



Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2017 and 2016



Las Gallinas Valley Sanitary District



Primary clarifier sludge pump facilities



Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2017 and 2016

Mark R. Williams, General Manager

Prepared by:

Susan M. McGuire, CPA – Administrative Services Manager

Las Gallinas Valley Sanitary District



Descanso pump station wet well upgrade project



Secondary clarifier

Las Gallinas Valley Sanitary District

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Las Gallinas Valley Sanitary District

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INTRODUCTORY SECTION



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**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
Susan McGuire,
Administrative Services Manager
Greg Pease,
Collection System/Safety Manager

October 27, 2017

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

It is our pleasure to submit this Comprehensive Annual Financial Report (CAFR) of the Las Gallinas Valley Sanitary District (the District) for the fiscal year ended June 30, 2017. This report was prepared by the District staff that collected and analyzed the financial statements and other information presented herein.

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

California law requires that every local government publish a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2017.

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

The District's basic financial statements have been audited by Cropper Accountancy Corporation, a registered public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2017 are fairly presented in conformity with GAAP, and are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. The independent auditors have issued an unqualified ("clean") opinion on the Las Gallinas Valley Sanitary District's financial statements for the fiscal year ended June 30, 2017. Their audit report is presented as the first component of the financial section of this report.

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

FINANCIAL CONTROLS AND ACCOUNTING SYSTEMS

Internal Controls

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

Budgetary Controls

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

Accounting System

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

The District reports its activities as an Enterprise Fund under the broad category of funds called proprietary funds. The District uses the full accrual basis of accounting. The District tracks expenditures by department, with each department delineated by function and specific activity, in order to provide management and the Board with better cost control measures. At the end of

each fiscal year, these costs are combined to arrive at the financial position and results of operations reflected in the District's basic financial statements.

HISTORY AND PROFILE OF THE DISTRICT

The District was established on April 6, 1954 pursuant to the California Health and Safety Code, Division 6 – Sanitary District Act of 1923. It is located approximately two miles northeast of the City of San Rafael and 20 miles north of San Francisco. It covers an area of about sixteen square miles in the northern part of the City of San Rafael and surrounding unincorporated areas in Marin County, California, including the communities of Lucas Valley, Marinwood, Santa Venetia and Terra Linda. The District's boundaries are Hamilton Field (a former air force base) to the north, San Pablo Bay to the east, and central San Rafael to the south. The District serves a population of approximately 30,000 people. The District is primarily residential and built out, resulting in a fairly stable customer base. As of July 1, 2016, the connections are 97.5% residential (12,947 units) and 2.6% commercial/industrial (351 units); however the revenue from these connections is 79.63% residential and 20.37% commercial.

Financing Activities

The District has been planning a multi-year, multi-million dollar Treatment Plant Upgrade, Recycled Water Treatment Plant Expansion and Operations and Control Center construction project for several years. These projects will upgrade the treatment plant to meet more stringent regulatory requirements; allow the District to fully serve Marin Municipal Water District's recycled water customers; and replace a 1955 operations center to meet 21st century and beyond operational needs. To finance these projects, the District issued \$41 million in Standard and Poor's AAA rated bonds in April 2017. The bonds are to be repaid over 25 years beginning in October 2017 and have a true interest cost to maturity of 3.37%. Due to the District's exceptional credit rating, the issue resulted in a premium being paid by the purchaser of \$3,023,718 so the principal amount of the bonds was reduced to \$38,365,000.

Sewage Collection

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

Sewage Treatment

- The District operates a sewage treatment plant with a permitted dry weather average capacity of 2.92 million gallons per day (MGD).
- The District treated an average daily flow of 3.32 MGD of sewage per day in 2017.
- The District's treatment plant uses primary treatment to separate the solids from the wastewater; trickling filters and deep bed filters to provide secondary treatment. Treated effluent is disposed of through discharge pipes into Miller Creek which flows to San Pablo Bay during discharge season, November through May. Discharge coincides with wet weather when treated effluent can be diluted by higher levels of bay water due to rain.
- All readily settleable solids and grit are removed from the wastewater stream; grit is then disposed of in a landfill. The solids are treated by gravity thickening and anaerobic digestion, and then pumped to one or more of three storage ponds, where they are typically retained for one year prior to surface disposal. The treatment plant produced 420 dry tons of biosolids during the calendar year 2016.

Reuse of Treated Wastewater

- The District is producing recycled water year round to meet increasing demand during the dry months of summer and fall. In the past, recycled water was predominately used during the summer months, which aligned with the District's non discharge period of June through October.
- The District has a water reclamation project on 385 acres of diked bay lands located to the northeast of the treatment plant. This project includes a 20 acre wildlife marsh pond, 40 acres of storage ponds, 200 acres of irrigated pasture, and 3.5 miles of public trails which are part of the San Francisco Bay Trail. During 2017, 29.3 million gallons were diverted to the District's water reclamation project; this is substantially less than the prior year amount of 94.2 million gallons due to the exceptionally rainy fall and late spring rains.
- 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 2017, 143.8 million gallons were delivered to MMWD.
- During 2017, the District reached an agreement with MMWD to expand the District's recycled water treatment plant to provide tertiary treated wastewater which can then be distributed to MMWD's customers. MMWD will decommission its existing plant which is located on the District's site. This site is needed by the District for the treatment plant upgrade. As part of the agreement, MMWD made a capital contribution towards the existing facility and will continue to make payments towards outstanding debt which was issued to build the existing facility and for the expansion. The expansion is expected to begin construction in the fall of 2017 and be completed by September 2018.
- The District's recycled water treatment facility, online since September 2012, has a capacity of 0.7 mgd with redundant systems to produce up to 1.4 mgd. The District is planning an expansion of the facility to provide for an additional 4 mgd of capacity. The facility takes the plant effluent not utilized by MMWD and treats it to recycled water standards so that it can

be distributed by North Marin Water District (NMWD). The District produced 45.5 million gallons for NMWD during 2017.

Lab and Public Outreach

- The District operates its own lab which collects samples, completes analysis, and performs other testing to comply with the plant discharge permit issued by the State Water Resources Control Board.
- Central Marin Sanitation Agency and District lab staff members manage the source control program. This includes a Fats Oils and Grease (FOG) Program that is designed to prevent customers from discharging substances that are harmful to the sewage treatment process or that may cause clogs to sewer mains and pump stations.
- Lab staff members participate in the Marin County Sanitation Agencies Public Education Program. This program allows participating agencies to combine resources and have a unified message to educate the public about the proper disposal of and to collect pharmaceuticals, mercury, batteries and other household hazardous waste in the County. They participate in programs with school children, the Marin County Fair and various farmers' markets and festivals. The participating agencies won the Redwood Empire Community Engagements and Outreach Award Large Budget from the California Water Environment Association for 2016.
- The District offers tours of the plant treatment works and enhanced wetlands upon request from schools, community groups and other members of the public.
- The District produces a newsletter twice a year to educate the public about the sewer collection system, treatment plant and their sewer laterals. Staff has noted an increase in knowledge by homeowners regarding maintaining their sewer laterals.
- The District has a website at www.lgvsd.org where it posts current developments, public education topics and information about what is happening at the Board meetings, the plant and in the District.
- The District was awarded the District Transparency Certificate of Excellence by the Special District Leadership Foundation during July 2015 and 2017 in recognition of its outstanding efforts to promote transparency and good governance.

Solid Waste (Garbage) Services and Recycling

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

ECONOMIC CONDITIONS AND OUTLOOK

The District is comprised primarily of residential units with commercial and some light industrial areas. It is substantially built out with in-fill developments in pockets of undeveloped land and redevelopment of commercial areas that were built over twenty years ago. The District does not expect significant new, customers in the near future. A capital facilities charge study was performed during 2015. The study reviewed the capital facilities plan developed by staff and the

Board during 2015, which will be undertaken during the upcoming five years. The capital facilities charge is \$5,761 effective July 1, 2016 and will be adjusted by the Engineering News Record Construction Cost Index for San Francisco each July.

The Board adopted a five year rate review and capital improvement plan in June 2015, which provides for an annual sewer user charge rate of \$732 effective July 1, 2015 up to \$927 as of July 1, 2019. The adopted rate as of July 1, 2016 was \$835. This rate, when combined with average property taxes received by the District, is below the average for neighboring agencies in Marin County. Each year, the Board reviews the operating and capital needs of the District to determine the revenue requirements in setting the upcoming rate.

Compared to neighboring jurisdictions, the District's customers in the unincorporated area enjoy one of the lowest garbage and recycling rates. As of January 1, 2017, customers pay a monthly service fee of \$26.62 for a 20-gallon cart and \$31.31 for a 32-gallon cart. This is below the Marin County average of \$36.32 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, 2016. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

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

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



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, 2016

Executive Director/CEO

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Mission Statement

Our Mission

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

Vision

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

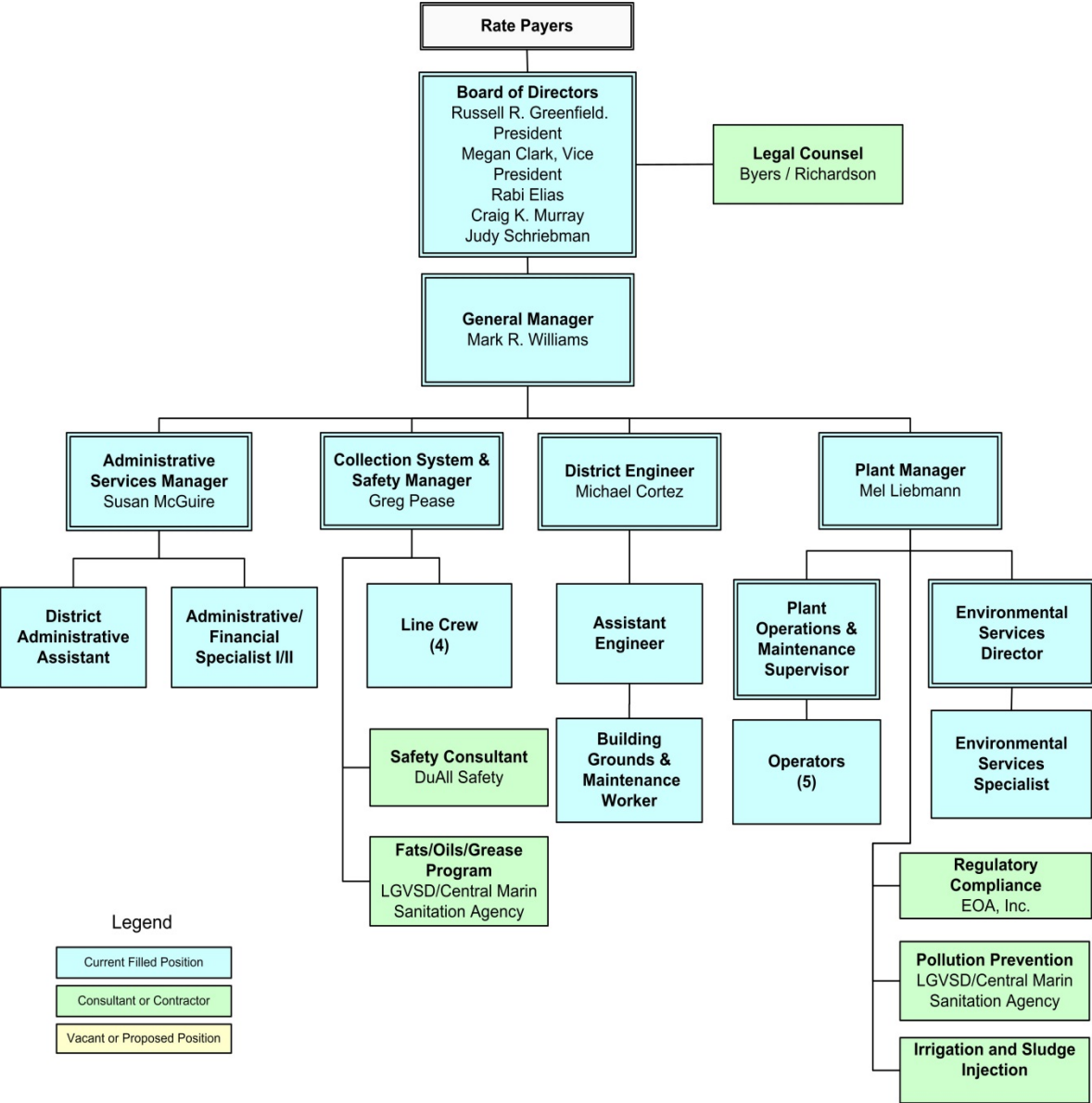
- manage our treatment and collection infrastructure in a planned and sustainable way;
- strive toward beneficial recycling of wastewater, biosolids and other resources using safe and effective processes and systems to achieve our zero waste vision;
- collaborate with neighboring agencies to achieve 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;
- optimize and promote the use of recycled water; 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 and education?
- Does it enhance our infrastructure, facility maintenance and system reliability?
- Does it seek opportunities to reuse resources where possible?
- 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 and regulatory authorities?
- 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 and resource recovery?

Las Gallinas Valley Sanitary District Comprehensive Annual Financial Report

Organizational Chart



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

Directory of Officials

Board of Directors

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

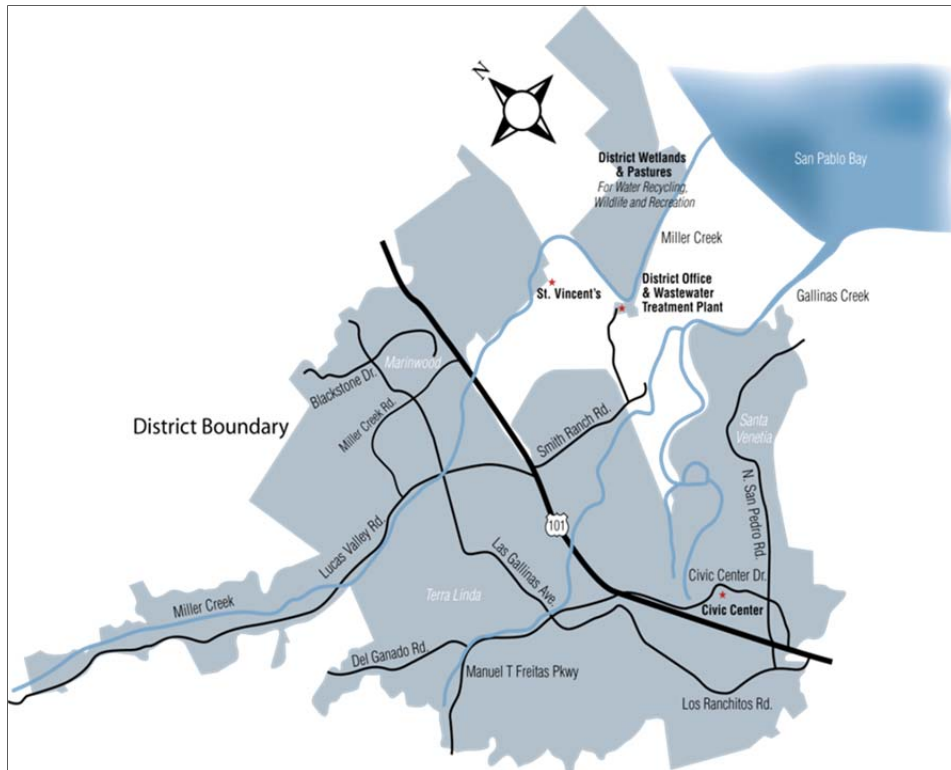
Administration

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

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

Las Gallinas Valley Sanitary District

Las Gallinas Valley Sanitary District Comprehensive Annual Financial Report District Service Area



Las Gallinas Valley Sanitary District



Walkers in reclamation

FINANCIAL SECTION



Las Gallinas Valley Sanitary District



Primary digester cleaning project sludge dewatering process



Emergency Miller Creek levee repairs due to rain

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Las Gallinas Valley Sanitary District (the District), as of and for the year ended June 30, 2017, 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

District's 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the business-type activities of Las Gallinas Valley Sanitary District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements of Las Gallinas Valley Sanitary District for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on October 27, 2016. The 2016 financial statements are presented for comparative purposes only.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion (on pages 3 – 13), schedule of the District's proportionate share of the net pension liability (page 56), schedule of contributions (page 56) and other post-employment benefits schedule of funding progress – CERBT (page 57) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Las Gallinas Valley Sanitary District's basic financial statements. The introductory section, budgetary comparison section, and statistical section on pages i – xi , 58 – 59, and 64 – 82 respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, budgetary comparison section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CROPPER ACCOUNTANCY CORPORATION

Walnut Creek, California

October 6, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS



Las Gallinas Valley Sanitary District

Employees performing maintenance work at the District



Inspecting a sewer easement



Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

The following discussion and analysis of the Las Gallinas Valley Sanitary District's (the District) financial performance provides an overview and analysis of the District's financial activities for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

Financial Highlights

- The District along with Sausalito-Marin City Sanitary District formed the Marin Public Financing Authority (MPFA) in January 2017. This is a joint power authority created to issue publicly financed debt for its members. The MPFA has no assets or liabilities and acts as an administrative body for its members. In April 2017, through the MPFA, the District issued \$38,365,000 in AAA rated bonds. A premium of \$3,023,718 was paid by the successful bidder, Morgan Stanley & Company LLC, resulting in the District receiving cash proceeds of \$41,388,718 less underwriting and issuance costs of \$388,709.
- Operating revenues increased by approximately \$1,404,000 over the previous year. This increase was due to a 13% increase in the sewer service revenue which was offset by a decrease in recycled water revenue. Recycled water revenue is from a cost reimbursement agreement. During 2017, the reimbursable costs were lower and there was less demand due to overall conservation and a rainy spring.
- Operating expenses, net of depreciation, increased by approximately \$1,009,000 or 13%. The primary components of the increase were personnel which costs increased by \$450,750 due to increases in wages and the actuarially determined pension expense; utility power charges increased by \$249,360 due to increased demand for pumping and processing during storm events, less solar output due to more cloudy days, operational issues, and the fact the cogeneration system was offline for a major upgrade and cleaning; other operating costs incurred for chemicals and lab analysis due to high plant flows; and legal fees related to pending matters.
- Nonoperating expenses are comprised primarily of interest expense and certain bond issuance costs which are charged to expense of \$349,204. The total interest incurred in 2017 was \$732,302; however, \$379,663 was capitalized as part of the cost of constructing fixed assets.
- Capital contributions from Connection Fees are dependent on the level of development within the District. In recent years, the development has consisted of the expansion of existing facilities rather than new housing. The Intergovernmental contributions are from MMWD for its allocation of capacity in the existing recycled water treatment facility.

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

District Highlights

- The District treated 1,204 million gallons of wastewater and produced 189 million gallons of effluent for recycled water treatment and distribution by Marin Municipal Water District (MMWD) and North Marin Water District (NMWD) during 2017.
- The District has two photovoltaic systems which power the reclamation pump station and the treatment plant. These systems generate power to offset the District's demand for energy. In prior years, the District has been a net power generator and received credits or refunds for power exported to the power grid; however, in 2017 and 2016 more power was used than generated. This was due to issues with the inverters in the system and a capital improvement project which took the District's co-generation system offline in December, 2015. The project is slated for completion during 2017.
- The District was awarded a \$999,070 grant from the California Energy Commission in May 2015 for its Biogas Energy Recovery System (BERS) project. This closed-loop system will be installed at the treatment plant and allow the District to recover 100 percent of the methane produced from the mesophilic anaerobic digestion of wastewater sludge at the facility and condition it for on-site combined heat and power generation and transportation fuel use. In August 2015, the District received a \$250,000 grant from the California Energy Commission for fueling station equipment for the BERS project. Both of these grants are reimbursement grants that require expenditure of funds by the District before any grant funds are received. In July 2015, the District was awarded a sales tax exclusion grant on the purchase of equipment for the project. The grant is based on the equipment having a maximum purchase price of \$788,757, resulting in a maximum sales and use tax exemption of \$72,960. This grant relieves the District from paying sales tax to the seller of the equipment as part of the purchase price.
- The District was awarded an \$847,000 federal grant from the United States Bureau of Reclamation under its Title XVI program to expand the recycled water treatment facility. Design of the expansion is currently underway and construction is expected to begin in the fall of 2017.
- The District has a Private Sewer Lateral Assistance Program which allows property owners to apply for low interest loans, currently 2% interest, to obtain up to \$10,000 to replace their upper, lower or both laterals. The loans are repaid through special assessments through the property taxes over ten years. During 2017, the District advanced \$116,092 to sixteen 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.

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

USING THIS ANNUAL REPORT

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

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE DISTRICT

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

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

Changes in Net Position

The District's net position increased by \$5,921,554 in 2017 and \$5,926,581 in 2016. The following Condensed Statements of Net Position shows these changes.

CONDENSED STATEMENTS OF NET POSITION
Fiscal years ended June 30, 2017, 2016 and 2015

	2017	2016	2015
			As Restated
ASSETS			
Current assets	\$ 63,816,671	\$ 21,657,390	\$ 20,400,710
Capital assets	63,558,365	58,497,940	55,491,218
Other noncurrent assets	1,376,919	1,325,117	1,160,367
Total assets	<u>128,751,955</u>	<u>81,480,447</u>	<u>77,052,295</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refunding	81,263	90,730	100,197
Pension plan	1,059,383	611,173	385,468
Total deferred outflows of resources	<u>1,140,646</u>	<u>701,903</u>	<u>485,665</u>
LIABILITIES			
Current liabilities	3,822,398	1,840,889	2,136,396
Noncurrent liabilities	56,121,220	16,162,403	16,823,364
Total liabilities	<u>59,943,618</u>	<u>18,003,292</u>	<u>18,959,760</u>
DEFERRED INFLOWS OF RESOURCES			
Pension plan	<u>144,214</u>	<u>295,843</u>	<u>621,566</u>
NET POSITION			
Net investment in capital assets	48,605,521	43,839,639	39,811,964
Restricted	873,990	867,096	860,493
Unrestricted	20,325,258	19,176,480	17,284,177
Total net position	<u>\$ 69,804,769</u>	<u>\$ 63,883,215</u>	<u>\$ 57,956,634</u>

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

Analysis of Changes in Statements of Net Position

Current assets increased by \$42,159,281 in 2017 primarily due to the bond proceeds, net of issuance costs of \$41 million which are invested in the California State Treasurer's Local Area Investment fund. These proceeds are restricted for use in funding capital projects of the District. Current assets increased in 2016 by \$1,256,680 due to increases in cash and accounts receivable, primarily for the grant related to the BERS project. The District has built up cash to pay for future construction. Capital assets, net of accumulated depreciation, increased by \$5,060,425 in 2017 and by \$3,006,722 in 2016. During 2017, spending on projects was \$7,586,602 which was offset by depreciation of \$2,526,177. During 2016 spending on projects was \$5,556,368; this was offset by depreciation of \$2,429,063. Other noncurrent assets increased by \$51,802 in 2017 and \$164,750 in 2016 due to additional advances under the private sewer lateral assistance program. Deferred outflows of resources increased by in 2017 by \$438,743 and in 2016 by \$216,238 due to the changes in the pension related items in accordance Government Accounting Standards Board No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 27* (GASB No. 68).

Current liabilities increased in 2017 \$1,981,509 due to an increase in accounts payable; and increases in accrued interest and the current portion of long-term debt as a result of the new borrowings. In 2016 it decreased by \$295,507 due to a decrease in accounts payable and an increase in the current portion of accrued compensated absences. Noncurrent liabilities increased by \$39,958,817 due to the new borrowings and related original issue premium and an increase in the collective net pension liability. In 2016 noncurrent liabilities decreased by \$660,961 due to a decrease in the long-term portion of the accrued compensated absences and regularly scheduled principal payments on long-term debt, which was offset by an increase in the collective net pension liability of \$404,505. Deferred inflows of resources related to the pension plan decreased by \$151,629 in 2017 and \$325,723 in 2016 due to scheduled amortization and an increase in the difference between projected and actual earnings on plan investments.

Net Position as of June 30, 2015 was previously reported as \$58,063,598; however, as part of recording the activity for 2016, it was determined that the effects of implementing GASB No. 68 should be revised for 2015. The components of the change are as follows:

Net position - end of the year, June 30, 2015 as originally reported	\$ 58,063,598
Correction of GASB No. 68 impact	<u>(106,964)</u>
Net position - end of the year, June 30, 2015, as restated	<u><u>\$ 57,956,634</u></u>

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

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, 2017, 2016 and 2015

	2017	2016	2015 As Restated
REVENUE			
Operating revenues			
Sewer use charges	\$ 13,059,850	\$ 11,647,257	\$ 10,311,215
Recycled water fees	45,548	49,814	120,037
Miscellaneous	42,016	46,103	21,442
Nonoperating revenues			
Tax revenues	1,238,360	1,124,885	1,086,881
Interest income and other	179,860	108,636	81,741
	14,565,634	12,976,695	11,621,316
EXPENSES			
Operating expenses	8,489,100	7,479,878	7,484,165
Nonoperating expenses	631,397	401,975	553,432
	9,120,497	7,881,853	8,037,597
Change in net position	5,445,137	5,094,842	3,583,719
CAPITAL CONTRIBUTIONS -			
Connection fees	39,580	33,879	74,438
Intergovernmental	436,837	-	-
State grants	-	797,860	34,900
Net position - beginning of year	63,883,215	57,956,634	54,263,577
Net position - end of year	\$ 69,804,769	\$ 63,883,215	\$ 57,956,634

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

Revenue of the District increased in 2017 and 2016 due scheduled rate increases in the sewer user charge from \$647 in 2015 to \$734 in 2016 to \$835 in 2017, or 13% per year. Recycled water fees are based on production to meet demand and costs incurred by the District. During 2017, demand increased by 5 acre feet however the District's costs were less per acre feet. During 2016, demand dropped due to overall water conservation and the costs incurred were

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

less. Miscellaneous income decreased by \$4,087 in 2017 and increased by \$24,661 in 2016 due to fluctuations in insurance dividends.

Operating expenses increased by \$1,009,222 in 2017 due to personnel which costs increased by \$450,750 due to increases in wages and the actuarially determined pension expense; utility power charges increased by \$249,360 due to increased demand for pumping and processing during storm events, less solar output due to more cloudy days, operational issues, and the fact the cogeneration system was offline for a major upgrade and cleaning; other operating costs incurred for chemicals and lab analysis due to high plant flows; and legal fees related to pending matters. In 2016 it decreased by \$4,287 due to decreased repairs and maintenance costs, which were offset by increases in personnel costs.

Nonoperating revenues increased by \$184,699 in 2017 and by \$64,900 in 2016 due to increase property tax revenue and interest income.

Nonoperating expenses increased in 2017 by \$229,422 due to one-time bond issuance costs of \$349,204 which was offset by a decrease in interest expense since more of this was capitalized due to ongoing construction. In 2016 nonoperating expense also decreased by \$151,457 due to the capitalization of interest paid as part of capital construction projects and the overall reduced interest costs, from refinancing one of the loans at a lower rate and a general reduction in interest as the principal amount of the debt is paid.

Connection fees increased in 2017 by \$5,701 as more remodeling continues within the District and additional plumbing fixture units are added. In 2016 it decreased by \$40,559 due to a drop in applications for plant and line capacity for larger projects. The state grant relates to the BERS project discussed previously and revenue is recognized as milestones are met.

DESIGNATED RESERVES

The District's current reserve policy, as put forth in the Board Policies and Procedures in 2009, established a goal of increasing the reserves, originally established in 2002, to meet updated financial needs.

Las Gallinas Valley Sanitary District

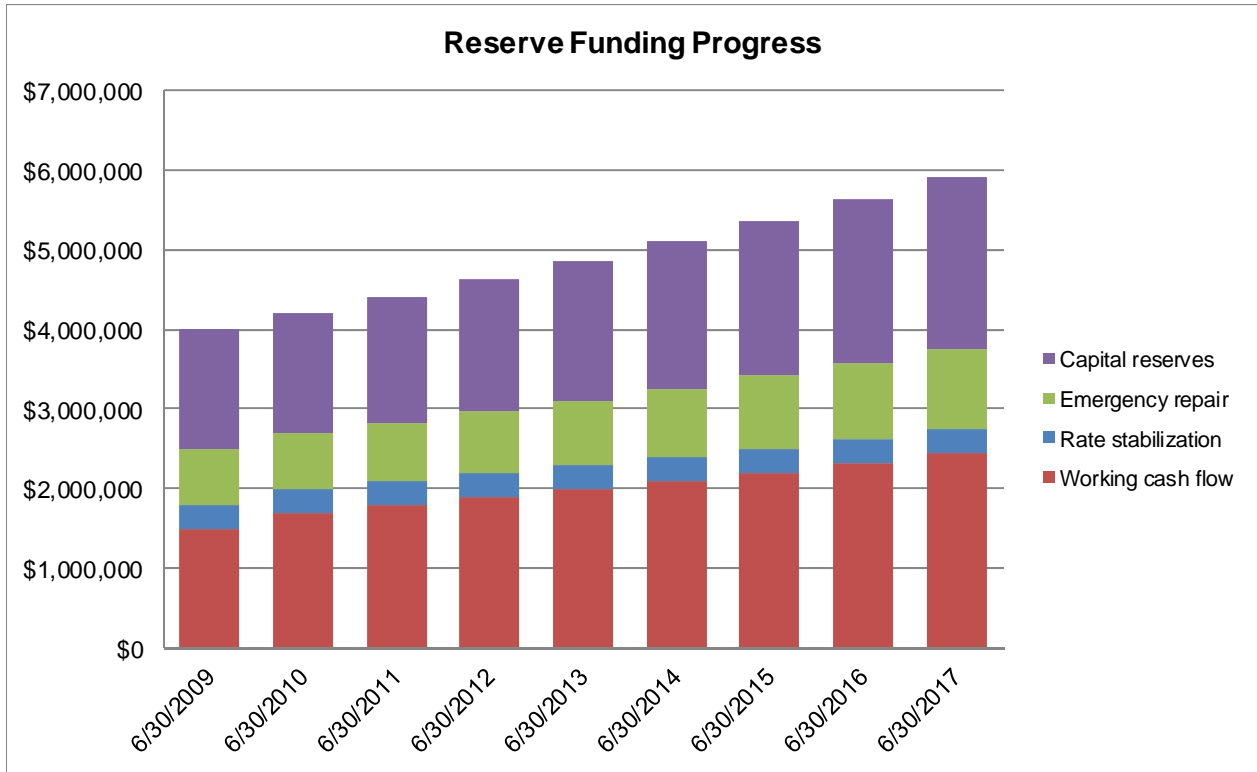
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

Unrestricted net position was designated for the following at June 30, 2017:

	Actual June 30, 2017	Current Target Balance	Original Target
Operating reserves:			
Working cash flow	\$ 2,449,039	\$ 5,930,000	\$ 1,500,000
Rate stabilization	300,000	300,000	300,000
Emergency repair	1,000,000	1,000,000	700,000
Total operating reserves	3,749,039	7,230,000	2,500,000
Capital reserves	2,160,916	4,000,000	1,500,000
Total reserves	\$ 5,909,955	\$ 11,230,000	\$ 4,000,000

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



Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had \$63,558,365 (net of accumulated depreciation) invested in capital assets. The District's investment in capital assets increased by \$7,586,602, from \$107,682,120 at the beginning of the year to \$115,268,722 at the end of the year.

Major capital asset events during the year included the following:

- Continued construction work on the BERS project.
- Rehabilitation of one of the primary digesters.
- Upgrades to the treatment plant.
- Progress on of a sewer system rehabilitation project.
- Purchase of a compressed natural gas powered sewer line maintenance vehicle.

The following summarizes the District's capital assets for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Disposals/ Charge off	Transfers/ Reclass	Balance June 30, 2017
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	8,210,341	6,964,211	-	(2,427,513)	12,747,039
Subsurface lines	30,705,388	64,803	-	-	30,770,191
Facilities and equipment	65,898,820	557,588	-	2,427,513	68,883,921
	107,682,120	7,586,602	-	-	115,268,722
Less: Accumulated depreciation	(49,184,180)	(2,526,177)	-	-	(51,710,357)
Capital assets, net of accumulated depreciation	<u>\$ 58,497,940</u>	<u>\$ 5,060,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,558,365</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 Obligations

As of June 30, 2017, the District has total long-term obligations of \$58,257,782 related compensated absences for staff, the actuarially determined net pension liability and debt issued for the purchase and construction of capital assets. During 2017, Revenue Bonds were issued for the planned Treatment Plant Upgrade, Recycled Water Treatment Expansion and Operations Control Center projects. The District has agreed to certain financial covenants, including maintaining rates to provide for a net revenue debt service coverage ratio of at least 125%. The District's total debt and related premium increased by \$42,425,589.

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Personnel Related Obligations				
Compensated Absences	\$ 452,225	412,798	(377,814)	\$ 487,209
Net Pension Liability	2,098,373	624,073	-	2,722,446
	<u>2,550,598</u>	<u>1,036,871</u>	<u>(377,814)</u>	<u>3,209,655</u>
Notes Payable				
Bank of Marin	5,075,844	-	(383,005)	4,692,839
Municipal Finance Corporation	6,003,800	-	(500,000)	5,503,800
State Revolving Fund Loan	3,669,387	-	(186,391)	3,482,996
2017 Revenue Bonds	-	38,365,000	-	38,365,000
Premium on 2017 Revenue Bonds	-	3,023,718	(20,226)	3,003,492
	<u>14,749,031</u>	<u>41,388,718</u>	<u>(1,089,622)</u>	<u>55,048,127</u>
Total Long-Term Obligations	<u>\$ 17,299,629</u>	<u>\$ 42,425,589</u>	<u>\$ (1,467,436)</u>	<u>\$ 58,257,782</u>

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 reviewed its operating and capital needs during 2015 in order to establish sewer service rates for the years beginning July 1, 2015 through June 30, 2020. The majority of the rate increase is for planned capital improvements totaling \$41 million, the largest of which is a \$32.5 million upgrade to the treatment plant to improve wastewater processes to meet regulatory requirements. The District issued the 2017 Revenue Bonds to finance this upgrade.

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2017 and 2016

The expected revenue from sanitary service charges is as follows:

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

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

The District is monitoring the changes in the current financial and credit markets. Reserve funds are invested in two 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.

Las Gallinas Valley Sanitary District



Compressed natural gas powered vehicle placed in service during 2017



Compressed natural gas fueling station for the new vehicle

BASIC FINANCIAL STATEMENTS



Las Gallinas Valley Sanitary District



Wildlife in the reclamation area

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2017 and 2016

	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents:		
Unrestricted	\$ 23,093,006	\$ 20,316,117
Restricted - bond proceeds	40,014,020	-
Receivables:		
Connection fees	2,131	-
User charges	82,873	84,024
Interest	109,966	20,758
Private sewer lateral assistance program	5,135	19,903
Grant reimbursement	83,276	787,367
Other	25,417	26,926
Current portion of Private Sewer Lateral Assistance program receivable	68,189	57,074
Inventory of supplies	272,328	284,961
Prepaid expenses	60,330	60,260
	63,816,671	21,657,390
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	63,558,365	58,497,940
OTHER NON-CURRENT ASSETS:		
Cash - restricted for debt service	873,990	867,096
Receivables		
Connection fees	5,256	-
Private Sewer Lateral Assistance Program	497,673	458,021
	64,935,284	59,823,057
	128,751,955	81,480,447
DEFERRED OUTFLOWS of RESOURCES		
Deferred amount on debt refunding	81,263	90,730
Pension plan	1,059,383	611,173
	1,140,646	701,903
	\$ 129,892,601	\$ 82,182,350

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

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 1,221,441	\$ 532,570
Accrued payroll	102,536	78,076
Accrued compensated absences	73,080	67,830
Accrued interest	293,579	35,249
Current portion of long-term debt	2,063,482	1,069,396
Deferred connection fees	68,280	57,768
	<u>3,822,398</u>	<u>1,840,889</u>
TOTAL CURRENT LIABILITIES	3,822,398	1,840,889
NONCURRENT LIABILITIES:		
Accrued compensated absences	414,129	384,395
Notes payable, long-term	52,984,645	13,679,635
Collective net pension liability	2,722,446	2,098,373
	<u>56,121,220</u>	<u>16,162,403</u>
TOTAL NONCURRENT LIABILITIES	56,121,220	16,162,403
TOTAL LIABILITIES	59,943,618	18,003,292
DEFERRED INFLOWS of RESOURCES		
Pension plan	<u>144,214</u>	<u>295,843</u>
NET POSITION:		
Net investment in capital assets	48,605,521	43,839,639
Restricted for debt service	873,990	867,096
Unrestricted	20,325,258	19,176,480
	<u>69,804,769</u>	<u>63,883,215</u>
TOTAL NET POSITION	\$ 69,804,769	\$ 63,883,215

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, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Sewer use charges	\$ 13,059,850	\$ 11,647,257
Recycled water fees	45,548	49,814
Miscellaneous	42,016	46,103
TOTAL OPERATING REVENUES	13,147,414	11,743,174
OPERATING EXPENSES:		
Sewage collection and pump stations	1,036,329	945,090
Sewage treatment	2,065,165	1,546,504
Sewage and solid waste disposal	216,198	82,842
Laboratory	337,663	295,394
Engineering	532,363	448,195
Recycled water	56,871	97,916
General and administrative	1,718,334	1,634,874
Depreciation and amortization	2,526,177	2,429,063
TOTAL OPERATING EXPENSES	8,489,100	7,479,878
INCOME FROM OPERATIONS	4,658,314	4,263,296
NONOPERATING REVENUES:		
Property taxes	1,238,360	1,124,885
Franchise fees	25,000	25,000
Intergovernmental fees	4,363	4,442
Interest income	150,497	79,194
TOTAL NONOPERATING REVENUES	1,418,220	1,233,521
NONOPERATING EXPENSES:		
Loss on disposal, net	6,267	-
Bond issuance costs	349,204	-
Interest expense	275,926	401,975
TOTAL NONOPERATING EXPENSES	631,397	401,975
CHANGE IN NET POSITION	5,445,137	5,094,842
CAPITAL CONTRIBUTIONS		
Connection fees	39,580	33,879
Intergovernmental	436,837	-
State grants	-	797,860
TOTAL CAPITAL CONTRIBUTIONS	476,417	831,739
NET POSITION - BEGINNING OF YEAR	63,883,215	57,956,634
NET POSITION - END OF YEAR	\$ 69,804,769	\$ 63,883,215

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 13,122,500	\$ 11,711,676
Cash payments to employees	(2,498,703)	(2,321,105)
Cash payments to suppliers	(3,315,964)	(2,613,489)
Other receipts	28,130	36,533
	7,335,963	6,813,615
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	4,363	4,442
Franchise fees	25,000	25,000
Advances for the Private Sewer Lateral Assistance Program	(127,762)	(291,968)
Repayment from the Private Sewer Lateral Assistance Program	80,093	82,778
Property taxes received	1,237,804	1,125,209
	1,219,498	945,461
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of revenue bonds	38,365,000	-
Proceeds from original issue premium	3,023,718	-
Proceeds from grants	704,091	45,393
Connection fees collected	42,705	61,427
Intergovernmental contributions	436,837	-
Acquisition and construction of capital assets	(6,944,343)	(5,931,845)
Principal payments, long-term debt	(1,069,396)	(1,030,420)
	34,558,612	(6,855,445)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	127,244	71,571
Interest expense	(443,514)	(394,965)
	(316,270)	(323,394)
NET INCREASE IN CASH AND EQUIVALENTS	42,797,803	580,237
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	21,183,213	20,602,976
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 63,981,016	\$ 21,183,213

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, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,658,314	\$ 4,263,296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,526,177	2,429,063
Construction-in-progress charge off for abandoned project and predecision costs	-	72,690
Changes in assets and liabilities:		
User charges receivable	1,151	(12,332)
Other receivables	2,066	17,367
Inventory of supplies	(30,230)	7,503
Prepaid expenses	(70)	93,600
Deferred outflows of resources	(448,210)	(225,705)
Accounts payable	94,877	66,919
Accrued payroll	24,460	17,671
Accrued compensation	34,984	4,761
Collective net pension liability	624,073	404,505
Deferred inflows of resources	(151,629)	(325,723)
Net cash provided by operating activities	\$ 7,335,963	\$ 6,813,615
 SUPPLEMENTARY INFORMATION:		
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO AMOUNTS REPORTED ON THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents, unrestricted	\$ 23,093,006	\$ 20,316,117
Cash and cash equivalents, restricted	40,888,010	867,096
	\$ 63,981,016	\$ 21,183,213
 NONCASH ACTIVITIES		
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	\$ 7,586,602	\$ 5,556,368
Transferred from inventory	(36,596)	(22,324)
Financed through accounts payable	(605,663)	397,801
Cash paid for acquisition and construction of capital assets	\$ 6,944,343	\$ 5,931,845

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, 2017 and 2016

1. Reporting Entity

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

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

2. Summary of Significant Accounting Policies

Financial Reporting Entity, Measurement Focus, and Financial Statement Presentation

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Net Position

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

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

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

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

Budgetary Accounting

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

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.

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

Inventory of Supplies

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

Capital Assets

Capital assets consist of property, plant and equipment owned by the District, which are recorded at cost or at estimated historical cost if cost information is not practically determinable. 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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Compensated Absences

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

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

Balance at June 30, 2016		\$ 452,225
Accrued compensated absences earned	412,798	
Accrued compensated absences used	<u>(377,814)</u>	
Net change in accrued compensated absences		<u>34,984</u>
Balance at June 30, 2017		<u>\$ 487,209</u>

The current portion of the noncurrent liability to be used within the next year is estimated by management to be approximately \$73,080, or 15%.

Deferred Outflows and Inflows of Resources

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

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

Pension plan – The accounting valuation for the pension plan results in deferred outflows and deferred inflows of resources from several sources. In performing the actuarial valuation for the deferred compensation plan, changes in projected and actual earning on pension plan investments and adjustment due to differences in proportions for members of cost-sharing multiple-employer plans are calculated. The difference in proportions results from the California Public Employees Retirement System (CalPERS) allocation methodology. Rather than a single proportionate share applied to all components of pension expense, the CalPERS method applies employer proportions to various pension-related items such as assets, liabilities and service cost. This adjustment reconciles the difference in proportions for these various items with the employer's change in net pension liability during the plan measurement period. The

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

amounts will be recognized over future periods equal to the expected average remaining service lifetime of the pool or 3.7 years for the June 30, 2016 measurement date (3.8 years for June 30, 2015.). In addition, since the measurement date of the pension plan is one year in advance of the financial statement reporting period (i.e. valuation of the pension plan assets has a measurement date of June 30, 2016 with the results reported in the District's June 30, 2017 financial statements) contributions by the employer for 2017 and 2016 are deferred outflows at June 30, 2017 and 2016, respectively. These amounts will be recognized in the years subsequent to payment.

Restricted Assets and Liabilities

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

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 8). 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, 2017 and 2016, the District received \$872,282 and \$826,906, respectively, in property taxes and \$366,078 and \$297,979, respectively, in ERAF.

Grants

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

Connection Fees

The District charges connection fees to developers to reserve system capacity. Amounts charged are recorded as liabilities (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 No. 33, *Accounting and Financial Reporting for*

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Nonexchange Transactions, the capital contributions are recorded in the Statements of Revenues, Expenses and Changes in Net Position.

Pensions

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

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.

New Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB No. 83). GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB No. 83.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

GASB No. 83 will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. GASB No. 83 will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The requirements of GASB No. 83 are effective for reporting periods beginning after June 15, 2018. The District does not believe that there will be any financial statement effect related to GASB No. 83.

In January 2017 GASB issued Statement No. 84, *Fiduciary Activities* (GASB No. 84). The objective of which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB No. 84 will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The requirements of GASB No. 84 are effective for reporting periods beginning after December 15, 2018. The District does not believe that there will be any financial statement effect related to GASB No. 84.

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of GASB No. 85 are effective for reporting periods beginning after June 15, 2017. The District is evaluating the impact of GASB No. 85 on its financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB No. 86). The primary objective of GASB No. 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB No. 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB No. 86 are effective for reporting periods beginning after June 15, 2017. The District does not believe that there will be any financial statement effect related to GASB No. 86.

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

GASB No. 87 will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. GASB No. 87 also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements.

The requirements of GASB No. 87 are effective for reporting periods beginning after December 15, 2019. The District is evaluating the impact of GASB No. 85 on its financial statements.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

3. Cash and Cash Equivalents

At June 30, 2017, the District maintained the majority of its cash in the Bank of Marin and the State of California LAIF pooled investment funds. Balances in the Bank of Marin are insured by the Federal Deposit Insurance Corporation up to \$250,000, are collateralized by securities at 110% of the balance, and consist of checking and savings accounts.

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

Restricted Cash

Restricted cash consists of unexpended proceeds from issuing the 2017 Revenue Bonds in April 2017 and the debt service reserve funds. The majority of the unexpended Revenue Bond funds are invested at LAIF; however \$37,020 is on deposit at U.S. Bank, the Trustee for the issue, in the Cost of Issuance fund. The funds at U.S. Bank will be applied towards the initial interest payment due in October 2017. See Note 8 for additional information regarding the bonds. The debt service reserve funds are invested in certificates of deposit with Bank of Marin and have maturity dates in 2020.

Cash and cash equivalents consist of the following:

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

3. Cash and Cash Equivalents (continued)

	June 30, 2016	
	Reported/Fair Value Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	\$ 4,148,074	\$ -
Petty cash	851	-
Total cash in bank and on hand	<u>4,148,925</u>	<u>-</u>
Investments:		
Certificates of Deposit	-	867,096
Local Agency Investment Fund (LAIF)	<u>16,167,192</u>	<u>-</u>
Total investments	<u>16,167,192</u>	<u>867,096</u>
Total cash and cash equivalents as of June 30, 2016	<u>\$ 20,316,117</u>	<u>\$ 867,096</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, 2017 and 2016

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 6 months.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

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, 2017:

		<u>Maturity Date</u>
Certificates of Deposit	\$ 873,990	1,127 days average
LAIF	<u>59,050,350</u>	194 days average
	<u>\$ 59,924,340</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, 2017 and 2016

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 0.792% and mature in July and August 2020, respectively.

Investment in State Investment Pool

The District is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The District's proportionate share of that value was \$58,987,796 and \$16,527,051 as of June 30, 2017 and 2016, respectively. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities totaling \$1,419 million and \$1,718 million as of June 30, 2017 and 2016, respectively, and \$825 million and \$400 million in structured notes as of June 30, 2017 and 2016, respectively. 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, and the balance of 5% during June and July. The June and July remittances allow the County as the collection agent to true-up any changes for revisions in the sewer charges after the initial calculation in August.

5. Private Sewer Lateral Assistance Program

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

As of June 30, 2017 and 2016, collections made by the County of Marin, but remitted to the District subsequently, were \$5,135 and \$19,903, respectively.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

5. Private Sewer Lateral Assistance Program (continued)

The activity in the program for 2017 and 2016 is as follows:

Balance at June 30, 2015	\$ 335,613
Payments received	(92,840)
Advances made	<u>272,322</u>
Balance at June 30, 2016	515,095
Payments received	(65,325)
Advances made	<u>116,092</u>
Balance at June 30, 2017	<u><u>\$ 565,862</u></u>

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

<u>Fiscal year ending June 30,</u>	
2018	\$ 68,189
2019	69,540
2020	70,929
2021	72,390
2022	73,932
2023 to 2027	<u>210,882</u>
	<u><u>\$ 565,862</u></u>

In addition to regularly schedule repayments collected through the tax roll, property owners may prepay the amounts outstanding under the lateral assistance program if they sell or refinance the property. Included in payments received are prepayments of \$4,986 and \$38,858 in 2017 and 2016, respectively.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

6. Capital Assets

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

6. Capital Assets (continued)

A summary of property, plant and equipment transactions for the year ended June 30, 2016 is as follows:

	Beginning Balance at July 1, 2015	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2016
Capital assets not being depreciated:					
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	4,546,441	5,248,676	(120,583)	(1,464,193)	8,210,341
Total capital assets not being depreciated	<u>7,414,012</u>	<u>5,248,676</u>	<u>(120,583)</u>	<u>(1,464,193)</u>	<u>11,077,912</u>
Capital assets being depreciated:					
Subsurface lines and manholes	29,455,502	163,515	-	1,086,371	30,705,388
Facilities and equipment					
Sewage collection	2,223,711	5,000	-	-	2,228,711
Sewage treatment	30,471,902	61,424	-	328,071	30,861,397
Sewage disposal	8,200,137	-	-	-	8,200,137
Reclamation	1,305,951	-	-	-	1,305,951
Recycled water production	9,449,306	21,978	-	-	9,471,284
Pump stations	12,291,828	42,452	-	49,751	12,384,031
Administration	884,546	13,323	-	-	897,869
Laboratory	549,440	-	-	-	549,440
Total capital assets being depreciated	<u>94,832,323</u>	<u>307,692</u>	<u>-</u>	<u>1,464,193</u>	<u>96,604,208</u>
Less accumulated depreciation for:					
Subsurface lines	(13,668,880)	(576,485)	-	-	(14,245,365)
Facilities and equipment					
Sewage collection	(1,769,859)	(69,538)	-	-	(1,839,397)
Sewage treatment	(15,437,691)	(794,438)	-	-	(16,232,129)
Sewage disposal	(6,175,557)	(156,943)	-	-	(6,332,500)
Reclamation	(818,195)	(35,569)	-	-	(853,764)
Recycled water production	(1,036,815)	(380,525)	-	-	(1,417,340)
Pump stations	(7,118,352)	(348,406)	-	-	(7,466,758)
Administration	(507,455)	(49,149)	-	-	(556,604)
Laboratory	(222,313)	(18,010)	-	-	(240,323)
Accumulated depreciation	<u>(46,755,117)</u>	<u>(2,429,063)</u>	<u>-</u>	<u>-</u>	<u>(49,184,180)</u>
Total capital assets being depreciated, net	<u>48,077,206</u>	<u>(2,121,371)</u>	<u>-</u>	<u>1,464,193</u>	<u>47,420,028</u>
Capital assets, net	<u>\$ 55,491,218</u>	<u>\$ 3,127,305</u>	<u>\$ (120,583)</u>	<u>\$ -</u>	<u>\$ 58,497,940</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

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 2016, has been extended until December 31, 2018.

In 2017, the District entered into a purchase and sale of recycled water agreement with MMWD. The District will provide MMWD with 2.5 million gallons per day of plant capacity to produce a minimum of 600 acre fee per year, for 30 years. As part of the agreement, MMWD made an initial payment towards the cost of the existing facility of \$333,563 and will make quarterly payments of \$51,637 through October 1, 2022 and after that \$26,890 per quarter through July 1, 2031. In addition, the District is designing an expansion of the existing facility in order to serve MMWD. Funding for the expansion is from part of the proceeds of the 2017 Revenue Bonds and a WaterSmart Grant awarded in 2015. The project has not been awarded as of June 30, 2017 so a firm construction cost is not known; however per the agreement it is expected that cost of the portion of the expansion ascribed to MMWD is \$4.6 million. The first payment is due October 1, 2017 and semi-annually after that through April 1, 2042. See Note 8E for further information regarding the bonds. The agreement with MMWD may be modified to revise the payment amounts once the construction contract is awarded and after construction is completed and all costs are known. MMWD is responsible for demolishing the existing facility which is located on the District's site. The agreement also provides that should MMWD decide based on financial concerns, at the 100% design phase of the expansion to terminate the agreement that it will pay its proportionate share of costs incurred to date including bond issuance costs and associated bond call premium. If after the bids for construction are received both parties agree not to proceed, each party will pay their proportionated share of costs incurred.

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

<u>Fiscal year ending June 30,</u>	<u>Total</u>
2018	\$ 455,057
2019	463,143
2020	463,352
2021	463,394
2022	463,268
2023 to 2027	1,870,200
2028 to 2032	1,740,582
Thereafter	2,585,077
	<u>\$ 8,504,073</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

7. Water Disposal and Recycled Water (continued)

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

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

8. Long-Term Obligations

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

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

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

The discount of \$42,442 and the call premium of \$68,800 are recorded as a Deferred Outflow of Resources – Deferred amount on debt refunding and are being amortized over the life of the loan. The accumulated amortization is \$29,979 at June 30, 2017 and \$20,512 at June 20, 2016; the amount charged to interest expense was \$9,467 for both June 30, 2017 and 2016.

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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

8. Long-Term Obligations (continued)

Future minimum payments are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 525,000	\$ 172,963	\$ 697,963
2019	535,000	155,473	690,473
2020	555,000	137,488	692,488
2021	580,000	118,760	698,760
2022	610,000	99,125	709,125
2023 to 2027	2,698,800	183,011	2,881,811
	<u>\$ 5,503,800</u>	<u>\$ 866,820</u>	<u>\$ 6,370,620</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>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 195,486	\$ 137,196	\$ 332,682
2019	203,316	129,365	332,681
2020	211,129	121,552	332,681
2021	219,917	112,764	332,681
2022	228,726	103,956	332,682
2023 to 2027	1,288,361	375,045	1,663,406
2028 to 2032	1,229,302	101,423	1,330,725
	<u>\$ 3,576,237</u>	<u>\$ 1,081,301</u>	<u>\$ 4,657,538</u>

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

8. Long-Term Obligations (continued)

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>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 201,573	\$ 33,773	\$ 235,346
2019	208,316	27,030	235,346
2020	215,233	20,113	235,346
2021	222,485	12,861	235,346
2022	229,928	5,418	235,346
2023	39,066	160	39,226
	<u>\$ 1,116,601</u>	<u>\$ 99,355</u>	<u>\$ 1,215,956</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.

Future minimum payments are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	191,423	94,041	285,464
2019	196,592	88,872	285,464
2020	201,900	83,564	285,464
2021	207,351	78,113	285,464
2022	212,950	72,514	285,464
2023 to 2027	1,154,162	273,160	1,427,322
2028 to 2032	1,318,618	108,705	1,427,323
	<u>\$ 3,482,996</u>	<u>\$ 798,969</u>	<u>\$ 4,281,965</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

8. Long-Term Obligations (continued)

E. 2017 Revenue Bonds

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

Sources of Funds:

Stated redemption price of bonds	\$	38,365,000
Original issue premium		3,023,718
		<u>41,388,718</u>

Uses of Funds:

Issuance costs	\$	153,608
Surety bond premium		50,231
Underwriter's discount		<u>145,365</u>
		<u>349,204</u>

Deposit to project fund \$ 41,039,514

The bonds are generally callable in whole or in part on or after April 1, 2027; the District may prepay up to \$4,300,000 in principal components before October 31, 2018. This special call provision relates to the expansion of the recycled water treatment facility to serve MMWD (see Note 7). Should MMWD decide not to proceed with the project, the District may exercise the early call provision.

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

The debt is payable solely from net revenues of the District. Net revenues consist generally of all revenues after payment of adjusted operation and maintenance costs and include property taxes received by the District. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.25 to 1.0.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

8. Long-Term Obligations (continued)

Future minimum payments are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 950,000	\$ 1,419,505	\$ 2,369,505
2019	950,000	1,496,600	2,446,600
2020	990,000	1,458,600	2,448,600
2021	1,030,000	1,419,000	2,449,000
2022	1,070,000	1,377,800	2,447,800
2023 to 2027	6,020,000	6,212,400	12,232,400
2028 to 2032	7,330,000	4,907,600	12,237,600
Thereafter	<u>20,025,000</u>	<u>4,623,400</u>	<u>24,648,400</u>
	<u>\$ 38,365,000</u>	<u>\$ 22,914,905</u>	<u>\$ 61,279,905</u>

The following is a summary of the long-term obligations activity for the year ended June 30, 2017:

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

8. Long-Term Obligations (continued)

The following is a summary of the debt activity for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Personnel Related Obligations					
Compensated Absences	\$ 447,465	\$ 341,055	\$ (336,295)	\$ 452,225	\$ 67,830
Net Pension Liability	1,693,868	404,505	-	2,098,373	-
	<u>2,141,333</u>	<u>745,560</u>	<u>(336,295)</u>	<u>2,550,598</u>	<u>67,830</u>
Notes Payable					
Bank of Marin	\$ 5,444,773	\$ -	\$ (368,929)	\$ 5,075,844	\$ 383,005
Municipal Finance Corporation	6,483,800	-	(480,000)	6,003,800	500,000
State Revolving Fund	3,850,878	-	(181,491)	3,669,387	186,391
	<u>15,779,451</u>	<u>-</u>	<u>(1,030,420)</u>	<u>14,749,031</u>	<u>1,069,396</u>
Total long-term obligations activity	<u>\$ 17,920,784</u>	<u>\$ 745,560</u>	<u>\$ (1,366,715)</u>	<u>\$ 17,299,629</u>	<u>\$ 1,113,482</u>

During the years ended June 30, 2017 and 2016, the District incurred interest on long-term debt of \$732,302 and \$506,659, respectively. For the years ended June 30, 2017 and 2016, \$379,663 and \$114,151, respectively, of interest was capitalized as part of construction projects.

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 2017 and 2016, employees contributed \$143,178 and \$126,747, respectively. Generally, deferred compensation is payable upon retirement, termination of employment, disability or death. Deferred amounts are held in a 457 plan trust established by the District for the exclusive benefit of the participants and their beneficiaries. Contributions are made to the Supplemental Income Plan (SIP) administered by the CalPERS for the benefit of each individual participant. The SIP is an entity separate from the District and, accordingly, the trust assets are not considered to be assets of the District itself. Additional information about the trust may be obtained from the CalPERS Supplemental Income Plan, which has a mailing address of 400 Q Street, Room E2812, Sacramento, CA 95814.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

10. Commitments

The District was contractually committed to contractors and vendors for various projects totaling \$9,209,279 and \$4,930,747 as of June 30, 2017 and 2016, respectively.

11. Defined Benefit Pension Plan

Plan Description and Benefits Provided

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

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

	Miscellaneous	
	Hired Prior to January 1, 2013	Hired On or after January 1, 2013
Benefit formula	2.7% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required contribution rate as a percentage of reportable payroll:		
Employees	8.000%	6.250%
Employer		
2017	11.634%	6.555%
2016	10.958%	6.237%
2015	16.691%	6.250%
Required contribution for prior year unfunded liability:		
2017	\$ 114,471	\$ 29
2016	\$ 99,510	\$ -

Contributions

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

For employees hired prior to January 1, 2013, the District pays a portion of the employees' required contribution. For 2017, the District paid 1% of the employees' required 8% contribution; for 2016 it was 2%. For employees hired after January 1, 2013, the District did not pay any of the employees' required contribution of 6.25% and the employees began cost sharing and paying a portion of the employers' required contribution as of July 1, 2016 equal to 1% of reportable payroll.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

For the years ended June 30, 2017 and 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	June 30, 2017	June 30, 2016
Contributions - employer	\$ 331,133	\$ 295,427
Contributions - employee (paid by employer)	14,731	27,985
	\$ 345,864	\$ 323,412

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

The District's proportionate share of the net pension liability is \$2,722,446 and \$2,098,373 as of June 30, 2017 and 2016, respectively.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The liability and deferred outflows and inflows of resources are determined from actuarial valuations that are prepared at dates that differ from the financial statement reporting periods in these statements. For June 30, 2017 (measurement date June 30, 2016), the CalPERS actuarial valuation is dated June 30, 2015 and the liabilities are rolled forward to June 30, 2016. For June 30, 2016, the CalPERS actuarial valuation is dated June 30, 2014 and the liabilities are rolled forward to June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

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

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

	Financial Statement Report as of June 30, 2016	
	Dollars	Percentage
Proportion - June 30, 2014	\$ 1,693,868	0.027220%
Proportion - June 30, 2015	2,098,373	0.030571%
Change - Increase (Decrease)	\$ 404,505	0.007950%

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

For the years ended June 30, 2017 and 2016, the District recognized pension expense of \$355,557 and \$148,225, respectively. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,557	2,419
Changes of assumptions	-	99,883
Net differences between projected and actual earnings on plan investments	519,857	-
Changes in employer's proportion	168,276	17,770
Differences between the employer's contributions and the employer's proportionate share of contributions	29,370	24,142
Deferred Outflows and Inflows of Resources to be Amortized	728,060	144,214
Pension contributions subsequent to measurement date	331,323	-
Total	\$ 1,059,383	\$ 144,214

The \$331,323 is reported as deferred outflows of resources related to contributions made during the District's year ended June 30, 2017 which is subsequent to the pension plan measurement date of June 30, 2016 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Deferred inflows of resources to be amortized over the remaining average service life of 3.7 years and recognized as pension expense as follows:

<u>Fiscal year ending June 30,</u>		
2017	\$	112,637
2018		105,838
2019		230,723
2020		134,648
2021		-
Thereafter		-
	\$	583,846

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

Actuarial Methods and Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015 (last available)
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report. All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of this study can be found on the CalPERS website.

Changes of Assumptions

There were no changes in assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes of assumptions presented in the Schedule of Collective Pension Amounts represent the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, the amortization and smoothing methods adopted by the CalPERS board was used. CalPERS stress tested plans that would most likely result in a discount rate that would be

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected rate of return will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed their methodology.

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

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

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

Asset Class	Current Target Asset Allocation	Real Return Years 1-10 ¹	Real Return Years 11+ ²
	Percent		
Global Equity	51.00	5.25	5.71
Global Debt Securities	20.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	12.00	4.50	5.13
Liquidity	1.00	(0.55)	(1.05)
Infrastructure and forestland	-	4.50	5.09

¹An expected inflation of 2.5% was used for this period.

²An expected inflation of 3.0% was used for this period.

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

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

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 4,275,632	\$ 2,722,446	\$ 1,438,816

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2017 and 2016, the District did not have a payable for outstanding contributions.

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

Effective June 30, 2003, CalPERS risk pools were established for plans containing less than 100 active members as of that valuation date. The District is included in the risk pool for

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

“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, 2016, the CalPERS Board approved certain assumptions and methods used to determine the contractually required contributions for the cost sharing multiple-employer defined benefit plan.

Public Employees’ Pension Reform Act of 2013 (PEPRA)

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

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

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

11. Defined Benefit Pension Plan (continued)

The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation that sets the contribution rates for the 2016 fiscal year. For more detailed information on changes due to PEPRA, please refer to the CalPERS website.

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. Other Post-employment 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 \$734 as of January 1, 2017, \$694 as of January 1, 2016, and \$654 as of January 1, 2015.

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 \$707 as of January 1, 2017, \$705 as of January 1, 2016, and \$655 as of January 1, 2015. This benefit is available to the employee only without any spousal coverage.

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

Tier 4 – Employees who are hired after July 1, 2014 and retire from the District after 10 years of service are eligible for benefits from 50% to 100% of the rate established by the California

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

12. Other Post-employment Benefits (continued)

Department of Personnel Administration. The benefit increases 5% each year after that until the maximum coverage is reached at 20 years of service and is available only to the employee.

All employees who retire from the District, have five years of CalPERS service credits, and participate in the CalPERS medical plan receive a benefit paid by the District equal to the minimum Public Employees' Medical and Hospital Care Act (PEMHCA) contribution. This monthly contribution is included in the cap outlined above for all tiers. However, an employee who is a member of Tier 3, but does not work for the District for five years, and has five year of CalPERS service credits, is eligible for the PEMHCA. The monthly amount was \$128 as of January 1, 2017, \$125 as of January 1, 2016, and \$122 as of January 1, 2015.

Effective, July 1, 2009, the District joined the California Employers' Retiree Benefit Trust (CERBT) in order to pre-fund the retiree medical costs. The objective of the CERBT is to seek favorable returns that reflect the broad investment performance through asset allocation. The employers who participate in the CERBT own units of the fund's portfolio, which is invested in accordance with the approved strategic asset allocation; they do not have direct ownership of the securities in the portfolio. The unit value changes with market conditions. The CERBT is a self-funded program, in which the participating employers pay the program costs. The cost charged to participating employers is based on the average daily balance of assets. CalPERS issues a separate CAFR. Copies of CERBT's annual financial report may be obtained from its Affiliate Program Services Division at 400 Q Street, Sacramento, CA 95811.

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

	June 30,		
	2017	2016	2015
Market value - beginning of year	\$ 822,086	\$ 684,208	\$ 601,454
Contributions	124,995	113,345	85,616
Gain (loss) on investments	64,654	25,149	(2,217)
Administrative expenses	(767)	(616)	(645)
Market value - end of year	<u>\$ 1,010,968</u>	<u>\$ 822,086</u>	<u>\$ 684,208</u>
Gain (loss)	<u>7.77%</u>	<u>3.59%</u>	<u>-0.48%</u>

Actuarial Value of Assets

Effective July 1, 2009, the District 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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

12. Other Post-employment Benefits (continued)

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 January 1, 2015, with the results rolled forward to July 1, 2015, by Nicolay Consulting. The expense for the years ended June 30, 2017 and 2016 were based on this valuation.

The actuary used the following actuarial method and assumptions:

Valuation Date	January 1, 2015 with results rolled forward to July 1, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Closed period, 24 years remaining, level percent of payroll
Average Remaining Period	24 Years as of the Valuation Date
Asset Valuation Method	Based on market value of assets
Actuarial Assumptions:	
Investment Rate of Return	6.73% (net of administrative expenses)
Projected Salary Increase	3.25% per year
Inflation	General - 3.00% per year; Medical premium increases ranging from 6.4% 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, 2013.
Number of retirees receiving benefits	21
Number of active employees covered by the plan	19

The District, after evaluating the various strategies in light of the funding progress, demographics and risk of return, chose to use CalPERS' investment Strategy 2 which has a current discount rate of 6.73% 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 19 retirees and their eligible spouses, totaling \$94,678 and \$99,306 for the years ended June 30, 2017 and 2016, respectively. In addition, the District made deposits to the CERBT of \$124,995 and \$113,459 for 2017 and 2016, respectively, based on the valuation dated January 1, 2015.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

12. Other Post-employment Benefits (continued)

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 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,		
	2017	2016	2015
Annual required contribution	\$ 219,673	\$ 211,861	\$ 179,796
Interest on NOO	-	-	-
Annual OPEB cost	219,673	211,861	179,796
Contribution made - payment of benefits	(219,673)	(211,861)	(179,911)
Increase in NOO/(NOA)	-	-	(115)
NOA at the beginning of the year	-	-	115
NOO/(NOA) at the end of the year	\$ -	\$ -	\$ -
Percentage of OPEB contributed	100.00%	100.00%	100.06%

Funding Status and Funding Progress

In the past, the District has performed an actuarial valuation of the OPEB as of July 1st so the next scheduled valuation would have had a valuation date of July 1, 2015. However, since the District was preparing a five year rate plan to be effective July 1, 2015 through June 30, 2020, staff and the Board decided to have the valuation performed early with a January 1, 2015 valuation date and the results were rolled forward to July 1, 2015.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

12. Other Post-employment Benefits (continued)

As of the most recent actuarial valuation, which was prepared as of January 1, 2015, with results rolled forward to July 1, 2015, the funded status of the plan was as follows:

	June 30,		
	2017	2016	2015
Actuarial accrued liability (AAL)	\$ 2,910,217	\$ 2,792,788	\$ 2,411,261
Actuarial value of plan assets	<u>815,237</u>	<u>698,909</u>	<u>557,250</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,094,980</u>	<u>\$ 2,093,879</u>	<u>\$ 1,854,011</u>
Funded ratio (actuarial value of plan assets/AAL)	38.91%	33.38%	30.06%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 2,234,070	\$ 2,065,897	\$ 2,002,442
UAAL as a percentage of covered payroll	93.77%	101.35%	92.59%

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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2017 and 2016

13. Risk Management (continued)

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

	Years Ended June 30,	
	2016 ¹	2015
Total assets	\$ 28,336,567	\$ 27,418,098
Total liabilities	<u>16,735,609</u>	<u>16,714,638</u>
Net Position	<u>\$ 11,600,958</u>	<u>\$ 10,703,460</u>
Total revenues	\$ 11,843,583	\$ 10,895,632
Total expenditures	<u>10,946,085</u>	<u>11,157,866</u>
Net income (loss)	<u>\$ 897,498</u>	<u>\$ (262,234)</u>

¹ Most recent available.

REQUIRED SUPPLEMENTARY INFORMATION



Las Gallinas Valley Sanitary District



Miller Creek

Las Gallinas Valley Sanitary District
Required Supplementary Information

Fiscal Years Ended June 30, 2017 and 2016

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

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

Schedule of Contributions – Last 10 Years*

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

* Fiscal year 2015 was the first year of implementation; therefore, fewer than ten years of data is available.

Las Gallinas Valley Sanitary District
Required Supplementary Information

Fiscal Years Ended June 30, 2017 and 2016

Other Post-employment Benefits Schedule of Funding Progress - CERBT

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Liability (AAL) Entry Age	Unfunded Liability/ (excess Assets) (2) - (1)	Funded Ratio (1)/(2)	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Covered Payroll ((2) - (1))/(5)
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%
1/1/2015 [^]	\$ 698,909	\$ 2,792,788	\$ 2,093,879	25.0%	\$ 2,002,442	104.6%

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.

Note 12 describes additional funding information.

[^] Most recent available valuation.

SUPPLEMENTARY INFORMATION



Las Gallinas Valley Sanitary District



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

Las Gallinas Valley Sanitary District

Budgetary Comparison Schedule

Fiscal Year Ended June 30, 2017

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
REVENUES:				
Sewer use charges	\$ 12,989,000	\$ 12,989,000	\$ 13,059,850	\$ 70,850
Private sewer lateral assistance program	50,000	50,000	65,325	15,325
Miscellaneous	30,500	30,500	42,016	11,516
Property taxes	1,087,000	1,087,000	1,238,360	151,360
Intergovernmental fees	4,000	4,000	4,363	363
Franchise fees	25,000	25,000	25,000	-
Recycled water sales	106,913	106,913	45,548	(61,365)
Interest income	45,900	45,900	150,497	104,597
TOTAL REVENUES	14,338,313	14,338,313	14,630,959	292,646
EXPENDITURES:				
Personnel Costs:				
Salaries and wages	2,539,600	2,539,600	2,471,721	(67,879)
Employee benefits	1,238,432	1,238,432	1,204,915	(33,517)
Payroll processing fees	9,000	9,000	9,658	658
Operations Expense:				
Insurance	171,250	171,250	146,770	(24,480)
Repairs and maintenance	307,800	307,800	351,038	43,238
Chemicals	140,000	190,000	191,142	1,142
Pollution prevention	16,000	16,000	16,905	905
Laboratory services	42,000	42,000	53,548	11,548
Small tools	8,600	8,600	3,261	(5,339)
Outside services	76,100	76,100	72,094	(4,006)
Damage claim	10,000	10,000	992	(9,008)
Reclamation expense	47,000	47,000	50,755	3,755
Engineering consultants	172,400	172,400	185,928	13,528
Operating supplies	51,650	51,650	52,110	460

Las Gallinas Valley Sanitary District
Budgetary Comparison Schedule (continued)

Fiscal Year Ended June 30, 2017

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
Safety program and supplies	\$ 54,160	\$ 54,160	\$ 51,495	\$ (2,665)
Fuel, gas and oil	26,000	26,000	26,380	380
Private lateral assistance program	176,300	176,300	116,091	(60,209)
Equipment rent	12,000	12,000	13,335	1,335
Permits and fees	45,500	45,500	48,605	3,105
Employee training	22,000	22,000	18,263	(3,737)
Utilities	108,520	168,520	351,917	183,397
General and Administrative Expense:				
Conferences	60,000	60,000	46,089	(13,911)
Mileage and travel	1,050	1,050	5,881	4,831
Election	-	-	1,043	1,043
Office expense	18,000	18,000	16,432	(1,568)
Computer support and supplies	33,000	33,000	40,417	7,417
Publications and legal ads	16,000	16,000	13,778	(2,222)
Public education	70,000	70,000	33,462	(36,538)
Rents and leases	14,000	14,000	7,673	(6,327)
Property and other taxes	7,000	7,000	7,766	766
Memberships	44,000	44,000	44,082	82
Legal and professional	128,000	128,000	226,213	98,213
Bank charges and collection fees	32,000	32,000	35,481	3,481
Employee recognition	4,500	4,500	2,481	(2,019)
Fines	6,000	6,000	9,000	3,000
Miscellaneous	1,000	1,000	105	(895)
EXPENDITURES BEFORE DEPRECIATION AND INTEREST	<u>5,708,862</u>	<u>5,818,862</u>	<u>5,926,826</u>	<u>107,964</u>
OPERATING AND MAINTENANCE SURPLUS BEFORE DEPRECIATION AND INTEREST	<u>\$ 8,629,451</u>	<u>\$ 8,519,451</u>	<u>\$ 8,704,133</u>	<u>\$ 400,610</u>

Las Gallinas Valley Sanitary District
Note to Budgetary Comparison Schedule

Accounting Basis for Schedule

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

The following is reconciliation from the Statements of Revenues, Expenses and Changes in Net Position to the Budgetary Comparison Schedule as of June 30, 2017:

The reconciling items are:

Operating and Nonoperating Revenues per the Statement of Revenues,	
Expenses and Changes in Net Position	\$ 14,565,634
Private sewer lateral assistance payments	<u>65,325</u>
Total Revenues per the Budgetary Comparison Schedule	<u>\$ 14,630,959</u>
Operating Expenses per the Statement of Revenues, Expenses, and	
Changes in Net Position	\$ 8,489,100
Depreciation	(2,526,177)
Salaries and wages	5,932
Employee benefits	(24,424)
Repairs and maintenance	100,648
Chemicals	(7,646)
Outside services	(167,741)
Engineering consultants	(2,415)
Operating supplies	974
Fuel, gas and oil	106
Private sewer lateral assistance program	116,091
Computer services	<u>(57,622)</u>
Total Expenditures included in the	
Budgetary Comparison Schedule	<u>\$ 5,926,826</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 Original, Revised and Final Appropriated Budget. These items were included in the District's Capital budget; however, the actual expenditures were either less than the District's capitalization threshold of \$5,000 or, due to the nature of the expenditure, such as feasibility studies, they were charged to an expense account in the Statement of Revenues, Expenses and Changes in Net Position. Including the budget amounts in this schedule provides a better understanding of the current year results since the Capital Outlay budget is not included in the supplementary information.

Las Gallinas Valley Sanitary District

Glossary of Acronyms

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

ACRONYM	NAME	DEFINITION
AAL	Actuarial Accrued Liability	The actuarial present value of all 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.
ARC	Annual Required Contribution	The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
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 entity itself, or the integrity of company records not part of the foundation of the Financial Statements. This type of report is issued by an auditor when the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles (GAAP), which in other words means that the entity's financial condition, position, and operations are fairly presented in the financial statements. It is the best type of report an auditee may receive from an external auditor.

Las Gallinas Valley Sanitary District

Glossary of Acronyms (continued)

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

Las Gallinas Valley Sanitary District
Glossary of Acronyms (continued)

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

STATISTICAL SECTION



Las Gallinas Valley Sanitary District



Primary Clarifier #3 drained, inspected and Stamford baffles removed



Marinwood Pump Station motor control center

Las Gallinas Valley Sanitary District

Introduction to the Statistical Section

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

Financial Trend Information

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

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

Revenue Capacity Information

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

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

Debt Capacity Information

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

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

Demographic and Economic Information

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

- Demographic and Economic Statistics
- Principal Employers in Marin County

Operating Information

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

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

Las Gallinas Valley Sanitary District

Recycled water treatment facilities



Las Gallinas Valley Sanitary District

Statements of Net Position for the Last Ten Fiscal Years

(in thousands)

Fiscal Years Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u> <u>As Restated</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS										
Current Assets	\$ 63,817	\$ 21,657	\$ 20,401	\$ 19,409	\$ 18,716	\$ 15,335	\$ 18,699	\$ 10,374	\$ 8,687	\$ 8,013
Capital and other assets	<u>64,935</u>	<u>59,823</u>	<u>56,651</u>	<u>54,820</u>	<u>53,390</u>	<u>54,609</u>	<u>41,266</u>	<u>40,485</u>	<u>39,921</u>	<u>39,773</u>
TOTAL ASSETS	<u>128,752</u>	<u>81,480</u>	<u>77,052</u>	<u>74,229</u>	<u>72,106</u>	<u>69,944</u>	<u>59,965</u>	<u>50,859</u>	<u>48,608</u>	<u>47,786</u>
Deferred Outflows of Resources										
	<u>1,141</u>	<u>702</u>	<u>486</u>	<u>910</u>	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>129,893</u>	<u>82,182</u>	<u>77,538</u>	<u>75,139</u>	<u>72,106</u>	<u>69,944</u>	<u>59,965</u>	<u>50,859</u>	<u>48,608</u>	<u>47,786</u>
LIABILITIES										
Total current liabilities	3,823	1,841	2,136	1,956	1,877	8,399	2,695	1,777	1,688	1,052
Total noncurrent liabilities	<u>56,121</u>	<u>16,162</u>	<u>16,823</u>	<u>18,919</u>	<u>17,007</u>	<u>11,556</u>	<u>12,138</u>	<u>8,099</u>	<u>8,490</u>	<u>8,867</u>
TOTAL LIABILITIES	<u>59,944</u>	<u>18,003</u>	<u>18,959</u>	<u>20,875</u>	<u>18,884</u>	<u>19,955</u>	<u>14,833</u>	<u>9,876</u>	<u>10,178</u>	<u>9,919</u>
Deferred Inflows of Resources										
	<u>144</u>	<u>296</u>	<u>622</u>	-	-	-	-	-	-	-
NET POSITION:										
Net investment in capital assets	48,605	43,749	39,712	37,011	34,787	36,553	32,830	32,640	31,867	32,261
Restricted	874	867	860	858	855	2,085	5,231	592	-	2
Unrestricted	<u>20,325</u>	<u>19,227</u>	<u>17,491</u>	<u>16,394</u>	<u>17,580</u>	<u>11,351</u>	<u>7,071</u>	<u>7,751</u>	<u>6,563</u>	<u>5,604</u>
TOTAL NET POSITION	<u>\$ 69,805</u>	<u>\$ 63,883</u>	<u>\$ 57,957</u>	<u>\$ 54,264</u>	<u>\$ 53,222</u>	<u>\$ 49,989</u>	<u>\$ 45,132</u>	<u>\$ 40,983</u>	<u>\$ 38,430</u>	<u>\$ 37,867</u>

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

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

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,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
OPERATING REVENUES:			As Restated							
Sewer use charges	\$ 13,060	\$ 11,647	\$ 10,311	\$ 10,157	\$ 10,069	\$ 9,233	\$ 8,835	\$ 7,604	\$ 5,010	\$ 4,735
Recycled water fees	45	50	120	75	37	-	-	-	-	-
Miscellaneous	42	46	22	46	34	54	32	41	60	61
TOTAL OPERATING REVENUES	13,147	11,743	10,453	10,278	10,140	9,287	8,867	7,645	5,070	4,796
OPERATING EXPENSES:										
Sewerage collection and pump stations	1,036	945	1,156	1,089	951	937	854	1,009	882	783
Sewerage treatment	2,065	1,547	1,425	1,519	1,312	1,295	1,138	1,088	1,142	1,000
Sewerage and solid waste disposal	216	83	127	340	267	147	143	85	205	146
Laboratory	338	295	352	402	377	387	353	313	255	241
Engineering ¹	532	448	435	325	296	-	-	-	-	-
Recycled water	57	98	109	90	60	-	-	-	-	-
General and administrative	1,719	1,635	1,467	1,692	2,093	1,726	1,756	1,564	1,237	1,163
Depreciation and amortization	2,526	2,429	2,413	2,432	2,311	1,842	1,860	1,828	1,721	1,695
TOTAL OPERATING EXPENSES	8,489	7,480	7,484	7,889	7,667	6,334	6,104	5,887	5,442	5,028
INCOME (LOSS) FROM OPERATIONS	4,658	4,263	2,969	2,389	2,473	2,953	2,763	1,758	(372)	(232)
NONOPERATING REVENUES:										
Property taxes	1,239	1,125	1,087	1,118	983	1,005	1,009	1,054	1,031	1,176
Federal and state grants	-	-	-	19	-	-	-	-	-	-
Franchise fees	25	25	25	25	25	25	25	25	25	31
Intergovernmental fees	4	4	4	5	5	5	5	5	5	5
Gain (Loss) on disposal, net	-	-	1	-	-	-	6	7	70	-
Interest income	150	79	51	47	46	65	93	76	153	280
TOTAL NONOPERATING REVENUES	1,418	1,233	1,168	1,214	1,059	1,100	1,138	1,167	1,284	1,492

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,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NONOPERATING EXPENSES:			As Restated							
Loss on disposals	\$ 6	\$ -	\$ -	\$ 2	\$ 48	\$ -	\$ -	\$ -	\$ -	\$ 13
Bond issuance costs	349	-	-	-	-	-	-	-	-	-
Interest expense	<u>276</u>	<u>402</u>	<u>553</u>	<u>624</u>	<u>652</u>	<u>331</u>	<u>357</u>	<u>364</u>	<u>386</u>	<u>392</u>
TOTAL NONOPERATING EXPENSES	<u>631</u>	<u>402</u>	<u>553</u>	<u>626</u>	<u>700</u>	<u>331</u>	<u>357</u>	<u>364</u>	<u>386</u>	<u>405</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	5,445	5,094	3,584	2,977	2,832	3,722	3,544	2,561	526	855
CAPITAL CONTRIBUTIONS:										
Connection fees	40	34	74	44	15	28	530	(8)	37	44
Federal and state grants	-	798	35	-	386	1,107	75	-	-	-
Intergovernmental	437	-	-	-	-	-	-	-	-	-
Property	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>
INCREASE IN NET POSITION	5,922	5,926	3,693	3,021	3,233	4,857	4,149	2,553	563	949
NET POSITION - BEGINNING OF YEAR	<u>63,883</u>	<u>57,957</u>	<u>54,264</u>	<u>51,243</u>	<u>49,989</u>	<u>45,132</u>	<u>40,983</u>	<u>38,430</u>	<u>37,867</u>	<u>36,918</u>
NET POSITION - END OF YEAR	<u>\$ 69,805</u>	<u>\$ 63,883</u>	<u>\$ 57,957</u>	<u>\$ 54,264</u>	<u>\$ 53,222</u>	<u>\$ 49,989</u>	<u>\$ 45,132</u>	<u>\$ 40,983</u>	<u>\$ 38,430</u>	<u>\$ 37,867</u>

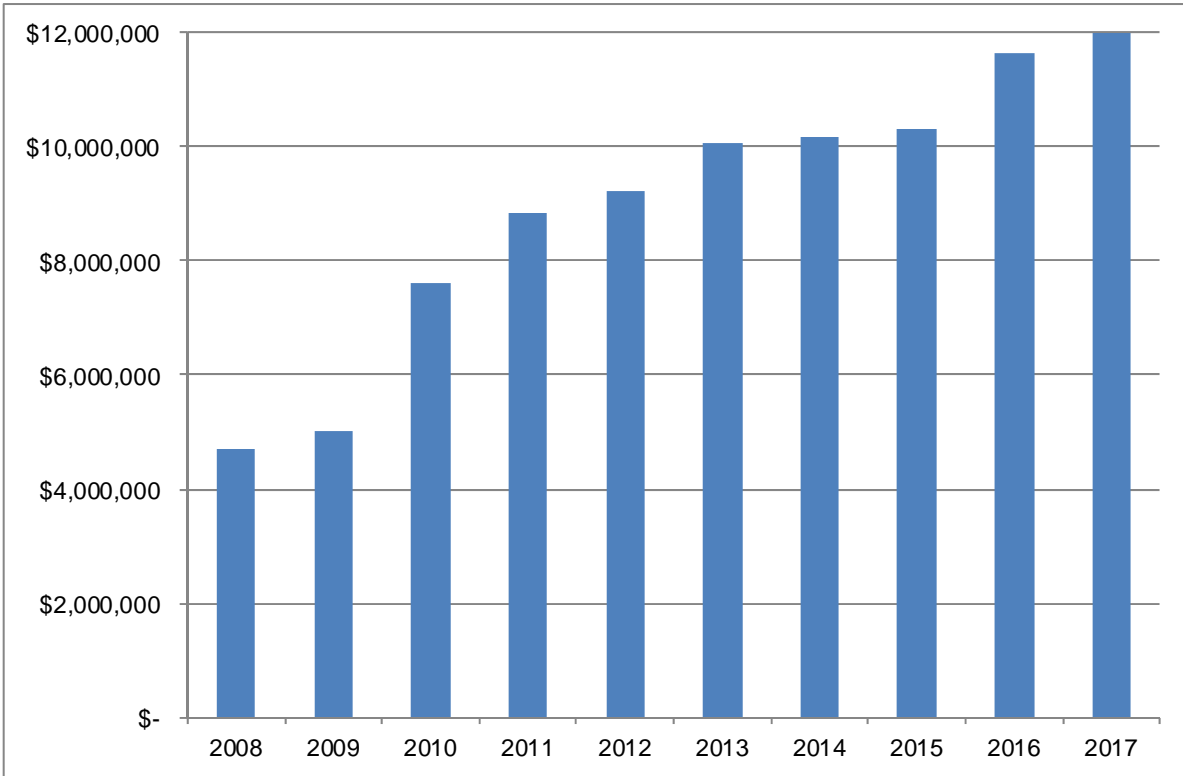
¹ In prior years, these line items were classified with different departments.

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

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

Las Gallinas Valley Sanitary District

Sewer Service Charge Revenue for the Past Ten Fiscal Years

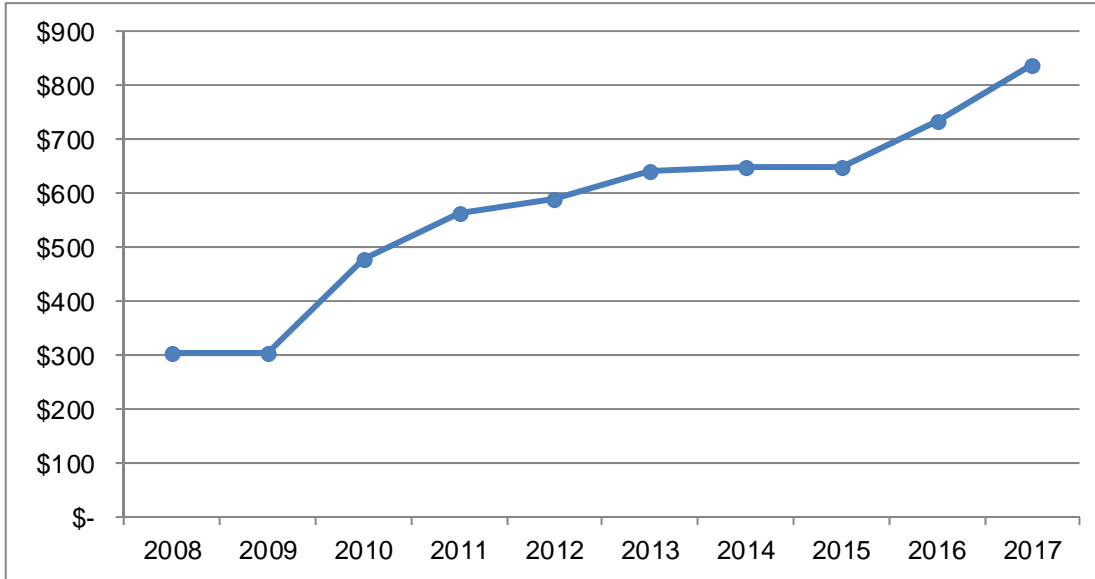


Historic Sewer Service Revenue		
Fiscal Year	Sewer	Percentage
Ended June 30,	Service	Change
2008	\$ 4,684,972	18.97%
2009	\$ 5,006,202	6.86%
2010	\$ 7,592,325	51.66%
2011	\$ 8,834,558	16.36%
2012	\$ 9,233,000	4.51%
2013	\$ 10,069,600	9.06%
2014	\$ 10,157,200	0.87%
2015	\$ 10,311,200	1.52%
2016	\$ 11,647,257	12.96%
2017	\$ 13,059,850	12.13%

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
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%
2015	\$ 647	0.0%
2016	\$ 734	13.4%
2017	\$ 835	13.8%

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

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

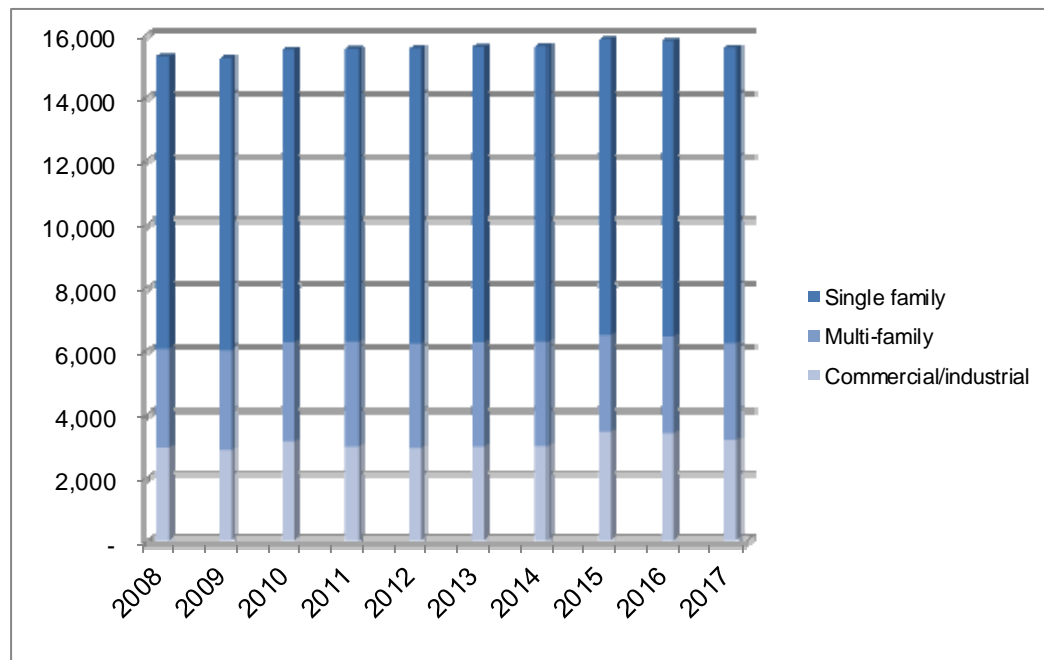
FY 2016/17			FY 2007/08		
Payer	Total Paid	Percentage of Revenue Collected	Payer	Total Paid	Percentage of Revenue Collected
Contempo Marin	\$ 346,525	2.65%	Contempo Marin	\$ 121,200	2.56%
County of Marin	330,652	2.53%	Marin Valley Mobile Home Park	95,445	2.02%
Marin Valley Mobile Home Park	263,025	2.01%	County of Marin	82,722	1.75%
Embassy Suites	246,826	1.89%	Northgate Mall	78,477	1.66%
Bay Apartment Communities	191,716	1.47%	Bay Apartment Communities	77,871	1.64%
Northgate Mall	182,200	1.40%	Deer Valley Apartments	52,116	1.10%
BRE Properties	129,341	0.99%	San Rafael Manor	48,480	1.02%
Kaiser Permanente	122,411	0.94%	Kaiser Permanente	47,571	1.00%
San Rafael Manor	121,075	0.93%	Embassy Suites	45,450	0.96%
Sheraton Four Points	117,485	0.90%	Northbay Properties II	45,450	0.96%
Total	<u>\$ 2,051,256</u>	<u>15.71%</u>	Sheraton Four Points	45,450	0.96%
			10 North Avenue	31,209	0.66%
			Total	<u>\$ 771,441</u>	<u>16.29%</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

Class	June 30,										2017 % of Total
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Residential											
Single family	9,223	9,228	9,237	9,240	9,325	9,325	9,329	9,337	9,332	9,334	59.94%
Multi-family	3,123	3,134	3,142	3,323	3,302	3,298	3,300	3,060	3,053	3,050	19.59%
Subtotal	12,346	12,362	12,379	12,563	12,627	12,623	12,629	12,397	12,385	12,384	79.53%
Commercial/industrial	2,931	2,861	3,133	2,965	2,923	2,967	2,986	3,450	3,401	3,187	20.47%
Total	15,277	15,223	15,512	15,528	15,550	15,590	15,615	15,847	15,786	15,571	100.00%



Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

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

(in thousands)

Fiscal Years Ended June 30,

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
GROSS REVENUES⁽¹⁾			As Restated							
Sewer use charges	\$ 13,060	\$ 11,647	\$ 10,311	\$ 10,157	\$ 10,069	\$ 9,233	\$ 8,835	\$ 7,604	\$ 5,010	\$ 4,735
Property taxes	1,239	1,125	1,087	1,118	983	1,005	1,009	1,054	1,031	1,176
Recycled water fees	45	50	120	75	37	-	-	-	-	-
Other	261	188	177	186	125	177	691	146	350	421
TOTAL GROSS REVENUES	<u>14,605</u>	<u>13,010</u>	<u>11,695</u>	<u>11,536</u>	<u>11,214</u>	<u>10,415</u>	<u>10,535</u>	<u>8,804</u>	<u>6,391</u>	<u>6,332</u>
Marin Municipal Water District Debt										
Debt Reimbursement										
Existing debt	437	-	-	-	-	-	-	-	-	-
2017 Revenue Bonds	-	-	-	-	-	-	-	-	-	-
	<u>437</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OPERATING AND MAINTENANCE COSTS⁽²⁾										
Sewage collection, treatment and disposal	3,317	2,575	2,708	2,948	2,530	2,379	2,135	2,182	2,229	1,929
Laboratory	338	295	352	402	377	387	353	313	255	241
Engineering	532	448	435	325	296	-	-	-	-	-
Recycled water	57	98	109	90	60	-	-	-	-	-
General and administrative	1,719	1,635	1,467	1,692	2,093	1,726	1,756	1,564	1,237	1,163
Less accounting adjustment for pension expense and OPEB	(24)	145	48	-	-	-	-	-	-	-
TOTAL OPERATING AND MAINTENANCE COSTS	<u>5,939</u>	<u>5,196</u>	<u>5,119</u>	<u>5,457</u>	<u>5,356</u>	<u>4,492</u>	<u>4,244</u>	<u>4,059</u>	<u>3,721</u>	<u>3,333</u>
NET REVENUES	<u>\$ 8,666</u>	<u>\$ 7,814</u>	<u>\$ 6,576</u>	<u>\$ 6,079</u>	<u>\$ 5,858</u>	<u>\$ 5,923</u>	<u>\$ 6,291</u>	<u>\$ 4,745</u>	<u>\$ 2,670</u>	<u>\$ 2,999</u>

Las Gallinas Valley Sanitary District

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

(in thousands)

	Fiscal Years Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
DEBT SERVICE⁽³⁾										
Current fiscal year	\$ 1,543	\$ 1,540	\$ 1,540	\$ 1,583	\$ 1,591	\$ 1,354	\$ 755	\$ 741	\$ 746	\$ 746
Next fiscal year	\$ 3,921	\$ 1,543	\$ 1,540	\$ 1,540	\$ 1,583	\$ 1,591	\$ 1,354	\$ 755	\$ 741	\$ 746
COVERAGE (1.25X Requirement)										
Current fiscal year	<u>5.62</u>	<u>5.08</u>	<u>4.27</u>	<u>3.84</u>	<u>3.68</u>	<u>4.37</u>	<u>8.33</u>	<u>6.40</u>	<u>3.58</u>	<u>4.02</u>
Next fiscal year	<u>2.21</u>	<u>5.06</u>	<u>4.27</u>	<u>3.95</u>	<u>3.70</u>	<u>3.72</u>	<u>4.65</u>	<u>6.28</u>	<u>3.60</u>	<u>4.02</u>
CASH FLOW FROM OPERATIONS	<u>\$ 7,336</u>	<u>\$ 6,814</u>	<u>\$ 5,190</u>	<u>\$ 4,793</u>	<u>\$ 5,059</u>	<u>\$ 4,747</u>	<u>\$ 5,604</u>	<u>\$ 3,462</u>	<u>\$ 1,430</u>	<u>\$ 1,308</u>

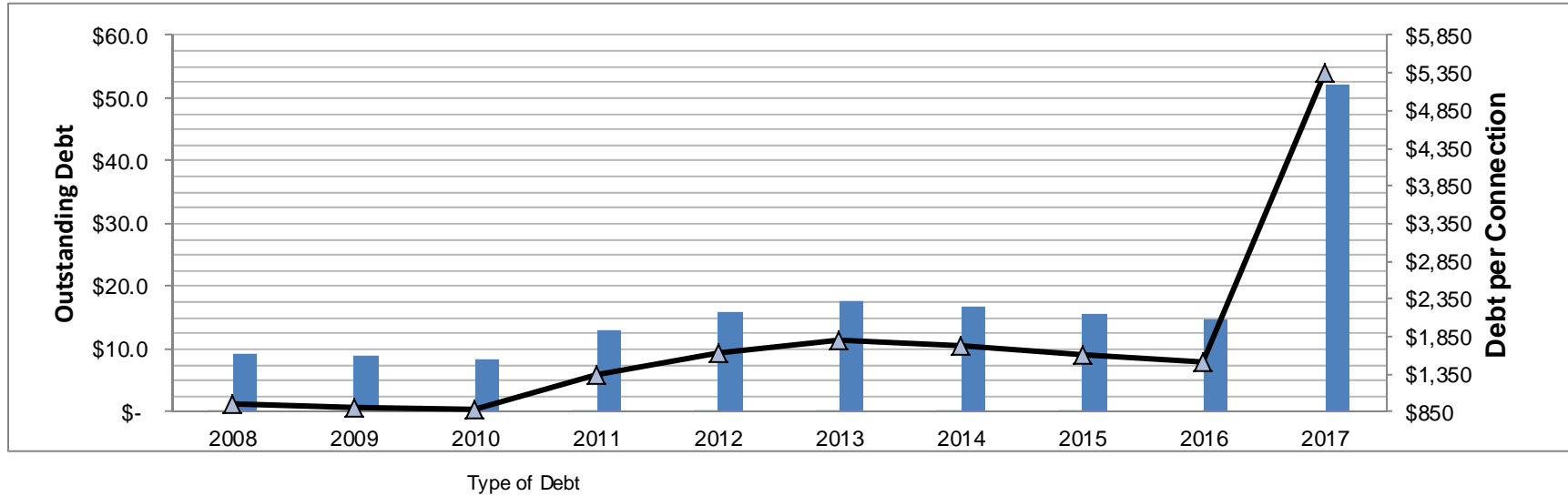
Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

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

- (1) Gross revenues includes all operating and nonoperating revenues, except grants, and includes connection fees
- (2) Operating and maintenance costs means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Wastewater Enterprise excluding depreciation, amortization of intangibles, capital expenditures, accounting adjustments related to pension expense and other post-employment benefit (OPEB) plans.
- (3) Debt service includes principal and interest due in the specified period

Las Gallinas Valley Sanitary District

Outstanding Debt Per Connection for the Past Ten Fiscal Years



Fiscal Year Ended June 30,	COP As Restated	Notes Payable	State Revolving Fund	2017 Revenue Bond	Total Outstanding Debt	Debt per Capita ^{1,2}	Total Connections	Debt per Connection
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
2015	\$ -	\$ 11,928,573	\$ 3,850,878	\$ -	\$ 15,779,451	\$ 543	9,742	\$ 1,620
2016	\$ -	\$ 11,079,644	\$ 3,669,387	\$ -	\$ 14,749,031	\$ 508	9,742	\$ 1,514
2017	\$ -	\$ 10,196,639	\$ 3,482,996	\$ 38,365,000	\$ 52,044,635	\$ 1,792	9,742	\$ 5,342

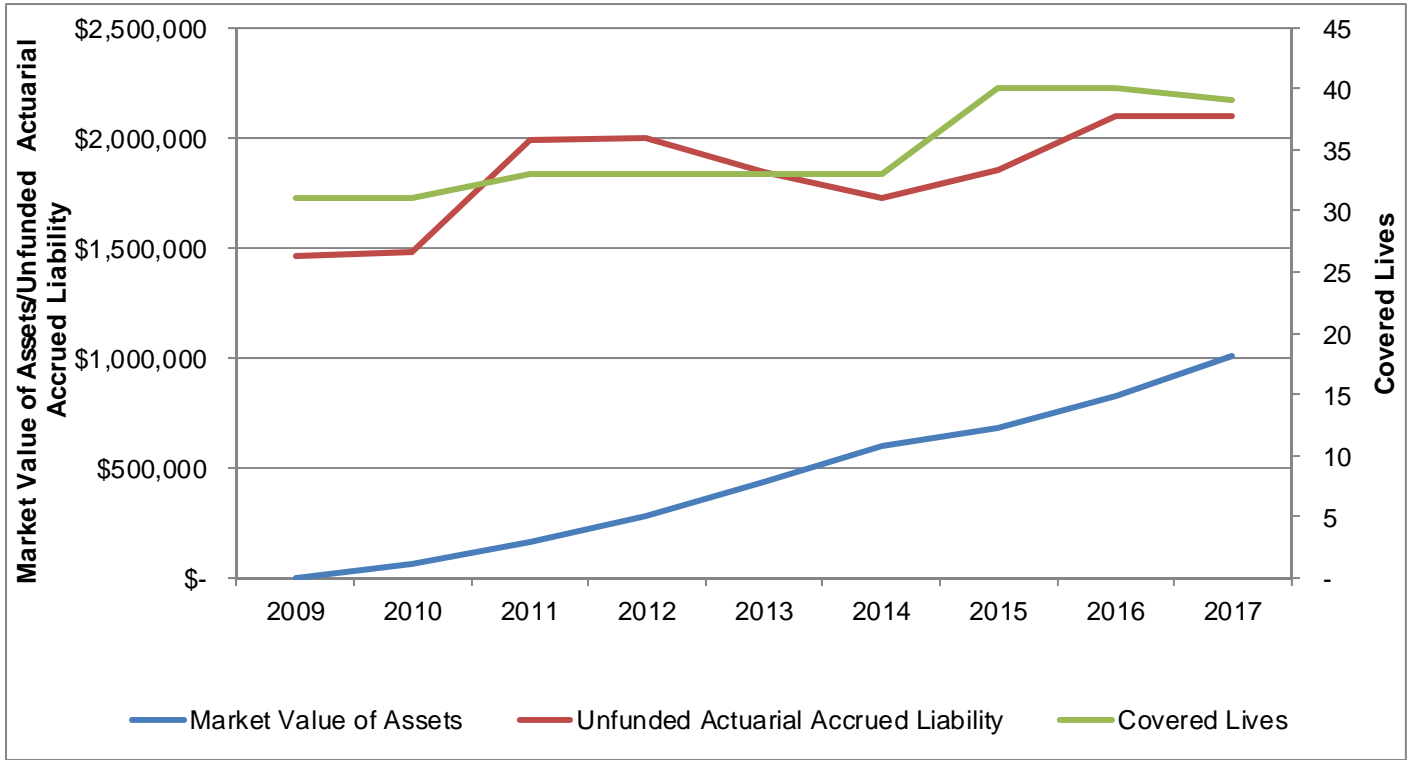
Source: Las Gallinas Valley Sanitary District records

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

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

Las Gallinas Valley Sanitary District

Other Post Employment Benefits Funding Status and Covered Lives for the Past Nine Fiscal Years



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

Source: Las Gallinas Valley Sanitary District records

Note: The District implemented GASB 45 during 2008/2009 to recognize a liability for its Other Post Employment Benefit plan. The District established a trust to fund the Other Post Employment Benefit during 2009/2010.

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 ³
2007	246,100	\$ 23,574,434	\$ 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	\$ 20,854,466	\$ 82,498	30,140	8.2%
2011	255,031	\$ 21,871,623	\$ 85,761	30,574	8.1%
2012	256,069	\$ 23,918,732	\$ 93,407	31,868	7.0%
2013	258,365	\$ 25,093,401	\$ 97,124	32,793	5.1%
2014	260,750	\$ 25,716,754	\$ 98,626	33,207	4.2%
2015	261,221	\$ 28,492,821	\$ 109,076	33,638	3.5%
2016	unavailable	unavailable	unavailable	unavailable	3.5%

Source: County of Marin Comprehensive Annual Financial Report for 2015/16

Notes:

¹ US Department of Commerce, Bureau of Economic Analysis - www.bea.gov, the most recently available data is for 20145

² California Department of Education, Educational Demographics Office - www.ed-data.k12.ca.us, the most recently available data is for 2015.

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

Las Gallinas Valley Sanitary District

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

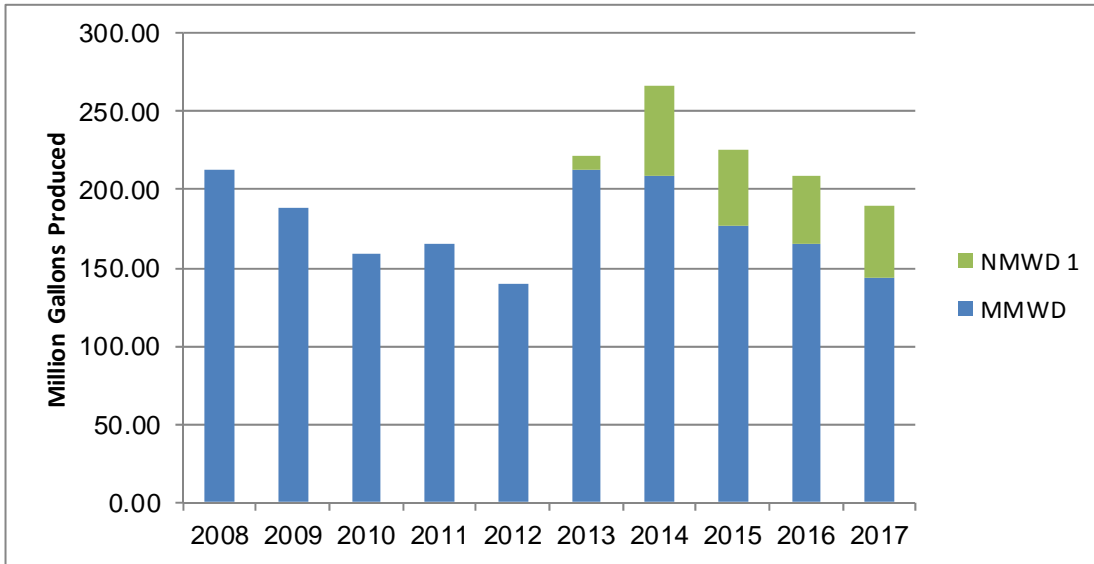
2015			2005		
Employer	Employees	Percentage of Total County Employment	Employer	Employees	Percentage of Total County Employment
County of Marin	2,194	1.61%	County of Marin	2,036	1.64%
San Quentin State Prison	1,750	1.28%	Fireman's Fund	1,793	1.45%
Kaiser Permanente Medical Center	1,340	0.98%	San Quentin Prison	1,638	1.32%
Marin General Hospital	1,229	0.90%	Kaiser Permanente	1,295	1.05%
BioMarin Pharmaceutical	850	0.62%	Lucasfilm Ltd.	1,209	0.98%
Novato Unified School District	800	0.59%	Marin General Hospital	876	0.71%
Autodesk, Inc.	748	0.55%	Autodesk, Inc.	840	0.68%
Fireman's Fund Insurance Co.	721	0.53%	Novato Unified School District	825	0.67%
San Rafael City Schools	650	0.48%	Golden Gate Transit	593	0.48%
Dominican University	422	0.31%	Safeway, Inc.	579	0.47%
Total	10,704	7.85%	Total	11,684	9.44%
Total County Employment	136,400		Total County Employment	123,800	

Sources:

Most recent available data from the County of Marin Comprehensive Annual Financial Report for 2015/16
 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

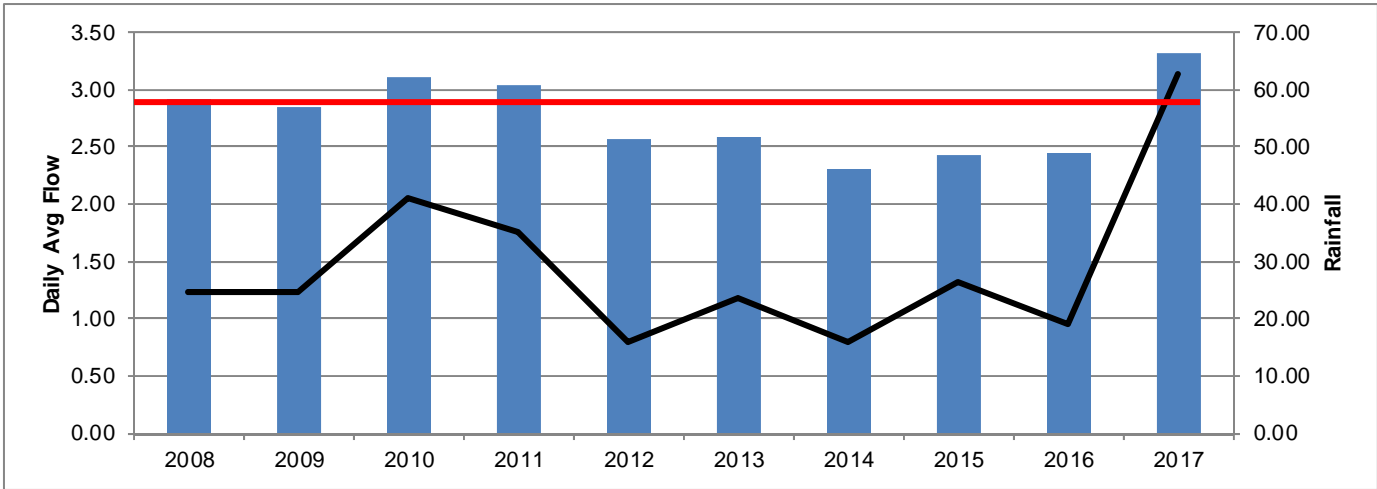


Fiscal Year Ended June 30,	Million Gallons Produced		Increase (Decrease)
	MMWD	NMWD ¹	
2008	213.15	-	-2.79%
2009	188.60	-	-11.52%
2010	159.48	-	-15.44%
2011	165.39	-	3.71%
2012	139.35	-	-15.74%
2013	212.03	9.52	58.99%
2014	209.28	56.44	19.94%
2015	176.91	48.96	-15.00%
2016	164.98	43.97	-7.49%
2017	143.86	45.53	-9.36%

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Daily Average Influent Flow for the Past Ten Fiscal Years



Rainfall
 Treatment Plant Dry Weather Permitted Capacity of 2.92 MGD

Fiscal Year Ended June 30,	Daily Average Flow (MGD) ¹	Increase (Decrease)	Rainfall	Increase (Decrease)
2008	2.93	6.62%	24.50 ²	133.33%
2009	2.85	-2.65%	24.75 ²	1.02%
2010	3.11	9.27%	41.00 ²	65.66%
2011	3.05	-2.17%	35.00 ²	-14.63%
2012	2.57	-15.60%	15.75 ²	-55.00%
2013	2.59	0.78%	23.73 ²	50.67%
2014	2.30	-11.20%	16.00 ²	-32.57%
2015	2.43	5.65%	26.51 ²	65.69%
2016	2.44	0.41%	19.10 ¹	-27.95%
2017	3.32	35.98%	62.80 ³	228.80%

Sources:

¹ Las Gallinas Valley Sanitary District records

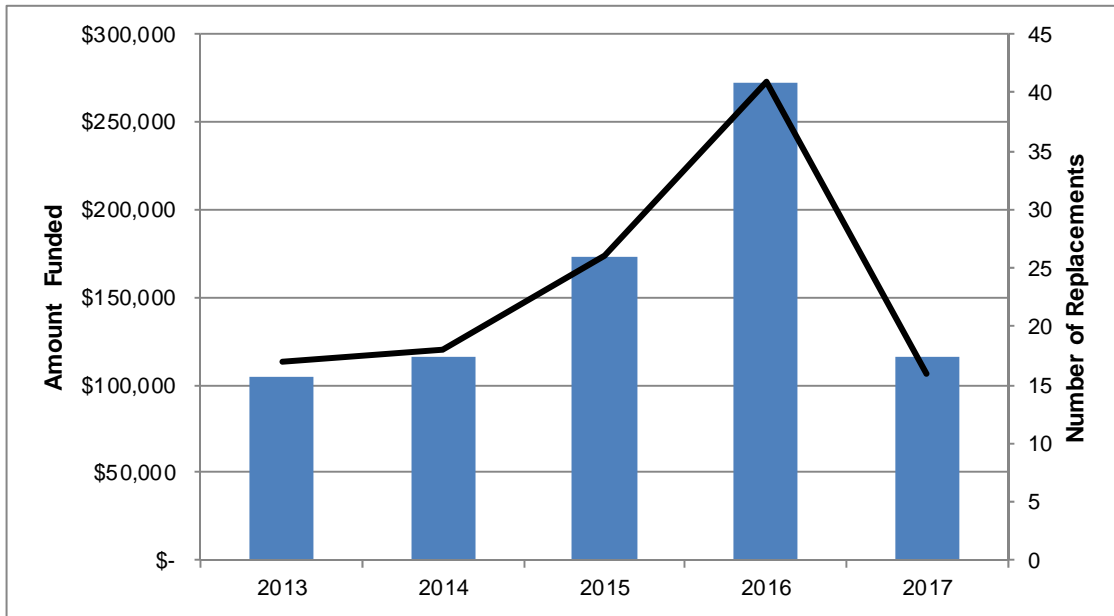
² Western Regional Climate Center, www.wrcc.dri.edu, rainfall reporting for the San Rafael Civic Center, California July 1 - June 30.

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

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

Las Gallinas Valley Sanitary District

Private Sewer Lateral Assistance Program for the Past Five Fiscal Years



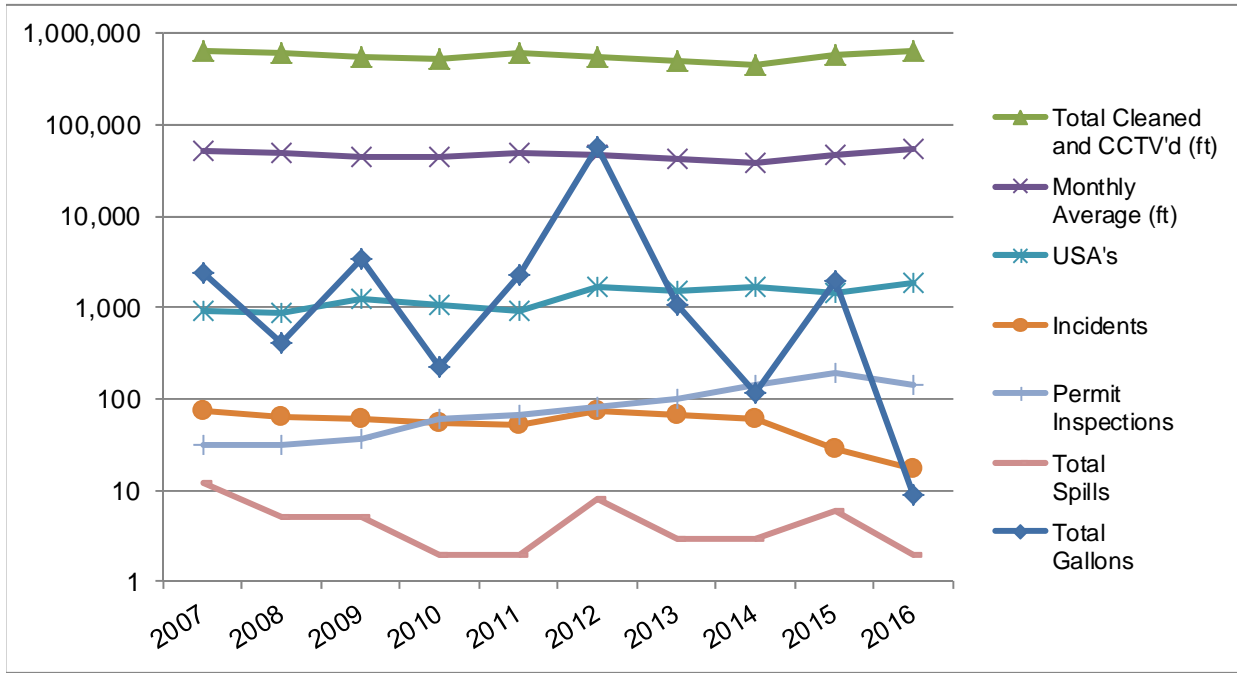
Fiscal Year Ended June 30,	Total Amount Funded	Increase (Decrease)	Number of Funded Replacements	Increase (Decrease)
2013	\$ 104,831	-	17	4.62%
2014	\$ 115,717	10.38%	18	5.88%
2015	\$ 172,788	49.32%	26	44.44%
2016	\$ 272,322	57.60%	41	57.69%
2017	\$ 116,092	-57.37%	16	-60.98%

Source: Las Gallinas Valley Sanitary District records

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

Las Gallinas Valley Sanitary District

Collection System Services Past Ten Calendar Years



Calendar Year	Total Cleaned and CCTV'd (ft)	Monthly Average (ft)	USA's	Incidents	Permit Inspections	Total Spills	Total Gallons
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
2014	452,649	37,721	1,721	62	141	3	114
2015	573,209	47,767	1,467	29	190	6	1,964
2016	653,031	54,419	1,896	17	141	2	9

Source: Las Gallinas Valley Sanitary District records

Note: CCTV is video recording of the sewer mains and lateral performed with a mobile unit.

A USA is a request by the Underground Service Alert system to mark utility lines on public and private property. The purpose of the program is to prevent damage to the District's sewer system.

Las Gallinas Valley Sanitary District

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

Fiscal Year Ended June 30,	Operations	Engineering	Laboratory ¹	Collection System	Administration	Board	Total
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
2015	6	3	2	5	4	5	25
2016	7	3	2	5	4	5	26
2017	7	3	2	5	4	5	26

Source: Las Gallinas Valley Sanitary District records

Notes:

¹ 2006-2008 counts associated with paid interns