VALLEY SANITARY DISTRICT

San Rafael, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2018 and 2017

Primary clarifier sludge pump facilities

Las Gallinas
VALLEY SANITARY DISTRICT

San Rafael, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2018 and 2017

Chris DeGabriele, PE – Interim General Manager

Prepared by:

Susan M. McGuire, CPA – Administrative Services Manager

Descanso pump station wet well upgrade project

Secondary clarifier

Las Gallinas Valley Sanitary District

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Las Gallinas Valley Sanitary District

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INTRODUCTORY SECTION

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October 29, 2018

To the Ratepayers and Honorable Board of Directors of
Las Gallinas Valley Sanitary District
San Rafael, California

It is our pleasure to submit this Comprehensive Annual Financial Report (CAFR) of the Las Gallinas Valley Sanitary District (the District) for the fiscal year ended June 30, 2018 (FY2018). This report was prepared by the District staff that collected and analyzed the financial statements and other information presented herein.

This CAFR was prepared by District staff in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP). Recommended guidelines by the Government Finance Officers Association (GFOA) of the United States and Canada were also followed.

California law requires that every local government publish a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2018.

The management of the District assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive system of internal controls that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The District's basic financial statements have been audited by Cropper Accountancy Corporation, a registered public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2018 are fairly presented in conformity with GAAP, and are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. The independent auditors have issued an unmodified ("clean") opinion on the Las Gallinas Valley Sanitary District's financial statements for the fiscal year ended June 30, 2018. Their audit report is presented as the first component of the financial section of this report.

The CAFR represents the culmination of all budgeting and accounting activities engaged in by management during the fiscal year. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A) which is presented after the independent auditors' report. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it.

FINANCIAL CONTROLS AND ACCOUNTING SYSTEMS

Internal Controls

To ensure that accounting data is compiled and properly recorded, and to permit the preparation of financial statements in accordance with generally accepted accounting principles, the management staff of the District is responsible for establishing and maintaining an accounting system and internal controls structure. These controls are designed to ensure that the assets of the District are adequately protected from loss, theft, unauthorized use or disposition, or other misuse. The internal controls structure is designed to provide reasonable, but not absolute, assurance that this objective is met while recognizing that: (1) the cost of the controls should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgment by management. We believe that the District's internal accounting controls adequately safeguard its assets and provide reasonable assurance that financial transactions are recorded properly and are free of any material misstatements.

Budgetary Controls

The District is not required by statute to adopt a budget; however, in its commitment to maintain fiscal responsibility, the District adopts an annual budget prior to June 30th each year. In preparation for drafting a budget, management staff meets with the District's Board of Directors (the Board) to update the Strategic Plan to determine the strategic goals and vision for the upcoming year. The budget outlines and reflects the major elements of the upcoming fiscal year operating and capital plans, from which management allocates funds that are necessary for specific departmental activities and capital projects. In June 2015, the Board adopted a five year capital improvement budget for 2016 through 2020, which includes a significant upgrade to the wastewater treatment plant and expansion of the recycled water treatment facility. Management integrates these priorities into the annual budget. Budgetary control is maintained at the detailed line item level. The General Manager may approve expenditures in excess of budgeted amounts up to $15,000; items in excess of this must be approved by the Board.

Accounting System

Las Gallinas Valley Sanitary District is an independent special district. The District's accounting structure, insofar as practical and in accordance with GAAP, complies with the Uniform System of Accounts for Waste Disposal Districts provided by the California State Controller's office.

The District reports its activities as an Enterprise Fund under the broad category of funds called proprietary funds. The District uses the full accrual basis of accounting. The District tracks expenditures by department, with each department delineated by function and specific activity, in order to provide management and the Board with better cost control measures. At the end of each fiscal year, these costs are combined to arrive at the financial position and results of operations reflected in the District's basic financial statements.

HISTORY AND PROFILE OF THE DISTRICT

The District was established on April 6, 1954 pursuant to the California Health and Safety Code, Division 6 – Sanitary District Act of 1923. It is located approximately two miles northeast of the City of San Rafael and 20 miles north of San Francisco. It covers an area of about sixteen square miles in the northern part of the City of San Rafael and surrounding unincorporated areas in Marin County, California, including the communities of Lucas Valley, Marinwood, Santa Venetia and Terra Linda. The District's boundaries are Hamilton Field (a former air force base) to the north, San Pablo Bay to the east, and central San Rafael to the south. The District serves a population of approximately 30,000 people. The District is primarily residential and built out, resulting in a fairly stable customer base. As of July 1, 2017, the connections are 97.4% residential (12,948 units) and 2.6% commercial/industrial (348 units); however the revenue from these connections is 77.45% residential and 22.55% commercial.

Financing Activities

The District has been planning a multi-year, multi-million dollar Treatment Plant Upgrade and, Recycled Water Treatment Plant Expansion construction project for several years. These projects will upgrade the treatment plant to meet more stringent regulatory requirements and allow the District to fully serve Marin Municipal Water District's recycled water customers. The District received bids in November 2017 however due the impact of design complexities on operations during construction, the bids were in excess of available funds. The project has been redesigned and rebid during 2018. The District expects to have the rebid result in October 2018 and to be able to award the project by December 2018. The $41 million in bond proceeds that were issued in 2017 to fund the projects remain invested in the California State Treasurer's Local Area Investment Fund.

Sewage Collection

- The District operates a sanitary sewer collection system comprised of approximately 105 miles of gravity sewer lines, 6.72 miles of force mains, and 28 pump stations. There are 2,985 manholes and approximately 52.5 miles of privately owned laterals.
- The District regularly performs smoke testing of the District to detect leaks in sewer mains and laterals. It is a process whereby smoke is blown into the sewer mains, lower and upper laterals, to determine where there may be cracked pipes or storm water cross connections. This process helps to identify where there may be Infiltration and Inflow (I&I) into the sewage collection system. I&I is a major concern for wastewater treatment plants since large storms may produce flows that overwhelm the capacity of the sewage collection system and possibly the plant, resulting in sewage spills, plant violations, overflows and fines.
- The District continuously televises its sewer mains; the process requires four years to televise all of the system. Televising these lines allows District staff to identify future repair and replacement projects, as well as monitor the integrity of the system.

Sewage Treatment

- The District operates a sewage treatment plant with a permitted dry weather average capacity of 2.92 million gallons per day (MGD).
- The District treated an average daily flow of 2.36 MGD of sewage per day in FY 2018.
- The District's treatment plant uses primary treatment to separate the solids from the wastewater; trickling filters and deep bed filters to provide secondary treatment. Treated effluent is disposed of through discharge pipes into Miller Creek which flows to San Pablo Bay during discharge season, November through May. Discharge coincides with wet weather when treated effluent can be diluted by higher levels of bay water due to rain.
- All readily settable solids and grit are removed from the wastewater stream; grit is then disposed of in a landfill. The solids are treated by gravity thickening and anaerobic digestion, and then pumped to one or more of three storage ponds, where they are typically retained for one year prior to surface disposal. The treatment plant produced 308 dry weight tons or 280 metric tons of biosolids during the calendar year 2017.

Reuse of Treated Wastewater

- The District is producing recycled water year round to meet increasing demand during the dry months of summer and fall. In the past, recycled water was predominately used during the summer months, which aligned with the District's non discharge period of June through October.
- The District has a water reclamation project on 385 acres of diked bay lands located to the northeast of the treatment plant. This project includes a 20 acre wildlife marsh pond, 40 acres of storage ponds, 200 acres of irrigated pasture, and 3.5 miles of public trails which are part of the San Francisco Bay Trail. During 2018, 82.3 million gallons were diverted to the District's water reclamation project.
- The District delivers effluent to Marin Municipal Water District (MMWD), which further treats it so that it can be used for irrigation of landscapes, including golf courses and playing/recreation fields, dual plumbing for toilet flushing, cooling water uses, and car washes within the District's boundaries. During FY 2018, 186.6 million gallons were delivered to MMWD.
- During 2017, the District reached an agreement with MMWD to expand the District's recycled water treatment plant to provide tertiary treated wastewater which can then be distributed to MMWD's customers. MMWD will decommission its existing plant which is located on the District's site. This site is needed by the District for the treatment plant upgrade. As part of the agreement, MMWD made a capital contribution towards the existing facility and makes payments towards outstanding debt which was issued to build the existing facility and for the expansion. The expansion is expected to begin construction in December 2018 and be completed by December 2021.
- The District's recycled water treatment facility, online since September 2012, has a capacity of 0.7 mgd with redundant systems to produce up to 1.4 mgd. The District is planning an expansion of the facility to provide for an additional 4 mgd of capacity. The facility takes the plant effluent not utilized by MMWD and treats it to recycled water standards so that it can be distributed by North Marin Water District (NMWD). The District produced 36.4 million gallons for NMWD during FY 2018.

Lab and Public Outreach

- The District operates its own lab which collects samples, completes analysis, and performs other testing to comply with the plant discharge permit issued by the State Water Resources Control Board.
- Central Marin Sanitation Agency and District lab staff members manage the source control program. This includes a Fats Oils and Grease (FOG) Program that is designed to prevent customers from discharging substances that are harmful to the sewage treatment process or that may cause clogs to sewer mains and pump stations.
- Lab staff members participate in the Marin County Sanitation Agencies Public Education Program. This program allows participating agencies to combine resources and have a unified message to educate the public about the proper disposal of and to collect pharmaceuticals, mercury, batteries and other household hazardous waste in the County. They participate in programs with school children, the Marin County Fair and various farmers' markets and festivals.
- Lab staff have partnered with Terra Linda High School's MarinSEL (School of Environmental Leadership) program in their environmental projects.
- The District offers tours of the plant treatment works and enhanced wetlands upon request from schools, community groups and other members of the public.
- The District produces a newsletter twice a year to educate the public about the sewer collection system, treatment plant and their sewer laterals. Staff has noted an increase in knowledge by homeowners regarding maintaining their sewer laterals.
- The District has a website at www.lgvsd.org where it posts current developments, public education topics and information about what is happening at the Board meetings, the plant and in the District.
- The District was awarded the District Transparency Certificate of Excellence by the Special District Leadership Foundation during July 2015 and 2017 in recognition of its outstanding efforts to promote transparency and good governance.

Solid Waste (Garbage) Services and Recycling

The District manages the refuse hauling service for the unincorporated areas in its District. The franchise has been awarded to Marin Sanitary Service which provides curbside recycling, solid waste, yard waste and food scraps hauling, and safe hazardous waste disposal services that are helping achieve Marin County's goal of zero waste.

ECONOMIC CONDITIONS AND OUTLOOK

The District is comprised primarily of residential units with commercial and some light industrial areas. It is substantially built out with in-fill developments in pockets of undeveloped land and redevelopment of commercial areas that were built over twenty years ago. The District does not expect significant number of or large new, customers in the near future. A capital facilities charge study was performed during 2015. The study reviewed the capital facilities plan developed by staff and the Board during 2015. The capital facilities charge is $6,056 effective July 1, 2018 and will be adjusted by the Engineering News Record Construction Cost Index for San Francisco each July.

The Board adopted a five year rate review and capital improvement plan in June 2015, which provides for an annual sewer user charge rate of $732 effective July 1, 2015 up to $927 as of July 1, 2019. The adopted rate as of July 1, 2017 was $867 per equivalent sewer unit (or single family dwelling). This rate, when combined with the average property tax revenue received by the District per single family dwelling unit, is below the average for neighboring agencies in Marin County. Each year, the Board reviews the operating and capital needs of the District to determine the revenue requirements in setting the upcoming rate.

Compared to neighboring jurisdictions, the District's customers in the unincorporated area enjoy one of the lowest garbage and recycling rates. As of January 1, 2018, residential customers pay a monthly service fee of $28.10 for a 20-gallon cart and $33.05 for a 32-gallon cart. This is below the Marin County average of $37.83 per month for a 32-gallon cart.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Las Gallinas Valley Sanitary District for its CAFR for the year ended June 30, 2017. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This CAFR is the culmination of the hard work and dedication of many District employees and the audit team under the direction of John Cropper, CPA of the accounting firm Cropper Accountancy Corporation. Las Gallinas Valley Sanitary District staff would like to acknowledge the support of the Board for its continuing direction and oversight in providing value to the community of San Rafael.

Chris DeGabriele

Chris DeGabriele, PE
Interim General Manager

Susan McGuire

Susan McGuire, CPA
Administrative Services Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Las Gallinas Valley Sanitary District

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Mission Statement

Our Mission

The Mission of the Las Gallinas Valley Sanitary District is to protect public health and our environment, providing effective wastewater collection, treatment, and resource recovery.

Vision

Recognizing that sanitation and wastewater treatment is vital to protecting the public health, the District will:

Recognizing that sanitation and wastewater treatment is vital to protecting the public health, the District will:

- manage our treatment and collection systems in a planned and sustainable way to reduce impact on natural resources;
- strive for zero spills;
- meet or exceed regulatory requirements for treatment (effluent, emissions and biosolids);
- strive toward beneficial recycling of wastewater, biosolids and other resources using safe and effective processes and systems to achieve our zero waste vision;
- collaborate with neighboring agencies to achieve efficiencies for the public;
- cooperate with stakeholders to leverage opportunities for protecting the bay and regional water resources for the people we serve;
- maintain a safe, high quality workplace to promote a sustainable, motivated, long-term and cohesive workforce;
- increase public education, participation, acceptance and understanding of what we do;
- responsibly manage the refuse franchise; and
- consider climate change, sea level rise and flooding when developing and designing new projects.

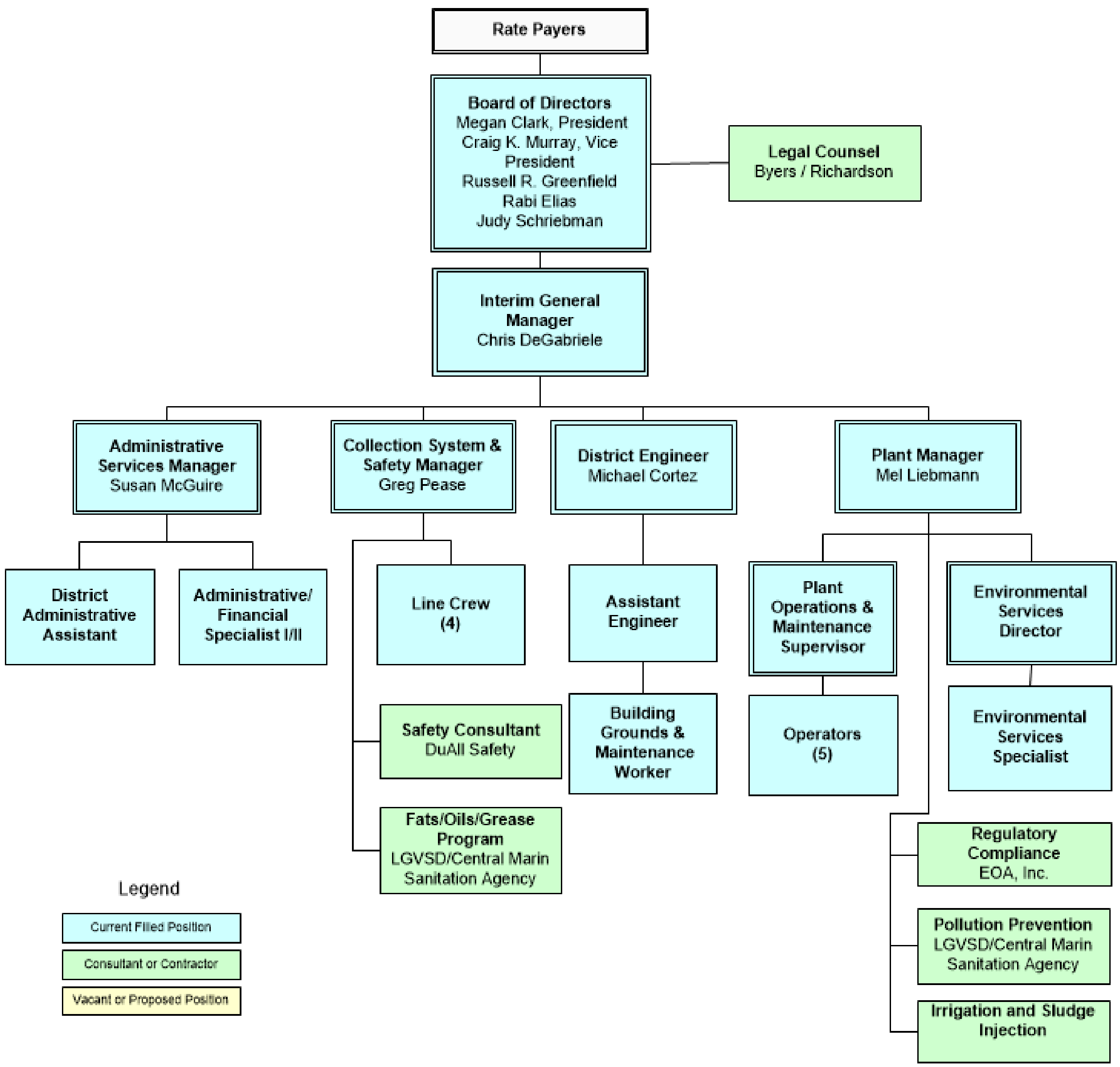
Our Core Values

- Protect Public Health and the Environment.
- Provide High Quality Customer Service.
- Use Public Funds Responsibly.
- Maintain a Safe, Challenging, Positive Workplace.

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Organizational Chart



Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Directory of Officials

Board of Directors

Megan Clark	Director	12/13/2013 – 12/13/2018[1]
Rabi Elias	Director	12/13/2013 – 12/13/2018[1]
Russ Greenfield	Director	12/13/2013 – 12/13/2018[1]
Craig K. Murray	Director	12/10/2015 – 12/12/2020[1]
Judy Schriebman	Director	12/10/2015 – 12/12/2020[1]

Administration

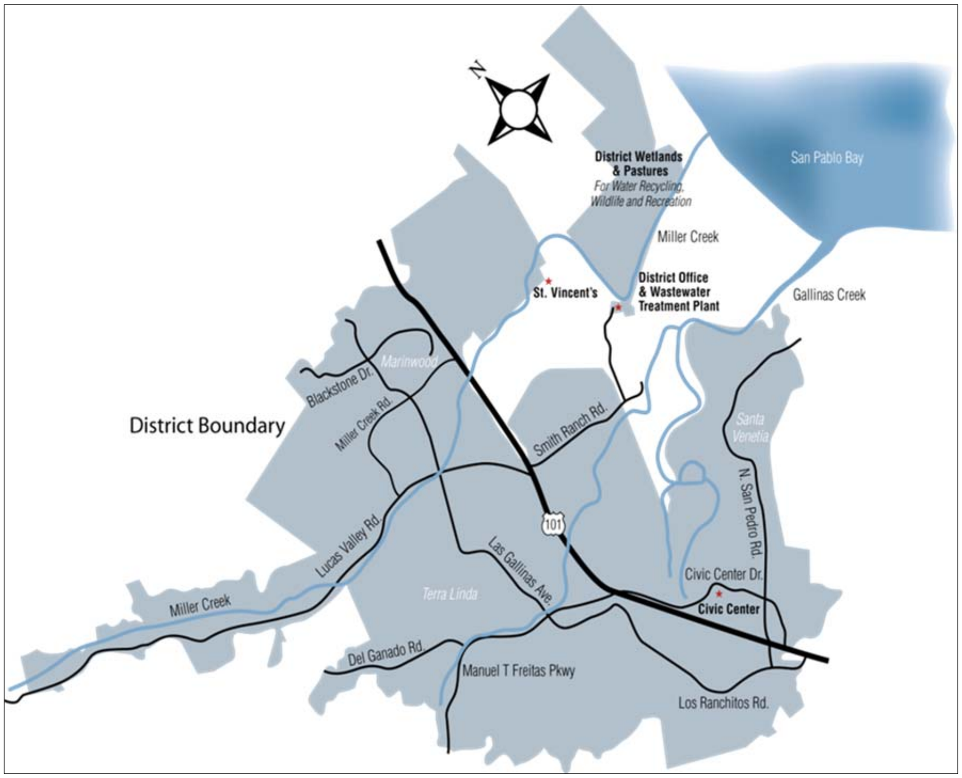
Chris DeGabriele, P.E.	Interim General Manager
Michael P. Cortez, P.E.	District Engineer
Teresa Lerch	District Secretary
Mel Liebmann	Plant Manager
Susan McGuire, CPA	Administrative Services Manager
Greg Pease	Collection System/Safety Manager

(1) The California Voter Participation Rights Act amended the Elections Code to prohibit the District from holding its elections in years other than when a statewide election occurs. The law also allowed Board members to extend their terms by one year to coincide with the next statewide election date.

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

District Service Area



Walkers in reclamation

FINANCIAL SECTION

Deep Bed Filter Inlet Valve Replacement Project

Operations Staff and Sewer Services Contractor Cleaning the Plant Headworks Channels

CROPPER
an accountancy corporation
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Las Gallinas Valley Sanitary District
San Rafael, California

We have audited the accompanying financial statements of the business-type activities of Las Gallinas Valley Sanitary District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

District 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Las Gallinas Valley Sanitary District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 – 13), schedule of the District's proportionate share of the net pension liability and Schedule of Contributions (page 59), Schedule of Changes in the Net OPEB Liability and Related Ratios (page 60) and Schedule of OPEB Contributions (page 61) 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Las Gallinas Valley Sanitary District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is 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. Such 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements 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.

Cropper Accountancy Corporation

CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
October 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Collections Department Vehicle.

Staff at work.

The following discussion and analysis of the Las Gallinas Valley Sanitary District's (the District) financial performance provides an overview and analysis of the District's financial activities for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

Financial Highlights

- Operating revenues increased by approximately $589,000 over the previous year. This increase was due to a 3.8% increase in the sewer service revenue. Recycled water revenue increase over 2017 due to more demand in the summer.
- Operating expenses, net of depreciation, increased by approximately $653,000 or 7.7%. The primary components of the increase were personnel which costs increased by $522,000 due to increases in wages and benefit costs of $247,000 and in the actuarially determined pension and retirement benefit expense of $275,000.
- Nonoperating expenses are comprised primarily of interest expense in the amount of $1,288,000. In prior years accounting standards required interest to be capitalized as part of capital project costs; however a new accounting pronouncement no longer requires this practice.
- Capital contributions from Connection Fees are dependent on the level of development within the District. In recent years, the development has consisted of the expansion of existing facilities rather than new housing. The Intergovernmental contributions are from MMWD for its allocation of capacity in the existing recycled water treatment facility and for its proportionate share of the expanded facility which will begin construction in 2019. State grants are invoiced as construction proceeds on the funded projects.

District Highlights

- The District treated 861.8 million gallons of wastewater and produced 223 million gallons of effluent for recycled water treatment and distribution by Marin Municipal Water District (MMWD) and North Marin Water District (NMWD) during 2018.
- The District has two photovoltaic systems which power the reclamation pump station and the treatment plant. These systems generate power to offset the District's demand for energy. In prior years, the District has been a net power generator and received credits or refunds for power exported to the power grid; however, in 2016 through 2018 more power has been used than generated primarily due to a capital improvement project which took the District's co-generation system offline in December 2015. The project was completed during 2018

and the District has again begun producing more power than it is using at the treatment plant.

- The District was awarded a $999,070 grant from the California Energy Commission in May 2015 for its Biogas Energy Recovery System (BERS) project. This closed-loop system has been installed at the treatment plant and allows the District to recover 100 percent of the methane produced from the mesophilic anaerobic digestion of wastewater sludge at the facility and condition it for on-site combined heat and power generation and transportation fuel use. In August 2015, the District received a $250,000 grant from the California Energy Commission for fueling station equipment for the BERS project. Both of these grants are reimbursement grants that require expenditure of funds by the District before any grant funds are received. In July 2015, the District was awarded a sales tax exclusion grant on the purchase of equipment for the project. The grant is based on the equipment having a maximum purchase price of $788,757, resulting in a maximum sales and use tax exemption of $72,960. This grant relieves the District from paying sales tax to the seller of the equipment as part of the purchase price. The project is substantially complete and the remainder of the grant funds will be received in 2018/19.
- The District was awarded an $847,000 federal grant from the United States Bureau of Reclamation under its Title XVI program to expand the recycled water treatment facility. Design of the expansion is currently underway and construction is expected to begin in the winter of 2018/19.
- The District has a Private Sewer Lateral Assistance Program which allows property owners to apply for low interest loans, currently 2% interest, to obtain up to $10,000 to replace their upper, lower or both laterals. The loans are repaid through special assessments through the property taxes over ten years. During 2018, the District advanced $52,406 to seven property owners to repair or replace their laterals.
- The District maintained its achievement of having among the lowest reported sewer overflow rate in Marin County.

USING THIS ANNUAL REPORT

This annual report consists of five parts: Management's Discussion and Analysis, Financial Statements, Required Supplementary Information, Supplementary Information and Statistical Section. The Financial Statements also include notes that explain in more detail some of the information contained in those statements.

REQUIRED FINANCIAL STATEMENTS

District financial statements report information about the District's use of accounting methods similar to those used by private sector companies. The Statement of Net Position includes all District assets and liabilities that provide information about the nature and amounts of investments in resources and obligations to creditors. It also provides the basis for computing 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 revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District operations and management of investments over the past year and can be used to determine whether the District has successfully recovered all of its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts, cash disbursements and net changes in cash resulting from operations, investing, and capital and noncapital financing activities.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District activities in a way that will help answer this question. These two statements report the net position of the District and changes from year to year. The difference between assets and liabilities (net position) is one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

Changes in Net Position

The District's net position increased by $4,155,798 in 2018 and $5,921,554 in 2017. The following Condensed Statements of Net Position shows these changes.

CONDENSED STATEMENTS OF NET POSITION
Fiscal years ended June 30, 2018, 2017, and 2016

	2018	2017	2016
ASSETS			
Current assets	$ 66,984,372	$ 63,816,671	$ 21,657,390
Capital assets	63,944,200	63,558,365	58,497,940
Other noncurrent assets	1,337,789	1,376,919	1,325,117
Total assets	**132,266,361**	**128,751,955**	**81,480,447**
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refunding	71,796	81,263	90,730
Pension plan	1,147,743	1,059,383	611,173
Other post employment benefits	350,729	-	-
Total deferred outflows of resources	**1,570,268**	**1,140,646**	**701,903**
LIABILITIES			
Current liabilities	3,412,401	3,822,398	1,840,889
Noncurrent liabilities	55,938,169	56,121,220	16,162,403
Total liabilities	**59,350,570**	**59,943,618**	**18,003,292**
DEFERRED INFLOWS OF RESOURCES			
Pension plan	133,599	144,214	295,843
Other post employment benefits	394,417	-	-
Total deferred inflows of resources	**528,016**	**144,214**	**295,843**
NET POSITION			
Net investment in capital assets	51,243,288	48,605,521	43,839,639
Restricted	880,940	873,990	867,096
Unrestricted	21,833,815	20,325,258	19,176,480
Total net position	**$ 73,958,043**	**$ 69,804,769**	**$ 63,883,215**

Analysis of Changes in Statements of Net Position

- Current assets increased by $3,167,701 in 2018 due to the buildup of cash from operations, grant funding billings and interest earnings due on investment funds. In 2017 it increased by $42,159,281 primarily due to $41 million of bond proceeds, net of issuance costs, which are invested in the California State Treasurer's Local Area Investment fund. These proceeds are restricted for use in funding capital projects of the District.
- Capital assets, net of accumulated depreciation, increased by $385,835 in 2018 and $5,060,425 in 2017. During 2018, spending on projects was $3,311,151 which was offset by depreciation of $2,600,961. During 2017, spending on projects was $7,586,602 which was offset by depreciation of $2,526,177.
- Other noncurrent assets decreased by $39,130 in 2018 due to early repayments from the private sewer lateral assistance program and increased by $51,802 in 2017 due to additional advances under the private sewer lateral assistance program.
- Deferred outflows of resources increased by $429,622 in 2018 and in 2017 by $438,743 due to the changes in the pension and other postemployment retirement benefits related items in accordance Government Accounting Standards Board No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 27* (GASB No. 68) and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75).
- Current liabilities decreased by $410,000 in 2018 due to a decrease in accounts payable related to capital projects; they increased in 2017 $1,981,509 due to an increase in accounts payable; and increases in accrued interest and the current portion of long-term debt as a result of the new borrowings.
- Noncurrent liabilities decreased in 2018 by $183,051 due to scheduled long-term debt repayments of $2,093,224 which was offset by increases in the pension liability of $446,554 due to changes in the assumed discount rate and by $1,716,981 due to the recognition of the other postemployment benefits (OPEB) liability. In 2017, noncurrent liabilities increased by $39,958,817 due to the new borrowings and related original issue premium and an increase in the collective net pension liability.
- Deferred inflows of resources related to the pension plan decreased by $10,615 in 2018 and by $151,629 in 2017 due to scheduled amortization and an increase in the difference between projected and actual earnings on plan investments. Deferred inflows for the OPEB increased by $394,417 due to the recognition of this item in the financial statements for 2018.

Net Position as of June 30, 2017 was previously reported as $69,804,769; however, as part of implementing GASB No. 75 there was a prior period adjustment of $1,808,764.

NET POSITION - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	$	69,804,769
PRIOR PERIOD ADJUSTMENT: CHANGE IN ACCOUNTING PRINCIPLE		(1,808,764)
NET POSITION - BEGINNING OF THE YEAR, AS RESTATED	**$**	**67,996,005**

Changes in Net Position

Changes in District net position can be determined by reviewing the following Condensed Statements of Revenues, Expenses, and Changes in Net Position.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Fiscal years ended June 30, 2018, 2017, and 2016

	2018	2017	2016
REVENUE			
Operating revenues			
Sewer use charges	$ 13,634,548	$ 13,059,850	$ 11,647,257
Recycled water fees	61,081	45,548	49,814
Miscellaneous	41,198	42,016	46,103
Nonoperating revenues			
Tax revenues	1,290,285	1,238,360	1,124,885
Interest income and other	310,651	179,860	108,636
	15,337,763	14,565,634	12,976,695
EXPENSES			
Operating expenses	9,142,555	8,489,100	7,479,878
Nonoperating expenses	1,289,398	631,397	401,975
	10,431,953	9,120,497	7,881,853
Change in net position	4,905,810	5,445,137	5,094,842
CAPITAL CONTRIBUTIONS -			
Connection fees	239,138	39,580	33,879
Intergovernmental	455,057	436,837	-
State grants	362,033	-	797,860
Net position - beginning of year, as restated	67,996,005	63,883,215	57,956,634
Net position - end of year	**$ 73,958,043**	**$ 69,804,769**	**$ 63,883,215**

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

- Revenue of the District increased in 2018 and 2017 due to scheduled rate increases in the sewer user charge from $734 in 2016 to $835 in 2017 to $867 in 2018, 13% and 3.8% per year, respectively. Recycled water fees are based on production to meet demand and costs incurred by the District. During 2018, deliveries to North Marin Water District decreased due to operational issues in the last quarter of the fiscal year and costs increased due to equipment repairs after five years of operating the plant. During 2017, demand increased by 5 acre feet however the District's unit operating costs were less per acre foot. Miscellaneous income decreased by $818 in 2018 and by $4,087 in 2017 due to decreased insurance dividends.

- Operating expenses increased by $653,000 in 2018. Personnel costs increased by $522,000 due to increases in wages and benefit costs of $247,000 and in the actuarially determined pension and retirement benefit expense of $275,000. They increased by $1,009,222 in 2017 due to personnel costs which increased by $450,750 from increases in wages and the actuarially determined pension expense; utility power charges increased by $249,360 due to increased demand for pumping and processing during storm events, less solar output due to more cloudy days and operational issues, and the fact the cogeneration system was offline for a major upgrade and cleaning; other operating costs increased for chemicals and lab analysis due to high plant flows; and legal fees related to pending matters.
- Nonoperating revenues increased by $182,716 in 2018 and by $184,699 in 2017 due to increased property tax revenue and interest income.
- Nonoperating expenses increased by $658,001 in 2018 due to a change in accounting pronouncement regarding the capitalization of interest expense for capital projects resulting in more expense for changes in net position which was offset by the non-reoccurrence of the bond issuance costs. It increased in 2017 by $229,422 due to one-time bond issuance costs of $349,204 which was offset by a decrease in interest expense since more of this was capitalized due to ongoing construction.
- Capital Contributions increased by $579,811 in 2018 and decreased by $355,322 in 2017. Connection fees increased in 2018 by $199,558 primarily due to the fees associated with the expansion of a commercial facility and in 2017 by $5,701 as more remodeling continues within the District and additional plumbing fixture units are added. The intergovernmental amount is from Marin Municipal Water District (MMWD) for its buy in to the existing recycled water treatment plant and its portion of the debt service for the planned expansion project. The state grant relates to the BERS project discussed previously and revenue is recognized as milestones are met.

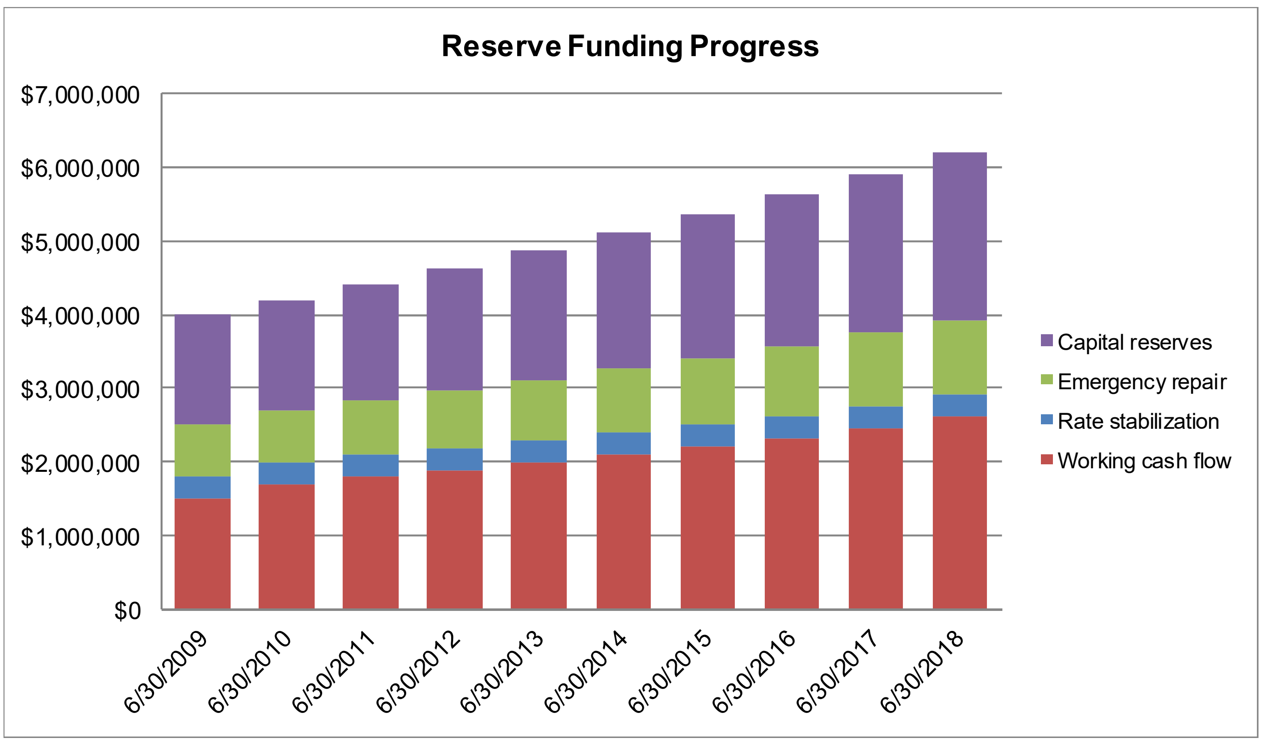
DESIGNATED RESERVES

The District's current reserve policy, as put forth in the Board Policies and Procedures in 2009, established a goal (target) of increasing the reserves. The original target, established in 2002, is also shown for reference.

Unrestricted net position was designated for the following at June 30, 2018:

	Actual June 30, 2018	Current Target	Original Target
Operating reserves:			
Working cash flow	$ 2,607,084	$ 5,930,000	$ 1,500,000
Rate stabilization	300,000	300,000	300,000
Emergency repair	1,000,000	1,000,000	700,000
Total operating reserves	3,907,084	7,230,000	2,500,000
Capital reserves	2,300,367	4,000,000	1,500,000
Total reserves	**$ 6,207,451**	**$ 11,230,000**	**$ 4,000,000**

The following chart illustrates the District's progress on meeting this goal:



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had $63,944,200 (net of accumulated depreciation) invested in capital assets. The District's investment in capital assets increased by $3,311,151, from $115,268,722 at the beginning of the year to $117,897,640 at the end of the year, net of $682,233 for disposal of capital assets no longer in use.

Major capital asset events during the year included the following:

- Continued construction work on the BERS project.
- Upgrades to the treatment plant.
- Progress on of a sewer system rehabilitation project.
- Purchase of vehicles and maintenance equipment.
- Dredging of Miller Creek.

The following summarizes the District's capital assets for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Disposals/ Charge off	Transfers/ Reclass	Balance June 30, 2017
Land	$ 2,867,571	$ -	$ -	$ -	$ 2,867,571
Construction-in-progress	12,747,039	2,636,552	(294,159)	(4,269,065)	10,820,367
Subsurface lines	30,770,191	65,122	-	2,715,406	33,550,719
Facilities and equipment	68,883,921	609,477	(388,074)	1,553,659	70,658,983
	115,268,722	3,311,151	(682,233)	-	117,897,640
Less: Accumulated depreciation	(51,710,357)	(2,600,961)	357,878	-	(53,953,440)
Capital assets, net of accumulated depreciation	**$ 63,558,365**	**$ 710,190**	**(324,355)**	**$ -**	**$ 63,944,200**

Additional information on the capital assets can be found in Note 7 of the notes to the financial statements of this report.

Long-Term Obligations

As of June 30, 2018, the District has total long-term obligations of $56,436,222 related compensated absences for staff, the actuarially determined net pension liability, net other postemployment benefits, and debt issued for the purchase and construction of capital assets.

The following is a summary of long-term obligations for the year:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Personnel Related Obligations				
Compensated Absences	$ 487,209	389,156	(472,435)	$ 403,930
Net Pension Liability	2,722,446	446,554	-	3,169,000
Net Other Post Employment Benefits	-	1,716,981	-	1,716,981
	3,209,655	2,552,691	(472,435)	5,289,911
Notes Payable				
Bank of Marin	4,692,839	-	(397,058)	4,295,781
Municipal Finance Corporation	5,503,800	-	(525,000)	4,978,800
State Revolving Fund Loan	3,482,996	-	(191,424)	3,291,572
2017 Revenue Bonds	38,365,000	-	(950,000)	37,415,000
Premium on 2017 Revenue Bonds	3,003,492	-	(121,353)	2,882,139
	55,048,127	-	(2,184,835)	52,863,292
Total Long-Term Obligations	**$ 58,257,782**	**$ 2,552,691**	**$ (2,657,270)**	**$ 58,153,203**

Additional information on the long-term debt can be found in Note 9 of the notes to the financial statements of this report.

ECONOMIC FACTORS, RATES AND BUDGETARY CONTROL

The District is a California Special District maintained as an enterprise fund. As a special district, charges to customers are made only to those who receive services. The District is not typically subject to general economic conditions such as increases or decreases in property tax values or other types of revenues that vary with economic conditions such as sales taxes. However, it does receive approximately 10% of its budget from property taxes and ERAF (Educational Revenue Augmentation Funds), which are dependent upon property tax valuations. Accordingly, the District sets its user rates and capacity charges to cover the costs of operation, maintenance and recurring capital replacement and debt financed capital improvements, plus increments for known or anticipated changes in program costs.

The District, as a wastewater collection and treatment plant operator, is subject to increasing regulatory compliance regulations. These regulations require upgrades to plant and equipment, as well as increased staff to effectively operate the system. The District reviewed its operating and capital needs during 2015 in order to establish sewer service rates for the years beginning July 1, 2015 through June 30, 2020. The majority of the rate increase is for planned capital improvements totaling $41 million, the largest of which is the upgrade to the treatment plant to improve wastewater processes to meet regulatory requirements. The District issued the 2017 Revenue Bonds to finance this upgrade.

The expected revenue from sanitary service charges is as follows:

Fiscal Year	Price per Sanitary Unit	Expected Total Revenue	Status
2015-16	$ 734	$ 11,614,992	Approved June 2015
2016-17	$ 835	$ 12,989,000	Approved June 2016
2017-18	$ 867	$ 13,438,500	Approved June 2017
2018-19	$ 898	$ 13,919,000	Approved June 2018
2019-20	$ 927	$ 14,368,500	

The District and its Board adopts an annual budget to serve as its approved financial plan. The Board sets all fees and charges required to fund the District’s operations and capital programs. The budget is used as a key control device (1) to ensure Board approval for amounts set for operations and capital projects; (2) to monitor expenses and project progress; and (3) as compliance that approved spending levels have not been exceeded. All operating activities and capital activities of the District are included within the approved budget.

The District is monitoring the changes in the current financial and credit markets. Reserve funds are invested in two ways. The majority of funds are invested in the Local Agency Investment Fund (LAIF), which is an investment pool managed by the Treasurer of the State of California. The Treasurer’s office is regularly informing the pool members of the impact of changes in the investment landscape on the portfolio. The balance is invested in savings accounts with the local Bank of Marin. Community based banks tend to be more conservative in their lending decisions and retain funds within the locality. Funds on deposit with the bank are covered by insurance from the Federal Deposit Insurance Corporation up to $250,000. In addition, the funds are collateralized 110% by securities held in trust.

REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District finances and demonstrate District accountability for the money it received. If you have any questions about this report, or need additional financial information, contact the General Manager at 300 Smith Ranch Road, San Rafael, California 94903.

Staff Conducting Spill Response Training

BASIC FINANCIAL STATEMENTS

Wildlife in the reclamation area

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents:		
Unrestricted	$ 25,673,368	$ 23,093,006
Restricted - bond proceeds	40,090,584	40,014,020
Receivables:		
Connection fees	7,387	2,131
User charges	83,013	82,873
Interest	284,775	109,966
Private sewer lateral assistance program	1,686	5,135
Grant reimbursement	343,784	83,276
Other	28,900	25,417
Current portion of Private Sewer Lateral Assistance program receivable	71,574	68,189
Inventory of supplies	307,773	272,328
Prepaid expenses	91,528	60,330
TOTAL CURRENT ASSETS	**66,984,372**	**63,816,671**
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	63,944,200	63,558,365
OTHER NON-CURRENT ASSETS:		
Cash - restricted for debt service	880,940	873,990
Receivables		
Connection fees	-	5,256
Private Sewer Lateral Assistance Program	456,849	497,673
TOTAL NONCURRENT ASSETS	**65,281,989**	**64,935,284**
TOTAL ASSETS	**132,266,361**	**128,751,955**
DEFERRED OUTFLOWS of RESOURCES		
Deferred amount on debt refunding	71,796	81,263
Pension plan	1,147,743	1,059,383
Other postemployment benefits plan	350,729	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,570,268	1,140,646
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 133,836,629**	**$ 129,892,601**

The accompanying notes are an integral part of these financial statements.

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
CURRENT LIABILITIES:		
Accounts payable	$ 628,545	$ 1,221,441
Accrued payroll	106,867	102,536
Accrued compensated absences	121,810	73,080
Accrued interest	404,187	293,579
Current portion of long-term debt	2,093,224	2,063,482
Unearned connection fees	57,768	68,280
TOTAL CURRENT LIABILITIES	**3,412,401**	**3,822,398**
NONCURRENT LIABILITIES:		
Accrued compensated absences	282,120	414,129
Notes payable, long-term	50,770,068	52,984,645
Collective net pension liability	3,169,000	2,722,446
Net other postemployment benefits liability	1,716,981	-
TOTAL NONCURRENT LIABILITIES	**55,938,169**	**56,121,220**
TOTAL LIABILITIES	**59,350,570**	**59,943,618**
DEFERRED INFLOWS of RESOURCES		
Pension plan	133,599	144,214
Other post employment benefits plan	394,417	-
TOTAL DEFERRED INFLOWS OF RESOURCES	**528,016**	**144,214**
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**59,878,586**	**60,087,832**
NET POSITION:		
Net investment in capital assets	51,243,288	48,605,521
Restricted for debt service	880,940	873,990
Unrestricted	21,833,815	20,325,258
TOTAL NET POSITION	**$ 73,958,043**	**$ 69,804,769**

The accompanying notes are an integral part of these financial statements.

Las Gallinas Valley Sanitary District

Statements of Revenues, Expenses and Changes in Net Position

Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Sewer use charges	$ 13,634,548	$ 13,059,850
Recycled water fees	61,081	45,548
Miscellaneous	41,198	42,016
TOTAL OPERATING REVENUES	**13,736,827**	**13,147,414**
OPERATING EXPENSES:		
Sewage collection and pump stations	1,271,296	1,036,329
Sewage treatment	1,875,321	2,065,165
Sewage and solid waste disposal	128,458	216,198
Laboratory	338,513	337,663
Engineering	650,464	532,363
Recycled water	69,162	56,871
General and administrative	2,208,380	1,718,334
Depreciation and amortization	2,600,961	2,526,177
TOTAL OPERATING EXPENSES	**9,142,555**	**8,489,100**
INCOME FROM OPERATIONS	**4,594,272**	**4,658,314**
NONOPERATING REVENUES:		
Property taxes	1,290,285	1,238,360
Franchise fees	25,000	25,000
Intergovernmental fees	4,354	4,363
Interest income	281,297	150,497
TOTAL NONOPERATING REVENUES	**1,600,936**	**1,418,220**
NONOPERATING EXPENSES:		
Loss on disposal, net	1,184	6,267
Bond issuance costs	-	349,204
Interest expense	1,288,214	275,926
TOTAL NONOPERATING EXPENSES	**1,289,398**	**631,397**
INCOME BEFORE CONTRIBUTIONS	**4,905,810**	**5,445,137**
CAPITAL CONTRIBUTIONS		
Connection fees	239,138	39,580
State grants	362,033	-
Intergovernmental	455,057	436,837
TOTAL CAPITAL CONTRIBUTIONS	**1,056,228**	**476,417**
CHANGE IN NET POSITION	**$ 5,962,038**	**$ 5,921,554**

The accompanying notes are an integral part of these financial statements.

Las Gallinas Valley Sanitary District

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

Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
NET POSITION - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	$ 69,804,769	$ 63,883,215
PRIOR PERIOD ADJUSTMENT: CHANGE IN ACCOUNTING PRINCIPLE	(1,808,764)	-
NET POSITION - BEGINNING OF THE YEAR, AS RESTATED	67,996,005	63,883,215
CHANGE IN NET POSITION	5,962,038	5,921,554
NET POSITION - END OF YEAR	**$ 73,958,043**	**$ 69,804,769**

The accompanying notes are an integral part of these financial statements.

Las Gallinas Valley Sanitary District

Statements of Cash Flows

Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	$ 13,704,206	$ 13,122,500
Cash payments to employees	(2,883,318)	(2,498,703)
Cash payments to suppliers	(3,511,031)	(3,315,964)
Other receipts	29,302	28,130
Net cash provided by operating activities	**7,339,159**	**7,335,963**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	4,354	4,363
Franchise fees	25,000	25,000
Advances for the Private Sewer Lateral Assistance Program	(43,366)	(127,762)
Repayment from the Private Sewer Lateral Assistance Program	93,293	80,093
Property taxes received	1,289,981	1,237,804
Net cash provided by noncapital financing activities	**1,369,262**	**1,219,498**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of revenue bonds	-	38,365,000
Proceeds from original issue premium	-	3,023,718
Proceeds from grants	101,525	704,091
Connection fees collected	228,626	42,705
Intergovernmental contributions	455,057	436,837
Proceeds from the sale of capital assets	29,012	-
Acquisition and construction of capital assets	(3,612,279)	(6,944,343)
Principal payments, long-term debt	(2,063,482)	(1,069,396)
Net cash provided (used) by capital and related financing activities	**(4,861,541)**	**34,558,612**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	106,488	127,244
Interest expense	(1,289,492)	(443,514)
Net cash used by investing activities	**(1,183,004)**	**(316,270)**
NET INCREASE IN CASH AND EQUIVALENTS	2,663,876	42,797,803
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	63,981,016	21,183,213
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 66,644,892**	**$ 63,981,016**

The accompanying notes are an integral part of these financial statements.

Las Gallinas Valley Sanitary District

Statements of Cash Flows (continued)

Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 4,594,272	$ 4,658,314
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,600,961	2,526,177
Changes in assets and liabilities:		
User charges receivable	(140)	1,151
Other receivables	(3,179)	2,066
Inventory of supplies	(35,445)	(30,230)
Prepaid expenses	(31,198)	(70)
Deferred outflows of resources	(439,089)	(448,210)
Accounts payable	(6,648)	94,877
Accrued payroll	4,331	24,460
Accrued compensation	(83,279)	34,984
Deferred inflows of resources	383,802	(151,629)
Collective net pension liability	446,554	624,073
Net OPEB liability	(91,783)	-
Net cash provided by operating activities	**$ 7,339,159**	**$ 7,335,963**
SUPPLEMENTARY INFORMATION:		
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO AMOUNTS REPORTED ON THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents, unrestricted	$ 25,673,368	$ 23,093,006
Cash and cash equivalents, restricted	40,971,524	40,888,010
	$ 66,644,892	**$ 63,981,016**
NONCASH ACTIVITIES		
NONCASH OPERATING ACTIVITIES:		
Recognition of net OPEB liability	$ 2,026,382	$ -
Prior period adjustment: Change in accounting principle	(1,808,864)	-
Cash payments for OPEB liability	**$ 217,518**	$ -
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	$ 4,207,567	$ 7,586,602
Transferred from inventory	-	(36,596)
Financed through accounts payable	(595,288)	(605,663)
Cash paid for acquisition and construction of capital assets	**$ 3,612,279**	**$ 6,944,343**

The accompanying notes are an integral part of these financial statements.

1. Reporting Entity

The Las Gallinas Valley Sanitary District (the District) was formed on April 6, 1954 as a special district of the State of California. The District provides sewage collection, treatment, disposal, and wastewater recycling services, as well as manages the refuse hauling and recycling services franchise. The District provides these services to approximately 30,000 people in an area of twelve square miles, from Santa Venetia to Lucas Valley and the Marin County Civic Center to Marinwood, in Marin County, California. Revenues are derived principally from sewer charges collected from commercial and residential users within the District.

The scope of this report extends exclusively to the financial information presented for the District. The District is governed by a five person Board of Directors (the Board) elected for four year terms. The Board has no oversight responsibility for any other governmental unit or agency. As such, the Board's governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters extends only to the affairs of the District.

2. Prior Period Adjustment, Change in Accounting Principle

As a result of implementing GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB), the District is restating beginning net position in the Statement of Net Position, effectively decreasing the net position by $1,808,764 as of July 1, 2017. The decrease resulted from recognizing the net other postemployment benefits liability, a noncurrent liability. See Note 13 for additional disclosures regarding this presentation.

NET POSITION - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	$	69,804,769
PRIOR PERIOD ADJUSTMENT: CHANGE IN ACCOUNTING PRINCIPLE		(1,808,764)
NET POSITION - BEGINNING OF THE YEAR, AS RESTATED	**$**	**67,996,005**

3. Summary of Significant Accounting Principles

Financial Reporting Entity, Measurement Focus, and Financial Statement Presentation

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 costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. 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 flow takes place.

3. Summary of Significant Accounting Principles (continued)

Operating revenues, such as charges for sewer services and recycled water fees, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

The District receives the majority of its revenue from sewer use charges and property taxes that are collected by the County of Marin through the annual property tax bills. The County has implemented the Teeter policy, whereby the District receives all of the amounts billed whether or not the County collects the monies from the assessed property owners. This ensures that the District has the funds to operate without being dependent upon the timing of the collection of the remittances from the covered property owners.

Net Position

Net position is measured on the full accrual basis and is the excess of all the District's assets and deferred outflows over all its liabilities and deferred inflows. Net position is classified into the following components: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "invested in capital assets, net of related debts" or "restricted."

Budgetary Accounting

The District is not required by statute to adopt a budget; however, in its commitment to maintain fiscal responsibility, the District adopts an annual budget prior to June 30th each year. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for depreciation which is not included and annual principal

3. Summary of Significant Accounting Principles (continued)

payments on debt service which are included. All annual, noncapital appropriations lapse at year-end.

Budgetary control is maintained at the detailed line item level. The General Manager may approve expenditures in excess of budgeted amounts up to $15,000; items in excess of this must be approved by the Board. A budget revision is usually presented to the Board in the fall to adjust for changes in capital project funding after the close of the prior year.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash-on-hand, demand deposits, and short-term investments, with original maturities of three months or less from the date of acquisition. These items are valued at cost. Please see Note 4 for additional information on investment policies and practices for both the State of California and the District.

Cash that is restricted for debt service is invested in certificates of deposit. It is classified as a noncurrent asset based on two factors: 1) due to a maturity date that is more than one year from the date of the Statement of Net Position or 2) due to the final maturity date of the related loan, which will require that the funds be maintained until a date that is more than one year from the date of the Statement of Net Position.

Inventory of Supplies

Inventory consists of materials and supplies, such as chemicals, pipe fittings, valves, pumps and filters, which are stated at cost, using the first-in, first-out method.

Capital Assets

Capital assets consist of property, plant and equipment owned by the District, which are recorded at cost or at estimated historical cost if cost information is not practically determinable. Prior to July 1, 2017 the District's policy was to include in construction-in-progress the capitalized interest cost of related borrowings, net of interest earned on unspent proceeds of the related borrowings. Effective July 1, 2017 the District has implemented GASB No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period* as discussed in the New Accounting Pronouncements section below.

The District defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. The cost of normal repairs and maintenance is recorded as expense. Improvements that add to the value or extend the life of assets are capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method.

3. Summary of Significant Accounting Principles (continued)

Estimated useful lives are as follows:

Subsurface lines	50 - 75 years
Facilities and structures	15 - 40 years
Equipment	5 - 20 years

Intangible Assets

Intangible assets consist of easements and internally generated computer software. All intangible assets are recognized in the Statement of Net Position only if they are considered identifiable. They are amortized over their estimated useful life unless the life is indefinite.

Compensated Absences

The District provides vacation and sick leave benefits to its employees. Upon separation from employment, employees are paid for accumulated vacation days and accrued administrative and compensated time off (overtime hours for which pay is not taken). Employees who have been with the District for at least three years are also paid for one-half of their accumulated sick days. The District recognizes the related expense as the benefits are earned.

The District has accrued a liability for accumulated earned, but unused, leave.

Balance at June 30, 2017		$ 487,209
Accrued compensated absences earned	389,156	
Accrued compensated absences used	(472,435)	
Net change in accrued compensated absences		(83,279)
Balance at June 30, 2018		**$ 403,930**

The current portion of the noncurrent liability to be used within the next year is estimated by management to be approximately $121,810, or 30%.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources and deferred inflows of resources.

Deferred amount on debt refunding – Unamortized gains and losses from current or advance debt refunding result in deferred outflows of resources. This amount is amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

3. Summary of Significant Accounting Principles (continued)

Pension plan – The accounting valuation for the pension plan results in deferred outflows and deferred inflows of resources from several sources. In performing the actuarial valuation for the deferred compensation plan, changes in projected and actual earning on pension plan investments and adjustments due to differences in proportions for members of cost-sharing multiple-employer plans are calculated. The difference in proportions results from the California Public Employees Retirement System (CalPERS) allocation methodology. Rather than a single proportionate share applied to all components of pension expense, the CalPERS method applies employer proportions to various pension-related items such as assets, liabilities and service cost. This adjustment reconciles the difference in proportions for these various items with the employer's change in net pension liability during the plan measurement period. The amounts will be recognized over future periods equal to the expected average remaining service lifetime of the pool or 3.8 years for the June 30, 2017 measurement date (3.7 years for June 30, 2016.). In addition, since the measurement date of the pension plan is one year in advance of the financial statement reporting period (i.e. valuation of the pension plan assets has a measurement date of June 30, 2017 with the results reported in the District's June 30, 2018 financial statements) contributions by the employer for 2018 and 2017 are deferred outflows at June 30, 2018 and 2017, respectively. These amounts will be recognized in the years subsequent to payment.

Other Postemployment Benefits (OPEB) plan – The accounting valuation for the OPEB plan results in deferred outflows and deferred inflows of resources from several sources. In performing the valuation for the postemployment benefit plan, changes in projected and actual earnings on plan investments, changes in projected and actual healthcare costs, changes in participant plan utilization and participant mortality are calculated. The amounts will be recognized over future periods. In addition, since the measurement date of the OPEB plan is one year in advance of the financial statement reporting period (i.e. valuation of the OPEB plan assets has a measurement date of June 30, 2017 with the results reported in the District's June 30, 2018 financial statements) contributions by the employer for 2018 deferred outflows at June 30, 2018. These amounts will be recognized in the years subsequent to payment.

Restricted Assets and Liabilities

Restricted assets are items that have been restricted by either bond indentures, loan agreements or are to be used for specified purposes based on contract provisions, such as debt service. Restricted liabilities relate to assets restricted for their payment.

3. Summary of Significant Accounting Principles (continued)

Property Taxes

The County of Marin levies taxes and places liens on real property as of January 1st on behalf of the District. Property taxes are due on the following November 1st and March 1st and become delinquent December 10th and April 10th for the first and second installments, respectively. All taxes collected for debt service are maintained in separate funds designated for payment of the debt (see Note 9).The District receives property taxes and Education Revenue Augmentation Funds (ERAF) from the County of Marin. The ERAF allows the state legislature to reallocate property tax amounts to local governments. For the years ended June 30, 2018 and 2017, the District received $917,875 and $872,282, respectively, in property taxes and $372,410 and $366,078, respectively, in ERAF.

Grants

The District's grants are cost-reimbursement grants, which are earned as the allowable expenditures under the agreement are made. A receivable is recorded when the criteria established for requesting reimbursement under the grant agreement has been satisfied and the amount of reimbursement is determinable. Grants for feasibility studies are recorded as nonoperating income. Grants for capital purposes are reported as capital contributions.

Connection Fees

The District charges connection fees to developers to reserve system capacity. Amounts charged are recorded as liabilities (unearned connection fees) until connections are actually made. Once connections are made, the fees are recognized as increases to capital contributions. In accordance with GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the capital contributions are recorded in the Statements of Revenues, Expenses and Changes in Net Position.

Pensions

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

3. Summary of Significant Accounting Principles (continued)

Other Postemployment Benefits (OPEB)

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	December 31, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Interest

Prior to July 1, 2017 the District capitalized the interest cost incurred for assets that require an acquisition period to get them ready for use. The interest cost capitalization period began when the following three conditions were met: expenditures had occurred; activities necessary to prepare the asset, including administrative activities before construction, had begun; and interest cost had been incurred. Interest cost is not capitalized during delays or interruptions, other than for brief periods. When the project is completed, the interest cost was included in the amount of the asset that was capitalized and depreciated over the assets' useful life. Effective July 1, 2017, the District has implemented GASB No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period* as discussed in the New Accounting Pronouncements section below..

For assets that are financed with tax-exempt debt, the interest income earned on unexpended funds is offset against the interest expenditures in determining the amount of interest to capitalize.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and certain reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Summary of Significant Accounting Principles (continued)

New Accounting Pronouncements

In May 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB No. 88). The objective of GASB No. 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of GASB No. 88 will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The requirements of GASB No. 88 are effective for reporting periods beginning after June 15, 2018. The District has implemented this standard in preparing these financial statements.

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

GASB No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are now superseded. GASB No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

GASB No. 89 also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of GASB No. 89 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged and the requirements of GASB No. 89 should be

3. Summary of Significant Accounting Principles (continued)

applied prospectively. The District has implemented this standard in preparing the financial statements for the year ended June 30, 2018.

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District does not believe that there will be any financial statement effect related to GASB No. 90.

4. Cash and Cash Equivalents

At June 30, 2018, the District maintained the majority of its cash in the Bank of Marin and the State of California LAIF pooled investment funds. Balances in the Bank of Marin are insured by the Federal Deposit Insurance Corporation up to $250,000, are collateralized by securities at 110% of the balance, and consist of checking and savings accounts.

The LAIF funds invest deposits of the District, counties, various schools and other special districts primarily in cash equivalents, as prescribed by the California Government Code. Balances are stated at cost, which is approximately market value. Each participating agency is allocated realized investment gains, losses, and interest based on average daily balances invested. Copies of financial statements for LAIF may be obtained from the California State Treasurer at http://www.treasurer.ca.gov/pmia-laif/reports.asp.

Restricted Cash

Restricted cash consists of unexpended proceeds from issuing the 2017 Revenue Bonds in April 2017 and the debt service reserve funds. The majority of the unexpended Revenue Bond funds are invested at LAIF; however at June 30, 2017 $37,020 was on deposit at U.S. Bank, the Trustee for the issue, in the Cost of Issuance fund. The funds at U.S. Bank were applied towards the interest payments due in 2018. See Note 9 for additional information regarding the

4. Cash and Cash Equivalents (continued)

bonds. The debt service reserve funds are invested in certificates of deposit with Bank of Marin and have maturity dates in 2020.

Cash and cash equivalents consist of the following:

	June 30, 2018	
	Reported/Fair Value	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	$ 4,891,387	$ -
Petty cash	700	-
Total cash in bank and on hand	4,892,087	-
Investments:		
Certificates of Deposit	-	880,940
Local Agency Investment Fund (LAIF)	20,781,281	40,090,584
Total investments	20,781,281	40,971,524
Total cash and cash equivalents as of June 30, 2018	**$ 25,673,368**	**$ 40,971,524**

	June 30, 2017	
	Reported/Fair Value	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	$ 4,018,935	$ -
U.S. Bank	-	37,020
Petty cash	721	-
Total cash in bank and on hand	4,019,656	37,020
Investments:		
Certificates of Deposit	-	873,990
Local Agency Investment Fund (LAIF)	19,073,350	39,977,000
Total investments	19,073,350	40,850,990
Total cash and cash equivalents as of June 30, 2017	**$ 23,093,006**	**$ 40,888,010**

For the purpose of the statements of cash flows, cash and cash equivalents include all items of cash and investments with original maturities of three months or less.

4. Cash and Cash Equivalents (continued)

Investments Authorized by the District's Investment Policy

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the District	none	not applicable	none	none
U.S. Treasury Obligations	none	not applicable	none	none
U.S. Agency Securities	none	not applicable	none	none
Registered State Warrants or Treasury Notes or Bonds issued by the State of California	none	not applicable	none	none
Local Agency Bonds, Notes, Warrants or Pooled Investment Accounts	none	not applicable	none	none
Bankers' Acceptances	270 days	not applicable	40%	30%
Prime Commercial Paper	180 days	Aaa/AAA	15%-30%	none
Negotiable Certificates of Deposit	none	not applicable	30%	none
Repurchase/Reverse Repurchase Agreements	none	not applicable	none	none
Medium-Term Notes	5 years	A	30%	none
Money Market Mutual Funds	none	Aaa/AAA	15%	none
Collateralized Bank Deposits	none	not applicable	none	none
Mortgage Pass-Through Securities	5 years	not applicable	30%	none

Debt Proceeds

Unspent debt proceeds for the District are invested in interest bearing accounts at either the financial institution that advanced the funds or in a separate LAIF fund managed by the Trustee of the Bond Indenture.

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. As of year-end, the weighted

4. Cash and Cash Equivalents (continued)

average maturity of the investments contained in the LAIF investment pool is approximately 6 months.

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 maturity date of its investments at June 30, 2018:

		Maturity Date
Certificates of Deposit	$ 880,940	762 days average
LAIF	60,871,865	193 days average
	$ 61,752,805	

Credit Risk

Generally, credit risk is the risk of an issuer that 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. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

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 nor will it 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 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. 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). 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. With respect to investments, custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). The State of California has no additional requirements for custodial credit risk, nor does the District.

4. Cash and Cash Equivalents (continued)

Certificates of Deposit

The District is required to maintain cash of $880,940 in debt reserve funds, equal to one year's debt service for the State Revolving Fund and for the loans from Bank of Marin. Since these funds will not be needed until the final year of maturity of the loans, the District has invested them in certificates of deposit. These accounts pay interest at 0.792% and mature in July and August 2020, respectively.

Investment in State Investment Pool

The District is a voluntary participant in the 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 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 District's proportionate share of that value was $60,757,884 and $58,987,796 as of June 30, 2018 and 2017, respectively. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities totaling $1,549 million and $1,718 million as of June 30, 2018 and 2017, respectively, and $825 million in structured notes as of June 30, 2018 and 2017. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The current and prior year changes in fair value were not material to the financial statements as a whole and, therefore, have not been presented.

5. Accounts Receivable

The majority of the District's sewer user charge revenue and all of the property tax revenue is collected by the County of Marin through charges on the tax rolls. The collections are remitted to the District as follows: 55% in December, 40% in April, and the balance of 5% during June and July. The June and July remittances allow the County as the collection agent to true-up any changes for revisions in the sewer charges after the initial calculation in August.

6. Private Sewer Lateral Assistance Program

The District has a private sewer lateral assistance program which allows property owners to receive an advance to repair or replace their sewer laterals. The maximum that may be advanced under the program is $10,000 per property, with interest charged at 2%, and the amount is repaid over 10 years through the property tax collections.

As of June 30, 2018 and 2017, collections made by the County of Marin, but remitted to the District subsequently, were $1,686 and $5,135, respectively.

6. Private Sewer Lateral Assistance Program (continued)

The activity in the program for 2018 and 2017 is a follows:

Balance at June 30, 2016	$ 515,095
Payments received	(65,325)
Advances made	116,092
Balance at June 30, 2017	565,862
Payments received	(89,845)
Advances made	52,406
Balance at June 30, 2018	$ 528,423

Scheduled payments to be received from the advances in future years are as follows:

Fiscal year ending June 30,	
2019	$ 71,574
2020	72,998
2021	74,501
2022	76,085
2023	73,162
2024 to 2028	160,103
	$ 528,423

In addition to regularly schedule repayments collected through the tax roll, property owners may prepay the amounts outstanding under the lateral assistance program if they sell or refinance the property. Included in payments received are prepayments of $21,031 and $4,986 in 2018 and 2017, respectively.

7. Capital Assets

A summary of property, plant and equipment transactions for the year ended June 30, 2018 is as follows:

	Beginning Balance at July 1, 2017	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2018
Capital assets not being depreciated:					
Land	$ 2,867,571	$ -	$ -	$ -	$ 2,867,571
Construction-in-progress	12,747,039	2,636,552	(294,159)	(4,269,065)	10,820,367
Total capital assets not being depreciated	15,614,610	2,636,552	(294,159)	(4,269,065)	13,687,938
Capital assets being depreciated:					
Subsurface lines and manholes	30,770,191	65,122	-	2,715,406	33,550,719
Facilities and equipment					
Sewage collection	2,661,311	41,311	(171,390)	3,080	2,534,312
Sewage treatment	33,342,985	299,758	(119,814)	1,014,846	34,537,775
Sewage disposal	8,200,137	-	-	-	8,200,137
Reclamation	1,305,951	74,854	(44,789)	-	1,336,016
Recycled water production	9,471,284	30,265	-	-	9,501,549
Pump stations	12,450,473	85,779	-	535,733	13,071,985
Administration	897,869	68,420	(52,081)	-	914,208
Laboratory	553,911	9,090	-	-	563,001
Total capital assets being depreciated	99,654,112	674,599	(388,074)	4,269,065	104,209,702
Less accumulated depreciation for:					
Subsurface lines	(14,825,939)	(609,471)	-	-	(15,435,410)
Facilities and equipment					
Sewage collection	(1,930,251)	(87,479)	144,313	-	(1,873,417)
Sewage treatment	(17,095,632)	(910,310)	119,813	-	(17,886,129)
Sewage disposal	(6,489,301)	(152,459)	-	-	(6,641,760)
Reclamation	(888,853)	(32,937)	44,789	-	(877,001)
Recycled water production	(1,798,512)	(381,172)	-	-	(2,179,684)
Pump stations	(7,818,889)	(367,637)	-	-	(8,186,526)
Administration	(604,386)	(41,244)	48,963	-	(596,667)
Laboratory	(258,594)	(18,252)	-	-	(276,846)
Accumulated depreciation	(51,710,357)	(2,600,961)	357,878	-	(53,953,440)
Total capital assets being depreciated, net	**47,943,755**	**(1,926,362)**	(30,196)	**4,269,065**	**50,256,262**
Capital assets, net	**$ 63,558,365**	**$ 710,190**	**$ (324,355)**	**$ -**	**$ 63,944,200**

7. Capital Assets (continued)

A summary of property, plant and equipment transactions for the year ended June 30, 2017 is as follows:

	Beginning Balance at July 1, 2016	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2017
Capital assets not being depreciated:					
Land	$ 2,867,571	$ -	$ -	$ -	$ 2,867,571
Construction-in-progress	8,210,341	6,964,211	-	(2,427,513)	12,747,039
Total capital assets not being depreciated	11,077,912	6,964,211	-	(2,427,513)	15,614,610
Capital assets being depreciated:					
Subsurface lines and manholes	30,705,388	64,803	-	-	30,770,191
Facilities and equipment					
Sewage collection	2,228,711	432,600	-	-	2,661,311
Sewage treatment	30,861,397	54,075	-	2,427,513	33,342,985
Sewage disposal	8,200,137	-	-	-	8,200,137
Reclamation	1,305,951	-	-	-	1,305,951
Recycled water production	9,471,284	-	-	-	9,471,284
Pump stations	12,384,031	66,442	-	-	12,450,473
Administration	897,869	-	-	-	897,869
Laboratory	549,440	4,471	-	-	553,911
Total capital assets being depreciated	96,604,208	622,391	-	2,427,513	99,654,112
Less accumulated depreciation for:					
Subsurface lines	(14,245,365)	(580,574)	-	-	(14,825,939)
Facilities and equipment				-	
Sewage collection	(1,839,397)	(90,854)	-	-	(1,930,251)
Sewage treatment	(16,232,129)	(863,503)	-	-	(17,095,632)
Sewage disposal	(6,332,500)	(156,801)	-	-	(6,489,301)
Reclamation	(853,764)	(35,089)	-	-	(888,853)
Recycled water production	(1,417,340)	(381,172)	-	-	(1,798,512)
Pump stations	(7,466,758)	(352,131)	-	-	(7,818,889)
Administration	(556,604)	(47,782)	-	-	(604,386)
Laboratory	(240,323)	(18,271)	-	-	(258,594)
Accumulated depreciation	(49,184,180)	(2,526,177)	-	-	(51,710,357)
Total capital assets being depreciated, net	**47,420,028**	**(1,903,786)**	**-**	**2,427,513**	**47,943,755**
Capital assets, net	**$ 58,497,940**	**$ 5,060,425**	**$ -**	**$ -**	**$ 63,558,365**

8. Water Disposal and Recycled Water

In 1988, the District entered into a water-reclamation agreement with MMWD to provide for the disposal of treated wastewater. At a facility located on the District's property, MMWD provides further treatment to the wastewater in order to distribute it as recycled water. The contract, which was set to expire in December 2018, has been extended until December 31, 2021.

In 2017, the District entered into a purchase and sale of recycled water agreement with MMWD. The District will provide MMWD with 2.5 million gallons per day of plant capacity to produce a minimum of 600 acre fee per year, for 30 years. As part of the agreement, MMWD made an initial payment towards the cost of the existing facility of $333,563 and will make quarterly payments of $51,637 through October 1, 2022 and after that $26,890 per quarter through July 1, 2031. In addition, the District has designed an expansion of the existing facility in order to serve MMWD and the project is currently out for bid. Funding for the expansion is from part of the proceeds of the 2017 Revenue Bonds and a WaterSmart Grant awarded in 2015. The project has not been awarded as of June 30, 2018 so a firm construction cost is not known; however per the agreement it is expected that cost of the portion of the expansion ascribed to MMWD is $4.6 million with payments due semi-annually on April 1st and October 1st through April 1, 2042. MMWD paid $455,057 in 2018 and $426,837 in 2017 per the agreement. See Note 9E for further information regarding the bonds.

The agreement with MMWD may be modified to revise the payment amounts once the construction contract is awarded and after construction is completed and all costs are known. MMWD is responsible for demolishing the existing facility which is located on the District's site. The agreement also provides that should MMWD decide based on financial concerns, at the 100% design phase of the expansion to terminate the agreement that it will pay its proportionate share of costs incurred to date including bond issuance costs and associated bond call premium. If after the bids for construction are received both parties agree not to proceed, each party will pay their proportionated share of costs incurred.

Future minimum payments expected to be received from MMWD are as follows:

Fiscal year ending June 30,	Total
2019	$ 463,143
2020	463,353
2021	463,395
2022	463,269
2023	413,480
2024 to 2028	1,821,145
2029 to 2033	1,632,686
Thereafter	2,328,544
	$ 8,049,015

8. Water Disposal and Recycled Water (continued)

In addition to these payments, MMWD will be charged for deliveries of recycled water based on the District's regular, ongoing operations and maintenance costs and deposits into a capital repair and replacement fund equal to 10% of annual operations and maintenance costs.

In 2011, the District entered into an agreement with NMWD to annually produce at least 220 acre feet of recycled water for 20 years. NMWD will reimburse the District for its operating and maintenance costs associated with producing the recycled water.

9. Long-Term Obligations

A. Wastewater Revenue Certificates of Participation, Series 2005 and Note Payable with Municipal Finance Corporation

The District issued $10,000,000 of Wastewater Revenue Certificates of Participation Bonds rated AA on November 15, 2005. The bonds had maturity dates ranging from December 1, 2006 through December 1, 2025 and carried an average interest rate of 4%. The net proceeds from the sale, after paying issuance costs, underwriter fees, and the reserve surety bond premium was $9,774,000.

In April 2014, the bonds were refinanced with Municipal Finance Corporation, a private lender. The principal balance outstanding was $6,880,000 and a 1% early call premium of $68,800 was required to retire the bonds. The refinanced note payable of $6,948,800 will be paid over the remaining term of the old debt, with principal payments due each December 1st; and interest payments are due each December 1st and June 1st through 2025. The interest rate on the refinanced debt is 3.3%.

The discount of $42,442 and the call premium of $68,800 are recorded as a Deferred Outflow of Resources – Deferred amount on debt refunding and are being amortized over the life of the loan. The accumulated amortization is $39,447 at June 30, 2018 and $29,979 at June 30, 2017; the amount charged to interest expense was $9,467 for both June 30, 2018 and 2017.

The debt is payable solely from net revenues of the District. Net revenues consist generally of all revenues after payment of adjusted operation and maintenance costs and include property taxes received by the District. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.15 to 1.0.

9. Long-Term Obligations (continued)

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2019	$ 535,000	$ 155,473	$ 690,473
2020	555,000	137,488	692,488
2021	580,000	118,760	698,760
2022	610,000	99,125	709,125
2023	630,000	78,665	708,665
2024 to 2027	2,068,800	104,346	2,173,146
	$ 4,978,800	**$ 693,857**	**$ 5,672,657**

B. Note Payable – Bank of Marin

The District entered into a financing agreement with Bank of Marin on June 10, 2011 for $4,600,000. The loan is for the recycled water facility which was completed in July 2012. The loan bears interest at 3.88%, requires a reserve fund equal to one year's debt service, or $332,681, and monthly principal and interest payments of $27,723 beginning July 2011 through June 10, 2031. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.2 to 1.0.

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2019	$ 203,316	$ 129,365	$ 332,681
2020	211,129	121,552	332,681
2021	219,917	112,764	332,681
2022	228,726	103,956	332,682
2023	237,888	94,794	332,682
2024 to 2028	1,339,855	323,552	1,663,407
2029 to 2031	939,921	58,123	998,044
	$ 3,380,752	**$ 944,106**	**$ 4,324,858**

C. Note Payable – Bank of Marin

The District entered into a financing agreement with Bank of Marin on July 27, 2012 for $2,000,000. The loan is for the recycled water facility which was completed in July 2012. The loan bears interest at 3.25%, requires a reserve fund equal to one year's debt service, or $235,346, and monthly principal and interest payments of $19,612 beginning September 10, 2012 through August 10, 2022. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.2 to 1.0.

9. Long-Term Obligations (continued)

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2019	$ 208,316	$ 27,030	$ 235,346
2020	215,233	20,113	235,346
2021	222,485	12,861	235,346
2022	229,928	5,418	235,346
2023	39,067	160	39,227
	$ 915,029	**$ 65,582**	**$ 980,611**

D. State Revolving Fund Loan

The District had a construction loan with the State Water Resources Control Board, which converted to a term loan in November 2012 after the last construction draw was received.

The loan bears interest at 2.7%, requires a reserve fund equal to one year's debt service, or $285,464, and annual principal and interest payments beginning June 1, 2012 through June 1, 2032. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.2 to 1.0.

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2019	$ 196,592	$ 88,872	$ 285,464
2020	201,900	83,564	285,464
2021	207,351	78,113	285,464
2022	212,950	72,514	285,464
2023	218,699	66,765	285,464
2024 to 2028	1,185,324	241,998	1,427,322
2029 to 2032	1,068,756	73,102	1,141,858
	$ 3,291,572	**$ 704,928**	**$ 3,996,500**

9. Long-Term Obligations (continued)

E. 2017 Revenue Bonds

The District issued $38,365,000 of Revenue Bonds rated AAA on April 28, 2017. The bonds have maturity dates ranging from April 1, 2018 through April 1, 2042; interest is due each October and April with the first payment due October 1, 2017. The yield to maturity on the bonds ranges from 0.87% to 3.57% with a stated interest rate of 4% and a true interest cost of 3.2984%. The sources and uses of funds from the bond issuance are as follows:

Sources of Funds:		
Stated redemption price of bonds	$	38,365,000
Original issue premium		3,023,718
		41,388,718
Uses of Funds:		
Issuance costs	$	153,608
Surety bond premium		50,231
Underwriter's discount		145,365
		349,204
Deposit to project fund	**$**	**41,039,514**

The bonds are generally callable in whole or in part on or after April 1, 2027; the District may prepay up to $4,300,000 in principal before October 31, 2018. This special call provision relates to the expansion of the recycled water treatment facility to serve MMWD (see Note 8). Should MMWD decide not to proceed with the project, the District may exercise the early call provision.

Issuance costs, the surety bond premium and underwriter's discount are expensed in the year of issuance. The original issue premium will be amortized over the maturity period of the bonds and included in interest expense. As of June 30, 2018 and 2017 the amortization is $141,579 and $20,226, respectively.

The interest paid on the 2017 Revenue Bonds qualifies as exempt from income tax for specified bond holders. As such the District is subject to Internal Revenue Code requirements concerning arbitrage. There are safe-harbors for spending the bond proceeds that can exempt the District from having to rebate any excess interest earned on unspent funds in excess of interest paid to bond holders. The arbitrage calculation is required every five years; the first year will be in 2022.

The debt is payable solely from net revenues of the District. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.25 to 1.0.

9. **Long-Term Obligations** (continued)

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2019	$ 950,000	$ 1,496,600	$ 2,446,600
2020	990,000	1,458,600	2,448,600
2021	1,030,000	1,419,000	2,449,000
2022	1,070,000	1,377,800	2,447,800
2023	1,110,000	1,335,000	2,445,000
2024 to 2028	6,265,000	5,971,600	12,236,600
2029 to 2032	7,620,000	4,614,400	12,234,400
Thereafter	18,380,000	3,822,400	22,202,400
	$ 37,415,000	**$ 21,495,400**	**$ 58,910,400**

The following is a summary of the long-term obligations activity for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Personnel Related Obligations					
Compensated Absences	$ 487,209	$ 389,156	$ (472,435)	$ 403,930	$ 121,810
Net Pension Liability	2,722,446	446,554	-	3,169,000	-
Net OPEB Liability	-	1,716,981	-	1,716,981	-
	3,209,655	2,552,691	(472,435)	5,289,911	121,810
Notes Payable					
Bank of Marin	$ 4,692,839	$ -	$ (397,058)	$ 4,295,781	$ 411,632
Municipal Finance Corporation	5,503,800	-	(525,000)	4,978,800	535,000
State Revolving Fund	3,482,996	-	(191,424)	3,291,572	196,592
2017 Revenue Bonds	38,365,000	-	(950,000)	37,415,000	950,000
Premium on 2017 Revenue Bond	3,003,492	-	(121,353)	2,882,139	-
	55,048,127	-	(2,184,835)	52,863,292	2,093,224
Total long-term obligations activity	**$ 58,257,782**	**$ 2,552,691**	**$ (2,657,270)**	**$ 58,153,203**	**$ 2,215,034**

9. Long-Term Obligations (continued)

The following is a summary of the debt activity for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Personnel Related Obligations					
Compensated Absences	$ 452,225	$ 412,798	$ (377,814)	$ 487,209	$ 73,080
Net Pension Liability	2,098,373	624,073	-	2,722,446	-
	2,550,598	1,036,871	(377,814)	3,209,655	73,080
Notes Payable					
Bank of Marin	$ 5,075,844	$ -	$ (383,005)	$ 4,692,839	$ 397,059
Municipal Finance Corporation	6,003,800	-	(500,000)	5,503,800	525,000
State Revolving Fund	3,669,387	-	(186,391)	3,482,996	191,423
2017 Revenue Bonds	-	38,365,000	-	38,365,000	950,000
Premium on 2017 Revenue Bond	-	3,023,718	(20,226)	3,003,492	-
	14,749,031	41,388,718	(1,089,622)	55,048,127	2,063,482
Total long-term obligations activity	**$ 17,299,629**	**$ 42,425,589**	**$ (1,467,436)**	**$ 58,257,782**	**$ 2,136,562**

During the years ended June 30, 2018 and 2017, the District incurred interest on long-term debt of $1,288,214 and $732,302, respectively. For the years ended June 30, 2017, $379,663 of interest was capitalized as part of construction projects. In accordance with GASB No. 89 for the year ended June 30, 2018 all of the interest expense is reflected in the Statement of Changes in Net Position.

10. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all permanent, full-time District employees, permits employees to defer a portion of their current salary until future years. Employees may defer up to the Internal Revenue Code limits. For 2018 and 2017, employees contributed $134,565 and $143,178, respectively. Generally, deferred compensation is payable upon retirement, termination of employment, disability or death. Deferred amounts are held in a 457 plan trust established by the District for the exclusive benefit of the participants and their beneficiaries. Contributions are made to the Supplemental Income Plan (SIP) administered by the CalPERS for the benefit of each individual participant. The SIP is an entity separate from the District and, accordingly, the trust assets are not considered to be assets of the District itself. Additional information about the trust may be obtained from the CalPERS Supplemental Income Plan, which has a mailing address of 400 Q Street, Room E2812, Sacramento, CA 95814.

11. Commitments

The District was contractually committed to contractors and vendors for various projects totaling $7,256,391 and $9,209,279 as of June 30, 2018 and 2017, respectively.

12. Defined Benefit Pension Plan

Plan Description and Benefits Provided

The District contributes to CalPERS, a cost sharing multiple-employer defined benefit pension plan. The contribution requirements of the plan members are established by state statute and the employer contribution rates are established and may be amended by CalPERS. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. Contributions by the employer and the employee are based on eligible employees' regular rate of pay without inclusion of overtime, stand-by pay, or separation pay of accrued time off, which prevents spiking of retirement benefits.

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 entities within the State of California. Benefit provisions and all other requirements are established by state statute. The benefits are based on the plan formulas, and the member's years of service, age and final compensation. Because the District has less than 100 active members, it is required by CalPERS to participate in a cost sharing multiple-employer risk pool of similar agencies that all have the same contract formula known as PERF C. Copies of CalPERS' annual financial report may be obtained from its Executive Office at 400 P Street, Sacramento, CA 95814.

12. Defined Benefit Pension Plan (continued)

The Plan's provisions and benefits are summarized as follows:

	Miscellaneous	
	Hired Prior to January 1, 2013	Hired On or after January 1, 2013
Benefit formula	2.7% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required contribution rate as a percentage of reportable payroll:		
Employees	8.000%	6.250%
Employer		
2018	12.212%	6.842%
2017	11.634%	6.555%
Required contribution for prior year unfunded liability:		
2018	$ 132,544	$ 103
2017	$ 114,471	$ 29

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30th by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Beginning with the determination of the employer contributions for 2016, two contribution amounts are required. An amount expressed as a percentage of reportable payroll plus a pre-determined annual dollar amount to pay the prior year unfunded liability.

For employees hired prior to January 1, 2013, the District paid a portion of the employees' required contribution through June 30, 2017; in 2017 it was 1% of the employees' required 8% contribution. For employees hired after January 1, 2013, the District did not pay any of the employees' required contribution of 6.25% and the employees began cost sharing and paying a portion of the employers' required contribution as of July 1, 2017 equal to 1.75% of reportable payroll.

12. Defined Benefit Pension Plan (continued)

For the years ended June 30, 2018 and 2017, the contributions recognized as part of pension expense for each Plan were as follows:

	June 30, 2018	June 30, 2017
Contributions - employer	$ 332,915	$ 331,133
Contributions - employee (paid by employer)	-	14,731
	$ 332,915	$ 345,864

Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension

The District’s proportionate share of the net pension liability is $3,169,000 and $2,722,446 as of June 30, 2018 and 2017, respectively.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The liability and deferred outflows and inflows of resources are determined from actuarial valuations that are prepared at dates that differ from the financial statement reporting periods in these statements. For these financial statements, the following timeframes are used:

	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Measurement Period	July 1, 2016 - June 30, 2017	July 1, 2015 - June 30, 2016

The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

12. Defined Benefit Pension Plan (continued)

The District's proportionate share of the net pension liability was as follows:

	Financial Statement Report as of June 30, 2018	
	Dollars	Percentage
Proportion - June 30, 2016	$ 2,722,446	0.031462%
Proportion - June 30, 2017	3,169,000	0.031954%
Change - Increase (Decrease)	$ 446,554	0.049200%

	Financial Statement Report as of June 30, 2017	
	Dollars	Percentage
Proportion - June 30, 2015	$ 2,098,373	0.030571%
Proportion - June 30, 2016	2,722,446	0.031462%
Change - Increase (Decrease)	$ 624,073	0.000891%

For the years ended June 30, 2018 and 2017, the District recognized pension expense of $680,495 and $355,557, respectively.

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over the remaining amortization periods. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments represents the unamortized balance relating to the current measurement period and the prior measurement periods on a net basis.

Deferred Outflows of Resources and Deferred Inflows of Resources relating to Differences Between Expected and Actual Experience and Change in Assumptions are amortized over the Expected Average Remaining Service Lifetime of members provided pensions through the Plan determined as of the beginning of the related measurement period for all PERFC participants. As of the June 30, 2017 measurement date it is 3.8 years.

12. Defined Benefit Pension Plan (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,226	60,549
Changes of assumptions	524,376	39,984
Net differences between projected and actual earnings on plan investments	118,592	-
Changes in employer's proportion	161,574	-
Differences between the employer's contributions and the employer's proportionate share of contributions	6,059	33,066
Deferred Outflows and Inflows of Resources to be Amortized	814,827	133,599
Pension contributions subsequent to measurement date	332,915	-
Total	$ 1,147,742	$ 133,599

The $332,915 is reported as deferred outflows of resources related to contributions made during the District's year ended June 30, 2018 which is subsequent to the pension plan measurement date of June 30, 2017 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Deferred outflows of resources to be amortized over the remaining average service life of 3.8 years and recognized as pension expense as follows:

Fiscal year ending June 30,	
2019	$ 221,851
2020	327,007
2021	202,781
2022	(70,411)
2023	-
Thereafter	-
	$ 681,228

12. Defined Benefit Pension Plan (continued)

Actuarial Methods and Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016 (last available)
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB No. 68.
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service.
Investment Rate of Return	7.15% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

The underlying mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report. All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of this study can be found on the CalPERS website.

Changes of Assumptions

In the fiscal year 2016-17 the CalPERS governing Board changed the accounting discount rate from 7.65% to 7.15%. Deferred outflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represent the unamortized portion of this assumption change.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for

12. Defined Benefit Pension Plan (continued)

administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the amortization and smoothing methods adopted by the CalPERS board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on the CalPERS' website at https://www.calpers.ca.gov/page/employers/actuarial-services/gasb.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The long term expected real rates of return by asset class are as follows:

Asset Class	Assumed Asset Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	0.90%

[1]An expected inflation of 2.500% used for this period
[2]An expected inflation of 3.000% used for this period

12. Defined Benefit Pension Plan (continued)

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

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/(Asset)	$ 4,897,495	$ 3,169,000	$ 1,737,430

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2018 and 2017, the District did not have a payable for outstanding contributions.

Required Information in Compliance with GASB No. 68 for Cost Sharing Multiple-Employer Defined Benefit Plans

Effective June 30, 2003, CalPERS risk pools were established for plans containing less than 100 active members as of that valuation date. The District is included in the risk pool for “Miscellaneous Retirement Plan 2.7% at 55” and/or “Miscellaneous Retirement Plan 2.0% at 62.”

Public Employees’ Pension Reform Act of 2013 (PEPRA)

On January 1, 2013, the Public Employees’ Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members, PEPRA also effectively closed all existing active risk pools to new employees. As such, it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to grow at 3 percent annually. Funding the promised pension benefits as a percentage of payrolls would lead to the underfunding of the plans. In addition, the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore, the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

12. Defined Benefit Pension Plan (continued)

In order to address these issues, the CalPERS Board of Administration structural changes to the risk pools approved at their May 21, 2014 meeting. All pooled plans will be combined into two active risk pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations. By combining the risk pools this way, the payroll of the risk pools and the employers within the risk pools can once again be expected to increase at the assumed 3 percent annual growth. This change will allow the continuation of current level percent of payroll amortization schedule. However, two important changes are being made which that affect employers.

Beginning in 2016, CalPERS collected employer contributions toward the unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund payments, the plan's normal cost contribution will continue to be collected as a percentage of each payroll.

The risk pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by the plan's individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

13. Other Postemployment Benefits

Plan Description

In addition to the pension benefits described in Note 12, the District has established an other postemployment benefits (OPEB) plan to provide health insurance (OPEB Plan) to employees in accordance with the Memorandum of Understanding between the District and its employees. These employees must meet certain service requirements and retire directly from employment with the District. According to the most current postemployment medical benefits plan, effective July 1, 2014 there are four tiers of benefits.

Tier 1 – Employees who retired prior to January 1, 2003, with five years of service, receive a benefit that is indexed by 6% each year and are eligible for spousal coverage up to the benefit

13. Other Postemployment Benefits (continued)

cap. The monthly cap was $779 as of January 1, 2018, $734 as of January 1, 2017, and $694 as of January 1, 2016.

Tier 2 – Employees who were employed prior to January 1, 2003, and retire with five years of District service, receive a monthly benefit that is set by the California Department of Personnel Administration. The monthly benefit cap was $725 as of January 1, 2018, $707 as of January 1, 2017, $705 as of January 1, 2016. This benefit is available to the employee only without any spousal coverage.

Tier 3 – Employees hired after January 1, 2003 are eligible for benefits from 50% to 100% of the rate established by the California Department of Personnel Administration. They have to work for the District for at least five years, retire from the District, and have a minimum of 10 years of CalPERS agency service to receive a 50% benefit. The benefit increases 5% each year after that until the maximum coverage is reached at 20 years of service.

Tier 4 – Employees who are hired after July 1, 2014 and retire from the District after 10 years of service are eligible for benefits from 50% to 100% of the rate established by the California Department of Personnel Administration. The benefit increases 5% each year after that until the maximum coverage is reached at 20 years of service and is available only to the employee.

All employees who retire from the District, have five years of CalPERS service credits, and participate in the CalPERS medical plan receive a benefit paid by the District equal to the minimum Public Employees' Medical and Hospital Care Act (PEMHCA) contribution. This monthly contribution is included in the cap outlined above for all tiers. However, an employee who is a member of Tier 3, but does not work for the District for five years, and has five year of CalPERS service credits, is eligible for the PEMHCA. The monthly amount was $133 as of January 1, 2018, $128 as of January 1, 2017, and $125 as of January 1, 2016.

Employees Covered

As of the December 31, 2016 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	20
Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to, but not yet receiving benefits	-
Total	43

13. Other Postemployment Benefits (continued)

Contributions

Effective, July 1, 2009, the District joined the California Employers' Retiree Benefit Trust (CERBT) in order to pre-fund the retiree medical costs. The objective of the CERBT is to seek favorable returns that reflect the broad investment performance through asset allocation. The employers who participate in the CERBT own units of the fund's portfolio, which is invested in accordance with the approved strategic asset allocation; they do not have direct ownership of the securities in the portfolio. The unit value changes with market conditions. The CERBT is a self-funded program, in which the participating employers pay the program costs. The cost charged to participating employers is based on the average daily balance of assets.

The annual contribution is based on the actuarially determined contribution which consists of the cost to fund the benefits for current and retired OPEB Plan participants and the implicit rate subsidy. The implicit rate subsidy results when the healthcare rate charged to retired employees is the group premium charged to active employees. This practice creates an OPEB liability based on the theory that retirees have higher utilization of health care benefits than active employees. Unless the premium rate for retirees is set to fully recover their healthcare costs, the premium for active employees is implicitly overstated to subsidize utilization by retirees. Similarly, unless the premium rate for retirees is set to fully recover their health costs, the premium for retirees is understated. This difference creates an implicit rate subsidy. This rate subsidy is considered a benefit that should be included in OPEB valuations. The OPEB obligation normally includes the cost of the implicit rate subsidy for the years in which the retiree is paying the active employee insurance costs for continued coverage. When the retiree is eligible for Medicare, the actual cost of coverage is much closer to the premium cost. Therefore, there is no OPEB liability assumed for Medicare-eligible retirees paying 100 percent of the premium. For the year ended June 30, 2018 the actuarially determined cash contribution was $219,673 and the implicit rate subsidy contribution was $59,093.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated December 31, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

13. Other Postemployment Benefits (continued)

The actuary used the following actuarial method and assumptions:

Actuarial Assumptions:

Discount Rate	6.73% (net of administrative expenses)
Projected Salary Increase	3.25% per year
Inflation	2.25% per year.
Investment Rate of Return	6.73%
Mortality	**Pre-Retirement:** Derived using CalPERS 2014 Mortality pre-retirement. **Post-Retirement**: Derived using CalPERS 2014 Mortality post-retirement.
Retirement	2014 experience study for performed by CalPERS for the Public Agency Miscellaneous members for the 2.7% at 55 actives and the 2% at 62 plans.
Healthcare Trend Rates	Pre-Medicare: 8.0%; Post-Medicare 5.5% calculated based on a weighted utilization of the offered healthcare plans. Ultimate rate 5%.

The long-term expected rate of return on OPEB plan investments in the CERBT Strategy 2 investment allocations as of June 30, 2017 (measurement date) for each major asset class are summarized in the following table:

Investment Class	Target Allocation	Long-Term Expected Real Rate of Return[1]
Equity	43.00%	5.45%
Fixed Income	49.00%	1.87%
REITs	8.00%	5.06%
Cash	-	0%

[1] JPMorgan arithmetic Long Term Capital Market assumptions and expected inflation of 2.25%

Discount Rate

The discount rate is based on a blend of (a) the long-term expected rate of return on assets for benefits covered by plan assets and a yield or index for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or better for benefits not covered by plan assets.

Above are the arithmetic long-term expected real rates of return by asset class for the next 10 years as provided in a report by JP Morgan. For years thereafter, returns were based on historical average index real returns over the last 30 years assuming a similar equity/fixed

13. Other Postemployment Benefits (continued)

investment mix and a 2.25% inflation rate. Investment expenses were assumed to be 10 basis points per year. These returns were matched with cash flows for benefits covered by plan assets and the Bond Buyer 20-Bond General Obligation index was matched with cash flows not covered by plan assets to measure the reasonableness of the choice in discount rate.

	June 30, 2017	June 30, 2016
Discount rate	6.73%	6.73%
Bond Buyer 20-Bond GO Index	3.58%	2.58%

Changes in the OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/Asset (c)
Balances at June 30, 2017 **(Valuation Date December 31, 2016)**	$ 2,910,217	$ 813,502	$ 2,096,715
Changes recognized for the measurement period:			
Service cost	77,776		77,776
Interest	196,002		196,002
Difference between expected and actual experience	156,326		156,326
Changes in assumptions	(457,988)		(457,988)
Contributions - Employer		287,951	(287,951)
Net Investment income		64,362	(64,362)
Benefit payments	(153,771)	(153,771)	-
Administrative expenses	-	(463)	463
Net Changes	(181,655)	198,079	(379,734)
Balance at June 30, 2018 **(Measurement Date June 30, 2017)**	$ 2,728,562	$ 1,011,581	$ 1,716,981

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

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017:

	Discount Rate Decrease - 1% (5.73%)	Current Discount Rate (6.73%)	Discount Rate Increase + 1% (7.73%)
Net OPEB Liability	$ 3,081,401	$ 2,728,562	$ 2,436,006

13. Other Postemployment Benefits (continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

	Current Healthcare Cost Trend Rates		
	1% Decrease	Current Rate	1% Increase
	(7.0% for pre-65/ 4.5% for post-65)	(8% for pre-65/ 5.5% for post-65)	(9% for pre-65/ 4.5% for post-65)
Net OPEB Liability	$ 2,439,377	$ 2,728,562	$ 3,061,615

OPEB Plan Fiduciary Net Position

CalPERS issues a separate CAFR. Copies of CERBT's annual financial report may be obtained from its Affiliate Program Services Division at 400 Q Street, Sacramento, CA 95811.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net positions are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net Difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (5.8 years at June 30, 2017)

13. Other Postemployment Benefits (continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of $169,423. As of June 30, 2018, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience in the measurement of the Total OPEB Liability	$ 133,211	$ -
Changes in assumptions	-	390,268
Net differences between projected and actual earnings on OPEB plan investments	-	4,149
Deferred Outflows and Inflows of Resources to be Amortized	133,211	394,417
OPEB contributions subsequent to measurement date	217,518	-
	$ 350,729	$ 394,417

Of the $350,729 reported as deferred outflows, $217,518 related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal year ending June 30,	
2019	$ (45,642)
2020	(45,642)
2021	(45,642)
2022	(45,642)
2023	(44,606)
Thereafter	(34,032)
	$ (261,206)

14. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disaster. The District's insurance coverage is carried through the California Sanitation Risk Management Association (CSRMA) in pooled programs and through a commercial insurance carrier. CSRMA is a public entity risk pool currently operating as a common risk management and insurance program for member sanitary districts located throughout California. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group. Although CSRMA may assess additional premiums to a member district in the event of losses in excess of reserves, no additional assessments have occurred nor are they contemplated.

The financial statements of CSRMA are available their website, www.csrma.org. Condensed financial information for CSRMA is presented below:

	Years Ended June 30,	
	2017[1]	2016
Total assets	$ 28,419,707	$ 28,336,567
Total liabilities	17,241,037	16,735,609
Net Position	**$ 11,178,670**	**$ 11,600,958**
Total revenues	$ 11,843,583	$ 11,843,583
Total expenditures	11,588,811	10,946,085
Net income (loss)	**$ 254,772**	**$ 897,498**

1 Most recent available.

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REQUIRED SUPPLEMENTARY INFORMATION

Miller Creek

Schedule of District's Proportionate Share of the Net Pension Liability – Last 10 Years

	Fiscal Reporting Year End June 30, 2018	2017	2016	2015
Measurement Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	3.195400%	0.034162%	0.030571%	0.027220%
Proportionate share of the net pension liability	$ 3,169,000	$ 2,722,446	$ 2,098,373	$ 1,693,868
Covered employee payroll	$ 2,234,070	$ 2,065,897	$ 2,002,442	$ 1,801,016
Proportionate share of the net pension liability as a percentage of covered-employee payroll	141.85%	131.78%	104.79%	94.05%
Plan's fiduciary net position	$ 9,397,583	$ 8,814,153	$ 8,719,117	$ 8,648,606
Plan fiduciary net position as a percentage of the plant's total pension liability	73.31%	74.06%	78.40%	79.82%

Schedule of Pension Contributions – Last 10 Years

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 332,915	$ 331,323	$ 295,148	$ 330,377
Contributions in relation to the actuarially determined contributions	(332,915)	(331,323)	(295,148)	(330,377)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 2,263,451	$ 2,234,070	$ 2,065,897	$ 2,002,442
Contributions as a percentage of covered-employee payroll	14.71%	14.83%	14.29%	16.50%

Notes to Schedule:

Changes in assumptions – The discount rate was changed from 7.65% to 7.15% for the measurement period ended June 30, 2017.

Historical information is required for measurement periods for which GASB 68 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Schedule of Changes in the Net OPEB Liability and Related Ratios

Measurement Date		6/30/2017
Total OPEB Liability		
Service cost	$	77,776
Interest		196,002
Difference between expected and actual experience		156,326
Changes in assumptions		(457,988)
Benefit payments		(153,771)
Net Change in Total OPEB Liability	$	(181,655)
Total OPEB Liability - beginning		2,910,217
Total OPEB Liability - ending (a)	**$**	**2,728,562**
Plan Fiduciary Net Position		
Contributions - Employer	$	287,951
Net Investment income		64,362
Benefit payments		(153,771)
Administrative expenses		(463)
Net Change in Plan Fiduciary Net Position	$	198,079
Plan fiduciary net position - beginning		813,502
Plan fiduciary net position - ending (b)	**$**	**1,011,581**
Net OPEB Liability - ending (a) - (b)	**$**	**1,716,981**
Plan fiduciary net position as a percentage of the total OPEB liability		37.07%
Covered-employee payroll	$	2,252,470
Net OPEB liability as a percentage of covered-employee payroll		76.23%

Notes to Schedule:

Historical information is required for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Schedule of OPEB Contributions – Last 10 Years*

Fiscal Year Ended June 30	2018
Actuarially Determined Contribution (ADC)	$ 219,673
Contributions in relation to the ADC	(287,951)
Contribution deficiency (excess)	$ (68,278)
Covered-employee payroll	$ 2,252,470
Contributions as a percentage of covered-employee payroll	12.78%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2018 were from the December 31, 2016 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed period, initially 30 years, 22 year remaining.
Asset Valuation Method	Market value
Inflation	2.25%
Investment Rate of Return	6.73%, based on CERBT investment allocation 2
Healthcare cost-trend rates	8% initial, 0.25% near term decreasing per year to trend rate that reflects medical price inflation.
Retirement Age	Actives hired before January 1, 2013 – 2.7% @ 55 Actives hired after January 1, 2013 – 2% @ 62 The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011
Mortality	**Pre-Retirement:** Derived using CalPERS 2014 Mortality pre-retirement. **Post-Retirement**: Derived using CalPERS 2014 Mortality post-retirement.

Historical information is required for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

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SUPPLEMENTARY INFORMATION

A view of St. Vincent’s from the reclamation area

Las Gallinas Valley Sanitary District

Budgetary Comparison Schedule

Fiscal Year Ended June 30, 2018

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
REVENUES:				
Sewer use charges	$ 13,634,900	$ 13,634,900	$ 13,634,548	$ (352)
Private sewer lateral assistance program	65,000	65,000	89,993	24,993
Miscellaneous	30,500	30,500	41,198	10,698
Property taxes	1,150,000	1,150,000	1,290,285	140,285
Intergovernmental fees	4,000	4,000	4,354	354
Franchise fees	25,000	25,000	25,000	-
Recycled water sales	75,100	75,100	61,081	(14,019)
Interest income	60,700	60,700	281,297	220,597
TOTAL REVENUES	**15,045,200**	**15,045,200**	**15,427,756**	**382,556**
EXPENDITURES:				
Personnel Costs:				
Salaries and wages	2,577,900	2,577,900	2,695,248	117,348
Employee benefits	1,244,420	1,244,420	1,222,721	(21,699)
Payroll processing fees	9,500	9,500	9,466	(34)
Operations Expense:				
Insurance	169,250	169,250	145,908	(23,342)
Repairs and maintenance	369,950	586,950	466,755	(120,195)
Chemicals	208,000	241,600	138,620	(102,980)
Pollution prevention	26,000	26,000	12,264	(13,736)
Laboratory services	30,000	30,000	37,425	7,425
Small tools	4,200	4,200	6,026	1,826
Outside services	86,100	141,100	259,827	118,727
Damage claim	10,000	10,000	407	(9,593)
Reclamation expense	67,500	67,500	67,573	73
Engineering consultants	172,500	182,500	159,753	(22,747)
Operating supplies	51,200	51,200	44,253	(6,947)

Las Gallinas Valley Sanitary District

Budgetary Comparison Schedule (continued)

Fiscal Year Ended June 30, 2018

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
Safety program and supplies	$ 48,900	$ 48,900	$ 48,673	$ (227)
Fuel, gas and oil	25,000	25,000	23,420	(1,580)
Private lateral assistance program	197,915	197,915	52,406	(145,509)
Equipment rent	8,000	8,000	2,992	(5,008)
Permits and fees	45,000	45,000	55,985	10,985
Employee training	22,000	22,000	16,273	(5,727)
Utilities	118,265	118,265	203,649	85,384
General and Administrative Expense:				
Conferences	51,000	51,000	64,231	13,231
Mileage and travel	5,200	5,200	8,025	2,825
Office expense	14,000	14,000	14,076	76
Computer support and supplies	50,000	50,000	121,468	71,468
Publications and legal ads	10,000	10,000	12,128	2,128
Public education	45,000	45,000	34,037	(10,963)
Rents and leases	14,000	14,000	13,370	(630)
Property and other taxes	8,000	8,000	8,917	917
Memberships	44,000	44,000	44,810	810
Legal and professional	197,000	277,000	223,551	(53,449)
Bank charges and collection fees	36,500	36,500	34,971	(1,529)
Employee recognition	4,500	4,500	6,616	2,116
Fines	6,000	6,000	-	(6,000)
Miscellaneous	1,000	1,000	-	(1,000)
EXPENDITURES BEFORE DEPRECIATION AND INTEREST	5,977,800	6,373,400	6,255,844	(117,556)
OPERATING AND MAINTENANCE SURPLUS BEFORE DEPRECIATION AND INTEREST	**$ 9,067,400**	**$ 8,671,800**	**$ 9,171,912**	**$ 265,000**

Accounting Basis for Schedule

The Budgetary Comparison Schedule is prepared on the Modified Accrual basis of accounting, based on the Operating and Maintenance Budget. It does not include depreciation since this GAAP expense is not budgeted. In addition, certain other revenues and expenditures are not included in the Statements of Revenues, Expenses and Changes in Net Position in accordance with GAAP. For budgeting purposes, these expenditures are monitored on the cash basis rather than accrual.

The following is reconciliation from the Statements of Revenues, Expenses and Changes in Net Position to the Budgetary Comparison Schedule as of June 30, 2018:

The reconciling items are:		
Operating and Nonoperating Revenues per the Statement of Revenues,		
Expenses and Changes in Net Position	$	15,337,763
Private sewer lateral assistance principal payments		89,993
Total Revenues per the Budgetary Comparison Schedule	**$**	**15,427,756**
Operating Expenses per the Statement of Revenues, Expenses, and		
Changes in Net Position	$	9,142,555
Depreciation		(2,600,961)
Employee benefits		(299,485)
Repairs and maintenance		238,444
Chemicals		1,477
Outside services		(294,159)
Operating supplies		(1,500)
Fuel, gas and oil		(1,373)
Private sewer lateral assistance program		52,406
Computer services		18,440
Total Expenditures included in the Budgetary Comparison Schedule	**$**	**6,255,844**

The budget amount, up to the amount of the actual expenditure, for certain items that were included in the Capital Outlay Budget, have been included in the Original, Revised and Final Appropriated Budget. These items were included in the District's Capital budget; however, the actual expenditures were either less than the District's capitalization threshold of $5,000 or, due to the nature of the expenditure, such as feasibility studies, they were charged to an expense account in the Statement of Revenues, Expenses and Changes in Net Position. Including the budget amounts in this schedule provides a better understanding of the current year results since the Capital Outlay budget is not included in the supplementary information.

Las Gallinas Valley Sanitary District

Glossary of Acronyms

In order to help the reader better understand the terms and abbreviations used in this document, management is providing a list of acronyms and their definitions.

ACRONYM	NAME	DEFINITION
AAL	Actuarial Accrued Liability	The actuarial present value of all postemployment benefits attributable to past service.
AICPA	American Institute of Certified Public Accountants	The national professional organization of Certified Public Accountants (CPAs) in the United States. It sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations, federal, state and local governments. It also develops and grades the Uniform CPA Examination.
AOC	Annual OPEB Cost	An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan. The annual OPEB cost is the amount that must be calculated and reported as an expense.
ARC	Annual Required Contribution	The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
Auditors' Opinion	Unmodified Opinion	An opinion is said to be unqualified when the Auditor concludes that the Financial Statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the Financial Statements. An Auditor gives a Clean opinion or Unqualified Opinion when he or she does not have any significant reservation in respect of matters contained in the Financial Statements. The most frequent type of report is referred to as the "Unqualified Opinion," and is regarded by many as the equivalent of a "clean bill of health" to a patient, which has led many to call it the "Clean Opinion," but in reality it is not a clean bill of health, because the Auditor can only provide reasonable assurance regarding the Financial Statements, not the health of the entity itself, or the integrity of company records not part of the foundation of the Financial Statements. This type of report is issued by an auditor when the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles (GAAP), which in other words means that the entity's financial condition, position, and operations are fairly presented in the financial statements. It is the best type of report an auditee may receive from an external auditor.

Glossary of Acronyms (continued)

ACRONYM	NAME	DEFINITION
CAFR	Comprehensive Annual Financial Report	A set of U.S. government financial statements comprising the financial report of a state, municipal or other governmental entity that complies with the accounting requirements promulgated by the GASB.
CalPERS	California Public Employees Retirement System	The California Public Employees' Retirement System is an agency in the California executive branch that "manages pension and health benefits for more than 1.6 million California public employees, retirees, and their families."
CERBT	California Employers' Retiree Benefit Trust	An investment vehicle that can be used by all California public employers to prefund future retiree health and OPEB.
CSRMA	California Sanitation Risk Management Association	A joint powers authority which provides broad coverage and risk management services to its members who are primarily local government agencies that provide water and wastewater services.
COP	Certificates of Participation	A financial document that is used by a municipal government or other government entity creates a bond issue. Revenues of the issuer are pledged to repay the bonds rather than being secured by property.
ERAF	Education Revenue Augmentation Funds	A fund used to collect the property taxes in each county that are shifted from cities, the county and special districts prior to their reallocation to K-14 school agencies. The county treasurer maintains the ERAF on behalf of the county auditor.
FASB	Financial Accounting Standards Board	Financial Accounting Standards Board (FASB) is a private, not-for-profit organization whose primary purpose is to develop generally accepted accounting principles (GAAP) within the United States in the public's interest.
FOG	Fats, Oils and Grease	Substances than can cause overflows of sanitary sewer systems if not disposed of properly.
GAAP	Generally Accepted Accounting Principles	The standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as accounting standards or standard accounting practice. These include the standards, conventions, and rules that accountants follow in recording and summarizing and in the preparation of financial statements.

Glossary of Acronyms (continued)

ACRONYM	NAME	DEFINITION
GASB	Governmental Accounting Standards Board	Currently the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States of America.
I&I	Infiltration and Inflow	Infiltration is groundwater entering sanitary sewers through defective pipe joints and broken pipes. Inflow is water entering sanitary sewers from inappropriate connections such as roof drains, cellar drains, and yard drains.
LAIF	Local Agency Investment Fund	A fund managed by the Office of the Treasurer of the State of California, which is available for local governments.
MD&A	Management Discussion and Analysis	An integrated part of the annual financial statements. The purpose of the MD&A is to provide a narrative explanation, through the eyes of management, of how an entity has performed in the past, its financial condition, and its future prospects.
MGD	Million Gallons per Day	Measurement unit used for calculating volume of wastewater treated at the plant.
MMWD	Marin Municipal Water District	Water agency for Marin County serving areas south of Ignacio.
NBWRA	North Bay Water Reuse Authority	A coordinated regional group of water and sanitation agencies in Sonoma, Marin, and Napa Counties to offset potable water demand by promoting water reuse for agriculture, urban, and environmental uses.
NMWD	North Marin Water District	Water agency for Marin County serving areas north of Ignacio and some coastal communities.
OPEB	Other Postemployment Benefits	Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, except benefits defined as special termination benefits.

STATISTICAL SECTION

Primary Clarifier #3 drained, inspected and Stamford baffles removed

Biogas Recovery System Microturbines

Introduction to the Statistical Section

This section of the Las Gallinas Valley Sanitary District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information, and supplementary information says about the District's overall health.

Financial Trend Information

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

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

Revenue Capacity Information

These schedules contain information to help the reader assess the factors affecting the District's ability to generate its largest single own-source revenue: sewer service charges.

- Sewer Service Charge Revenue
- Sewer Service Rates per Eligible Dwelling Unit
- Principal Revenue Payers
- Summary of Sewer Customers by Class

Debt Capacity Information

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.

- Revenues, Expenditures, Debt Service Coverage and Cash Flows from Operations
- Outstanding Debt per Connection
- Other Postemployment Benefits Funding Status and Covered Lives

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.

- Demographic and Economic Statistics
- Principal Employers in Marin County

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

- Recycled Water Production
- Daily Average Influent Flow
- Private Sewer Lateral Assistance Program
- Collection System Services
- Full-time Equivalent Employees by Function

Recycled water treatment facilities

Las Gallinas Valley Sanitary District

Statements of Net Position
for the Last Ten Fiscal Years

(in thousands)

Fiscal Years Ended June 30,

	2018	2017	2016	2015 As Restated	2014	2013	2012	2011	2010	2009
ASSETS										
Current Assets	$ 66,984	$ 63,817	$ 21,657	$ 20,401	$ 19,409	$ 18,716	$ 15,335	$ 18,699	$ 10,374	$ 8,687
Capital and other assets	65,282	64,935	59,823	56,651	54,820	53,390	54,609	41,266	40,485	39,921
TOTAL ASSETS	**132,266**	**128,752**	**81,480**	**77,052**	**74,229**	**72,106**	**69,944**	**59,965**	**50,859**	**48,608**
Deferred Outflows of Resources	**1,570**	**1,141**	**702**	**486**	**910**	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**133,836**	**129,893**	**82,182**	**77,538**	**75,139**	**72,106**	**69,944**	**59,965**	**50,859**	**48,608**
LIABILITIES										
Total current liabilities	3,412	3,823	1,841	2,136	1,956	1,877	8,399	2,695	1,777	1,688
Total noncurrent liabilities	55,938	56,121	16,162	16,823	18,919	17,007	11,556	12,138	8,099	8,490
TOTAL LIABILITIES	**59,350**	**59,944**	**18,003**	**18,959**	**20,875**	**18,884**	**19,955**	**14,833**	**9,876**	**10,178**
Deferred Inflows of Resources	**528**	**144**	**296**	**622**	-	-	-	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS RESOURCES	**59,878**	**60,088**	**18,299**	**19,581**	**20,875**	**18,884**	**19,955**	**14,833**	**9,876**	**10,178**
NET POSITION:										
Net investment in capital assets	51,243	48,605	43,749	39,712	37,011	34,787	36,553	32,830	32,640	31,867
Restricted	880	874	867	860	858	855	2,085	5,231	592	-
Unrestricted	21,836	20,325	19,227	17,491	16,394	17,580	11,351	7,071	7,751	6,563
TOTAL NET POSITION	**$ 73,958**	**$ 69,805**	**$ 63,883**	**$ 57,957**	**$ 54,264**	**$ 53,222**	**$ 49,989**	**$ 45,132**	**$ 40,983**	**$ 38,430**

Las Gallinas Valley Sanitary District

Statements of Revenues, Expenses and Changes in Net Position
For the Last Ten Fiscal Years

(in thousands)

	Fiscal Years Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
OPERATING REVENUES:				As Restated						
Sewer use charges	$ 13,635	$ 13,060	$ 11,647	$ 10,311	$ 10,157	$ 10,069	$ 9,233	$ 8,835	$ 7,604	$ 5,010
Recycled water fees	61	45	50	120	75	37	-	-	-	-
Miscellaneous	41	42	46	22	46	34	54	32	41	60
TOTAL OPERATING REVENUES	**13,737**	**13,147**	**11,743**	**10,453**	**10,278**	**10,140**	**9,287**	**8,867**	**7,645**	**5,070**
OPERATING EXPENSES:										
Sewage collection and pump stations	1,271	1,036	945	1,156	1,089	951	937	854	1,009	882
Sewage treatment	1,875	2,065	1,547	1,425	1,519	1,312	1,295	1,138	1,088	1,142
Sewage and solid waste disposal	129	216	83	127	340	267	147	143	85	205
Laboratory	339	338	295	352	402	377	387	353	313	255
Engineering[1]	650	532	448	435	325	296	-	-	-	-
Recycled water	69	57	98	109	90	60	-	-	-	-
General and administrative	2,208	1,719	1,635	1,467	1,692	2,093	1,726	1,756	1,564	1,237
Depreciation and amortization	2,601	2,526	2,429	2,413	2,432	2,311	1,842	1,860	1,828	1,721
TOTAL OPERATING EXPENSES	**9,142**	**8,489**	**7,480**	**7,484**	**7,889**	**7,667**	**6,334**	**6,104**	**5,887**	**5,442**
INCOME (LOSS) FROM OPERATIONS	4,595	4,658	4,263	2,969	2,389	2,473	2,953	2,763	1,758	(372)
NONOPERATING REVENUES:										
Property taxes	1,290	1,239	1,125	1,087	1,118	983	1,005	1,009	1,054	1,031
Federal and state grants	-	-	-	-	19	-	-	-	-	-
Franchise fees	25	25	25	25	25	25	25	25	25	25
Intergovernmental fees	4	4	4	4	5	5	5	5	5	5
Gain on disposal, net	-	-	-	1	-	-	-	6	7	70
Interest income	281	150	79	51	47	46	65	93	76	153
TOTAL NONOPERATING REVENUES	**1,600**	**1,418**	**1,233**	**1,168**	**1,214**	**1,059**	**1,100**	**1,138**	**1,167**	**1,284**

Las Gallinas Valley Sanitary District

Statements of Revenues, Expenses and Changes in Net Position
For the Last Ten Fiscal Years (continued)
(in thousands)

	Fiscal Years Ended June 30,									
	2018	2017	2016	2015 As Restated	2014	2013	2012	2011	2010	2009
NONOPERATING EXPENSES:										
Loss on disposals	$ 1	$ 6	$ -	$ -	$ 2	$ 48	$ -	$ -	$ -	$ -
Bond issuance costs	-	349	-	-	-	-	-	-	-	-
Interest expense	1,288	276	402	553	624	652	331	357	364	386
TOTAL NONOPERATING EXPENSES	**1,289**	**631**	**402**	**553**	**626**	**700**	**331**	**357**	**364**	**386**
INCOME BEFORE CONTRIBUTIONS	4,906	5,445	5,094	3,584	2,977	2,832	3,722	3,544	2,561	526
CAPITAL CONTRIBUTIONS:										
Connection fees	239	40	34	74	44	15	28	530	(8)	37
Federal and state grants	362	-	798	35	-	386	1,107	75	-	-
Intergovernmental	455	437	-	-	-	-	-	-	-	-
CHANGE IN NET POSITION	5,962	5,922	5,926	3,693	3,021	3,233	4,857	4,149	2,553	563
NET POSITION - BEGINNING OF YEAR AS PREVIOUSLY STATED	69,805	63,883	57,957	54,264	51,243	49,989	45,132	40,983	38,430	37,867
Restatement: Change in Accounting Principle[2]	(1,809)	-	-	-	-	-	-	-	-	-
NET POSITION - BEGINNING OF YEAR AS RESTATED	67,996	63,883	57,957	54,264	51,243	49,989	45,132	40,983	38,430	37,867
NET POSITION - END OF YEAR	**$ 73,958**	**$ 69,805**	**$ 63,883**	**$ 57,957**	**$ 54,264**	**$ 53,222**	**$ 49,989**	**$ 45,132**	**$ 40,983**	**$ 38,430**

[1] In prior years, these line items w ere classified w ith different departments.

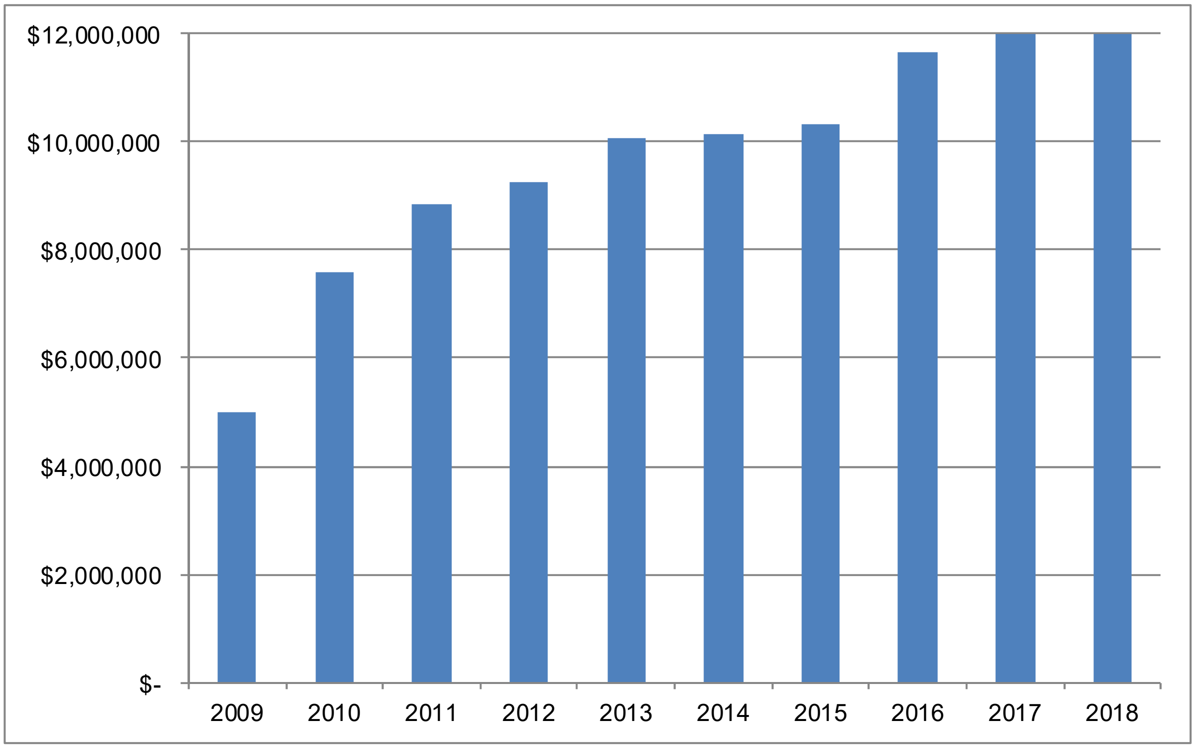
[2] The District implemented GASB 75 - Accounting for Postemployment Benefit Obligations during the fiscal year ended June 30, 2018.

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

Note: The Statements of Revenues, Expenses and Net Position have been restated for the correction of an error and the implementation of GASB No. 68.

Las Gallinas Valley Sanitary District

Sewer Service Charge Revenue
for the Past Ten Fiscal Years



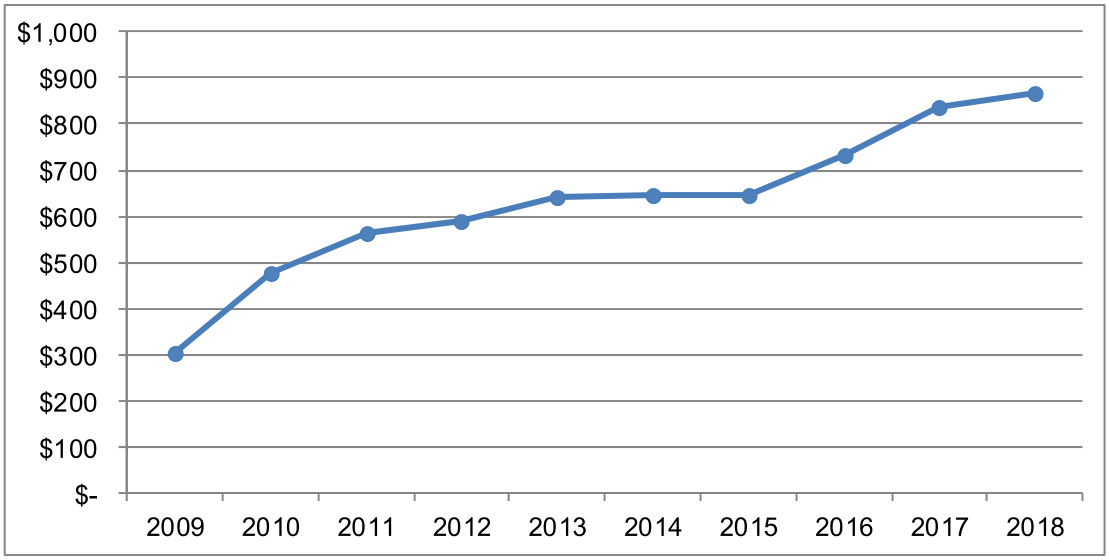
Historic Sewer Service Revenue

Fiscal Year Ended June 30,	Sewer Service	Percentage Change
2009	$ 5,006,202	6.86%
2010	$ 7,592,325	51.66%
2011	$ 8,834,558	16.36%
2012	$ 9,233,000	4.51%
2013	$ 10,069,600	9.06%
2014	$ 10,157,200	0.87%
2015	$ 10,311,200	1.52%
2016	$ 11,647,257	12.96%
2017	$ 13,059,850	12.13%
2018	$ 13,634,548	4.40%

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Sewer Service Rates Per Eligible Dwelling Unit for the Past Ten Fiscal Years



Historic Sewer Service Rates

Fiscal Year Ended June 30,	Sewer Service Rates	Percentage Change
2009	$ 303	0.0%
2010	$ 476	57.1%
2011	$ 563	18.3%
2012	$ 590	4.8%
2013	$ 642	8.8%
2014	$ 647	0.8%
2015	$ 647	0.0%
2016	$ 734	13.4%
2017	$ 835	13.8%
2018	$ 867	3.8%

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Principal Revenue Payers
for the Current Fiscal Year and Nine Years Prior

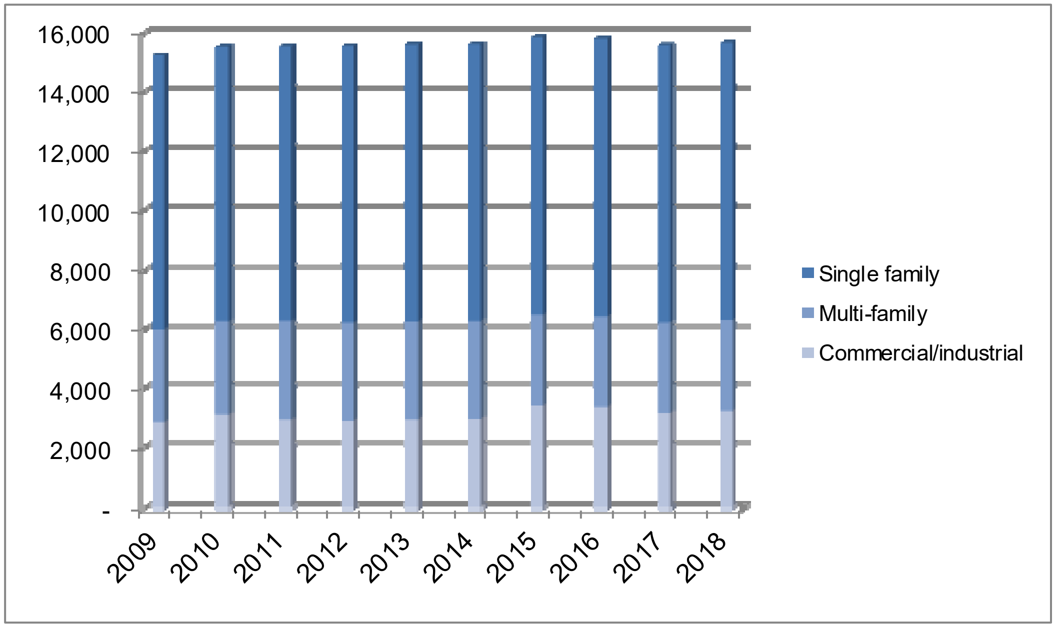
FY 2017/18			FY 2008/09		
Payer	Total Paid	Percentage of Revenue Collected	Payer	Total Paid	Percentage of Revenue Collected
County of Marin	$ 498,739	3.66%	Contempo Marin	$ 121,200	2.42%
Contempo Marin	363,102	2.66%	County of Marin	117,331	2.34%
Marin Valley Mobile Home Park	272,790	2.00%	Marin Valley Mobile Home Park	95,445	1.91%
Embassy Suites	252,386	1.85%	Northgate Mall	90,296	1.80%
Northgate Mall	211,984	1.55%	Bay Apartment Communities	77,873	1.55%
Bay Apartment Communities	199,065	1.46%	Embassy Suites	71,813	1.43%
Kaiser Permanente	136,034	1.00%	Deer Valley Apartments	52,724	1.05%
BRE Properties	135,341	0.99%	Sheraton Four Points	49,694	0.99%
San Rafael Manor	127,191	0.93%	San Rafael Manor	48,482	0.97%
Northbay Properties II	117,047	0.86%	Northbay Properties II	45,452	0.91%
Total	**$ 2,313,679**	**16.97%**	**Total**	**$ 770,310**	**15.38%**

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Summary of Sewer Customers by Class
for the Past Ten Fiscal Years

	June 30,										2018
Class	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	% of Total
Residential											
Single family	9,228	9,237	9,240	9,325	9,325	9,329	9,337	9,332	9,334	9,339	59.61%
Multi-family	3,134	3,142	3,323	3,302	3,298	3,300	3,060	3,053	3,050	3,059	19.53%
Subtotal	12,362	12,379	12,563	12,627	12,623	12,629	12,397	12,385	12,384	12,398	79.14%
Commercial/industrial	2,861	3,133	2,965	2,923	2,967	2,986	3,450	3,401	3,187	3,268	20.86%
Total	**15,223**	**15,512**	**15,528**	**15,550**	**15,590**	**15,615**	**15,847**	**15,786**	**15,571**	**15,666**	100.00%



Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Revenues, Expenditures, Debt Service Coverage and Cash Flow from Operations
For the Last Ten Fiscal Years

(in thousands)

	Fiscal Years Ended June 30,									
	2017	2017	2016	2015	2014	2013	2012	2011	2010	2009
GROSS REVENUES[1]				As Restated						
Sewer use charges	$ 13,635	$ 13,060	$ 11,647	$ 10,311	$ 10,157	$ 10,069	$ 9,233	$ 8,835	$ 7,604	$ 5,010
Property taxes	1,290	1,239	1,125	1,087	1,118	983	1,005	1,009	1,054	1,031
Recycled water fees	61	45	50	120	75	37	-	-	-	-
Other	590	261	188	177	186	125	177	691	146	350
TOTAL GROSS REVENUES	**15,576**	**14,605**	**13,010**	**11,695**	**11,536**	**11,214**	**10,415**	**10,535**	**8,804**	**6,391**
Marin Municipal Water District Debt Debt Reimbursement										
Bank of Marin	207	437	-	-	-	-	-	-	-	-
2017 Revenue Bonds	249	-	-	-	-	-	-	-	-	-
	456	437	-	-	-	-	-	-	-	-
OPERATING AND MAINTENANCE COSTS[2]										
Sewage collection, treatment and disposal	3,275	3,317	2,575	2,708	2,948	2,530	2,379	2,135	2,182	2,229
Laboratory	339	338	295	352	402	377	387	353	313	255
Engineering	650	532	448	435	325	296	-	-	-	-
Recycled water	69	57	98	109	90	60	-	-	-	-
General and administrative	2,208	1,719	1,635	1,467	1,692	2,093	1,726	1,756	1,564	1,237
Less accounting adjustment for pension expense and OPEB	(299)	(24)	145	48	-	-	-	-	-	-
TOTAL OPERATING AND MAINTENANCE COSTS	**6,242**	**5,939**	**5,196**	**5,119**	**5,457**	**5,356**	**4,492**	**4,244**	**4,059**	**3,721**
NET REVENUES	$ 9,334	$ 8,666	$ 7,814	$ 6,576	$ 6,079	$ 5,858	$ 5,923	$ 6,291	$ 4,745	$ 2,670

Las Gallinas Valley Sanitary District

Revenues, Expenditures, Debt Service Coverage and Cash Flow from Operations
For the Last Ten Fiscal Years (Continued)

(in thousands)

	Fiscal Years Ended June 30,									
	2018	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
DEBT SERVICE[3]										
Current fiscal year	$ 3,921	$ 1,543	$ 1,540	$ 1,540	$ 1,583	$ 1,591	$ 1,354	$ 755	$ 741	$ 746
Next fiscal year	$ 3,990	$ 3,921	$ 1,543	$ 1,540	$ 1,540	$ 1,583	$ 1,591	$ 1,354	$ 755	$ 741
COVERAGE (1.25X Requirement)										
Current fiscal year	2.38	5.62	5.08	4.27	3.84	3.68	4.37	8.33	6.40	3.58
Next fiscal year	2.34	2.21	5.06	4.27	3.95	3.70	3.72	4.65	6.28	3.60
CASH FLOW FROM OPERATIONS	$ 7,339	$ 7,336	$ 6,814	$ 5,190	$ 4,793	$ 5,059	$ 4,747	$ 5,604	$ 3,462	$ 1,430

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

Note: The Statements of Revenues, Expenses and Cash Flows from Operations have been restated for the correction of an error and the implementation of GASB No. 68.

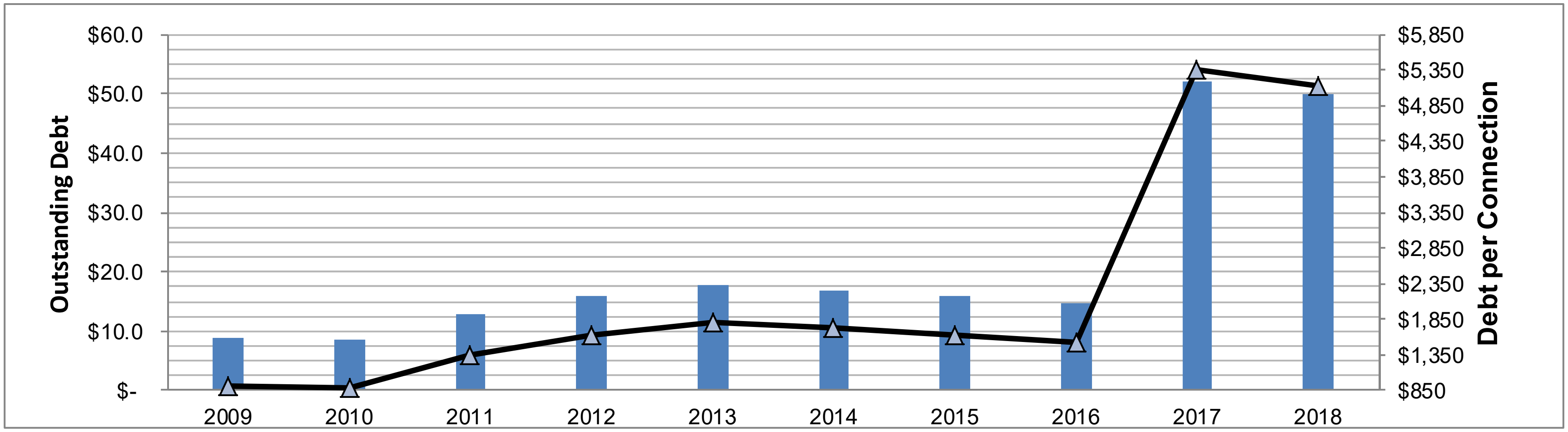
(1) Gross revenues includes all operating and nonoperating revenues and connection fees; excludes grants.

(2) Operating and maintenance costs means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Wastewater Enterprise excluding depreciation, amortization of intangibles, capital expenditures, accounting adjustments related to pension expense and other post-employment benefit (OPEB) plans.

(3) Debt service includes principal and interest due in the specified period

Las Gallinas Valley Sanitary District

Outstanding Debt Per Connection
for the Past Ten Fiscal Years



Type of Debt

Fiscal Year Ended June 30,	COP As Restated	Notes Payable	State Revolving Fund	2017 Revenue Bond	Total Outstanding Debt	Debt per Capita[1,2]	Total Connections	Debt per Connection
2009	$ 8,870,050	$ -	$ -	$ -	$ 8,870,050	$ 312	9,645	$ 920
2010	$ 8,493,705	$ -	$ -	$ -	$ 8,493,705	$ 292	9,650	$ 880
2011	$ 8,102,354	$ 4,600,000	$ 220,649	$ -	$ 12,923,003	$ 445	9,655	$ 1,338
2012	$ 7,696,005	$ 4,446,012	$ 3,720,274	$ -	$ 15,862,291	$ 546	9,735	$ 1,629
2013	$ 7,274,657	$ 6,144,972	$ 4,199,671	$ -	$ 17,619,300	$ 607	9,738	$ 1,809
2014	$ -	$ 12,749,974	$ 4,027,598	$ -	$ 16,777,572	$ 578	9,742	$ 1,722
2015	$ -	$ 11,928,573	$ 3,850,878	$ -	$ 15,779,451	$ 543	9,742	$ 1,620
2016	$ -	$ 11,079,644	$ 3,669,387	$ -	$ 14,749,031	$ 508	9,742	$ 1,514
2017	$ -	$ 10,196,639	$ 3,482,996	$ 38,365,000	$ 52,044,635	$ 1,792	9,742	$ 5,342
2018	$ -	$ 9,274,581	$ 3,291,572	$ 37,415,000	$ 49,981,153	$ 1,721	9,742	$ 5,130

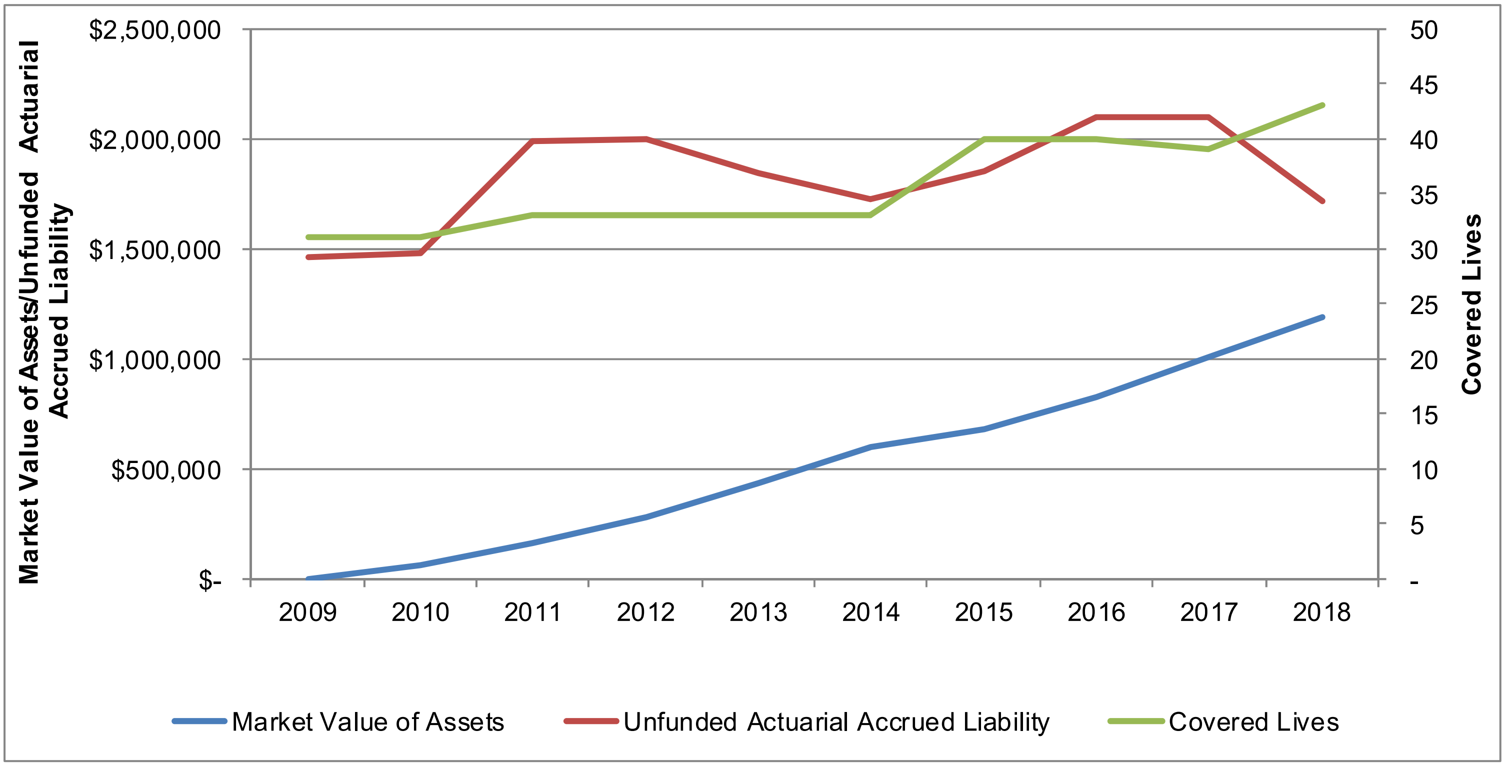
Source: Las Gallinas Valley Sanitary District records

[1] District population of 28,201 per the 2000 Census data for zip code 94903

[2] District population of 29,040 per the 2010 Census data for zip code 94903

Las Gallinas Valley Sanitary District

Other Postemployment Benefits Funding Status and Covered Lives for the Past Ten Fiscal Years



Fiscal Year Ended June 30,	Market Value of Assets	Unfunded Actuarial Accrued Liability	Covered Lives
2009	$ -	$ 1,465,852	31
2010	$ 63,348	$ 1,482,985	31
2011	$ 160,698	$ 1,985,486	33
2012	$ 285,231	$ 2,000,604	33
2013	$ 433,543	$ 1,844,973	33
2014	$ 601,454	$ 1,721,266	33
2015	$ 684,028	$ 1,854,011	40
2016	$ 822,086	$ 2,093,879	40
2017	$ 1,010,968	$ 2,094,980	39
2018	$ 1,192,391	$ 1,716,981	43

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Demographic and Economic Statistics
for the Past Ten Fiscal Years

Fiscal Year Ended June 30,	Population [1]	Personal Income ($000)[1]	Per Capita Personal Income ($000)[1]	School Enrollment[2]	Unemployment Rate[3]
2008	248,345	$ 23,135,609	$ 93,263	29,100	4.7%
2009	250,750	$ 22,351,575	$ 89,139	29,615	8.1%
2010	252,789	$ 20,854,466	$ 82,498	30,140	8.2%
2011	255,031	$ 21,871,623	$ 85,761	30,574	8.1%
2012	256,069	$ 23,918,732	$ 93,407	31,868	7.0%
2013	258,365	$ 25,093,401	$ 97,124	32,793	5.1%
2014	260,750	$ 25,716,754	$ 98,626	33,207	4.2%
2015	261,221	$ 28,492,821	$ 109,076	33,638	3.5%
2016	260,651	$ 30,222,883	$ 115,952	33,633	3.5%
2017	unavailable	unavailable	unavailable	unavailable	2.2%

Source: County of Marin Comprehensive Annual Financial Report for 2016/17

Notes:

[1] US Department of Commerce, Bureau of Economic Analysis - www.bea.gov, the most recently available data is for 2016.

[2] California Department of Education, Educational Demographics Office - www.ed-data.org/County/Marin, the most recently available data is for 2016.

[3] Employment Development Department, Labor Market Information - www.labormarketinfo.edd.ca.gov

Las Gallinas Valley Sanitary District

Principal Employers In Marin County
Most Recently Available and Ten Years Prior

2016

Employer	Employees	Percentage of Total County Employment
County of Marin	2,282	1.67%
Kaiser Permanente Medical Center	2,061	1.51%
Marin General Hospital	1,757	1.29%
San Quentin State Prison	1,662	1.22%
Novato Unified School District	800	0.59%
Autodesk, Inc.	719	0.53%
San Rafael City Schools	700	0.51%
Glassdoor	500	0.37%
Dominican University	456	0.33%
Marin County Office of Education	351	0.26%
Total	**11,288**	**8.27%**
Total County Employment	**136,500**	

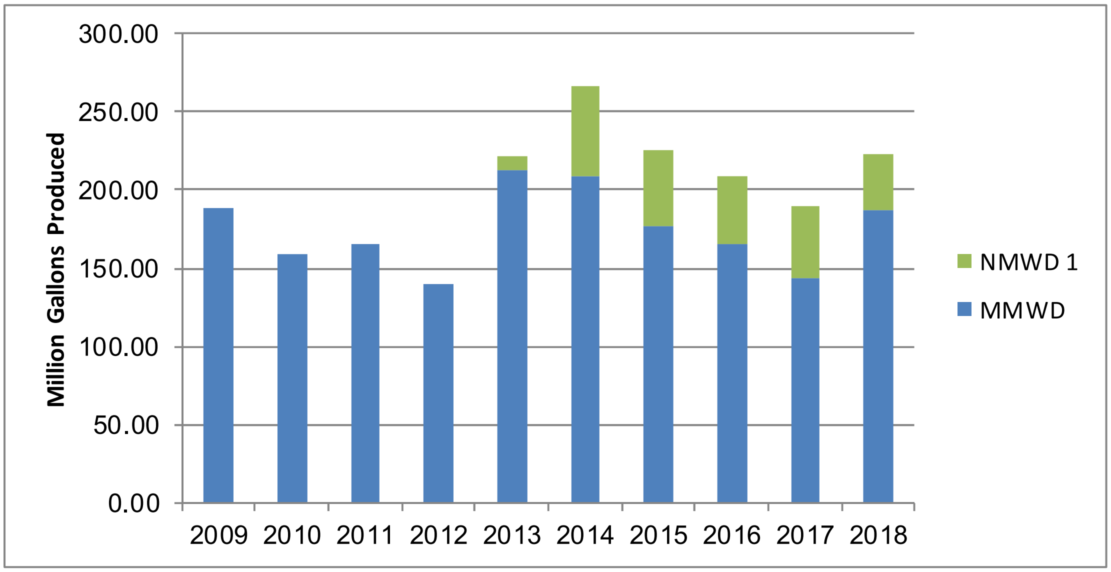
2006

Employer	Employees	Percentage of Total County Employment
County of Marin	2,195	1.76%
San Quentin Prison	1,718	1.37%
Kaiser Permanente	1,380	1.10%
Fireman's Fund	1,150	0.92%
Novato Unified School District	1,000	0.80%
Autodesk, Inc.	988	0.79%
Marin General Hospital	867	0.69%
Safeway, Inc.	636	0.51%
GreenPoint Mortgage	589	0.47%
Macy's	535	0.43%
Total	**11,058**	**8.85%**
Total County Employment	**125,000**	

Sources:
Most recent available data from the County of Marin Comprehensive Annual Financial Report for 2016/17
Community Profile, County of Marin
Employment Development Department, Labor Market Information - www.Labormarketinfo.edd.ca.gov

Las Gallinas Valley Sanitary District

Recycled Water Production
for the Past Ten Fiscal Years



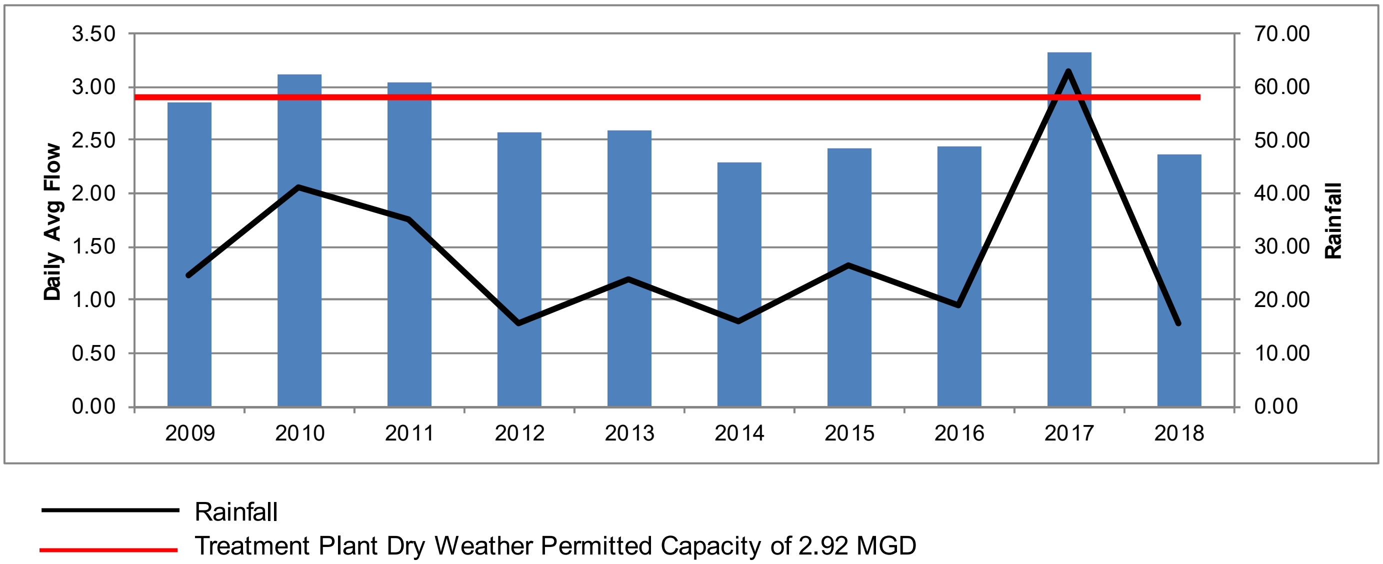
Fiscal Year Ended June 30,	Million Gallons Produced MMWD	NMWD [1]	Increase (Decrease)
2009	188.60	-	-11.52%
2010	159.48	-	-15.44%
2011	165.39	-	3.71%
2012	139.35	-	-15.74%
2013	212.03	9.52	58.99%
2014	209.28	56.44	19.94%
2015	176.91	48.96	-15.00%
2016	164.98	43.97	-7.49%
2017	143.86	45.53	-9.36%
2018	186.66	36.44	17.80%

Source: Las Gallinas Valley Sanitary District records

[1] The District began producing recycled water for NMWD in September 2012.

Las Gallinas Valley Sanitary District

Daily Average Influent Flow
for the Past Ten Fiscal Years



Fiscal Year Ended June 30,	Daily Average Flow (MGD)[1]	Increase (Decrease)	Rainfall		Increase (Decrease)
2009	2.85	-2.65%	24.75	2	1.02%
2010	3.11	9.27%	41.00	2	65.66%
2011	3.05	-2.17%	35.00	2	-14.63%
2012	2.57	-15.60%	15.75	2	-55.00%
2013	2.59	0.78%	23.73	2	50.67%
2014	2.30	-11.20%	16.00	2	-32.57%
2015	2.43	5.65%	26.51	2	65.69%
2016	2.44	0.41%	19.10	1	-27.95%
2017	3.32	35.98%	62.80	3	228.80%
2018	2.36	-28.87%	15.67	4	-75.05%

Sources:

[1] Las Gallinas Valley Sanitary District records

[2] Western Regional Climate Center, www.wrcc.dri.edu, rainfall reporting for the San Rafael Civic Center, California July 1 - June 30.

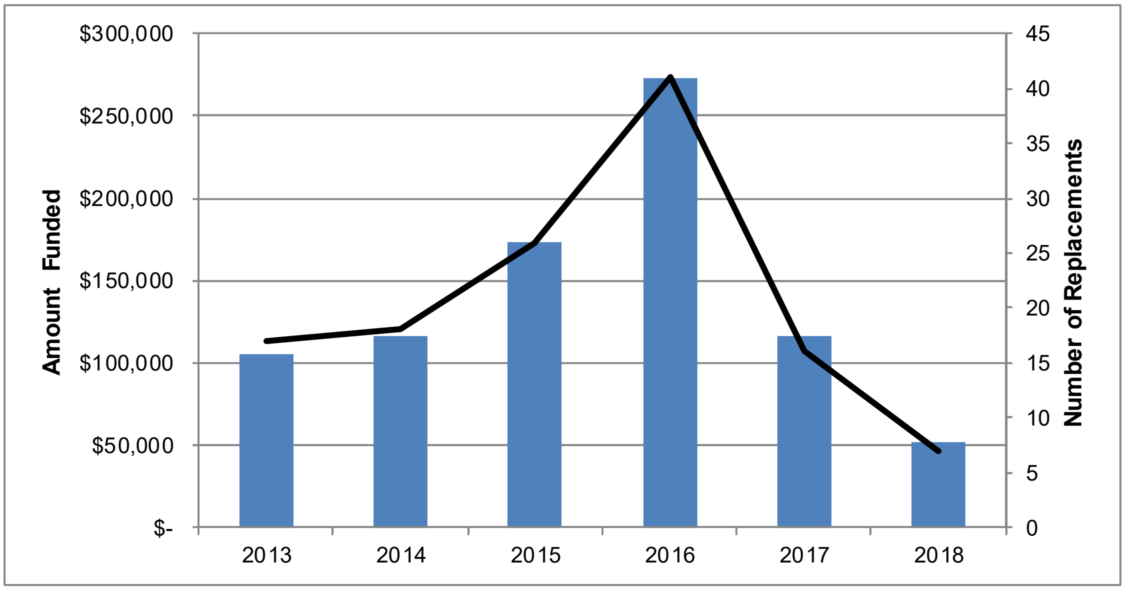
[3] National Weather Service Forecast Office, http://w2.weather.gov/climate/xmacis.php?wfo=mtr for San Rafael Civic Center, July - June

[4] North Marin Water District weather monitoring station at Highways 37 and 101 near Black Pointe.

Note: Concentrated efforts by the District to reduce infiltration and inflow (I&I) to the sewer collection system during wet weather events through its repair, replacement and maintenance program is demonstrated in the above graph. As rainfall increases, there been a gradual decrease in daily average flow at the treatment plant; this indicates that the District's sewer rehabilitation program is reducing I&I into the sewer system.

Las Gallinas Valley Sanitary District

Private Sewer Lateral Assistance Program for the Past Six Fiscal Years



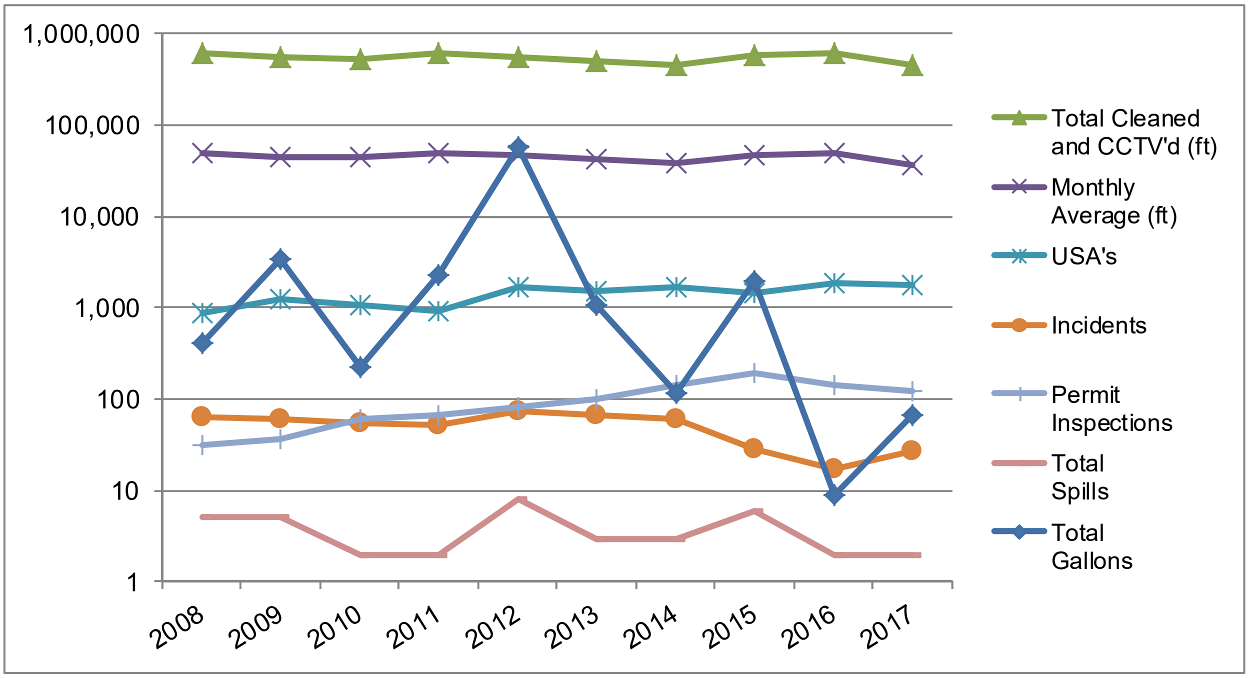
Fiscal Year Ended June 30,	Total Amount Funded	Increase (Decrease)	Number of Funded Replacements	Increase (Decrease)
2013	$ 104,831	-	17	4.62%
2014	$ 115,717	10.38%	18	5.88%
2015	$ 172,788	49.32%	26	44.44%
2016	$ 272,322	57.60%	41	57.69%
2017	$ 116,092	-57.37%	16	-60.98%
2018	$ 52,406	-54.86%	7	-56.25%

Source: Las Gallinas Valley Sanitary District records

Note: The District began the Private Sewer Lateral Assistance Program in 2013 to help property owners repair and replace their laterals.

Las Gallinas Valley Sanitary District

Collection System Services
Past Ten Calendar Years



Calendar Year	Total Cleaned and CCTV'd (ft)	Monthly Average (ft)	USA's	Incidents	Permit Inspections	Total Spills	Total Gallons
2008	597,230	49,769	875	65	31	5	409
2009	538,127	44,844	1,272	59	36	5	3,455
2010	535,844	44,654	1,053	54	60	2	225
2011	596,551	49,713	927	52	68	2	2,220
2012	561,940	46,828	1,645	74	81	8	56,190
2013	505,587	42,132	1,521	68	100	3	1,073
2014	452,649	37,721	1,721	62	141	3	114
2015	573,209	47,767	1,467	29	190	6	1,964
2016	597,656	49,805	1,896	17	141	2	9
2017	444,989	37,082	1,773	27	125	2	67

Source: Las Gallinas Valley Sanitary District records

Note: CCTV is video recording of the sewer mains and lateral performed with a mobile unit.
A USA is a request by the Underground Service Alert system to mark utility lines on public and private property. The purpose of the program is to prevent damage to the District's sewer system.

Las Gallinas Valley Sanitary District

Full-Time Equivalent Employees by Function for the Past Ten Fiscal Years

Fiscal Year Ended June 30,	Operations	Engineering	Laboratory[1]	Collection System	Administration	Board	Total
2009	5	-	2	5	4	5	21
2010	5	1	2	5	4	5	22
2011	6	2	2	5	4	5	24
2012	6	2	2	5	4	5	24
2013	6	2	2	5	4	5	24
2014	6	2	2	5	4	5	24
2015	6	3	2	5	4	5	25
2016	7	3	2	5	4	5	26
2017	7	3	2	5	4	5	26
2018	7	2	2	5	4	5	25

Source: Las Gallinas Valley Sanitary District records