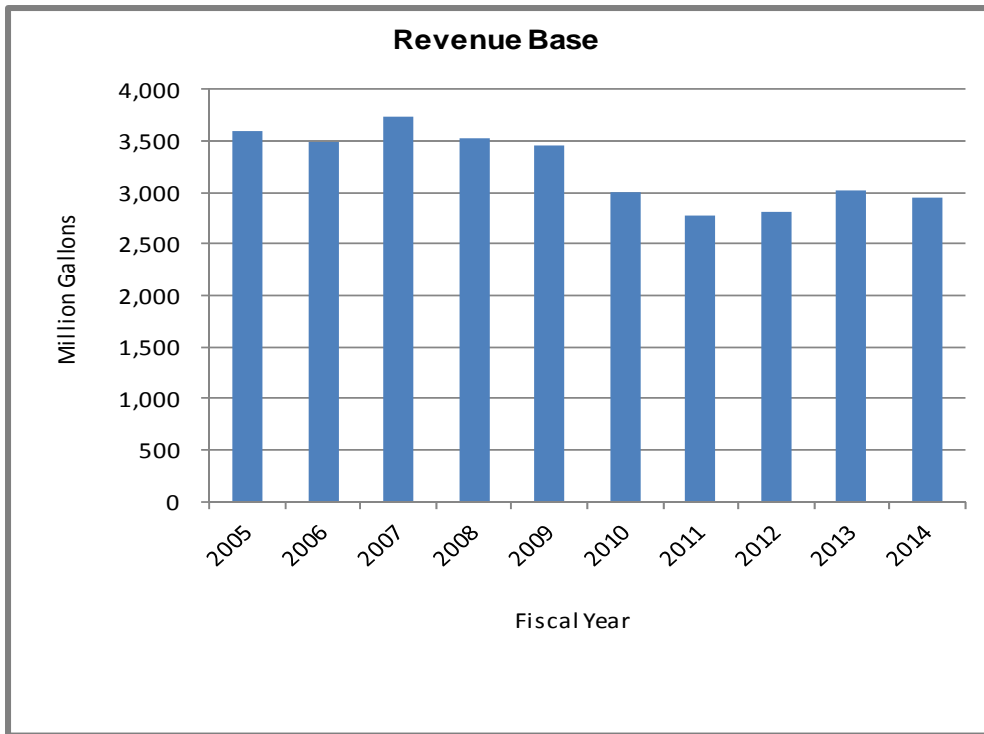
(2) Includes CalPERS Side Fund Payoff (\$2,073,701).

Source: North Marin Water District Audited Financial Statements

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

Schedule 5

Fiscal Year	Water Consumption (Million Gallons)
2005	3,593
2006	3,498
2007	3,743
2008	3,533
2009	3,454
2010	3,011
2011	2,786
2012	2,820
2013	3,018
2014	2,948



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	Novato Potable & Recycled					West Marin Water	Oceana Marin Sewer	Total
	Single-Family Residential	Multi-Family Residential	Commerical/Business	Government	Recycled			
2005	17,641	672	1,219	207	-	741	215	20,695
2006	18,054	702	1,232	205	-	753	218	21,164
2007	18,146	712	1,253	214	-	765	220	21,310
2008	18,157	717	1,278	214	-	758	223	21,347
2009	18,197	720	1,280	219	-	760	225	21,401
2010	18,208	730	1,280	220	3	769	225	21,435
2011	18,239	715	1,280	230	3	770	227	21,464
2012	18,298	720	1,246	226	2	777	227	21,496
2013	18,350	687	1,222	233	17	776	227	21,512
2014	18,491	699	1,222	231	44	776	229	21,692

Source: North Marin Water District - Finance Department

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

Schedule 7

Bimonthly Service Charge										
Meter Size	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14
5/8" & 3/4"	\$10.00	\$10.00	\$10.00	\$10.00	\$13.20	\$14.40	\$20.00	\$25.00	\$30.00	\$30.00
1"	\$20.00	\$20.00	\$20.00	\$20.00	\$26.40	\$28.80	\$40.00	\$50.00	\$60.00	\$60.00
1 1/2"	\$24.00	\$24.00	\$24.00	\$24.00	\$32.40	\$35.30	\$49.00	\$61.00	\$73.00	\$73.00
2"	\$38.00	\$38.00	\$38.00	\$38.00	\$50.40	\$54.95	\$76.00	\$95.00	\$114.00	\$114.00
3"	\$75.00	\$75.00	\$75.00	\$75.00	\$99.60	\$108.55	\$151.00	\$189.00	\$227.00	\$227.00
4"	\$120.00	\$120.00	\$120.00	\$120.00	\$159.60	\$173.95	\$242.00	\$303.00	\$364.00	\$364.00
6"	\$251.00	\$251.00	\$251.00	\$251.00	\$334.80	\$364.95	\$507.00	\$634.00	\$761.00	\$761.00
8"	\$375.00	\$375.00	\$375.00	\$375.00	\$499.20	\$544.15	\$756.00	\$945.00	\$1,134.00	\$1,134.00

Water Use Rate (per 1,000 Gallons)										
User Type	6/30/05	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12	6/30/13	6/30/14
<u>Residential</u>										
Zone A Base Rate ⁽¹⁾	\$2.01	\$2.21	\$2.27	\$2.27	\$3.02	\$3.29	\$3.49	\$3.73	\$4.03	\$4.29
Tier 1: 616-1845 gpd	-	-	\$3.61	\$3.61	\$4.81	\$5.24	\$5.55	\$5.94	\$6.42	\$6.84
Tier 2: >1845 gpd	\$6.02	\$6.22	\$6.28	\$6.28	\$8.36	\$9.11	\$9.66	\$10.34	\$11.17	\$11.90
<u>Non-Residential</u>										
Zone A Base Rate ⁽¹⁾	\$2.01	\$2.21	\$2.41	\$2.61	\$3.48	\$3.62	\$3.84	\$4.11	\$4.44	\$4.73
Seasonal Rate	-	-	-	-	-	\$3.90	\$4.13	\$4.42	\$4.77	\$5.08

Notes:

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

Source: North Marin Water approved rates

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

Schedule 8

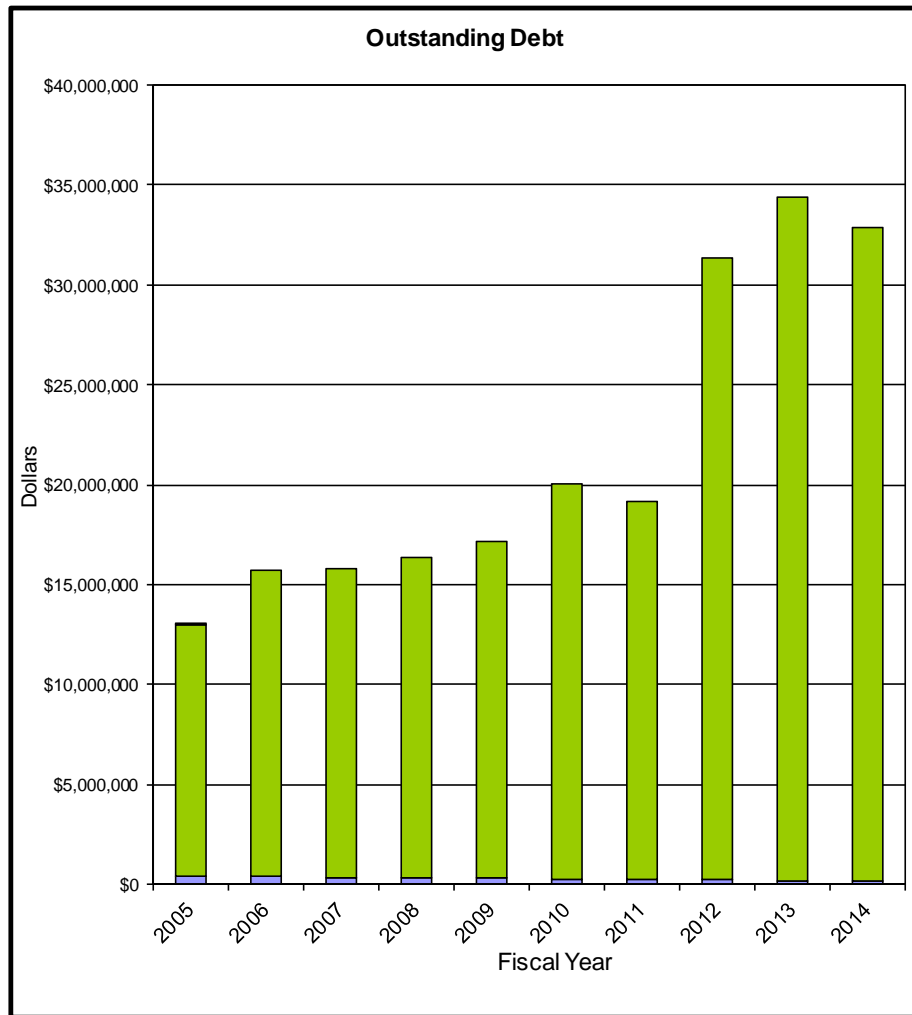
	FY 2013/14	% of Total	FY 2003/04	% of Total
1	City of Novato	2.3%	Coast Guard Spanish Housing	2.1%
2	Novato Unified School District	1.7%	StoneTree Golf Course	1.8%
3	StoneTree Golf Course	1.4%	Novato Unified School District	1.7%
4	Coast Guard Spanish Housing	0.8%	City of Novato	1.7%
5	Biomarin Pharmaceutical	0.7%	Fireman's Fund	0.8%
6	Indian Valley Golf Course	0.7%	Indian Valley Golf Course	0.6%
7	Meadow Park HOA	0.5%	Lanham Village HOA	0.6%
8	Bay Vista Apartments	0.5%	Marin Valley Mobile Country Club	0.4%
9	Fireman's Fund	0.5%	Vintage Oaks Shopping Center	0.4%
10	Marin Valley Mobile Country Club	0.4%	Western Oaks Village	0.4%
		9.5%		10.5%
	Total Water Service Revenue	\$19,500,000		\$8,040,000

Source : NMWD Billing System

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

Schedule 9

Fiscal Year	Bonds Payable	Loans Payable	Total		
			Debt	Per Capita	As a Share of Personal Income ⁽¹⁾
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%
2013	181,652	34,241,715	34,423,367	564.32	0.59%
2014	159,916	32,687,391	32,847,307	538.48	0.54%



Source: North Marin Water District Audited Financial Statements

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

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

Schedule 10

<u>Fiscal Year</u>	<u>Revenue⁽¹⁾</u>	<u>Operating Expense⁽²⁾</u>	<u>Net Available Revenue</u>	<u>Debt Service</u>			<u>Coverage Ratio</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2004	13,531,528	(10,138,573)	3,392,955	776,157	197,588	973,745	3.48
2005	11,378,935	(10,520,105)	858,830	399,142	295,881	695,023	1.24
2006	11,999,690	(11,769,614)	230,076	210,070	465,060	675,130	0.34
2007	14,460,109	(13,149,592)	1,310,517	226,423	413,111	639,534	2.05
2008	14,214,682	(12,627,537)	1,587,145	171,909	519,485	691,394	2.30
2009	14,131,892	(13,257,125)	874,767	319,248	513,314	832,562	1.05
2010	14,635,090	(13,102,113)	1,532,977	690,462	694,044	1,384,506	1.11
2011	14,506,888	(11,905,026)	2,601,862	644,740	740,416	1,385,156	1.88
2012	16,789,744	(12,610,862)	4,178,882	1,116,410	654,484	1,770,894	2.35
2013	19,761,431	(13,284,705)	6,476,726	1,337,041	778,762	2,115,803	3.06
2014	21,065,176	(14,168,856)	6,896,320	1,617,945	830,830	2,448,775	2.82

Notes:

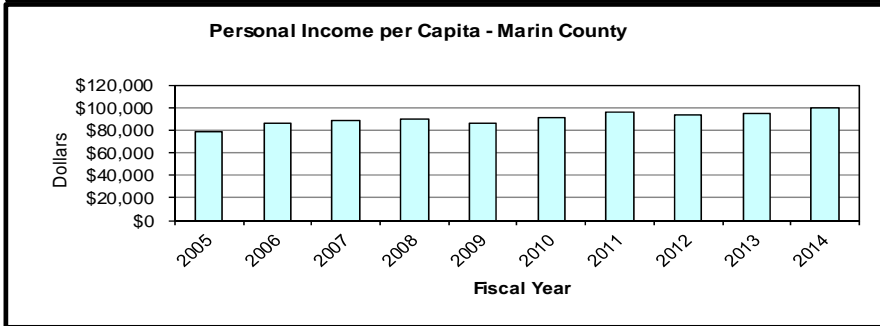
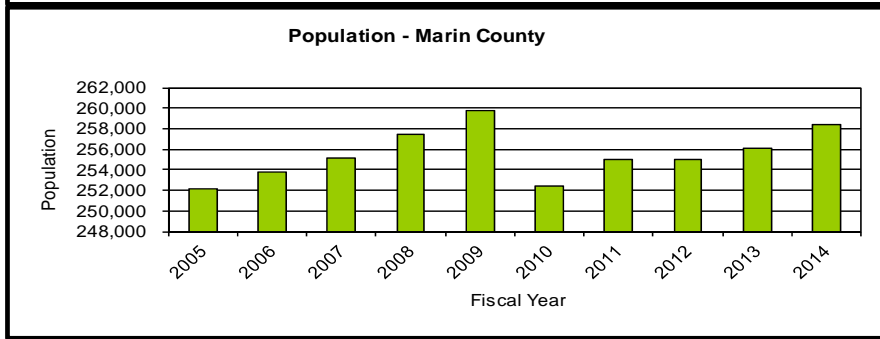
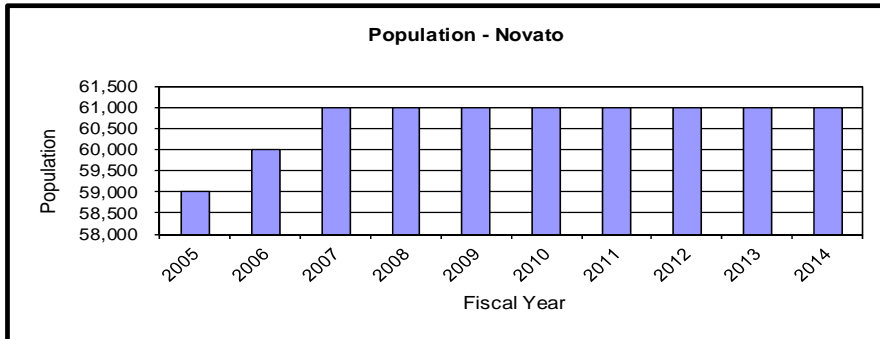
- (1) Revenues includes Connection Fee Revenue, Interest Revenue, Rent & Lease Revenue, other non-operating revenue
- (2) Operating expense excludes depreciation expense.

Source: North Marin Water District Audited Financial Statements

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

Schedule 11

Year	Novato Service Area ⁽¹⁾		County of Marin		
	Estimated Population	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
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
2013	61,000	6.0%	256,069	24,342,800	95,063
2014	61,000	4.8%	258,365	25,645,400	99,260



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

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

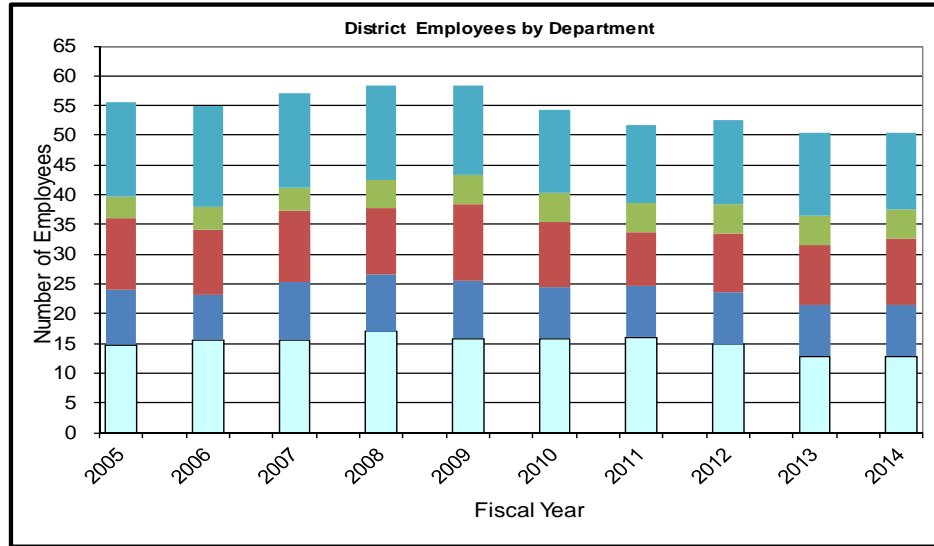
FY 2013/2014				FY 2003/2004		
Employer	Number of Employees	Percent of Total Employment		Employer	Number of Employees	Percent of Total Employment
1 Novato Unified School District	1,264	4.75%		Fireman's Fund	1400	5.81%
2 BioMarin Pharamaceutical	1,052	3.95%		Novato Unified School District	860	3.57%
3 Fireman's Fund	739	2.78%		Greenpoint Mortgage	560	2.32%
4 2K/Visual Concepts Entertain	436	1.64%		Novato Community Hospital	307	1.27%
5 Cagwin & Dorward	410	1.54%		Marin Independent Journal	300	1.24%
6 Novato Community Hospital	304	1.14%		Riverdeep	297	1.23%
7 Costco Wholesale	297	1.12%		Costco Wholesale	250	1.04%
8 Safeway Stores	242	0.91%		Brayton & Associates	244	1.01%
9 Bradley Electric	238	0.89%		City of Novato	234	0.97%
10 Brayton Purcell	215	0.81%		Birkenstock	230	0.95%
	5,197	19.54%			4,682	19.43%

Source: City of Novato

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

Schedule 13

Department	Fiscal Year End									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Administrative Services	15	16	16	17	16	16	16	15	13	13
Engineering Services	9	8	10	10	10	9	9	9	9	9
Construction /Maintenance	12	11	12	11	13	11	9	10	10	11
Water Quality	4	4	4	5	5	5	5	5	5	5
Operations / Maintenance	16	17	16	16	15	14	13	14	14	13
	56	55	57	58	58	54	52	53	51	51



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)
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
2013	100	356	2,797	39
2014	100	356	2,805	39

Source: North Marin Water District - Engineering Department

Report on Internal Controls and Compliance



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
North Marin Water District
Novato, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Marin Water District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards, continued***

Purpose of this Report

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

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September 30, 2014