



Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2014 and 2013



Las Gallinas Valley Sanitary District



Reclamation Area



Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2014 and 2013

Mark R. Williams, General Manager

Prepared by:

Susan M. McGuire, CPA – Administrative Services Manager

Las Gallinas Valley Sanitary District



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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**DISTRICT BOARD**

Megan Clark
Rabi Elias
Russ Greenfield
Craig K. Murray
Judy Schriebman

DISTRICT ADMINISTRATION

Mark R. Williams,
General Manager
Michael Cortez,
District Engineer
Mel Liebmann
Plant Manager
Janice Mandler,
Collection System/Safety Manager
Susan McGuire,
Administrative Services Manager

October 27, 2014

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 year ended June 30, 2014. This report was prepared by the District staff who collected and analyzed the financial statements and other information presented herein. 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.

METHOD OF PRESENTATION

This CAFR follows the guidelines recommended by the Government Finance Officers Association (GFOA) of the United States and Canada and is divided into the following sections:

Introductory

The reader is introduced to the CAFR and the District. The transmittal letter, organization chart, District administration, and other pertinent information are included in this section. This section is unaudited.

Financial

The District's basic financial statements have been audited by Burr Pilger Mayer, Inc. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended June 30, 2014 were 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 unqualified ("clean") opinion on the Las Gallinas Valley Sanitary District's financial statements for the year ended June 30, 2014. Their audit report is presented as the first component of the financial section of this report. Management's Discussion and Analysis (MD&A) immediately follows the independent auditors'

report and provides an overview and analysis of the basic financial statements. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it. Following the MD&A are the Basic Financial Statements, Notes to the Financial Statements, and Supplementary Information.

Statistical

Statistical information depicting the financial trend of the District for the past 10 years, revenue capacity data, debt capacity data, operations, demographics and other information are included in this section. This section is unaudited.

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 to update the District's Strategic Plan to determine the strategic goals and visions 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. During the most recent five year rate review, which was adopted by the Board in June 2009, long-term capital priorities were outlined for the years 2009 through 2014. 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 of Directors.

Accounting System

Las Gallinas Valley Sanitary District is an independent special district. The District's accounting structure, insofar as practical and in accordance with generally accepted accounting principles, 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 of Directors 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, 2013, it is comprised 97.5% residential (12,938 units) and 2.5% commercial/industrial (332 units).

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.
- Smoke testing of the entire District was completed in 2009; a new round of testing commenced in 2011. 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 completed televising all of its sewer mains in 2008 and has almost completed a second round; the process requires four years. Televising these lines allows District staff to identify future repair and replacement projects, as well as monitor the integrity of the system.
- The District received the California Water Environment Association Redwood Empire Section, Collection System of the Year Award, Small System Category (0-249 miles) for 2012. The winner of this award is judged on its regulatory compliance, administrative procedures, maintenance, safety, and training programs, emergency response procedures, and significant accomplishments including funding.

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 2.30 MGD of sewage per day in 2014.
- 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 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 settleable solids and grit 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 328 dry tons of biosolids during the calendar year 2013.

Reuse of Treated Wastewater

- The District is producing recycled water year round to meet increasing demand during this third year of drought in the region. In the past, recycled water was predominately used during the summer months which aligned with the District's non discharge period of June to 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 2014, 68.4 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, toilet flushing, cooling water uses, and car washes within the District's boundaries. During 2014, 209.3 million gallons were delivered to MMWD.
- The District completed construction of a new recycled water treatment facility in September 2012. 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 56.4 million gallons for NMWD during 2014.

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 lab staff manage the District's source control program. This includes a Fats Oils and Grease (FOG) Program which 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 participates in the Marin County Sanitation Agencies Public Education Program. This program allows the 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. The participating agencies won the California Water Environment Association Statewide Award for Public Education, large budget category for 2012, as well as the Redwood Empire Public Education Award Large Budget from the California Water Environment Association for 2013 which was awarded during 2014.

- 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 2013 in recognition of its outstanding efforts to promote transparency and good governance.

Solid Waste (Garbage) Services and Recycling

The District manages the garbage collection 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 new, customers in the near future. The connection fee for new users is \$6,200 per unit and has remained at this rate since July 1, 2007.

The Board of Directors adopted a five year rate review and capital improvement plan in June 2009. At that time they contemplated increasing the then sewer use charge of \$303 per unit to \$680 by 2014. The current rate for 2014 of \$647 is below the average for neighboring agencies in Marin County.

Compared to neighboring jurisdictions, Las Gallinas customers in the unincorporated area enjoy one of the lowest garbage and recycling rates. As of January 1, 2014, customers can expect to pay a monthly service fee of \$23.17 for a 20-gallon cart and \$27.26 for a 32-gallon cart. This is below the Marin County average of \$32.94 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, 2013. In order to be awarded a

Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report 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 Comprehensive Annual Financial Report is the culmination of the hard work and dedication of many District employees and the audit team under the direction of Jim Babcock of the accounting firm Burr Pilger Mayer, Inc. Las Gallinas Valley Sanitary District staff would like to acknowledge the support of the Board of Directors for its continuing direction and oversight in providing value to the community of San Rafael.



Mark R. Williams
General Manager



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, 2013

Executive Director/CEO

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Mission Statement

Fiscal Year Ended June 30, 2014

Our Mission

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

Vision

Recognizing that sanitation and wastewater treatment is a vital component of protecting the public health, the LGVSD will:

- manage our treatment and collection infrastructure in a planned and sustainable way;
- 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 participation, acceptance and understanding of what we do;
- responsibly manage the refuse franchise;
- maintain our zero spill goal;
- consider climate change, sea level rise and flooding when developing and designing new projects;
- reduce our impact on natural resources; and
- collaborate with public and private parties to improve watersheds within the District's boundaries.

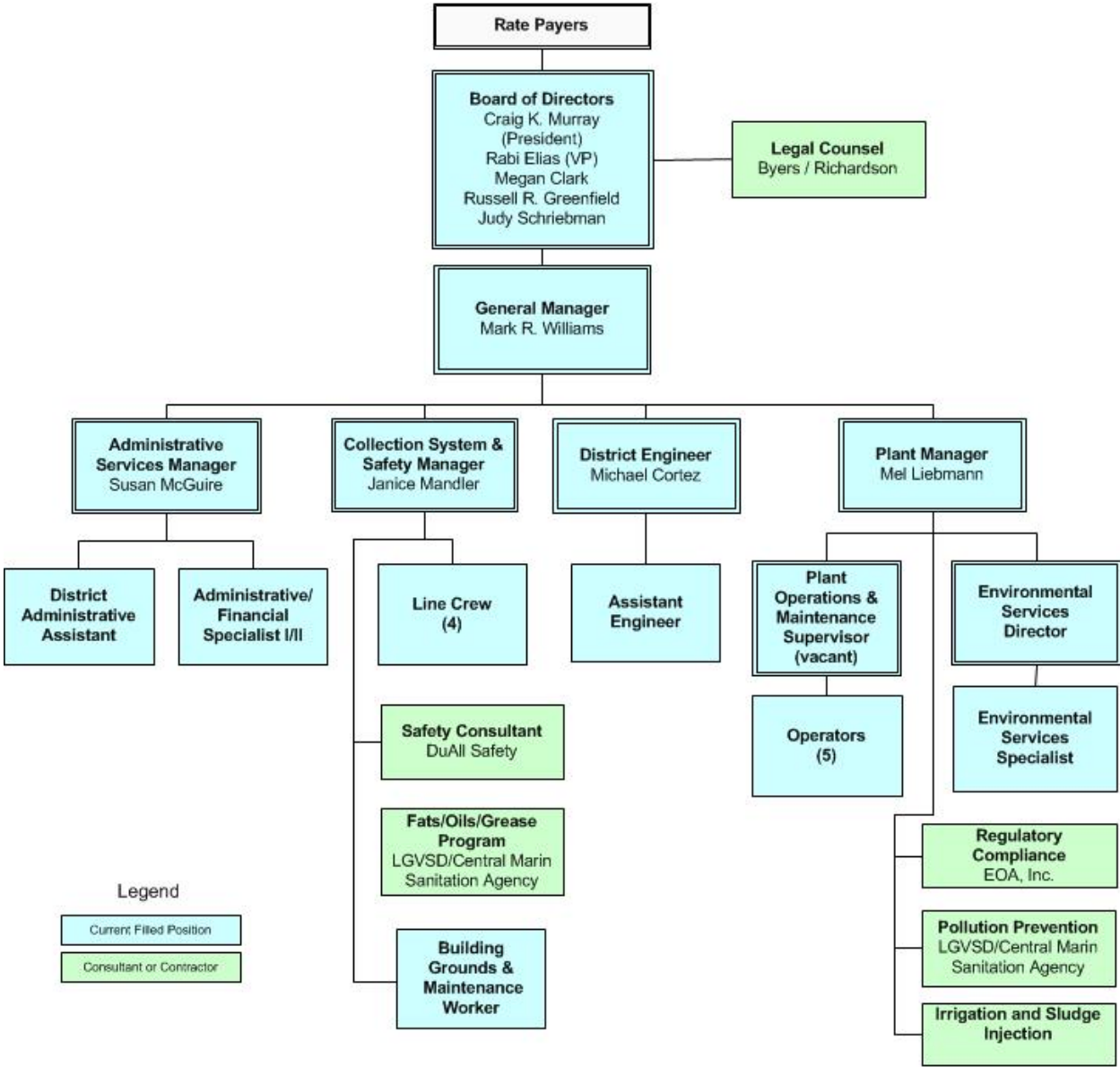
Our Core Values

- Does it reflect our commitment to the Public Health and to the Environment?
- Will it support high quality customer service and public outreach?
- Does it enhance our infrastructure, facility maintenance and system reliability?
- Will it support best workforce practices?
- Does it establish equitable, reasonable, and necessary rates by responsible use of the Public's funds now and in the future?
- Does it build on and leverage our network of Partners?
- Will it support our ability to govern as a Board team with honesty, transparency, and respect?
- Does it support domestically produced products where possible?
- Will it support our commitment to practical innovative methods?

Las Gallinas Valley Sanitary District Comprehensive Annual Financial Report

Organizational Chart

Fiscal Year Ended June 30, 2014



**Las Gallinas Valley Sanitary District
Comprehensive Annual Financial Report**

Directory of Officials

Fiscal Year Ended June 30, 2014

Board of Directors

Megan Clark	President	12/13/2013 – 12/13/2017
Russ Greenfield	Director	12/13/2013 – 12/13/2017
Rabi Elias	Director	12/13/2013 – 12/13/2017
Craig K. Murray	Director	12/16/2011 – 12/10/2015
Judy Schriebman	Director	12/16/2011 – 12/10/2015

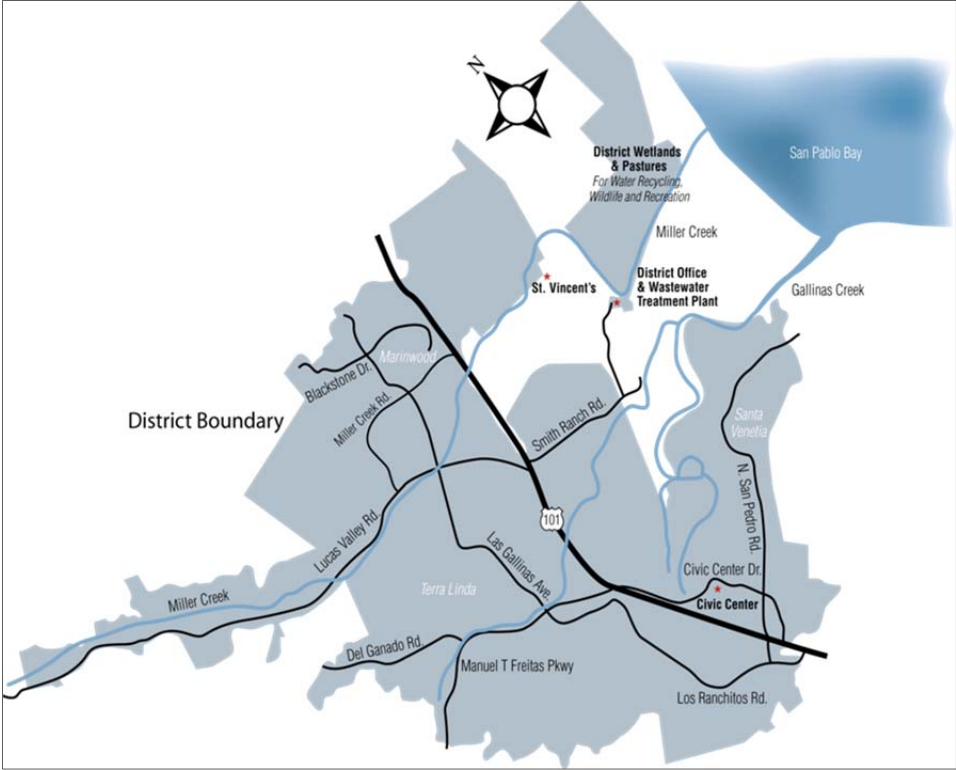
Administration

Mark R. Williams	General Manager
Michael P. Cortez, P.E.	District Engineer
Mel Liebmann	Plant Manager
Janice Mandler	Collection System/Safety Manager
Susan McGuire, CPA	Administrative Services Manager
Nanci Turnbull	District Secretary – Pro Tem

**Las Gallinas Valley Sanitary District
Comprehensive Annual Financial Report**

District Service Area

Fiscal Year Ended June 30, 2014



Las Gallinas Valley Sanitary District



Photovoltaic Panels Generate Power for the Treatment Plant



Trickling filters

FINANCIAL SECTION



Las Gallinas Valley Sanitary District

Lab staff with the 2012 Redwood Empire Section –
Public Education Award Large Budget



Administration Staff with the Transparency Certificate of Excellence –
Awarded by the Special District Leadership Foundation



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Las Gallinas Valley Sanitary District (the District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Las Gallinas Valley Sanitary District as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years 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 and budgetary comparison information, as listed in the table of contents, 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 audits 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, budgetary comparison section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

Burr Pilger Mayer, Inc.

Burr Pilger Mayer, Inc.
San Jose, California
October 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS



Las Gallinas Valley Sanitary District

Staff at work



Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

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 years ended June 30, 2014 and 2013. 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 \$137,000 over the previous year. This increase was due to a 0.87% increase in the sewer service revenue and increased recycled water revenue.
- Operating expenses, net of depreciation, increased by \$222,000 due to costs incurred for several feasibility studies undertaken to evaluate options in replacing the co-generation facilities to comply with new air quality regulations; upgrading one of the sewer trunk lines and a pump station; and managing part of the reclamation area to prevent flooding during severe storm events. The District also undertook a sewer rate methodology study to evaluate the options for calculating its rates in the future. These increases were offset by decreases in personnel costs. In 2013, the District's pension side fund with California Public Employees' Retirement System (CalPERS) was paid off, resulting in future cost savings and a decrease of \$505,000 between 2013 and 2014. Also in 2014, the biennial actuarial valuation of the other post-employment benefits plan was performed. Changes in the demographics of covered members resulted in lower projected cost for the next five years.
- The District participates in the North Bay Water Reuse Authority (NBWRA), which is a group of water and wastewater agencies that surround the San Pablo Bay. NBWRA received a \$7.3 million American Recovery and Reinvestment Act (ARRA) grant in July 2010 and a \$1.3 million federal WaterSMART grant in May 2011 to fund recycled water treatment and distribution improvements. The District also applied for and was awarded a Proposition 84/ Integrated Water Resources Management Program grant from the California Department of Water Resources. The final disbursement from the grant of \$381,250 was received during 2014 for costs related to the project, which was completed in July 2012 and began providing recycled water to North Marin Water District (NMWD) in September 2012.
- Nonoperating expenses are comprised primarily of interest expense. The District refinanced the Certificates of Participation in April 2014 to reduce the interest rate from an average of 4% to 3.3%. The projected cash flow savings over the remaining period outstanding is \$344,000. As part of the refinance, the remaining discount of \$42,000 on the old debt was charged to interest expense, as well as the 1%, or \$68,800, call premium.

Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

District Highlights

- The District treated 835 million gallons for wastewater and produced 266 million gallons of effluent for recycled water treatment and distribution by MMWD and NMWD during 2014.
- The District has two photovoltaic systems which power the reclamation pump station and the treatment plant. These systems generated 213,000 kWh of electricity for operations resulting in the District utilizing net 219,000 kWh of electricity for operating the plant during the year.
- The District continued with its sewer main rehabilitation program by repairing and replacing 2.03 miles of sewer mains; 132 laterals.
- 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 over ten years through their property taxes. During 2014, \$115,700 was advanced to eight-teen 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 four parts: Management's Discussion and Analysis, Financial Statements, 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 STATEMENT

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 which provides 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.

Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

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 in them. The difference between assets and liabilities (net position) is one way to measure financial health or financial position. Over time, increases or decreases in District 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 in 2014 by \$2,910,145 and in 2013 by \$3,233,878. The following condensed financial statements show net asset position, statement of net position and statement of revenues, expenses and changes in net position.

CONDENSED STATEMENTS OF NET POSITION

Fiscal years ended June 30, 2014, 2013 and 2012

	2014	2013	2012 As Restated
ASSETS			
Current assets	\$ 19,409,060	\$ 18,715,747	\$ 15,335,473
Capital assets	53,788,914	52,452,100	52,464,200
Other noncurrent assets	1,030,932	938,012	2,144,360
Total assets	74,228,906	72,105,859	69,944,033
LIABILITIES			
Current liabilities	1,955,948	1,876,516	8,077,557
Noncurrent liabilities	16,140,347	17,006,877	11,877,888
Total liabilities	18,096,295	18,883,393	19,955,445
NET POSITION			
Invested in capital assets	37,011,342	34,787,458	36,552,914
Restricted	858,263	854,644	2,085,374
Unrestricted	18,263,006	17,580,364	11,350,300
Total net position	\$ 56,132,611	\$ 53,222,466	\$ 49,988,588

Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

Analysis of Changes in Statements of Net Position

Current assets increased by \$693,313 in 2014 and \$3,380,274 in 2013 due to increases in cash and receivables. The District has built up cash to pay for future construction. Capital assets, net of accumulated depreciation, increased by \$1,336,814 in 2014. Spending on projects was \$3,769,938; this was offset by depreciation of \$2,431,549. In 2013, capital assets, net of accumulated depreciation, decreased by \$12,100 in 2013 due to more depreciation expense from two large projects. These projects, with a cost of approximately \$14 million have a combined depreciation expense of \$458,900 for 2013. Other noncurrent assets increased by \$92,920 in 2014 due to additional advances under the private sewer lateral assistance program. In 2013 they decreased by \$1,206,348 in 2013 primarily due to the expenditure of the loan proceeds for construction of the recycled water treatment facility which were received in June 2011 and spent down in 2012 and 2013.

Current liabilities increased in 2014 by \$79,432 due to increases in accounts payable, accrued payroll, and the current portion of long-term debt. In 2013 it decreased by \$6,201,040 due to reduction in accounts payable related to construction projects and the conversion of the construction loan to a term loan, which is included in long-term debt, net of current portion. Noncurrent liabilities decreased in 2014 due to regularly scheduled principal payments on the debt. They increased in 2013, due to two loans. One is the construction loan which converted to a term loan and the other is a \$2 million loan related to construction of the recycled water facility.

Las Gallinas Valley Sanitary District
Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

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, 2014, 2013 and 2012

	2014	2013	2012 As Restated
REVENUE			
Operating revenues			
Sewer use charges	\$ 10,157,194	\$ 10,069,648	\$ 9,233,153
Recycled water fees	74,703	36,676	-
Miscellaneous	45,846	34,173	54,185
Nonoperating revenues			
Tax revenues	1,117,756	982,759	1,004,835
Federal and state grants	19,063	385,619	1,107,034
Interest income and other	76,282	76,178	94,495
	11,490,844	11,585,053	11,493,702
EXPENSES			
Operating expenses	7,888,621	7,666,246	6,334,042
Nonoperating expenses	735,803	699,979	331,810
	8,624,424	8,366,225	6,665,852
Change in net position	2,866,420	3,218,828	4,827,850
CAPITAL CONTRIBUTIONS - CONNECTION FEES	43,725	15,050	28,347
Net position - beginning of year	53,222,466	49,988,588	45,132,391
Net position - end of year	\$ 56,132,611	\$ 53,222,466	\$ 49,988,588

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

Revenue of the District increased in 2014 due to a less than 1% increase in the sewer user charges from \$642 to \$647 per unit and from additional recycled water production for NMWD. In 2013, it increased due to a planned 8.8% sewer user charge increase from \$590 to \$642 per unit and from producing recycled water for NMWD. Miscellaneous income increased in 2014 due to higher insurance dividends and the reimbursement of costs incurred by the District for reviewing developer's plan and projects prior to connection to the District. These reimbursements did not occur in 2013, resulting in a decrease in 2013, by \$20,012.

Las Gallinas Valley Sanitary District
Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

Operating expenses increased by \$222,375 in 2014 and \$1,332,204 in 2013 due to increases in depreciation expense, feasibility study costs, personnel costs, and maintenance expense.

Nonoperating revenues decreased in 2014 by \$231,455 due to the completion of the grant funding related to constructing the recycled water treatment plant which was offset by additional Education Revenue Augmentation Funds (ERAF) receipts from prior years. They decreased in 2013 by \$761,808 primarily due to the submission of grant reimbursement requests in 2012.

Nonoperating expenses increased in 2014 due to the charge off of the bond discount and a call premium related to refinancing the Certificates of Participation. In 2013 they increased due to the interest on the additional outstanding debt related to prior year construction projects completed during the summer of 2012.

Connection fees increased in 2014 due to renewed construction however they decreased in 2013 due to smaller projects connecting to the District.

DESIGNATED RESERVES

The District's current policy, adopted as part of the five year rate plan and the Board Policies and Procedures in 2009, established a goal of increasing the reserves, originally established in 2002, to meet updated financial needs. Unrestricted net position was designated for the following at June 30, 2014:

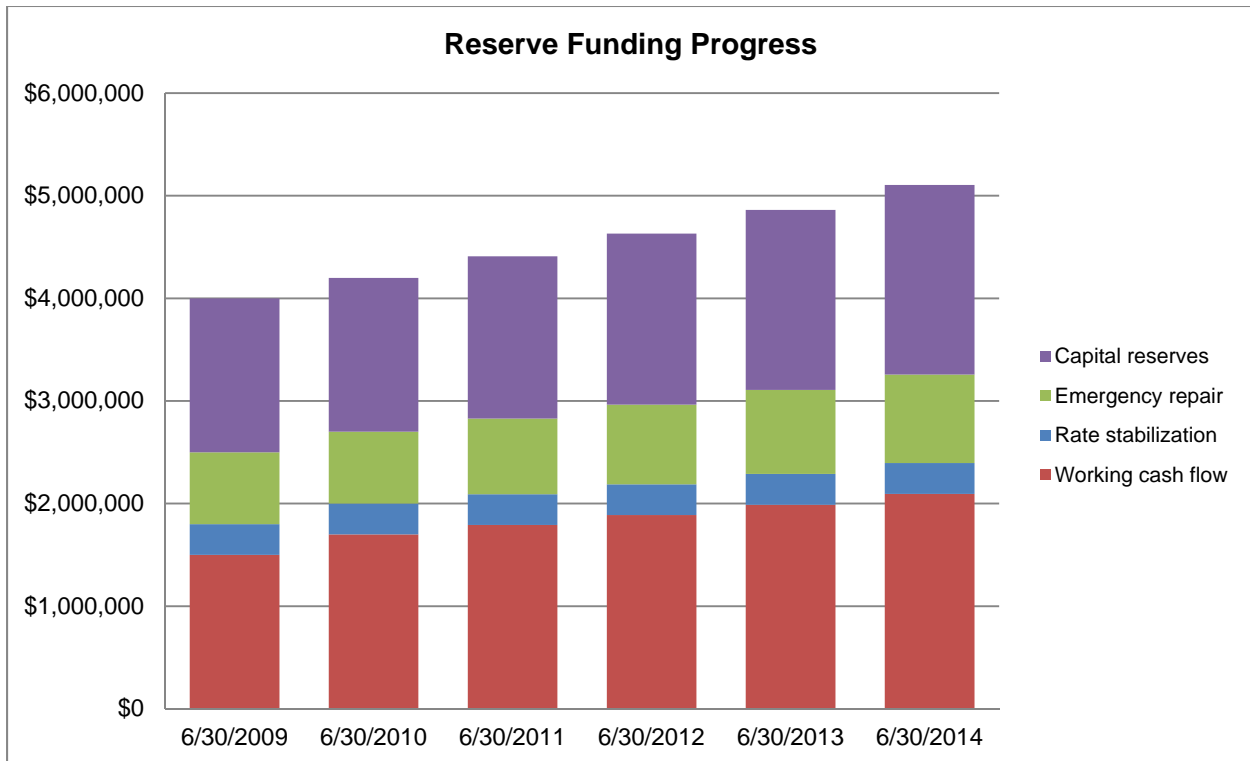
	June 30, 2014	Target Balance	Prior Target
Operating reserves:			
Working cash flow	\$ 2,094,542	\$ 2,590,000	\$ 1,500,000
Rate stabilization	300,000	300,000	300,000
Emergency repair	862,459	1,000,000	700,000
Total operating reserves	3,257,001	3,890,000	2,500,000
Capital reserves	1,848,125	4,000,000	1,500,000
Total reserves	\$ 5,105,126	\$ 7,890,000	\$ 4,000,000

Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

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



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had \$53,788,914 (net of accumulated depreciation) invested in capital assets. The District's investment in capital assets increased by \$3,709,531 from \$94,421,042 at the beginning of the year to \$98,130,573 at the end of the year. There were minor disposals with a cost of \$60,407 for items that are no longer in service. The assets include: land, subsurface lines, the sewage collection, treatment and disposal system, and equipment.

Major capital asset events during the year included the following:

- Completion of a pump station upgrade.
- Upgrades to the treatment plant.
- Sewer system rehabilitation project.

Management reviewed the classification of assets within general ledger accounts during the year and reclassified certain items to more clearly reflect their purpose.

Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

The following summarizes District capital assets for the year ended June 30, 2014:

	Audited Balance June 30, 2013	Additions	Disposals	Transfers/ Reclass	Audited Balance June 30, 2014
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	1,675,586	3,077,607	-	(913,467)	3,839,726
Subsurface lines	26,329,698	80,660	-	-	26,410,358
Facilities and equipment	63,548,187	611,671	(60,407)	913,467	65,012,918
	94,421,042	3,769,938	(60,407)	-	98,130,573
Less: Accumulated depreciation	(41,968,942)	(2,431,549)	58,832	-	(44,341,659)
Capital assets, net of accumulated depreciation	<u>\$ 52,452,100</u>	<u>\$ 1,338,389</u>	<u>\$ (1,575)</u>	<u>\$ -</u>	<u>\$ 53,788,914</u>

Additional information on the capital assets can be found in Note 6 of the notes to the financial statements of this report.

Long-Term Debt

The District has total debt of \$16,777,571 as of June 30, 2014 related to the purchase and construction of capital assets. The Certificates of Participation (COPs) were refinanced with a private lender in 2014. See Note 8 for additional discussion regarding the transaction. The District has agreed to certain financial covenants, including maintaining rates to provide for a net revenue debt service coverage ratio of at least 120%. The District's total debt decreased by \$841,729 (4.7%) due to regularly scheduled principal payments of \$955,871 offset by the call premium on the refinanced COPs which was added to the principal balance of the new note.

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

	Audited Balance June 30, 2013	Additions	Reductions	Audited Balance June 30, 2014
Bonds Payable				
Certificates of Participation	\$ 7,274,657	\$ -	\$ (7,274,657)	\$ -
Notes Payable				
Bank of Marin	\$ 6,144,972	\$ -	\$ (343,798)	\$ 5,801,174
Municipal Finance Corporation	-	6,948,800	-	6,948,800
State Revolving Fund Loan	4,199,671	-	(172,074)	4,027,597
	<u>\$ 10,344,643</u>	<u>\$ 6,948,800</u>	<u>\$ (515,872)</u>	<u>\$ 16,777,571</u>

The District maintains an "AAA" rating from Standard & Poor's for its COP debt.

Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

Additional information on the long-term debt can be found in Note 8 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 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 treatment plant, 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 undertook a rate review process in 2008 in light of necessary improvements and is in the fifth year of the five year plan.

The expected revenue from sanitary service charges is as follows:

<u>Fiscal Year</u>	<u>Price per Sanitary Unit</u>	<u>Expected Total Revenue</u>	<u>Status</u>
2010-11	\$ 563	\$ 8,741,250	Approved June 2010
2011-12	\$ 590	\$ 9,145,000	Approved June 2011
2012-13	\$ 642	\$ 10,088,000	Approved May 2012
2013-14	\$ 647	\$ 10,143,000	Approved June 2013
2014-15	\$ 647	\$ 10,280,000	Approved June 2014

The District reviewed the sewer rate methodology used to calculate charges for commercial, single family residential and multi-family residential customers in 2014. Due to the impact of changes in the method of calculating rates, the Board decided not to raise the charge per sanitary sewer unit for 2015. The District is reviewing its operating and capital needs during 2015 in order to establish sewer service rates for the year beginning July 1, 2015 and forward. This process will begin in the fall of 2014.

Las Gallinas Valley Sanitary District

Management's Discussion And Analysis

Fiscal Years Ended June 30, 2014 and 2013

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 manners. 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 updating the pool members of the impact of changes in the investment landscape on the portfolio. The balance is invested in savings accounts with 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.

BASIC FINANCIAL STATEMENTS



Las Gallinas Valley Sanitary District



Wildlife in the reclamation area

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and cash equivalents, nonrestricted	\$ 18,948,345	\$ 18,150,684
Receivables		
Connection fees	9,300	22,920
Grant reimbursements	-	23,431
User charges	74,705	106,477
Interest	9,058	11,674
Lateral assistance program	26,199	22,670
Other	24,041	38,311
Inventory of supplies	266,441	279,584
Net Prepaid OPEB	-	230
Prepaid expenses	<u>50,971</u>	<u>59,766</u>
TOTAL CURRENT ASSETS	<u>19,409,060</u>	<u>18,715,747</u>
Restricted cash for debt service	<u>858,263</u>	<u>854,644</u>
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	<u>53,788,914</u>	<u>52,452,100</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Receivables, noncurrent		
User charges	-	1,091
Lateral assistance program	<u>172,669</u>	<u>82,277</u>
TOTAL OTHER ASSETS	<u>172,669</u>	<u>83,368</u>
TOTAL ASSETS	<u>\$ 74,228,906</u>	<u>\$ 72,105,859</u>

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

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 702,461	\$ 671,992
Net OPEB obligation	115	-
Accrued payroll	55,226	37,134
Accrued compensated absences	65,000	60,000
Accrued interest payable	40,087	47,405
Current portion of long-term debt	998,120	955,871
Deferred connection fees	94,939	104,114
	<u>1,955,948</u>	<u>1,876,516</u>
TOTAL CURRENT LIABILITIES	1,955,948	1,876,516
NONCURRENT LIABILITIES:		
Accrued compensated absences	360,895	343,448
Notes payable, long-term	15,779,452	9,828,772
Bonds payable, long-term	-	6,834,657
	<u>16,140,347</u>	<u>17,006,877</u>
TOTAL NONCURRENT LIABILITIES	16,140,347	17,006,877
	<u>18,096,295</u>	<u>18,883,393</u>
NET POSITION:		
Net investment in capital assets	37,011,342	34,787,458
Restricted for debt service	858,263	854,644
Unrestricted	18,263,006	17,580,364
	<u>56,132,611</u>	<u>53,222,466</u>
TOTAL NET POSITION	\$ 56,132,611	\$ 53,222,466

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, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Sewer use charges	\$ 10,157,194	\$ 10,069,648
Recycled water fees	74,703	36,676
Miscellaneous	45,846	34,173
TOTAL OPERATING REVENUES	10,277,743	10,140,497
OPERATING EXPENSES:		
Sewage collection and pump stations	1,089,209	951,137
Sewage treatment	1,519,099	1,311,611
Sewage and solid waste disposal	340,317	266,863
Laboratory	402,417	376,781
Engineering	324,677	295,792
Recycled water	90,151	59,917
General and administrative	1,691,202	2,092,738
Depreciation and amortization	2,431,549	2,311,407
TOTAL OPERATING EXPENSES	7,888,621	7,666,246
INCOME FROM OPERATIONS	2,389,122	2,474,251
NONOPERATING REVENUES:		
Property taxes	1,117,756	982,759
Federal and state grants	19,063	385,619
Franchise fees	25,000	25,000
Intergovernmental fees	4,588	4,625
Interest income	46,694	46,553
TOTAL NONOPERATING REVENUES	1,213,101	1,444,556
NONOPERATING EXPENSES:		
Loss on disposal, net	1,575	48,000
Interest expense	734,228	651,979
TOTAL NONOPERATING EXPENSES	735,803	699,979
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,866,420	3,218,828
CAPITAL CONTRIBUTIONS - CONNECTION FEES	43,725	15,050
CHANGE IN NET POSITION	2,910,145	3,233,878
NET POSITION - BEGINNING OF YEAR	53,222,466	49,988,588
NET POSITION - END OF YEAR	\$ 56,132,611	\$ 53,222,466

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 10,311,499	\$ 10,121,263
Cash payments to employees	(1,948,817)	(1,967,865)
Cash payments to suppliers	(3,610,958)	(3,121,541)
Other receipts	40,937	27,208
	4,792,661	5,059,065
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	4,588	4,625
Franchise fees	25,000	25,000
Advances for the Private Sewer Lateral Assistance Program	(114,496)	(98,306)
Repayment from the Private Sewer Lateral Assistance Program	21,795	527
Property taxes received	1,115,628	1,041,548
	1,052,515	973,394
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from grants	19,063	697,303
Connection fees collected	48,170	24,943
Acquisition and construction of capital assets	(3,577,165)	(2,557,258)
Principal payments, long-term debt	(955,871)	(899,651)
	(4,465,803)	(2,734,663)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	49,311	42,641
Interest expense, net of interest income	(627,404)	(637,283)
	(578,093)	(594,642)
NET INCREASE IN CASH AND EQUIVALENTS	801,280	2,703,154
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	19,005,328	16,302,174
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 19,806,608	\$ 19,005,328

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, 2014 and 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,389,122	\$ 2,474,251
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,431,549	2,311,407
Changes in assets and liabilities:		
User charges receivable	32,863	44,650
Other receivables	41,830	(36,676)
Inventory of supplies	13,143	1,960
Prepaid expenses	9,025	4,647
Accounts payable	(165,410)	242,388
Accrued payroll	18,092	(8,493)
Accrued compensation	22,447	24,931
	<u>\$ 4,792,661</u>	<u>\$ 5,059,065</u>
 Net cash provided by operating activities		
	\$ 4,792,661	\$ 5,059,065
 SUPPLEMENTARY INFORMATION CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	\$ 3,382,392	\$ 2,233,691
Financed through accounts payable	194,773	2,918,043
Financed through construction loan draws	-	(2,594,476)
	<u>\$ 3,577,165</u>	<u>\$ 2,557,258</u>
 Cash paid for acquisition and construction of capital assets		
	\$ 3,577,165	\$ 2,557,258
 Principal balance of refinanced debt	 \$ 6,880,000	 \$ -
Call premium on refinanced debt	68,800	-
Principal balance on new debt	(6,948,800)	-
	<u>\$ -</u>	<u>\$ -</u>
 Cash paid for refinancing of debt		
	\$ -	\$ -

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

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 garbage 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 Las Gallinas Valley Sanitary District. The Board of Directors of the District 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 Las Gallinas Valley Sanitary District.

The District is governed by a five person Board of Directors elected for four year terms.

2. Summary of Significant Accounting Policies

Basis of Accounting

On July 1, 2003, the District adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 (GASB No.34), *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*. GASB No. 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - 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,

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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 do not meet the definition of "restricted" or "invested in capital assets, net of related debts"

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.

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 which 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.

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 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 of Directors. A budget revision is usually presented to the Board

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

of Directors 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 3 for additional information on investment policies and practices for both the State of California and the District.

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. The District's policy is to include in construction-in-progress the capitalized interest cost of related borrowings, net of interest earned on unspent proceeds of the related borrowings.

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. 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.

Bond Discount

The District incurred a bond discount as part of issuing its Certificates of Participation (COPs) in 2005. In accordance with GASB 65, *Items Previously Reported as Assets and Liabilities*, they are deducted from the outstanding principal amount of the debt and are amortized over the

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

repayment term of the related bonds as an increase to interest expense. The COPs were refinanced in 2014 and the balance of the unamortized discount was charged to interest expense. See Note 8 for further discussion.

Compensated Absences

The District provides vacation and sick leave benefits to its employees. Upon termination of 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 included in its liabilities an accrual for accumulated earned, but unused, leave.

Balance at June 30, 2013		\$ 403,448
Accrued compensated absences earned	364,621	
Accrued compensated absences used	<u>(342,174)</u>	
Net change in accrued compensated absences		<u>22,447</u>
Balance at June 30, 2014		<u>\$ 425,895</u>

The current portion of the noncurrent liability to be used within the next year is estimated by management to be approximately \$65,000, or 15%.

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.

Grants

The District's grants are cost-reimbursement grants which are earned as it makes the allowable expenditures under the agreement. 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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Connection Fees

The District charges connection fees to developers to reserve system capacity. Amounts charged are recorded as liabilities (deferred connection fees) until connections are actually made. Once connections are made, the fees are recognized as increases to capital contributions. In accordance with GASB Statement 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.

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, 2014 and 2013, the District received \$735,765 and \$698,477, respectively, in property taxes and \$381,991 and \$284,282, respectively, in ERAF.

Interest

The District capitalizes the interest cost incurred for assets that require an acquisition period to get them ready for use. The interest cost capitalization period begins when the following three conditions are met: expenditures have occurred; activities necessary to prepare the asset, including administrative activities before construction, have begun; and interest cost has been incurred. Interest cost is not capitalized during delays or interruptions, other than for brief periods. 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. When the project is completed, the interest cost will be included in the amount of the asset that is capitalized and depreciated over the assets' useful life.

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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In June of 2012, GASB issued GASBS No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 27* (GASB No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts that meet certain criteria relating to irrevocable contributions, dedicated plan assets, and protection of plan assets from creditors. The requirements of GASB Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified into categories. Cost-sharing employers, such as the District, are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans. Cost-sharing plans are pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

Cost-sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)-the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability.

In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities. Cost-sharing employers also should disclose information about how their contributions to the pension plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) information about required contributions, contributions to the pension plan, and related ratios. The District is required to implement provisions of this Statement for the year ended June 30, 2015 (effective for periods beginning after June 15, 2014). The District is in the process of evaluating the impact of implementing GASB No. 68 for financial reporting.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB No. 69). The Statement established accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This pronouncement is effective for periods beginning after December 15, 2013. The District does not believe there will be a significant financial statement effect related to this statement.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB No. 68* (GASB No 71). The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, GASB No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to GASB No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of GASB No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of GASB No. 71 are required to be applied simultaneously with the provisions of GASB No. 68. The District is in the process of evaluating the impact of implementing this statement for financial reporting.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

3. Cash and Cash Equivalents

At June 30, 2014, 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 debt service reserve funds of \$858,263 and \$854,644, including earned interest, as of June 30, 2014 and 2013, respectively.

In accordance with the Consolidated Reassessment and Refunding District of 2003 (Note 8) bond covenants, the District established restricted accounts to be used for capital improvements and for paying principal and interest. The accounts are not considered to be the assets of the District and are not reflected in the financial statements. The restricted cash balance at June 30, 2014 and 2013 was \$274,798 and \$276,508, respectively, and was maintained by the Marin County Treasurer.

Cash and cash equivalents consist of the following:

	June 30, 2014	
	Reported/Fair Value	
	<u>Unrestricted</u>	<u>Restricted</u>
Cash in bank and on hand:		
Bank of Marin	\$ 5,066,066	\$ -
Petty cash	889	-
Total cash in bank and on hand	<u>5,066,955</u>	<u>-</u>
Investments:		
Certificates of Deposit	-	858,263
Local Agency Investment Fund (LAIF)	<u>13,881,390</u>	<u>-</u>
Total investments	<u>13,881,390</u>	<u>858,263</u>
Total cash and cash equivalents as of June 30, 2014	<u>\$ 18,948,345</u>	<u>\$ 858,263</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

3. Cash and Cash Equivalents (continued)

	June 30, 2013	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	\$ 2,603,791	\$ -
Petty cash	1,502	-
Total cash in bank and on hand	<u>2,605,293</u>	<u>-</u>
Investments:		
Certificates of Deposit	-	854,644
Local Agency Investment Fund (LAIF)	<u>15,545,391</u>	<u>-</u>
Total investments	<u>15,545,391</u>	<u>854,644</u>
Total cash and cash equivalents as of June 30, 2013	<u>\$ 18,150,684</u>	<u>\$ 854,644</u>

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.

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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

3. Cash and Cash Equivalents (continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 average maturity of the investments contained in the LAIF investment pool is approximately 9 months.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

3. Cash and Cash Equivalents (continued)

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, 2014:

		<u>Maturity Date</u>
Certificates of Deposit	\$ 858,263	29 days average
LAIF	<u>13,881,390</u>	278 days average
	<u><u>\$ 14,739,653</u></u>	

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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

3. Cash and Cash Equivalents (continued)

Certificates of Deposit

The District is required to maintain cash of \$853,491 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 0.245%, and mature in July 2015 and August 2015, 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 \$13,892,129 and \$15,545,391 as of June 30, 2014 and 2013, respectively. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities totaling \$1,205.9 million and \$753.4 million as of June 30, 2014 and 2013, respectively, and structured notes totaling \$400 million as of June 30, 2013. 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.

4. 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, 3% in June and 2% in 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.

5. Lateral Assistance Program

The District established a lateral assistance program in March 2012 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, interest is charged at 2%, and the amount is repaid over 10 years through the property tax collections.

As of June 30, 2014 and 2013, collections made by the County of Marin, but remitted to the District in July, were \$6,534 and \$5,281, respectively.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

5. Lateral Assistance Program (continued)

The activity in the program for 2014 and 2013 is as follows:

Balance at June 30, 2012	\$ -
Payments received	(5,166)
Advances made	<u>104,831</u>
Balance at June 30, 2013	<u>\$ 99,665</u>
Payments received	(23,048)
Advances made	<u>115,717</u>
Balance at June 30, 2014	<u><u>\$ 192,334</u></u>

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

Fiscal year ending June 30,	
2015	\$ 19,665
2016	19,928
2017	20,342
2018	20,756
2019	21,178
2020 to 2024	<u>90,465</u>
	<u><u>\$ 192,334</u></u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

6. Capital Assets

During 2014 and 2013, the District reclassified equipment general ledger accounts to reflect their utilization.

A summary of property, plant and equipment transactions for the year ended June 30, 2014 is as follows:

	Beginning Balance at July 1, 2013	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2014
Capital assets not being depreciated:					
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	1,675,586	3,077,607	-	(913,467)	3,839,726
Total capital assets, not being depreciated	4,543,157	3,077,607	-	(913,467)	6,707,297
Capital assets being depreciated:					
Subsurface lines	26,329,698	80,660	-	-	26,410,358
Facilities and equipment					
Sew age collection	2,472,295	-	-	(262,887)	2,209,408
Sew age treatment	29,505,620	432,875	(51,796)	470,557	30,357,256
Sew age disposal	8,200,137	-	-	-	8,200,137
Reclamation	1,225,512	49,948	-	27,501	1,302,961
Recycled water production	9,411,520	-	-	-	9,411,520
Pump stations	11,459,861	117,628	-	670,826	12,248,315
Administration	740,176	11,220	(8,611)	7,471	750,256
Laboratory	533,066	-	-	-	533,066
Total capital assets being depreciated	89,877,885	692,331	(60,407)	913,467	91,423,276
Less accumulated depreciation for:					
Subsurface lines	(12,628,939)	(508,785)	-	-	(13,137,724)
Facilities and equipment					
Sew age collection	(1,794,430)	(83,063)	-	183,992	(1,693,501)
Sew age treatment	(13,936,132)	(765,547)	51,796	-	(14,649,883)
Sew age disposal	(5,861,347)	(157,124)	-	-	(6,018,471)
Reclamation	(613,811)	(122,386)	-	(2,757)	(738,954)
Recycled water production	(282,311)	(376,881)	-	-	(659,192)
Pump stations	(6,229,963)	(363,815)	-	(181,235)	(6,775,013)
Administration	(434,351)	(37,030)	7,036	-	(464,345)
Laboratory	(187,658)	(16,918)	-	-	(204,576)
Accumulated depreciation	(41,968,942)	(2,431,549)	58,832	-	(44,341,659)
Total capital assets being depreciated, net	47,908,943	(1,739,218)	(1,575)	913,467	47,081,617
Capital assets, net	\$ 52,452,100	\$ 1,338,389	\$ (1,575)	\$ -	\$ 53,788,914

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

6. Capital Assets (continued)

A summary of property, plant and equipment transactions for the year ended June 30, 2013 is as follows:

	Beginning Balance at July 1, 2012	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2013
Capital assets not being depreciated:					
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	11,534,427	1,023,360	-	(10,882,201)	1,675,586
Total capital assets, not being depreciated	14,401,998	1,023,360	-	(10,882,201)	4,543,157
Capital assets being depreciated:					
Subsurface lines	14,192,030	98,740	-	12,038,928	26,329,698
Facilities and equipment					
Sew age collection	19,977,574	8,845	-	(17,514,124)	2,472,295
Sew age treatment	29,679,392	83,134	(64,336)	(192,570)	29,505,620
Sew age disposal	8,194,272	6,500	-	(635)	8,200,137
Reclamation	1,186,721	-	-	38,791	1,225,512
Recycled water production	-	1,037,609	-	8,373,911	9,411,520
Pump stations	-	89,119	-	11,370,742	11,459,861
Administration	1,169,736	-	(2,190)	(427,370)	740,176
Laboratory	3,340,087	-	(1,549)	(2,805,472)	533,066
Total capital assets being depreciated	77,739,812	1,323,947	(68,075)	10,882,201	89,877,885
Less accumulated depreciation for:					
Subsurface lines	(12,125,474)	(503,465)	-	-	(12,628,939)
Facilities and equipment					
Sew age collection	(1,697,935)	(96,495)	-	-	(1,794,430)
Sew age treatment	(13,205,134)	(747,336)	16,338	-	(13,936,132)
Sew age disposal	(5,702,912)	(158,435)	-	-	(5,861,347)
Reclamation	(492,786)	(121,025)	-	-	(613,811)
Recycled water production	-	(282,311)	-	-	(282,311)
Pump stations	(5,882,827)	(347,136)	-	-	(6,229,963)
Administration	(398,254)	(38,286)	2,189	-	(434,351)
Laboratory	(172,288)	(16,918)	1,548	-	(187,658)
Accumulated depreciation	(39,677,610)	(2,311,407)	20,075	-	(41,968,942)
Total capital assets being depreciated, net	38,062,202	(987,460)	(48,000)	10,882,201	47,908,943
Capital assets, net	\$ 52,464,200	\$ 35,900	\$ (48,000)	\$ -	\$ 52,452,100

7. 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 2013, has been extended until December 31, 2016.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

7. Water Disposal and Recycled Water (continued)

In 2011, the District entered into an agreement with NMWD to produce annually 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.

8. Long-Term Debt

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 new note payable of \$6,948,800 will be paid over the remaining term of the old debt with principal payments due each December 1st; interest payments are due each December 1st and June 1st through 2025. The interest rate on the new debt is 3.3%.

Amortization expense for bond discount was \$2,901 and \$3,652, for 2014 and 2013, respectively. The remaining unamortized discount of \$42,442 and the call premium of \$68,800 were charged to interest expense in 2014.

The difference in debt service between the original debt and the new debt over the remaining period of the debt is \$344,342 as shown below:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Municipal Finance Corporation	\$ 6,948,800	\$ 1,621,999	\$ 8,570,799
Certificates of Participation	<u>6,880,000</u>	<u>2,035,141</u>	<u>8,915,141</u>
Additional Costs/(Savings)	<u>\$ 68,800</u>	<u>\$ (413,142)</u>	<u>\$ (344,342)</u>

The economic gain on refinancing the debt is calculated by comparing the present value of the cash flows associated with the retired debt using the effective discount rate of the new debt and comparing that to the present value of the cash flows of the new debt. Based on these calculations, the economic gain on the refinancing is approximately \$204,000.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

8. Long-Term Debt (continued)

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.

Future minimum payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2015	\$ 465,000	\$ 221,638	\$ 686,638
2016	480,000	206,045	686,045
2017	500,000	189,875	689,875
2018	525,000	172,963	697,963
2019	535,000	155,473	690,473
2020 to 2024	3,035,000	491,420	3,526,420
2025 to 2026	1,408,800	49,966	1,458,766
	<u>\$ 6,948,800</u>	<u>\$ 1,487,380</u>	<u>\$ 8,436,180</u>

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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2015	\$ 173,773	\$ 158,908	\$ 332,681
2016	180,318	152,364	332,682
2017	187,957	144,725	332,682
2018	195,486	137,196	332,682
2019	203,316	129,365	332,681
2020 to 2024	1,144,846	518,561	1,663,407
2025 to 2029	1,393,755	269,652	1,663,407
Thereafter	638,834	26,527	665,361
	<u>\$ 4,118,285</u>	<u>\$ 1,537,298</u>	<u>\$ 5,655,583</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

8. Long-Term Debt (continued)

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.

Future minimum payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2015	\$ 182,628	\$ 52,718	\$ 235,346
2016	188,613	46,733	235,346
2017	195,048	40,298	235,346
2018	201,573	33,773	235,346
2019	208,316	27,030	235,346
2020 to 2024	<u>706,711</u>	<u>38,552</u>	<u>745,263</u>
	<u>\$ 1,682,889</u>	<u>\$ 239,104</u>	<u>\$ 1,921,993</u>

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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

8. Long-Term Debt (continued)

Future minimum payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2015	\$ 176,719	\$ 108,745	\$ 285,464
2016	181,491	103,974	285,465
2017	186,391	99,073	285,464
2018	191,424	94,041	285,465
2019	196,592	88,872	285,464
2020 to 2024	1,065,505	361,817	1,427,322
2025 to 2029	1,217,328	209,994	1,427,322
Thereafter	812,148	44,245	856,393
	<u>\$ 4,027,598</u>	<u>\$ 1,110,761</u>	<u>\$ 5,138,359</u>

E. Agent for the Consolidated Reassessment and Refunding District of 2003

The District acts as an agent for the property owners and facilitates the repayment of the bonds by collecting the annual assessments and remitting the required payments of principal and interest to the bondholders. As such, the District does not maintain the bond liability, the annual assessment receipts or interest payments on the financial statements. The District authorized and issued coupon bonds in order to finance construction of sewer improvements and related costs. Payment of the bond principal and interest will be provided through special assessments collected on the tax rolls by the County of Marin from property owners within the assessment districts. The District is not liable for the repayment of the debts other than the amounts held in the reserve and redemption funds.

On July 30, 2003, the District issued new bonds totaling \$1,736,409 for the purpose of (a) providing funds to refund the remaining principal amount of the North Circle Road Assessment District bonds, with an interest rate of 6.474% per annum and the Los Ranchitos Assessment District bonds, with an interest rate of 6.042% per annum; (b) funding a reserve for the bonds; and (c) paying certain costs associated with the issuance of the bonds. The new bonds, Consolidated Reassessment and Refunding District of 2003, bear an interest rate starting at 1.50% in 2004 and gradually increase each year until the rate reaches 4.625% in 2016. Interest is payable semi-annually on March 2nd and September 2nd. Maturity dates of each bond range through September 2, 2016; occasionally bonds are called early as property owners pay off their obligations or if excess funds accumulate in the reserve accounts. For the year ended June 30, 2014, \$10,000 in bonds were called. For the years ended June 30, 2014 and 2013, the outstanding principal balance of the bonds was \$385,000 and \$515,000, respectively.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

8. Long-Term Debt (continued)

The following is a summary of the debt activity for the year ended June 30, 2014:

	Balance			Amounts Due Within	
	June 30, 2013	Additions	Reductions	Balance June 30, 2014	One Year
Bonds Payable					
Certificates of Participation	\$ 7,320,000	\$ -	\$ (7,320,000)	\$ -	\$ -
Discount	(45,343)	-	45,343	-	-
	<u>7,274,657</u>	<u>-</u>	<u>(7,274,657)</u>	<u>-</u>	<u>-</u>
Notes Payable					
Bank of Marin	6,144,972	-	(343,798)	5,801,174	356,401
Municipal Finance Corporation	-	6,948,800	-	6,948,800	465,000
State Revolving Fund	4,199,671	-	(172,073)	4,027,598	176,719
	<u>10,344,643</u>	<u>6,948,800</u>	<u>(515,871)</u>	<u>16,777,572</u>	<u>998,120</u>
Total debt activity	<u>\$ 17,619,300</u>	<u>\$ 6,948,800</u>	<u>\$ (7,790,528)</u>	<u>\$ 16,777,572</u>	<u>\$ 998,120</u>

During the year ended June 30, 2014, the District incurred interest expense of \$734,228. During the year ended June 30, 2013, the District incurred interest expense of \$667,138, of which \$15,159 was incurred for the construction of capital assets and was capitalized as part of construction project costs.

9. 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 2014 and 2013, employees contributed \$20,216 and \$21,365, 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 administered by the California Public Employees Retirement System (CalPERS) for the benefit of each individual participant. This trust 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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

10. Commitments

The District was contractually committed to contractors and vendors for various projects totaling approximately \$3,499,343 and \$4,007,936 as of June 30, 2014 and 2013, respectively.

11. Defined Benefit Pension Plan

Plan Description

The District contributes to the CalPERS; an agent multiple-employer public employee 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. Covered payroll consists of the employees' regular rate of pay without inclusion of overtime, stand-by pay, or termination 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, 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 which all have the same contract formula. Copies of CalPERS' annual financial report may be obtained from its Executive Office at 400 P Street, Sacramento, CA 95814.

The District has two retirement plans for eligible employees:

Tier 1 – Miscellaneous Retirement Plan 2.7% at 55 is for all employees who, on or before December 31, 2012, were employed by the District or another agency that participated in the CalPERS retirement system or a reciprocating retirement system and do not have a more than six month break in service between employment with eligible agencies.

Tier 2 – Miscellaneous Retirement Plan 2% at 62 is for all employees hired after January 1, 2013 who are not eligible for Tier 1 due to prior CalPERS or reciprocating retirement system membership, or have a greater than six month break in service.

Funding Policy and Annual Pension Cost

The District and its employees are required to contribute to the CalPERS pension plans as follows:

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

11. Defined Benefit Pension Plan (continued)

Employer Contribution is based on the actuarially determined annual rates based on CalPERS reportable payroll. Those rates for the years ended June 30, 2014, 2013 and 2012 were 15.685%, 18.757%, and 18.661%, respectively for Tier 1. For Tier 2, the employer contribution rate is 6.25% of CalPERS reportable payroll.

Employee Contribution is based on the provisions of the CalPERS retirement plan.

- **Tier 1 members** - the mandatory participant contribution is 8% of their annual covered salary. Due to contractual arrangements, the District pays half of the required contribution of plan members. For members of the management group, the District contributes an additional amount based on 7% of their covered payroll. Effective July 1, 2014 employees will begin to pay an additional 1% more per year of the required contribution until they pay the entire 8% in 2017. The management group benefit will also be eliminated effective January 1, 2015.
- **Tier 2 members** - the mandatory participant contribution is 6.25% of their annual covered salary. Due to contractual arrangements, the District paid 4% of the requirement contribution of plan members through June 30, 2014. Effective July 1, 2014, participants began paying 6.25% and will pay either 8% or their required contribution, whichever is higher, by 2017.

The required contribution to CalPERS for the years ended June 30, 2014, 2013, and 2012 were made based on the covered payroll and required rates as follows:

Tier 1	Years Ended June 30,		
	2014	2013	2012
Covered payroll per fiscal year	\$ 1,675,123	\$ 1,793,898	\$ 1,756,886
Actuarially required employer contribution rate	15.685%	18.757%	18.661%
Annual Employer Required Contribution (ARC), as calculated	262,743	336,481	327,852
Employer paid member contributions in dollars	77,014	75,143	75,153
Annual Pension Cost (APC)	339,757	411,624	403,005
Actual Contributions Made	(339,757)	(411,624)	(403,005)
Net Pension Obligation (NPO)	\$ -	\$ -	\$ -
Percentage of APC Contributed	100%	100%	100%

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

11. Defined Benefit Pension Plan (continued)

	Years Ended June 30,		
	2014	2013 ¹	2012 ¹
Tier 2			
Covered payroll per fiscal year	\$ 47,926	\$ -	\$ -
Actuarially required employer contribution rate	6.250%	0.000%	0.000%
Annual Employer Required Contribution (ARC), as calculated	2,995	-	-
Employer paid member contributions in dollars	1,754	-	-
Annual Pension Cost (APC)	4,749	-	-
Actual Contributions Made	(4,749)	-	-
Net Pension Obligation (NPO)	\$ -	\$ -	\$ -
Percentage of APC Contributed	100%	100%	100%

¹ The District did not have any employees eligible for Tier 2 prior to July 1, 2013.

Side Fund Pay-off

The Actuarially Required Employer Contribution rate for 2013 and 2012 includes a contribution, based on a percentage of payroll, to amortize the District's side fund which was created when plans with less than 100 members were required to join risk pools in 2003. The District paid off the side fund by making a one-time contribution of \$505,070 on June 27, 2013. This resulted in a 3.184% decrease in the employer rate effective July 1, 2013.

Required Information in Compliance with GASB 27 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." In the latest Annual Valuation Report as of June 30, 2012, the CalPERS Board approved certain assumptions and methods used to determine the contractually required contributions for the cost sharing multiple-employer defined benefit plan.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

11. Defined Benefit Pension Plan (continued)

Valuation Date	June 30, 2012 (last available)
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	19 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.5% (net of administrative expenses)
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and Type of Employment
Inflation	2.75%
Payroll Growth	3.0%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and annual production growth of 0.25%

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.

12. Post-employment Benefits Other Than Pension Benefits

Plan Description

In addition to the pension benefits described in Note 11, the District provides other post-employment benefits (OPEB) in the form of health insurance 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 post-employment 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 cap. The monthly cap was \$617 as of January 1, 2014, \$582 as of January 1, 2013, and \$549 as of January 1, 2012.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

12. Post-employment Benefits Other Than Pension Benefits (continued)

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 \$642 as of January 1, 2014, \$622 as of January 1, 2013, and \$566 as of January 1, 2012. 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 – Employee 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 but has five year of CalPERS service credits, is eligible for the PEMHCA. The monthly amount was \$119 as of January 1, 2014, \$115 as of January 1, 2013, and \$112 as of January 1, 2012.

Effective, July 1, 2009, the District decided to join 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. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of CERBT's annual financial report may be obtained from its Affiliate Program Services Division at 400 Q Street, Sacramento, CA 95811.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

12. Post-employment Benefits Other Than Pension Benefits (continued)

The following is a summary of the District's market value assets on deposit with its CalPERS CERBT account:

	June 30,		
	2014	2013	2012
Market value - beginning of year	\$ 433,543	\$ 285,230	\$ 160,698
Contributions	93,574	122,882	118,929
Gain (loss) on investments	75,052	25,979	5,841
Administrative expenses	(715)	(548)	(238)
Market value - end of year	<u>\$ 601,454</u>	<u>\$ 433,543</u>	<u>\$ 285,230</u>
Change	<u>17.15%</u>	<u>8.92%</u>	<u>3.49%</u>

Actuarial Value of Assets

Effective July 1, 2009, the District has implemented GASB No. 45. This statement requires the District to account for the post-employment benefits on an accrual basis rather than on the pay-as-you-go method used in the past. Using the accrual method allows the employer to recognize the cost of providing the benefit during the employees' working lifetimes. The CERBT requires biennial valuation. In order to comply with the above requirements, the Actuarial Valuation of Post-employment Healthcare Benefits was prepared for the District as of July 1, 2013 by Nicolay Consulting. The expense for the year ended June 30, 2014 was based on this valuation. The expense for the year ended June 30, 2013 was based on the prior valuation dated July 1, 2011.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

12. Post-employment Benefits Other Than Pension Benefits (continued)

The actuary used the following actuarial method and assumptions:

Valuation Date	July 1, 2013 (last available)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Closed period, 26 years remaining, level percent of payroll
Average Remaining Period	26 Years as of the Valuation Date
Asset Valuation Method	Based on market value of assets
Actuarial Assumptions:	
Investment Rate of Return	7.06% (net of administrative expenses)
Projected Salary Increase	Not applicable
Inflation	General - 3.00% per year; Medical premium increases ranging from 6.7% in early years to 5% for 2021 and later.
Rates of death and disability	CalPERS rates for public agencies from most recent CalPERS valuation, June 30, 2012.
Number of retirees receiving benefits	16

The District, after evaluating the various strategies in light of the funding progress, demographics and risk of return, chose to use the 7.06% strategy offered by the CERBT. A higher discount rate results in a higher projected investment return. This in turn results in a lower actuarial liability and a lower required contribution by the employer.

Annual OPEB Cost

The District contributes to the plan through payment of the monthly benefits for 16 retirees and their eligible spouses totaling \$79,717 and \$68,768 for the years ended June 30, 2014 and 2013, respectively. In addition, the District made deposits to the CERBT of \$93,574 for 2014 based on the valuation dated July 1, 2013 and \$122,882 for 2013 based on the valuation dated July 1, 2011.

Funding Policy

GASB No. 45 sets rules for computing the employer's expense for retiree benefits other than pensions called OPEB. The expense, called the Annual OPEB Cost (AOC), is determined similarly to pensions. The Annual Required Contribution (ARC) of the employer represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

12. Post-employment Benefits Other Than Pension Benefits (continued)

exceed 30 years. When an agency contributes more than the ARC, there is a Net OPEB Asset (NOA); when the contribution is less, a Net OPEB Obligation (NOO). After the first year, the expense includes adjustments for interest and amortization of the NOO.

The following is a summary of the AOC and NOA/NOO:

	June 30,		
	2014	2013	2012
Annual required contribution	\$ 173,521	\$ 190,837	\$ 184,099
Interest on NOO	-	-	-
Annual OPEB cost	173,521	190,837	184,099
Contribution made - payment of benefits	(173,176)	(191,122)	(184,044)
Increase in NOO/(NOA)	345	(285)	55
NOA at the beginning of the year	(230)	55	-
(NOA)/NOO at the end of the year	\$ 115	\$ (230)	\$ 55
Percentage of OPEB contributed	99.80%	100.15%	99.97%

Disclosure of annual OPEB cost, percent contributed, and net OPEB is required for the current year and each of the two preceding years. In the year of adoption of GASB No. 45, the initial liability for post-employment benefits is zero.

Funding status and funding progress

As of July 1, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

	June 30,		
	2014	2013	2012
Actuarial accrued liability (AAL)	\$ 2,278,516	\$ 2,286,322	\$ 2,146,184
Actuarial value of plan assets	557,250	418,923	285,718
Unfunded actuarial accrued liability (UAAL)	\$ 1,721,266	\$ 1,867,399	\$ 1,860,466
Funded ratio (actuarial value of plan assets/AAL)	32.37%	22.43%	15.36%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 1,723,049	\$ 1,793,898	\$ 1,756,886
UAAL as a percentage of covered payroll	99.90%	104.10%	105.90%

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

12. Post-employment Benefits Other Than Pension Benefits (continued)

Actuarial valuation for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far in to the future. These actuarially determined amounts are subject to continual revisions, as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

13. 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 at the District office. Condensed financial information for CSRMA is presented below:

	Years Ended June 30,	
	2013 ¹	2012
Total assets	\$ 28,340,390	\$ 30,047,691
Total liabilities	<u>16,300,058</u>	<u>17,709,465</u>
Retained earnings	<u>\$ 12,040,332</u>	<u>\$ 12,338,226</u>
Total revenues	\$ 9,652,254	\$ 8,879,110
Total expenditures	<u>9,950,148</u>	<u>12,460,997</u>
Net income (loss)	<u>\$ (297,894)</u>	<u>\$ (3,581,887)</u>

¹ Most recent available.



Wildlife in the reclamation area.

REQUIRED SUPPLEMENTARY INFORMATION



Las Gallinas Valley Sanitary District



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

Las Gallinas Valley Sanitary District
Required Supplementary Information

Fiscal years ended June 30, 2014 and 2013

Pension Plans Schedule of Funding Progress - CALPERS

	(1)	(2)	(3)	(4)	(5)	(6)
		Entry Age	Unfunded	Funded		Unfunded
Actuarial	Actuarial	Actuarial	Liability/	Ratio	Covered	Actuarial Liability
Valuation	Asset Value	Accrued	(excess	(1)/(2)	Payroll	as a % of
Date		Liability	Assets)			Covered Payroll
			(2) - (1)			((2) - (1))/(5)
6/30/2010	\$ 1,815,671,616	\$ 2,297,871,345	\$ 482,199,729	79.0%	\$ 434,023,381	111.1%
6/30/2011	\$ 1,981,073,089	\$ 2,486,708,579	\$ 505,635,490	79.7%	\$ 427,300,410	118.3%
6/30/2012 *	\$ 2,178,799,790	\$ 2,680,181,441	\$ 501,381,651	81.3%	\$ 417,600,034	120.1%

Effective with the June 30, 2004 valuation, CalPERS switched all employers with less than 100 active participants into a pool, as reflected in the above. Note 11 describes the Pension Plan including the plan description, funding policy and annual pension cost.

Other Post-employment Benefits Schedule of Funding Progress - CERBT

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial	Unfunded	Funded	Annual	Unfunded
Actuarial	Actuarial	Accrued	Liability/	Ratio	Covered	Actuarial Liability
Valuation	Asset Value	Liability (AAL)	(excess	(1)/(2)	Payroll	as a % of
Date		Entry Age	Assets)			Covered Payroll
			(2) - (1)			((2) - (1))/(5)
7/1/2009	\$ -	\$ 1,465,852	\$ 1,465,852	0.0%	\$ 1,424,683	102.9%
7/1/2011	\$ 160,698	\$ 2,146,184	\$ 1,985,486	7.5%	\$ 1,756,886	113.0%
7/1/2013 *	\$ 433,543	\$ 2,278,516	\$ 1,844,973	19.0%	\$ 1,723,049	107.1%

The requirements of GASB No. 45 were implemented in 2010; accordingly, there are no factors that significantly affect the identification of trends in the amounts reported.

* Most recent available valuation.



Walkers in the reclamation area.

SUPPLEMENTARY INFORMATION



Las Gallinas Valley Sanitary District



Miller Creek

Las Gallinas Valley Sanitary District

Budgetary Comparison Schedule

Fiscal Year Ended June 30, 2014

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
REVENUES:				
Sewer use charges	\$ 10,143,000	\$ 10,160,000	\$ 10,157,194	\$ (2,806)
Private sewer lateral assistance program	-	16,000	23,048	7,048
Miscellaneous	31,000	31,000	45,846	14,846
Property taxes	994,800	994,800	1,117,756	122,956
State grant	-	-	19,063	19,063
Intergovernmental fees	4,000	4,000	4,588	588
Franchise fees	25,000	25,000	25,000	-
Recycled water sales	69,525	69,525	74,703	5,178
Interest income	32,000	32,000	46,694	14,694
TOTAL REVENUES	11,299,325	11,332,325	11,513,892	181,567
EXPENDITURES:				
Personnel Costs:				
Salaries and wages	2,066,100	2,066,100	1,920,065	146,035
Employee benefits	1,181,143	1,156,836	1,095,168	61,668
Payroll processing fees	7,000	7,000	7,751	(751)
Operations Expense:				
Insurance	169,250	169,250	129,817	39,433
Repairs and maintenance	240,610	240,610	354,880	(114,270)
Chemicals	130,777	130,777	93,552	37,225
Pollution prevention	24,000	24,000	16,111	7,889
Laboratory services	66,000	66,000	90,769	(24,769)
Small tools	4,600	4,600	3,051	1,549
Outside services	580,039	590,039	634,626	(44,587)
Damage claim	10,000	10,000	1,753	8,247
Reclamation expense	97,000	104,502	47,484	57,018
Engineering consultants	161,100	161,100	174,447	(13,347)
Operating supplies	77,245	77,245	67,736	9,509
Safety program and supplies	46,000	46,000	47,010	(1,010)
Fuel, gas and oil	53,129	53,129	41,237	11,892
Private lateral assistance program	121,551	121,551	115,717	5,834
Equipment rents	10,000	10,000	32,965	(22,965)
Permits and fees	43,000	43,000	48,432	(5,432)
Employee training	12,000	15,000	27,147	(12,147)
Utilities	118,322	118,322	110,261	8,061

Las Gallinas Valley Sanitary District
Budgetary Comparison Schedule (continued)

Fiscal Year ended June 30, 2014

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
General and Administrative Expense:				
Conferences	\$ 34,000	\$ 34,000	\$ 39,711	\$ (5,711)
Mileage and travel	800	800	1,184	(384)
Election	40,000	40,000	22,851	17,149
Office expense	15,000	15,000	19,441	(4,441)
Computer support and supplies	111,104	111,104	105,273	5,831
Publications and legal ads	8,000	8,000	9,228	(1,228)
Public education	50,000	61,000	80,521	(19,521)
Rents and leases	13,000	13,000	13,342	(342)
Property and other taxes	4,400	4,400	5,939	(1,539)
Memberships	36,000	36,000	37,072	(1,072)
Legal and professional	139,000	139,000	170,772	(31,772)
Bank charges and collection fees	32,500	32,500	34,933	(2,433)
Employee recognition	2,500	2,500	2,404	96
Miscellaneous	1,000	1,000	4,869	(3,869)
EXPENDITURES BEFORE				
DEPRECIATION AND INTEREST	<u>5,706,170</u>	<u>5,713,365</u>	<u>5,607,519</u>	<u>105,846</u>
OPERATING AND MAINTENANCE				
SURPLUS BEFORE DEPRECIATION				
AND INTEREST	<u>\$ 5,593,155</u>	<u>\$ 5,618,960</u>	<u>\$ 5,906,373</u>	<u>\$ 287,413</u>

Las Gallinas Valley Sanitary District
Note to Budgetary Comparison Schedule

Fiscal Year Ended June 30, 2014

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 a reconciliation from the Statements of Revenues, Expenses and Changes in Net Position to the Budgetary Comparison Schedule as of June 30, 2014:

Operating and Nonoperating Revenues per the Statement of Revenues,	
Expenses and Changes in Net Position	\$ 11,490,844
Private sewer lateral assistance payments	<u>23,048</u>
Total Revenues per the Budgetary Comparison Schedule	<u>\$ 11,513,892</u>
Operating Expenses per the Statement of Revenues, Expenses, and	
Changes in Net Position	\$ 7,888,621
Depreciation	(2,431,549)
Repairs and maintenance	25,715
Chemicals	4,777
Operating supplies	2,109
Fuel, gas and oil	2,129
Private lateral assistance program	<u>115,717</u>
Total Expenditures included in the Budgetary	
Comparison Schedule	<u>\$ 5,607,519</u>

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 Originally Appropriated Budget 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

Fiscal Year Ended June 30, 2014

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 post-employment 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.
APB	Accounting Principles Board	Accounting Principles Board (APB) is the former authoritative body of the AICPA. It was created by the AICPA in 1959 and issued pronouncements on accounting principles until 1973, when it was replaced by the Financial Accounting Standards Board (FASB).
ARB	Accounting Research Bulletin	Accounting Research Bulletins were documents issued by the Committee on Accounting Procedure between 1938 and 1959 on various accounting problems.
ARC	Annual Required Contribution	The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
ARRA	American Recovery and Reinvestment Act of 2009	An economic stimulus package enacted by the 111 th United State Congress in response to the late-2000s recession.

Las Gallinas Valley Sanitary District

Glossary of Acronyms (continued)

Fiscal Year Ended June 30, 2014

Auditors' Opinion	Unqualified 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 company 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 company'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.
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.

Las Gallinas Valley Sanitary District

Glossary of Acronyms (continued)

Fiscal Year Ended June 30, 2014

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.
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.
GFOA	Government Finance Officers Association of the United States and Canada	An organization with a mission to enhance and promote the professional management of governments for the public benefit.
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.

Las Gallinas Valley Sanitary District

Glossary of Acronyms (continued)

Fiscal Year Ended June 30, 2014

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 portable 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.
NOO	Net OPEB Obligation	The cumulative difference, since the effective date of GASB No. 45, between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.
OPEB	Other Post-Employment Benefits	Post-employment benefits other than pension benefits. Other post-employment benefits (OPEB) include post-employment healthcare benefits, regardless of the type of plan that provides them, and all post-employment benefits provided separately from a pension plan, except benefits defined as special termination benefits.

Las Gallinas Valley Sanitary District



Collection System Vehicles

STATISTICAL SECTION



Las Gallinas Valley Sanitary District



Treatment plant facilities

Las Gallinas Valley Sanitary District

Introduction to the Statistical Section

Fiscal Years Ended June 30, 2014

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, and required 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.

- Debt Service Coverage
- Outstanding Debt per Connection

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

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.

- Daily Average Influent Flow
- Recycled Water Production
- Collection System Services
- Full-time Equivalent Employees by Function

Treatment plant facilities



Las Gallinas Valley Sanitary District

Statements of Net Position for the Last Ten Fiscal Years (in thousands)

	Fiscal Years Ended June 30,									
	2014	2013	2012	2011	2010	2009 As Restated	2008	2007	2006	2005
ASSETS										
Current Assets	\$ 19,409	\$ 18,716	\$ 15,335	\$ 18,699	\$ 10,374	\$ 8,687	\$ 8,013	\$ 7,387	\$ 9,009	\$ 5,580
Capital and other assets	54,820	53,390	54,609	41,266	40,485	39,921	39,773	39,999	38,478	32,971
TOTAL ASSETS	74,229	72,106	69,944	59,965	50,859	48,608	47,786	47,386	47,487	38,551
LIABILITIES										
Total current liabilities	1,956	1,877	8,399	2,695	1,777	1,688	1,052	1,234	1,189	897
Total noncurrent liabilities	16,140	17,007	11,556	12,138	8,099	8,490	8,867	9,234	9,584	297
TOTAL LIABILITIES	18,096	18,884	19,955	14,833	9,876	10,178	9,919	10,468	10,773	1,194
NET POSITION:										
Invested in capital assets, net of related debt	37,011	34,787	36,553	32,830	32,640	31,867	32,261	33,141	33,229	32,664
Restricted	858	855	2,085	5,231	592	-	2	55	171	-
Unrestricted	18,263	17,580	11,351	7,071	7,751	6,563	5,604	3,722	3,314	4,693
TOTAL NET POSITION	\$ 56,133	\$ 53,222	\$ 49,989	\$ 45,132	\$ 40,983	\$ 38,430	\$ 37,867	\$ 36,918	\$ 36,714	\$ 37,357

Source:

Las Gallinas Valley Sanitary District Basic Financial Statements.

Note:

The Statements of Net Position have been restated for the implementation of GASB No. 65.

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,

		<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:							As Restated				
Sewer use charges	\$	10,157	10,069	9,233	8,835	7,604	5,010	4,735	3,938	3,237	2,688
Recycled Water Fees		75	37	-	-	-	-	-	-	-	-
Miscellaneous		46	34	54	32	41	60	61	40	51	70
TOTAL OPERATING REVENUES		10,278	10,140	9,287	8,867	7,645	5,070	4,796	3,978	3,288	2,758
OPERATING EXPENSES:											
Sewerage collection and pump stations		1,089	951	937	854	1,009	882	783	-	-	-
Sewerage collection ¹		-	-	-	-	-	-	-	531	565	403
Sewerage treatment		1,519	1,312	1,295	1,138	1,088	1,142	1,000	1,119	1,251	1,175
Sewerage and solid waste disposal		340	267	147	143	85	205	146	121	180	168
Laboratory ¹		402	377	387	353	313	255	241	-	-	-
Laboratory and pump stations ¹		-	-	-	-	-	-	-	414	309	276
Engineering ¹		325	296	-	-	-	-	-	-	-	-
Recycled water		90	60	-	-	-	-	-	-	-	-
General and administrative		1,692	2,093	1,726	1,756	1,564	1,237	1,163	993	1,251	967
Depreciation and amortization		2,432	2,311	1,842	1,860	1,828	1,721	1,695	1,516	1,246	1,246
TOTAL OPERATING EXPENSES		7,889	7,667	6,334	6,104	5,887	5,442	5,028	4,694	4,802	4,235
INCOME (LOSS) FROM OPERATIONS		2,389	2,473	2,953	2,763	1,758	(372)	(232)	(716)	(1,514)	(1,477)
NONOPERATING REVENUES:											
Property taxes		1,118	983	1,005	1,009	1,054	1,031	1,176	951	756	697
Federal and state grants		19	386	1,107	75	-	-	-	-	-	-
Franchise fees		25	25	25	25	25	25	31	-	6	6
Intergovernmental fees		5	5	5	5	5	5	5	2	5	5
Gain on disposal, net		-	-	-	6	7	70	-	-	-	-
Interest income		47	46	65	93	76	153	280	361	272	122
TOTAL NONOPERATING REVENUES		1,214	1,445	2,207	1,213	1,167	1,284	1,492	1,314	1,039	830

¹ In prior years, these line items were classified with different departments.

Las Gallinas Valley Sanitary District

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

(in thousands)

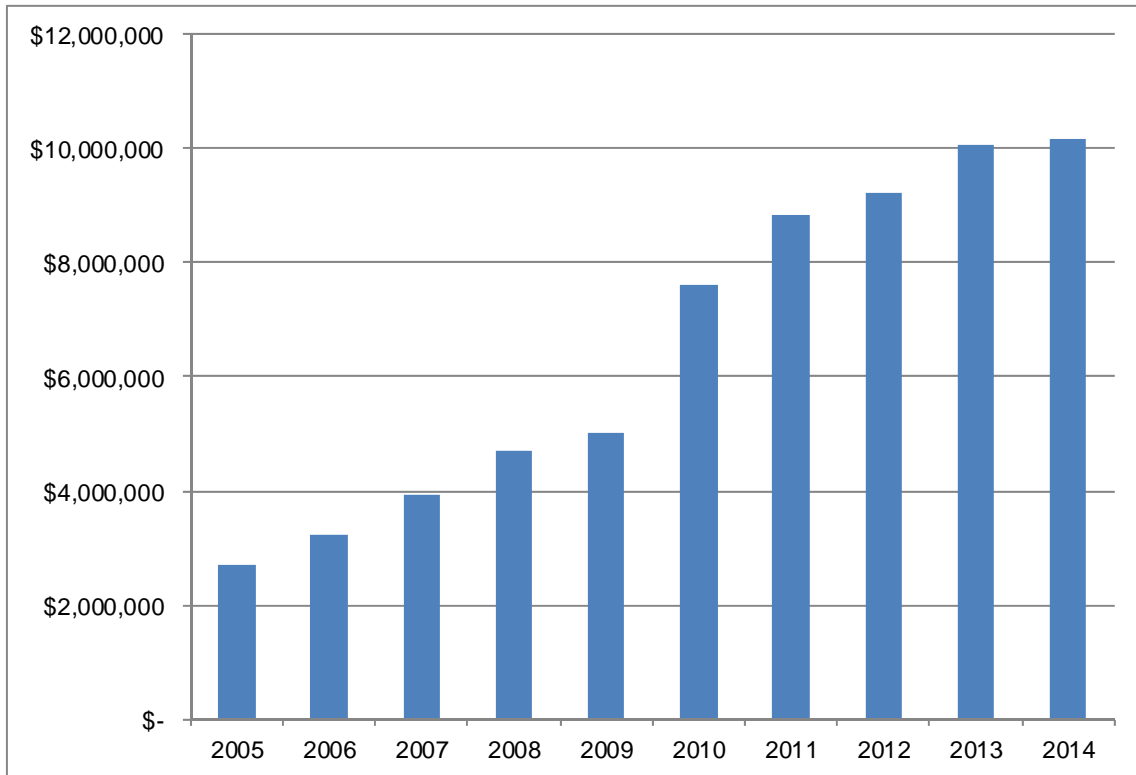
	Fiscal Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
NONOPERATING EXPENSES:	As Restated									
Loss on disposals	\$ 2	\$ 48	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ -	\$ 24	\$ -
Interest expense	734	652	331	357	364	386	392	407	243	-
TOTAL NONOPERATING EXPENSES	736	700	331	357	364	386	405	407	267	-
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	2,867	3,218	4,829	3,619	2,561	526	855	191	(742)	(647)
CAPITAL CONTRIBUTIONS -										
CONNECTION FEES	44	15	28	530	(8)	37	44	13	99	767
PROPERTY	-	-	-	-	-	-	50	-	-	1,233
INCREASE (DECREASE) IN NET POSITION	2,911	3,233	4,857	4,149	2,553	563	949	204	(643)	1,353
NET POSITION - BEGINNING OF YEAR	53,222	49,989	45,132	40,983	38,430	37,867	36,918	36,714	37,357	36,004
NET POSITION - END OF YEAR	\$ 56,133	\$ 53,222	\$ 49,989	\$ 45,132	\$ 40,983	\$ 38,430	\$ 37,867	\$ 36,918	\$ 36,714	\$ 37,357

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

Note: The Statements of Net Position have been restated for the implementation of GASB No. 65.

Las Gallinas Valley Sanitary District

Sewer Service Charge Revenue for the Past Ten Fiscal Years



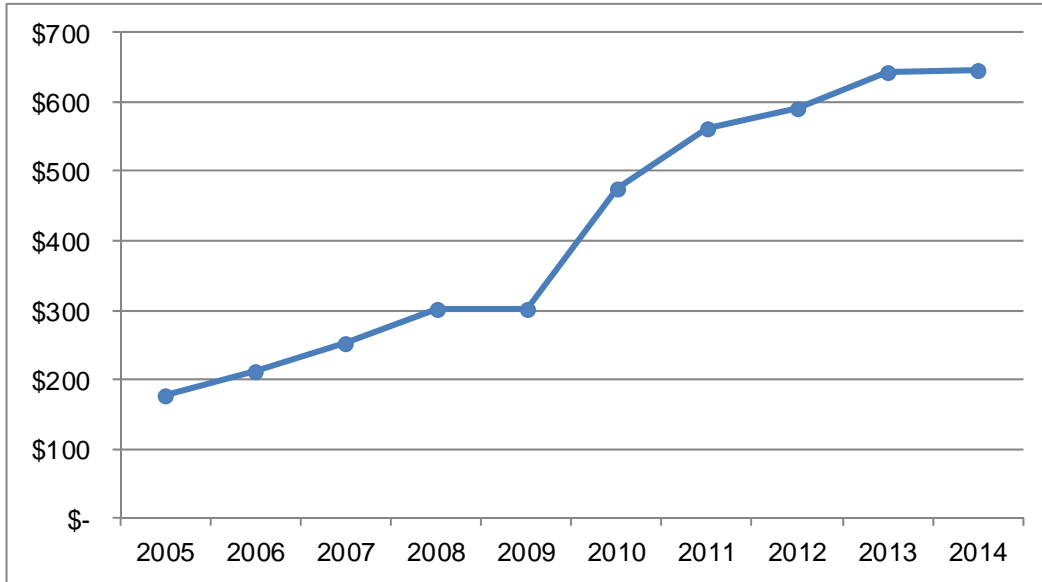
Historic Sewer Service Revenues

<u>Fiscal Year Ended June 30,</u>	<u>Sewer Service</u>	<u>Percentage Change</u>
2005	\$ 2,687,670	20.85%
2006	\$ 3,237,227	20.45%
2007	\$ 3,937,800	21.64%
2008	\$ 4,684,972	18.97%
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%

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
2005	\$ 176	20.5%
2006	\$ 211	19.9%
2007	\$ 253	19.9%
2008	\$ 303	19.8%
2009	\$ 303	0.0%
2010	\$ 476	57.1%
2011	\$ 563	18.3%
2012	\$ 590	4.8%
2013	\$ 642	8.8%
2014	\$ 647	0.8%

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 2013/14			FY 2004/05		
Payer	Total Paid	Percentage of Revenue Collected	Payer	Total Paid	Percentage of Revenue Collected
County of Marin	\$ 271,850	2.70%	Contempo Marin	\$ 58,400	2.63%
Contempo Marin	267,858	2.66%	County of Marin	47,106	2.12%
Marin Valley Mobile Home Park	203,805	2.02%	Marin Valley Mobile Home Park	45,990	2.07%
Northgate Mall	199,276	1.98%	Northgate Mall	38,544	1.73%
Bay Apartment Communities	165,632	1.64%	Bay Apartment Communities	37,522	1.69%
Embassy Suites	142,987	1.42%	Deer Valley Apartments	25,112	1.13%
Deer Valley Apartments	111,284	1.11%	Embassy Suites	23,360	0.98%
San Rafael Manor	104,167	1.03%	San Rafael Manor	23,360	1.05%
Northbay Properties II	97,050	0.96%	Northbay Properties II	21,900	0.81%
Sheraton Four Points	83,463	0.83%	Drake Terrace Retirement	17,958	0.81%
Total	<u>\$ 1,647,372</u>	<u>16.36%</u>	Total	<u>\$ 339,252</u>	<u>15.01%</u>

Source:

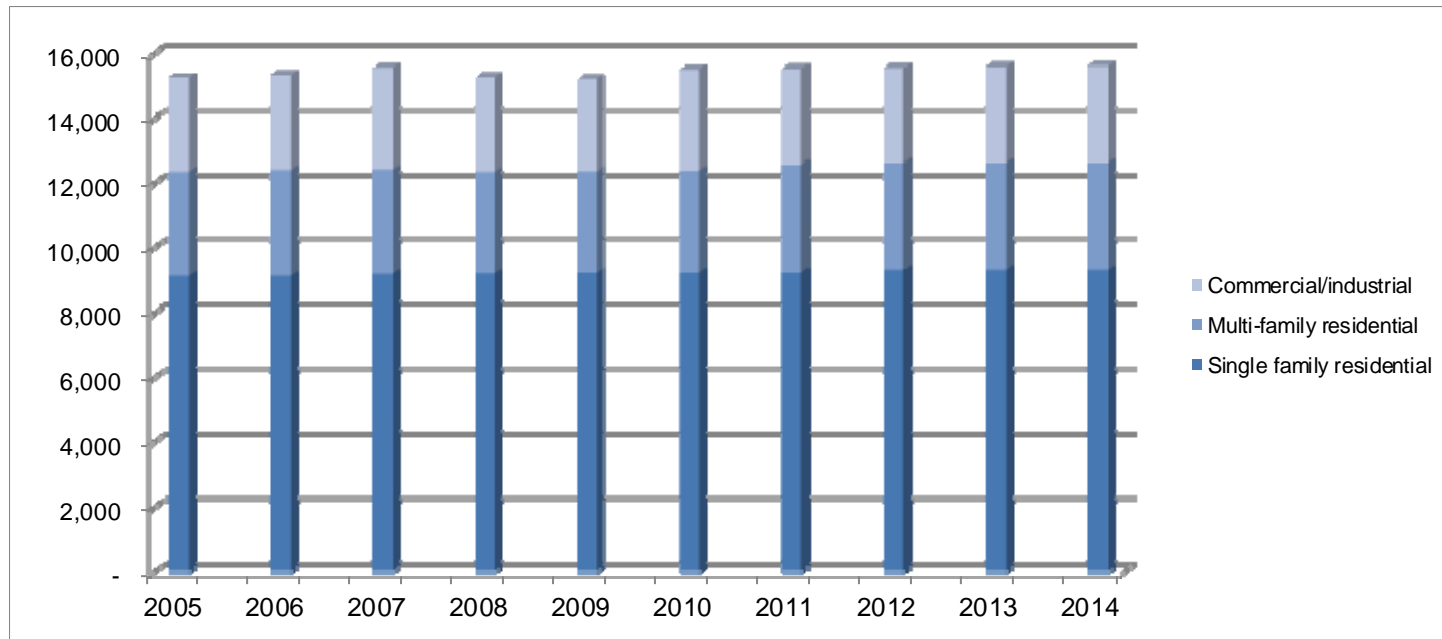
Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

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

	June 30,									
Class	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Single family residential	9,138	9,147	9,209	9,223	9,228	9,237	9,240	9,325	9,325	9,329
Multi-family residential	3,213	3,260	3,209	3,123	3,134	3,142	3,323	3,302	3,298	3,300
Commercial/industrial	2,920	2,935	3,146	2,931	2,861	3,133	2,965	2,923	2,967	2,986
Total	<u>15,271</u>	<u>15,342</u>	<u>15,564</u>	<u>15,277</u>	<u>15,223</u>	<u>15,512</u>	<u>15,528</u>	<u>15,550</u>	<u>15,590</u>	<u>15,615</u>

Source:
Las Gallinas Valley Sanitary District records



Source:
Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Debt Service Coverage for the Past Nine Fiscal Years

Fiscal Year Ended June 30,	Gross Revenues ¹	Operating Expense ²	Net Revenues	Debt Service ³	Debt Coverage Ratio
2006	\$ 4,426,000	\$ 3,556,000	\$ 870,000	\$ 206,906	4.20
2007	\$ 5,305,000	\$ 3,178,000	\$ 2,127,000	\$ 749,625	2.84
2008	\$ 6,332,000	\$ 3,333,000	\$ 2,999,000	\$ 745,625	4.02
2009	\$ 6,391,000	\$ 3,721,000	\$ 2,670,000	\$ 746,125	3.58
2010	\$ 8,804,000	\$ 4,059,000	\$ 4,745,000	\$ 741,125	6.40
2011	\$ 10,535,000	\$ 4,244,000	\$ 6,291,000	\$ 740,625	8.49
2012	\$ 10,415,000	\$ 4,492,000	\$ 5,923,000	\$ 1,354,241	4.37
2013	\$ 11,214,000	\$ 5,355,000	\$ 5,859,000	\$ 1,566,788	3.74
2014	\$ 11,515,500	\$ 5,457,000	\$ 6,058,500	\$ 1,583,274	3.83

Source:

Las Gallinas Valley Sanitary District records

Notes:

The Debt Service Coverage requirement, which came into effect in June of 2006, requires the District to maintain a Net Revenues to Debt Service ratio of at least 1.20 to 1.0. Before this date, there were no existing Debt Service Coverage requirements.

The Debt Service for June 30, 2012 includes the deposit to the debt service reserve fund for the State Revolving Fund loan which will convert to a term loan during 2012/13. The first principal and interest payment is due June 1, 2013.

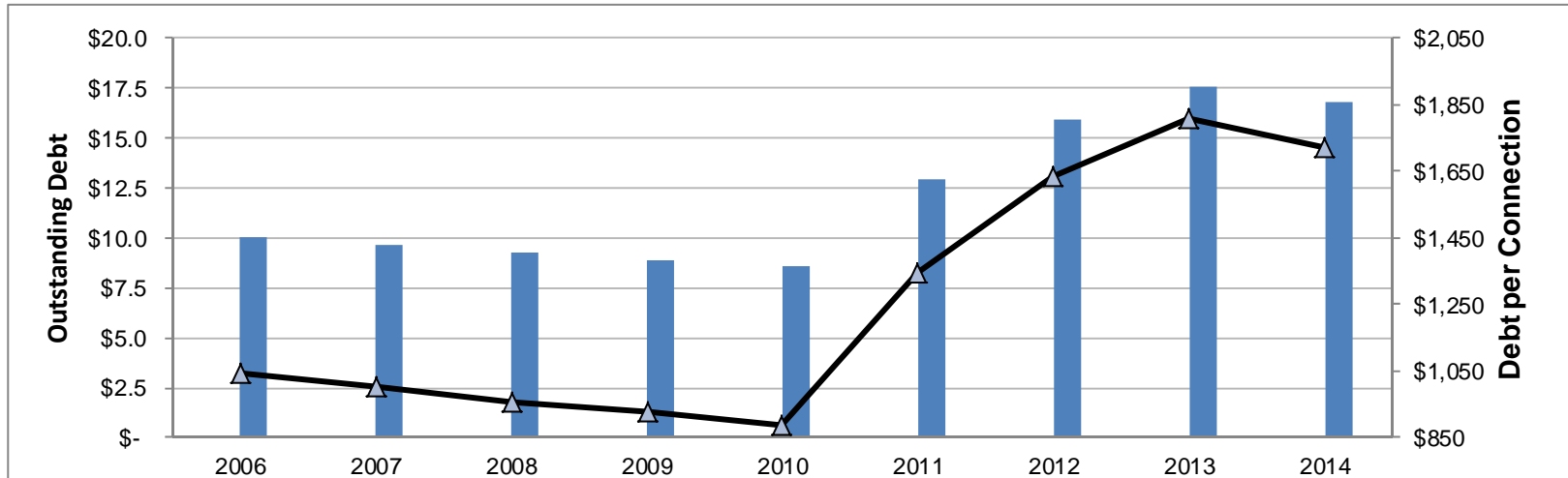
¹ Gross Revenues includes all operating and nonoperating revenues, except grants, and includes connection fees.

² Operating expense includes all operating expense and nondebt service related interest expense.

³ Debt service includes principal and interest payments due in the current fiscal year.

Las Gallinas Valley Sanitary District

Outstanding Debt per Connection for the Past Nine Fiscal Years



Fiscal Year Ended June 30, ¹	Type of Debt			Total Outstanding Debt	Debt per Capita ^{2,3}	Total Connections	Debt per Connection
	COP As Restated	Notes Payable	State Revolving Fund				
2005	\$ -	\$ -	\$ -	\$ -	\$ -	9,519	\$ -
2006	\$ 9,929,094	\$ -	\$ -	\$ 9,929,094	\$ 350	9,574	\$ 1,037
2007	\$ 9,587,746	\$ -	\$ -	\$ 9,587,746	\$ 338	9,636	\$ 995
2008	\$ 9,238,398	\$ -	\$ -	\$ 9,238,398	\$ 325	9,693	\$ 953
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

Source: Las Gallinas Valley Sanitary District records

¹ Prior to November 2005, the District did not have any debt outstanding.

² District population of 28,201 per the 2000 Census data for zip code 94903

³ District population of 29,040 per the 2010 Census data for zip code 94903

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) ²	Per Capita Personal Income (\$000) ²	School Enrollment ³	Unemployment Rate ⁴
2005	244,024	\$ 19,485,341	\$ 81,628	28,429	4.0%
2006	244,336	\$ 21,265,962	\$ 89,197	28,764	3.8%
2007	246,100	\$ 22,590,008	\$ 91,729	29,081	3.7%
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	\$ 20,965,394	\$ 82,936	30,140	8.2%
2011	255,031	\$ 21,871,623	\$ 85,761	30,574	8.1%
2012	254,882	\$ 23,918,732	\$ 93,407	31,868	5.1%
2013	unavailable	unavailable	unavailable	32,793	5.4%
2014	unavailable	unavailable	unavailable	unavailable	4.0%

Source:

County of Marin Comprehensive Annual Financial Report for FY 2012/13

Notes:

¹ California Department of Finance data at the Employment Development Department, Labor Market Information web stie - www.labormarketinfo.edd.ca.gov

² US Department of Commerce, Bureau of Economic Analysis - www.bea.gov, the most recently available data is for 2012.

³ California Department of Education, Educational Demographics Office - www.ed-data.k12.ca.us, the most recently available data is for 2013.

⁴ Employment Development Department, Labor Market Information - www.labormarketinfo.edd.ca.gov

Las Gallinas Valley Sanitary District

Principal Employers In Marin County for the Current Fiscal Year and Nine Years Ago

2013			2004		
Employer	Employees	Percentage of Total County Employment	Employer	Employees	Percentage of Total County Employment
County of Marin	2,037	1.51%	County of Marin	2,000	1.55%
Kaiser Permanente Medical Center	1,756	1.30%	Fireman's Fund	1,700	1.32%
San Quentin State Prison	1,690	1.25%	San Quentin Prison	1,550	1.20%
Marin General Hospital	1,300	0.96%	Kaiser Permanente	1,500	1.16%
Autodesk, Inc.	1,000	0.74%	Lucasfilm Ltd.	1,400	1.08%
BioMarin Pharmaceutical	850	0.63%	Marin General Hospital	1,300	1.01%
Novato Unified School District	805	0.60%	Autodesk, Inc.	1,100	0.85%
Fireman's Fund Insurance Co.	750	0.55%	Novato Unified School District	1,097	0.85%
Lucasfilm Ltd.	400	0.30%	Golden Gate Transit	900	0.70%
Macy's	380	0.28%	Safeway, Inc.	820	0.64%
Total	10,968	8.11%	Total	13,367	10.35%
Total County Employment	135,200		Total County Employment	129,100	

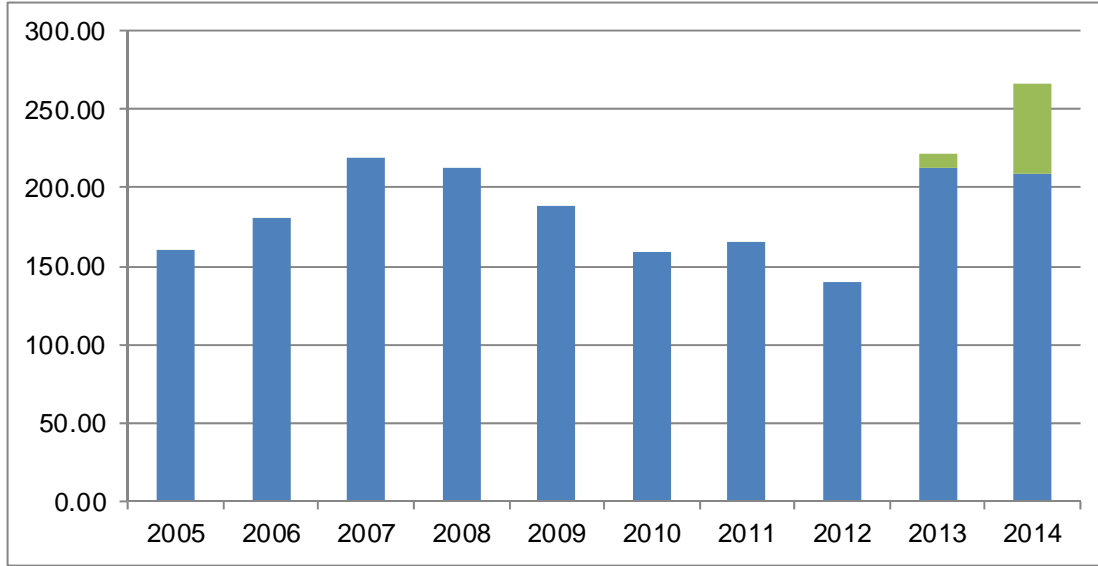
Sources:

Most recent available data from the County of Marin Comprehensive Annual Financial Report for FY 2012/13 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



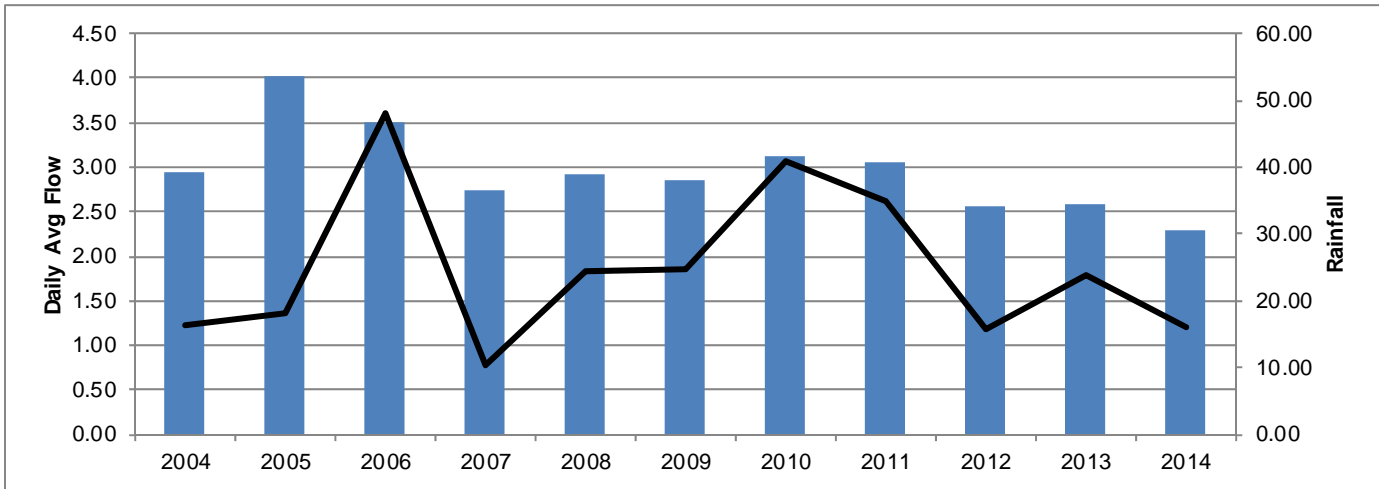
Fiscal Year Ended June 30,	Million Gallons Produced		Increase (Decrease)
	MMWD	NMWD ¹	
2005	159.95	-	-15.84%
2006	180.26	-	12.70%
2007	219.26	-	21.64%
2008	213.15	-	-2.79%
2009	188.60	-	-11.52%
2010	159.48	-	-15.44%
2011	165.39	-	3.71%
2012	139.35	-	-15.74%
2013	212.03	9.52	58.99%
2014	209.28	56.44	19.94%

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 ²	Increase (Decrease)
2004	2.95	3.87%	16.25	-59.38%
2005	4.01	35.99%	18.00	10.77%
2006	3.50	-12.73%	48.00	166.67%
2007	2.74	-21.61%	10.50	-78.13%
2008	2.93	6.62%	24.50	133.33%
2009	2.85	-2.65%	24.75	1.02%
2010	3.11	9.27%	41.00	65.66%
2011	3.05	-2.17%	35.00	-14.63%
2012	2.57	-15.60%	15.75	-55.00%
2013	2.59	0.78%	23.73	50.67%
2014	2.30	-11.20%	16.00	-32.57%

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.

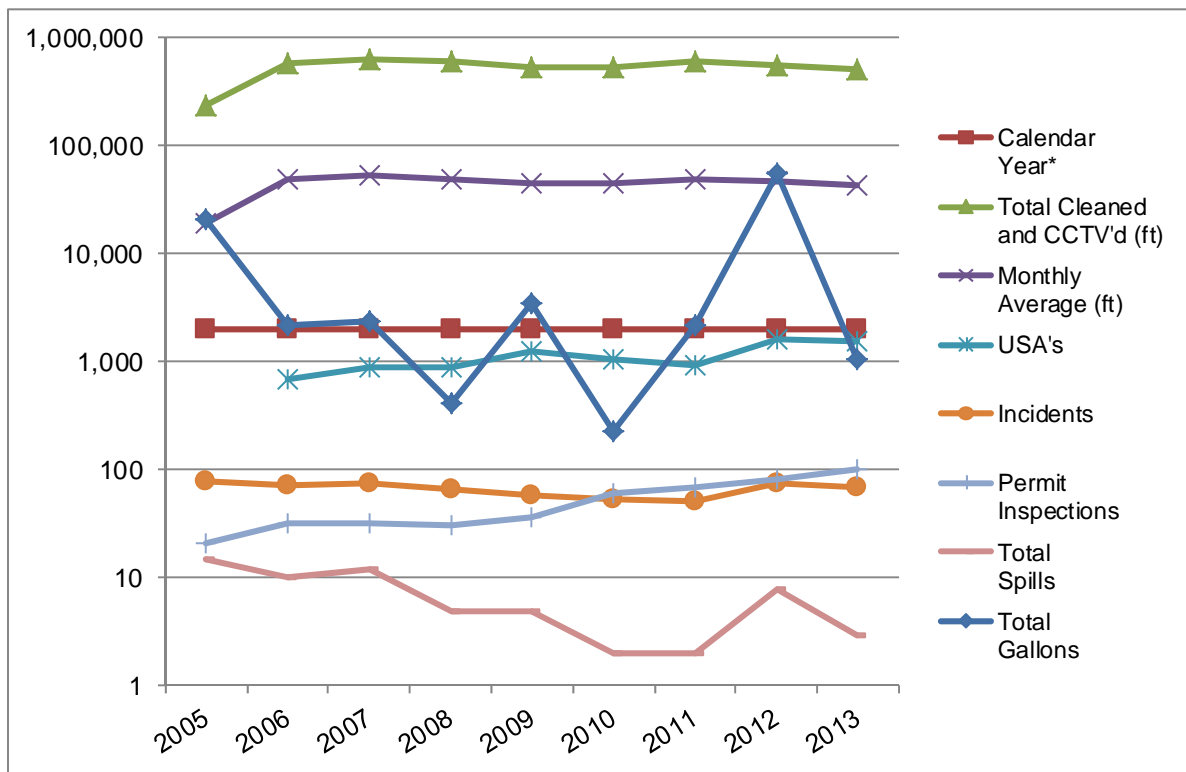
Note: Concentrated efforts by the District to reduce infiltration and inflow (I&I) to the sewer collection system during wet weather events through its repair, replacement and maintenance program is demonstrated in the above graph. As rainfall increases, there been a gradual decrease in daily average 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

Collection System Services Past Nine Calendar Years

Calendar Year*	Total Cleaned and CCTV'd (ft)	Monthly Average (ft)	USA's	Incidents	Permit Inspections	Total Spills	Total Gallons
2005	233,691	19,474	-	80	21	15	20,545
2006	587,142	48,929	693	71	32	10	2,155
2007	631,927	52,661	905	74	32	12	2,337
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

* Data before 2005 is not available



Source:
Las Gallinas Valley Sanitary District records

Notes:
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
2005	5	-	1.5	5	4	5	20.5
2006	5	-	1.5	5	4	5	20.5
2007	5	-	1.5	5	4	5	20.5
2008	5	-	1.5	5	4	5	20.5
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

Source:

Las Gallinas Valley Sanitary District records

Notes:

¹ 2003-2008 counts associated with paid interns

Las Gallinas Valley Sanitary District

Descanso pump station construction

