LAS GALLINAS VALLEY SANITARY DISTRICT

SAN RAFAEL, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal years ended June 30, 2013 and 2012

Las Gallinas
VALLEY SANITARY DISTRICT

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SAN RAFAEL, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal years ended June 30, 2013 and 2012

Mark R. Williams, General Manager

Prepared by:

Susan M. McGuire, CPA – Administrative Services Manager

Secondary Clarifier

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INTRODUCTORY SECTION

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October 28, 2013

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 for the year ended June 30, 2013. This report was prepared by the District staff who collected and analyzed the financial statements and other information presented herein. The management of the District assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive system of internal controls that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

METHOD OF PRESENTATION

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

Introductory

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

Financial

The District's basic financial statements have been audited by Burr Pilger Mayer, Inc. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended June 30, 2013 were free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. The independent auditors have issued an unqualified ("clean") opinion on the Las Gallinas Valley Sanitary District's financial statements for the year ended June 30, 2013. Their audit report is presented as the first component of the financial section of this report. Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides an overview and analysis of the basic financial statements. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it. Following the MD&A are the Basic Financial Statements, Notes to the Financial Statements, and Supplementary Information.

Statistical

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

FINANCIAL CONTROLS AND ACCOUNTING SYSTEMS

Internal Controls

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

Budgetary Controls

The District is not required by statute to adopt a budget; however, in its commitment to maintain fiscal responsibility, the District adopts an annual budget prior to June 30th each year. In preparation for drafting a budget, management staff meets with the District's Board of Directors to update the District's Strategic Plan to determine the strategic goals and visions for the upcoming year. The budget outlines and reflects the major elements of the upcoming fiscal year operating and capital plans, from which management allocates funds that are necessary for specific departmental activities and capital projects. During the most recent five year rate review, which was adopted by the Board in June 2009, long-term capital priorities were outlined for the years 2009 through 2014. Management integrates these priorities into the annual budget. Budgetary control is maintained at the detailed line item level. The General Manager may approve expenditures in excess of budgeted amounts up to $15,000; items in excess of this must be approved by the Board of Directors.

Accounting System

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

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

HISTORY AND PROFILE OF THE DISTRICT

The District was established on April 6, 1954 pursuant to the California Health and Safety Code, Division 6 – Sanitary District Act of 1923. It is located approximately two miles northeast of the City of San Rafael and 20 miles north of San Francisco. It covers an area of about sixteen square miles in the northern part of the City of San Rafael and surrounding unincorporated areas in Marin County, California including the communities of Lucas Valley, Marinwood, Santa Venetia and Terra Linda. The District's boundaries are Hamilton Field (a former air force base) to the north, San Pablo Bay to the east, and central San Rafael to the south. The District serves a population of approximately 30,000 people. The District is primarily residential and built out resulting in a fairly stable customer base. As of July 1, 2012, it is comprised 97.5% residential (12,936 units) and 2.5% commercial/industrial (331 units).

Sewage Collection

- The District operates a sanitary sewer collection system comprised of approximately 105 miles of gravity sewer lines, 6.72 miles of force mains, and 28 pump stations. There are 2,985 manholes and approximately 52.5 miles of privately owned laterals.
- Smoke testing of the entire District was completed in 2009; a new round of testing commenced in 2011. It is a process whereby smoke is blown into the sewer mains, lower and upper laterals, to determine where there may be cracked pipes or storm water cross connections. This process helps to identify where there may be Infiltration and Inflow (I&I) into the sewage collection system. I&I is a major concern for wastewater treatment plants since large storms may produce flows that overwhelm the capacity of the sewage collection system and possibly the plant, resulting in sewage spills, plant violations, overflows and fines.
- The District televised all of its sewer mains in 2008 and has started a second round of inspections; the process requires four years. Televising these lines allows District staff

to identify future repair and replacement projects, as well as monitor the integrity of the system.

- The District received the California Water Environment Association Redwood Empire Section, Collection System of the Year Award, Small System Category (0-249 miles) for 2012. The winner of this award is judged on its regulatory compliance, administrative procedures, maintenance, safety, and training programs, emergency response procedures, and significant accomplishments including funding.

Sewage Treatment

- The District operates a sewage treatment plant with a permitted dry weather average capacity of 2.92 million gallons per day (MGD).
- The District treated an average daily flow of 2.80 MGD of sewage per day in calendar 2012.
- The District's treatment plant uses primary treatment to separate the solids from the wastewater; trickling filters and deep bed filters to provide secondary treatment. Treated effluent is disposed of through discharge pipes into San Pablo Bay during discharge season, November through May. Discharge coincides with wet weather when treated effluent can be diluted by higher levels of bay water due to rain.
- All readily settable solids and grit removed from the wastewater stream are pumped through a degritter where grit is removed and 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 339 dry tons of biosolids during 2012.

Reuse of Treated Wastewater

- The District produced 328 million gallons of treated effluent during the non-discharge months of June through October, 2012. Seventy-one million gallons were diverted to the District's water reclamation project and 155 million gallons were delivered to Marin Municipal Water District (MMWD).
- The District has a water reclamation project on 385 acres of diked baylands 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.
- MMWD further treats the effluent 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.
- The District completed construction of a new recycled water treatment facility in September 2012. This facility will take the plant effluent not utilized by MMWD and treat it to recycled water standards so it can be distributed by North Marin Water

District (NMWD). The District produced 9.5 million gallons for NMWD during the year ended June 30, 2013.

Lab and Public Outreach

- The District operates its own lab which collects samples, completes analysis, and performs other testing to comply with the plant discharge permit issued by the State Water Resources Control Board.
- Central Marin Sanitation Agency and lab staff manage the District's source control program. This includes a Fats Oils and Grease (FOG) Program which is designed to prevent customers from discharging substances that are harmful to the sewage treatment process or that may cause clogs to sewer mains and pump stations.
- Lab staff participates in the Marin County Sanitation Agencies Public Education Program. This program allows the participating agencies to combine resources and have a unified message to educate the public about the proper disposal of and to collect pharmaceuticals, mercury, batteries and other household hazardous waste in the County. They participate in programs with school children, the Marin County Fair and various farmer's markets and festivals. The participating agencies won the California Water Environment Association Statewide Award for Public Education, large budget category for 2012, as well as the Redwood Empire Public Education Award Large Budget from the California Water Environment Association for 2012.
- 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.

Solid Waste (Garbage) Services and Recycling

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

Economic Conditions and Outlook

The District is comprised primarily of residential units with commercial and some light industrial areas. It is substantially built out with in-fill developments in pockets of undeveloped land and redevelopment of commercial areas that were built over twenty years ago. The District does not expect significant new, customers in the near future. The connection fee for new users is $6,200 per unit and has remained at this rate since July 1, 2007.

The Board of Directors adopted a five year rate review and capital improvement plan in June 2009. At that time they contemplated increasing the then sewer use charge of $303 per unit to $680 by 2014. The current rate for 2013 of $642 is below the average for neighboring agencies in Marin County.

Compared to neighboring jurisdictions, Las Gallinas customers in the unincorporated area enjoy one of the lowest garbage and recycling rates. As of January 1, 2013, customers could expect to pay monthly $21.96 for a 20-gallon cart and $25.83 for the service for a 32-gallon cart. This is below the Marin County average of $31.94 per month for a 32-gallon cart.

Awards and Acknowledgments

The Government Finance Officers Association of the Unite States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Las Gallinas Valley Sanitary District for its comprehensive annual financial report for the year ended June 30, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

This Comprehensive Annual Financial Report is the culmination of the hard work and dedication of many District employees and the audit team under the direction of Jim Babcock of the accounting firm Burr, Pilger and Mayer, Inc. Las Gallinas Valley Sanitary District staff would like to acknowledge the support of the Board of Directors for its continuing direction and oversight in providing value to the community of San Rafael.

Mark R. Williams
General Manager

Susan M. 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, 2012

Executive Director/CEO

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Mission Statement

Fiscal Year Ended June 30, 2013

Our Mission

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

Vision

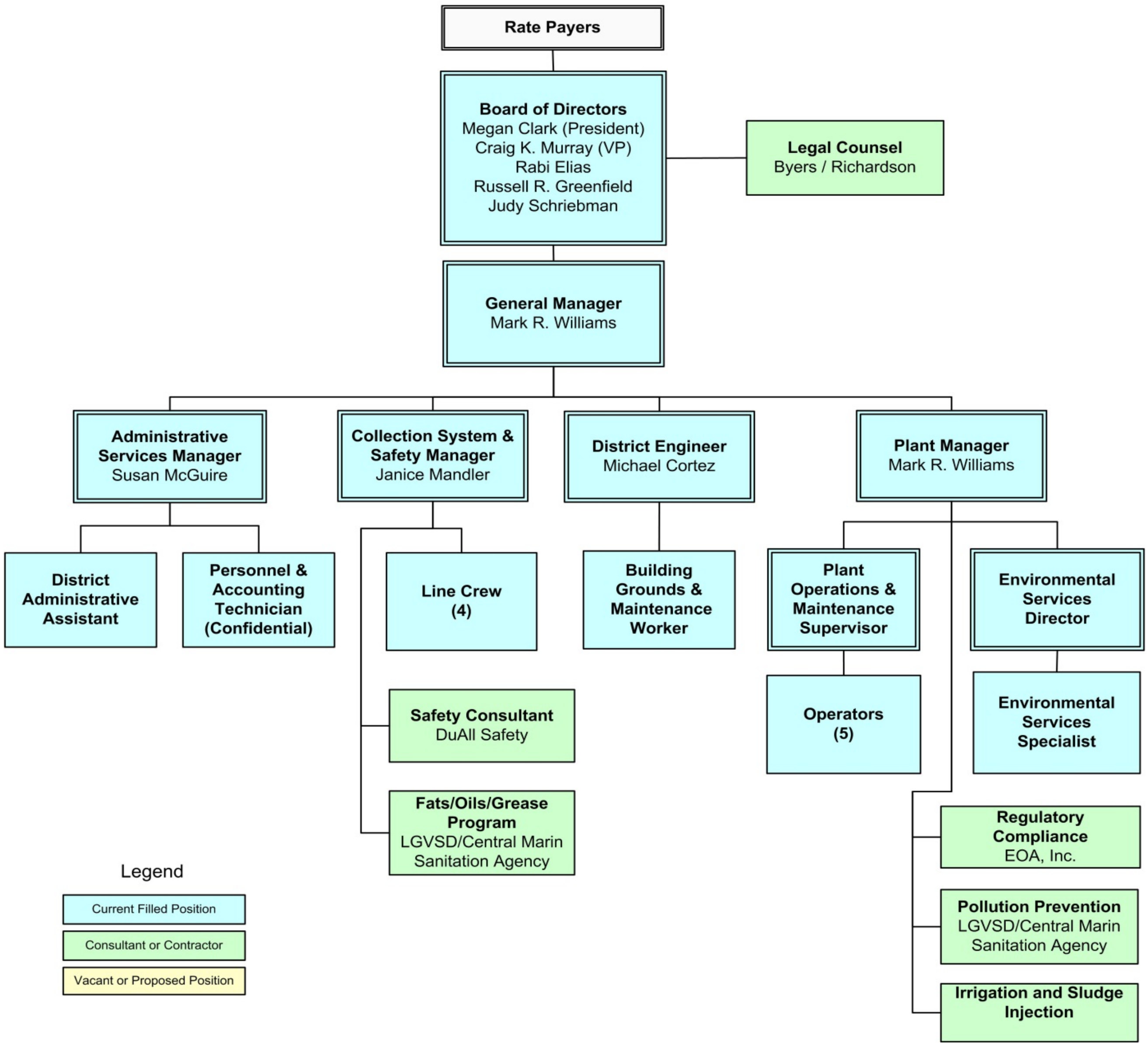
Recognizing that sanitation and wastewater treatment is a vital component of protecting the public health, the LGVSD will

- manage our treatment and collection infrastructure in a planned and sustainable way;
- strive toward beneficial recycling of wastewater, biosolids and other resources using safe and effective processes and systems to achieve our zero waste vision;
- collaborate with neighboring agencies to achieve efficiencies for the public;
- cooperate with stakeholders to leverage opportunities for protecting the bay and regional water resources for the people we serve;
- maintain a safe, high quality workplace to promote a sustainable, motivated, long-term and cohesive workforce;
- increase public participation, acceptance and understanding of what we do;
- responsibly manage the refuse franchise;
- maintain our zero spill goal;
- consider climate change, sea level rise and flooding when developing and designing new projects;
- reduce our impact on natural resources; and
- collaborate with public and private parties to improve watersheds within the District's boundaries;

Our Core Values

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

Organizational Chart



Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Directory of Officials

Fiscal Year Ended June 30, 2013

Board of Directors

Megan Clark	President	12/10/2009 – 12/12/2013
Russ Greenfield	Director	12/10/2009 – 12/12/2013
Rabi Elias	Director	01/24/2013 – 12/12/2013
Craig K. Murray	Director	12/16/2011 – 12/10/2015
Judy Schriebman	Director	12/16/2011 – 12/10/2015

Administration

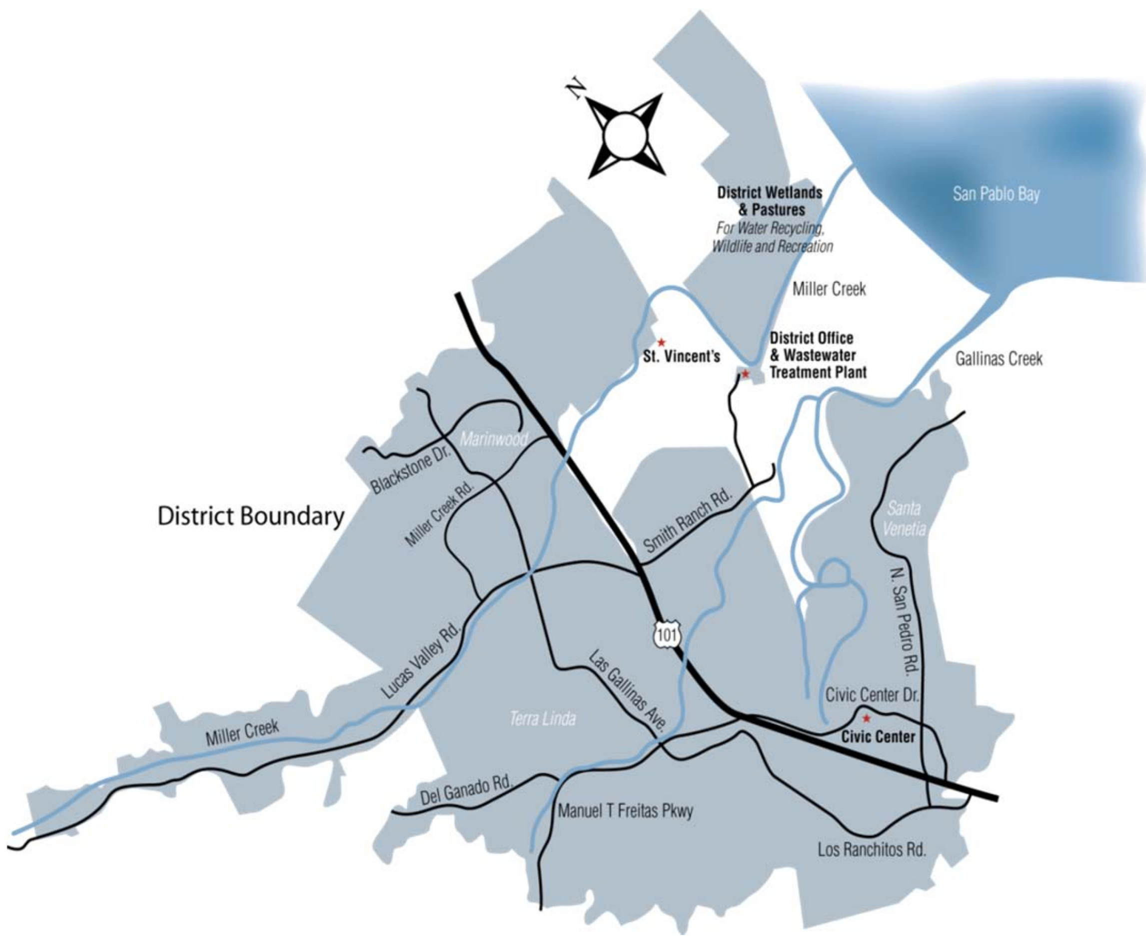
Mark R. Williams	General Manager/Plant Manager
Michael P. Cortez, P.E.	District Engineer
Janice Mandler	Collection System/Safety Manager
Susan McGuire, CPA	Administrative Services Manager
Carolyn A. Memmott	District Secretary

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

District Service Area

Fiscal Year Ended June 30, 2013



Photovoltaic panels generate power for the treatment plant

Trickling filters

Financial Section

LAB STAFF WITH THE 2012 REDWOOD EMPIRE SECTION, PUBLIC EDUCATION AWARD LARGE BUDGET

COLLECTION SYSTEM WITH THE 2012 REDWOOD EMPIRE SECTION, COLLECTION SYSTEM OF THE YEAR AWARD

BPM
BURR PILGER MAYER
60 South Market Street, Suite 800, San Jose, CA 95113
Phone 408.961.6300 Fax 408.961.6324 Email bpm@bpmcpa.com Web bpmcpa.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Las Gallinas Valley Sanitary District (the District), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 financial position of Las Gallinas Valley Sanitary District as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 an opinion on the financial statements that collectively comprise Las Gallinas Valley Sanitary District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Burr Pilger Mayer, Inc.

San Jose, California
October 28, 2013

Management's Discussion and Analysis

LAS GALLINAS VALLEY SANITARY STAFF AT WORK:

LAS GALLINAS VALLEY SANITARY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal years ended June 30, 2013 and 2012

The following discussion and analysis of the Las Gallinas Valley Sanitary District's (District) financial performance provides an overview and analysis of the District's financial activities for the years ended June 30, 2013 and 2012. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

The District implemented two Governmental Accounting Standards Board (GASB) Statements this year. GASB No. 63 changes the name and format of required audited financial reports. What was historically called the Statement of Net Assets is now referred to as the Statement of Net Position. The Statement of Net Position presents a combined assets and deferred outflows of resources less a combined liabilities and deferred inflows of resources resulting with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. GASB No. 65, *Items Previously Reported as Assets and Liabilities,* changes the presentation of bond and loan issuance costs and discounts and premiums on debt. The prior year numbers have been restated to match the new presentation. For additional information regarding the impact of these statements on the financial statements, see Note 2.

HIGHLIGHTS

Financial Highlights

- Operating Revenues increased by approximately $853,000 over the previous year. This increase was due to an increase in the sewer service charge from $590 to $642 per sanitary unit.
- The District's operating expenses, net of depreciation, increased by $1,332,000 due to the increase in personnel costs related increased health insurance costs, a reduction in staff costs which were charged to construction projects in the prior year and an additional payment of $505,000 towards the pension liability; financial participation with the County of Marin for the Gallinas Creek Watershed study; computer upgrades for administration, GIS and SCADA systems; participation in the North Bay Water Reuse Authority scoping study for Phase 2 of the project; the timing of reclamation maintenance work; equipment repair and maintenance costs which were not capitalized; and depreciation expense which increased due to large projects which were placed in service in during the last quarter of the prior year and first quarter of the current year. These increases were offset by decreases in chemical costs; outside

HIGHLIGHTS, CONTINUED

Financial Highlights, continued

lab testing and analysis; operating supplies; fuel and oil; and the completion of the lateral inspection program study in the prior year.

- The District participates in the North Bay Water Reuse Authority (NBWRA) which is a group of water and wastewater agencies that surround the San Pablo Bay. NBWRA received a $7.3 million American Recovery and Reinvestment Act (ARRA) grant in July 2010 and a $1.3 million federal WaterSMART grant in May 2011 to fund recycled water treatment and distribution improvements. The District also applied for and was awarded a Proposition 84/Integrated Water Resources Management Program grant from the California Department of Water Resources. The grant of $381,250 was drawn upon during the year ended June 30, 2013 for costs related to the project which was completed in July 2012 and began providing recycled water to North Marin Water District (NMWD) in September 2012.
- Interest income decreased by $18,145 due to a drop in interest rates. Management analyzed the available investment options taking into account risk and liquidity issues, and maintains the majority of excess funds at LAIF which is managed by the California State Treasurer. While the interest rates paid are at historic lows, they still allow the District to maximize interest earnings while minimizing risk.

District Highlights

- The District treated 947.9 million gallons for wastewater and produced 212 million gallons of effluent for recycled water treatment and distribution by MMWD during the year ended June 30, 2013.
- The District has two photovoltaic systems which power the reclamation pump station and the treatment plant. These systems generated 207,000 kWh of electricity for operations resulting in the District utilizing net 369,000 kWh of electricity for operating the plant during the year.
- The District continued with its sewer main rehabilitation program by repairing and replacing 1.5 miles of sewer mains; 62 lower laterals and 13 upper laterals.
- The District adopted an innovative Private Sewer Lateral Assistance Program in March 2012. This Program allows property owners to apply for low interest loans, currently 2% interest, to obtain up to $10,000 to replace their upper, lower or both laterals. The loans are repaid through special assessments over ten years through their

HIGHLIGHTS, CONTINUED

District Highlights, continued

- property taxes. The Program is innovative since it was developed voluntarily by the District and not as part of condition imposed upon it by the State Water Resources Control Board. During the year ended June 30, 2013, $104,831 was advanced to seven-teen property owners to repair or replace their laterals.
- The District maintained its achievement of having among the lowest reported sewer overflow rate in Marin County.
- The District maintained its record for the sixth consecutive year of not having any lost time work related injuries during 2013.

USING THIS ANNUAL REPORT

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

REQUIRED FINANCIAL STATEMENT

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

FINANCIAL ANALYSIS OF THE DISTRICT

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

Changes in Net Position

The District's net position increased in 2013 by $3,233,878 and in 2012 by $4,856,197. The following condensed financial statements show net asset position, statement of net position and statement of revenues, expenses and changes in net position.

CONDENSED STATEMENTS OF NET POSITION
Fiscal years ended June 30, 2013, 2012 and 2011

	2013	2012 As Restated	2011 As Restated
ASSETS			
Current assets	$18,715,747	$ 15,335,473	$ 13,468,347
Capital assets	52,452,100	52,464,200	41,205,772
Other noncurrent assets	938,012	2,144,360	5,292,071
Total assets	72,105,859	69,944,033	59,966,190
LIABILITIES			
Current liabilities	1,876,516	8,077,557	2,695,434
Noncurrent liabilities	17,006,877	11,877,888	12,138,365
Total liabilities	18,883,393	19,955,445	14,833,799
NET POSITION			
Invested in capital assets	34,787,458	36,552,914	32,830,123
Restricted	854,644	2,085,374	5,231,394
Unrestricted	17,580,364	11,350,300	7,070,874
Total net position	$53,222,466	$ 49,988,588	$ 45,132,391

FINANCIAL ANALYSIS OF THE DISTRICT, CONTINUED

Analysis of Changes in Statements of Net Position

Current assets increased by $3,380,274 in 2013 and $1,867,126 in 2012 due to the increases in cash and receivables. The District has built up cash to pay for future construction projects and in 2012 had additional accounts receivables for grant reimbursements which had been earned as of June 30, 2012. Capital assets, net of accumulated depreciation, decreased by $12,100 in 2013 due to more depreciation expense from two large projects. These projects, with a cost of approximately $14 million have a combined depreciation expense of $458,900 for 2013. In 2012, capital assets increased by $11,258,428 due to construction costs related to treatment plant improvements and the recycled water treatment facility. Other noncurrent assets decreased by $1,206,348 in 2013 and $3,147,711 in 2012. This is primarily due to the expenditure of the loan proceeds for construction of the recycled water treatment facility which were received in June 2011 and spent down in 2012 and 2013.

Current liabilities decreased in 2013 by $6,201,040 due to reduction in accounts payable related to construction projects and the conversion of the construction loan to a term loan, which is included in long-term debt, net of current portion. In 2012, current liabilities increased by $5,382,123 due to accounts payable for construction related projects and the construction loan from the State Water Resourced Control Board. Noncurrent liabilities increased in 2013, due to two loans. One is the construction loan which converted to a term loan and the other is a $2 million loan related to construction of the recycled water facility. In 2012, noncurrent liabilities decreased by $260,477 due to regularly scheduled debt payments.

FINANCIAL ANALYSIS OF THE DISTRICT, CONTINUED

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, 2013, 2012 and 2011

	2013	2012	2011
REVENUE		As Restated	As Restated
Operating revenues			
Sewer use charges	$10,069,648	$ 9,233,153	$ 8,834,558
Recycled water fees	36,676	-	-
Miscellaneous	34,173	54,185	32,046
Nonoperating revenues			
Tax revenues	982,759	1,004,835	1,009,341
Federal and state grants	385,619	1,107,034	74,841
Interest income and other	76,178	94,495	128,678
	11,585,053	11,493,702	10,079,464
EXPENSES			
Operating expenses	7,666,246	6,334,042	6,045,580
Nonoperating expenses	699,979	331,810	356,231
	8,366,225	6,665,852	6,401,811
Change in net position	3,218,828	4,827,850	3,677,653
CAPITAL CONTRIBUTIONS - CONNECTION FEES	15,050	28,347	529,995
Net position - beginning of year	49,988,588	45,132,391	40,924,743
Net position - end of year	$53,222,466	$49,988,588	$45,132,391

FINANCIAL ANALYSIS OF THE DISTRICT, CONTINUED

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

Revenue of the District increased in 2013 due to a planned 8.8% sewer user charge increase from $590 to $642 per unit and in 2012 due to a planned 4.8% sewer use charge rate change from $563 to $590 per unit. In 2013 the District recognized revenue from producing recycled water for NMWD of $36,676. Miscellaneous income decreased in 2013 by $20,012 and increased in 2012 by $22,139 due to the reimbursement in 2012 of costs incurred by the District for reviewing developer's plan and projects prior to connection to the District, which did not occur in 2013.

Operating expenses increased by $1,332,204 in 2013 due to increases in depreciation expense, feasibility study costs, personnel costs, and maintenance expense. In 2012 they increased by $288,462 due to increases in personnel costs including funding of the Other Post-Employment Benefits plan.

Nonoperating revenues decreased in 2013 by $761,808 primarily due to the submission of grant reimbursement requests in 2012; in 2012 they increased by $993,504 due to grant reimbursements of $1,032,193 which was offset by a decrease in interest income of $27,875.

Nonoperating expenses increased in 2013 due to the interest on the additional outstanding debt related to prior year construction projects completed during the summer of 2012. In 2012, it decreased by $24,421 since interest expense on the certificates of participation decreased as the principal was repaid and due to the capitalization of $238,751 of interest related to construction projects.

Connection fees decreased in 2013 and 2012 due to smaller projects connecting to the District.

DESIGNATED RESERVES

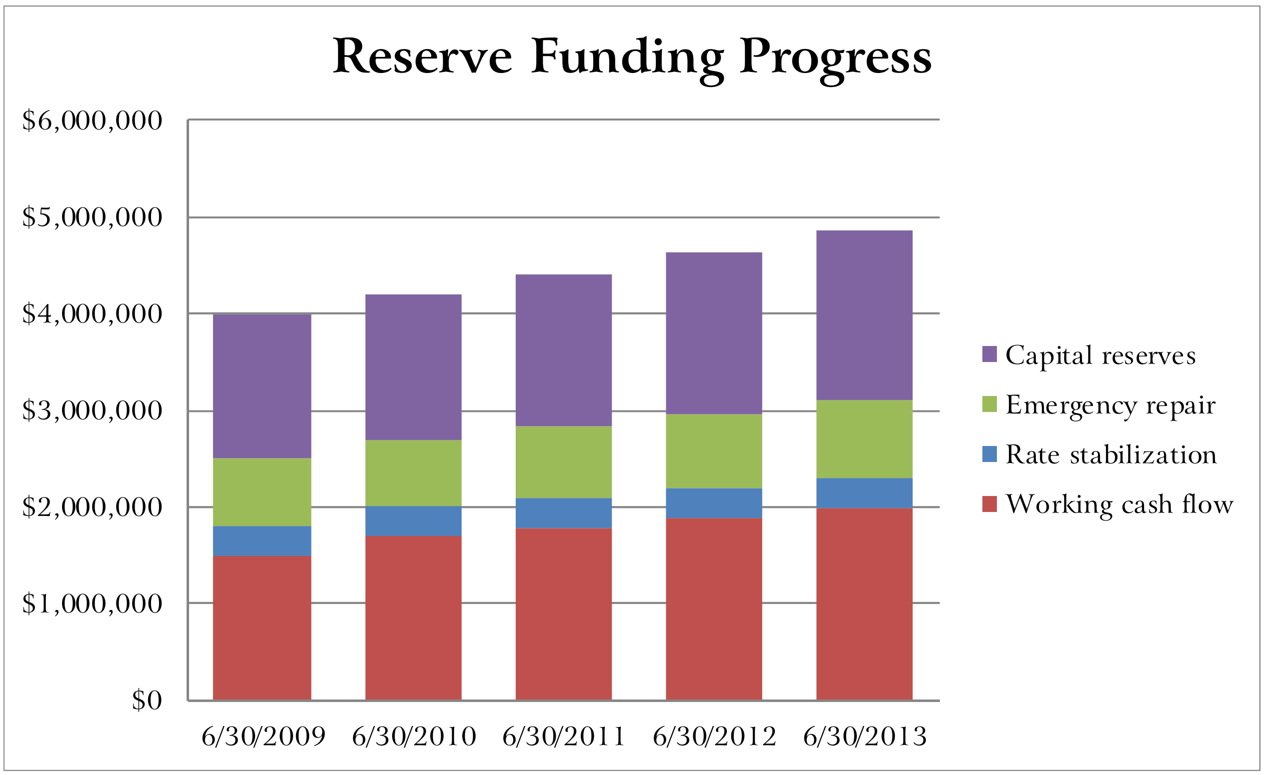
The District's current policy, adopted as part of the five year rate plan and the Board Policies and Procedures in 2009, established a goal of increasing the reserves, originally established in 2002, to meet updated financial needs.

DESIGNATED RESERVES, CONTINUED

Unrestricted net position was designated for the following at June 30, 2013:

	June 30, 2013	Target Balance	Prior Target
Operating reserves:			
Working cash flow	$ 1,988,575	$ 2,590,000	$ 1,500,000
Rate stabilization	300,000	300,000	300,000
Emergency repair	818,825	1,000,000	700,000
Total operating reserves	3,107,400	3,890,000	2,500,000
Capital reserves	1,754,625	4,000,000	1,500,000
Total reserves	$ 4,862,025	$ 7,890,000	$ 4,000,000

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



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had $52,452,100 (net of accumulated depreciation) invested in capital assets. The District's investment in capital assets increased by $2,347,307 from $92,141,810 at the beginning of the year to $94,421,042 at the end of the year. There were minor disposals with a cost of $68,075 for items that are no longer in service. The assets include: land, subsurface lines, the sewage collection, treatment and disposal system, and equipment.

Major capital asset events during the year included the following:

- Construction of the recycled water facility was completed in July 2012.
- Sewer main rehabilitation.
- Upgrades to pump stations including generator replacements.

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

The following summarizes District capital assets for the year ended June 30, 2013:

	Audited Balance June 30, 2012	Additions	Disposals	Transfers/ Reclassifications	Audited Balance June 30, 2013
Land	$ 2,867,571	$ -	$ -	$ -	$ 2,867,571
Construction-in-progress	11,534,427	1,023,360	-	(10,882,201)	1,675,586
Subsurface lines	14,192,030	98,740	-	12,038,928	26,329,698
Facilities and equipment	63,547,782	1,225,207	(68,075)	(1,156,727)	63,548,187
	92,141,810	2,347,307	(68,075)	-	94,421,042
Less: Accumulated depreciation	(39,677,610)	(2,311,407)	20,075	-	(41,968,942)
Capital assets, net of accumulated depreciation	$ 52,464,200	$ 35,900	$ (48,000)	$ -	$ 52,452,100

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

CAPITAL ASSETS AND DEBT ADMINISTRATION, CONTINUED

Construction Loan

The District had a construction loan with a principal amount of $4,314,750 from the State Revolving Fund. Construction began in April 2011 and was completed in June 2012. The loan converted to a term loan in 2013 and is included in Long-Term Debt. Additional information about the construction loan can be found in Notes 8 and 9 of the notes to the financial statements of this report.

Long-Term Debt

The District has total debt of $17,619,300 as of June 30, 2013 related to the purchase and construction of capital assets. The District has agreed to certain financial covenants, including maintaining rates to provide for a net revenue debt service coverage ratio of at least 120%. The District's total debt increased by $1,757,009 (11%) due to additional borrowing of $2,000,000 to construct the recycled water facility; the final draw down on the construction loan of $653,008; these additional borrowings were offset by scheduled principal payments of $895,999.

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

	Audited Balance June 30, 2012 As Restated	Additions	Reductions	Audited Balance June 30, 2013
Bonds Payable				
Certificates of Participation	$ 7,696,005	$ -	$ (421,348)	$ 7,274,657
Notes Payable				
Bank of Marin	$ 4,446,012	$ 2,000,000	$ (301,040)	$ 6,144,972
State Revolving Fund Loan	-	4,373,282	(173,611)	4,199,671
	$ 4,446,012	$ 6,373,282	$ (474,651)	$ 10,344,643

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION, CONTINUED

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 Educational Revenue Augmentation Funds which are dependent upon property tax valuations. Accordingly, the District sets its user rates and capacity charges to cover the costs of operation, maintenance and recurring capital replacement and debt financed capital improvements, plus increments for known or anticipated changes in program costs.

The District, as a wastewater treatment plant, is subject to increasing regulatory compliance regulations. These regulations require upgrades to plant and equipment, as well as increased staff to effectively operate the system. The District undertook a rate review process in 2008 in light of necessary improvements and is in the fourth year of the five year plan.

The expected revenue from sanitary service charges is as follows:

Fiscal Year	Price per Sanitary Unit	Projected Total Revenue	Status
2009-10	$ 476	$ 7,187,600	Approved June 2009
2010-11	$ 563	$ 8,741,250	Approved June 2010
2011-12	$ 590	$ 9,145,000	Approved June 2011
2012-13	$ 642	$ 10,088,000	Approved May 2012
2013-14	$ 647	$ 10,143,000	Approved June 2013

The District will review its operating and capital needs during 2013-14 in order to establish sewer service rates for the year beginning July 1, 2014 and forward. This process will begin in the fall of 2013.

ECONOMIC FACTORS, RATES AND BUDGETARY CONTROL, CONTINUED

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 in the LAIF which is an investment pool managed by the Treasurer of the State of California. The Treasurer's office is regularly updating the pool members of the impact of changes in the investment landscape on the portfolio. The balance is invested in savings accounts with Bank of Marin. Community based banks tend to be more conservative in their lending decisions and retain funds within the locality. Funds on deposit with the bank are covered by insurance from the Federal Deposit Insurance Corporation up to $250,000. In addition, the funds are collateralized 110% by securities held in trust.

REQUEST FOR INFORMATION

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

Basic Financial Statements

WILDLIFE IN THE RECLAMATION AREA:

LAS GALLINAS VALLEY SANITARY DISTRICT

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	2013	2012 As Restated
CURRENT ASSETS:		
Cash and cash equivalents, nonrestricted	$18,150,684	$14,216,800
Receivables		
Connection fees	22,920	600
Grant reimbursements	23,431	335,119
User charges	106,477	150,036
Interest	11,674	7,761
Lateral assistance program	22,670	-
Other	38,311	278,969
Inventory of supplies	279,584	281,545
Net Prepaid OPEB	230	-
Prepaid expenses	59,766	64,643
TOTAL CURRENT ASSETS	18,715,747	15,335,473
Restricted cash		
Debt service	854,644	615,920
Purchase of capital assets	-	1,469,454
TOTAL RESTRICTED CASH	854,644	2,085,374
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	52,452,100	52,464,200
OTHER ASSETS AND DEFERRED CHARGES:		
Receivables, noncurrent		
User charges	1,091	2,182
Lateral assistance program	82,277	
Other	-	56,804
TOTAL OTHER ASSETS	83,368	58,986
TOTAL ASSETS	$72,105,859	$69,944,033

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

STATEMENTS OF NET POSITION (CONTINUED)

June 30, 2013 and 2012

	2013	2012 As Restated
CURRENT LIABILITIES:		
Accounts payable	$ 671,992	$ 3,495,561
Net OPEB obligation	-	55
Accrued payroll	37,134	45,627
Accrued compensated absences	60,000	57,000
Accrued interest payable	47,405	101,492
Current portion of long-term debt	955,871	585,646
Construction loan	-	3,720,274
Deferred connection fees	104,114	71,902
TOTAL CURRENT LIABILITIES	1,876,516	8,077,557
NONCURRENT LIABILITIES:		
Accrued compensated absences	343,448	321,517
Notes payable, long-term	9,828,772	4,285,366
Bonds payable, long-term	6,834,657	7,271,005
TOTAL NONCURRENT LIABILITIES	17,006,877	11,877,888
TOTAL LIABILITIES	18,883,393	19,955,445
NET POSITION:		
Net investment in capital assets, net of related debt	34,787,458	36,552,914
Restricted	854,644	2,085,374
Unrestricted	17,580,364	11,350,300
TOTAL NET POSITION	$ 53,222,466	$ 49,988,588

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, 2013 and 2012

	2013	2012 As Restated
OPERATING REVENUES:		
Sewer use charges	$10,069,648	$ 9,233,153
Recycled water fees	36,676	-
Miscellaneous	34,173	54,185
TOTAL OPERATING REVENUES	10,140,497	9,287,338
OPERATING EXPENSES:		
Sewage collection and pump stations	951,137	936,839
Sewage treatment	1,311,611	1,295,487
Sewage and solid waste disposal	266,863	146,728
Laboratory	376,781	386,656
Engineering	295,792	258,184
Recycled water	59,917	-
General and administrative	2,092,738	1,468,105
Depreciation and amortization	2,311,407	1,842,043
TOTAL OPERATING EXPENSES	7,666,246	6,334,042
INCOME FROM OPERATIONS	2,474,251	2,953,296
NONOPERATING REVENUES:		
Property taxes	982,759	1,004,835
Federal and state grants	385,619	1,107,034
Franchise fees	25,000	25,000
Intergovernmental fees	4,625	4,797
Interest income	46,553	64,698
TOTAL NONOPERATING REVENUES	1,444,556	2,206,364
NONOPERATING EXPENSES:		
Loss on disposal, net	48,000	-
Interest expense	651,979	331,810
TOTAL NONOPERATING EXPENSES	699,979	331,810
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,218,828	4,827,850
CAPITAL CONTRIBUTIONS - CONNECTION FEES	15,050	28,347
CHANGE IN NET POSITION	3,233,878	4,856,197
NET POSITION - BEGINNING OF YEAR	49,988,588	45,132,391
NET POSITION - END OF YEAR	$53,222,466	$49,988,588

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

STATEMENTS OF CASH FLOWS

Fiscal years ended June 30, 2013 and 2012

	2013	2012 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	$10,121,263	$ 9,297,293
Cash payments to employees	(1,967,865)	(1,928,549)
Cash payments to suppliers	(3,121,541)	(2,654,312)
Other receipts	27,208	32,855
Net cash provided by operating activities	5,059,065	4,747,287
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	4,625	4,797
Franchise fees	25,000	25,000
Advances for the Private Sewer Lateral Assistance Program	(98,306)	-
Repayment from the Private Sewer Lateral Assistance Program	527	-
Property taxes received	1,041,548	1,005,282
Net cash provided by noncapital financing activities	973,394	1,035,079
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from grants	697,303	846,759
Connection fees collected	24,943	10,280
Acquisition and construction of capital assets	(2,557,258)	(7,650,309)
Principal payments, long-term debt	(899,651)	(563,988)
Net cash used by capital and related financing activities	(2,734,663)	(7,357,258)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	42,641	61,149
Interest expense, net of interest income	(637,283)	(269,467)
Net cash used by investing activities	(594,642)	(208,318)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,703,154	(1,783,210)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	16,302,174	18,085,384
CASH AND CASH EQUIVALENTS - END OF YEAR	$19,005,328	$16,302,174

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, 2013 and 2012

	2013	2012 As Restated
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,474,251	$ 2,953,296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,311,407	1,842,043
Changes in assets and liabilities:		
User charges receivable	44,650	42,390
Other receivables	(36,676)	419
Inventory of supplies	1,960	(7,065)
Prepaid expenses	4,647	(120)
Accounts payable	242,388	(136,847)
Accrued payroll	(8,493)	14,956
Accrued compensation	24,931	38,215
Net cash provided by operating activities	$ 5,059,065	$ 4,747,287
SUPPLEMENTARY INFORMATION CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	$ 2,233,691	$13,375,820
Financed through accounts payable	2,918,043	(2,225,886)
Financed through construction loan draws	(2,594,476)	(3,499,625)
Cash paid for acquisition and construction of capital assets	$ 2,557,258	$ 7,650,309

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

1. Reporting Entity

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

The scope of this report extends exclusively to the financial information presented for the Las Gallinas Valley Sanitary District. The Board of Directors of the District has no oversight responsibility for any other governmental unit or agency. As such, the Board's governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters extends only to the affairs of the Las Gallinas Valley Sanitary District.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

2. **Summary of Significant Accounting Policies**, continued

Basis of Accounting, *continued*

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

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

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

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

For the year ended June 30, 2012, the District has elected under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting

2. **Summary of Significant Accounting Policies**, continued

***Basis of Accounting**, continued*

Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements. There were no significant or material impacts in applying this statement to the financial statements.

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, non-capital appropriations lapse at year-end.

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

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash-on-hand, demand deposits, and short-term investments, with original maturities of three months or less from the date of acquisition. These items are valued at cost. Please see Note 3 for additional information on investment policies and practices for both the State of California and the District.

Inventory of Supplies

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

Capital Assets

Capital assets consist of property, plant and equipment owned by the District which are recorded at cost or at estimated historical cost if cost information is not practically determinable. The District's policy is to include in construction-in-progress the capitalized interest cost of related borrowings, net of interest earned on unspent proceeds of the related borrowings.

2. **Summary of Significant Accounting Policies**, continued

Capital Assets, *continued*

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 are recorded as expenses. Improvements that add to the value or extend the life of assets are capitalized. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

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

Intangible Assets

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

Bond Discount

The District incurred a bond discount as part of issuing its Certificates of Participation in 2005. In accordance with GASB 65, *Items Previously Reported as Assets and Liabilities,* they are deducted from the outstanding principal amount of the debt and are amortized over the repayment term of the related bonds as an increase to interest expense.

Compensated Absences

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

The District has included in its liabilities an accrual for accumulated earned, but unused, leave.

2. Summary of Significant Accounting Policies, continued

***Compensated Absences,** continued*

Balance at June 30, 2012		$ 378,517
Accrued compensated absences earned	403,546	
Accrued compensated absences used	(378,615)	
Net change in accrued compensated absences		24,931
Balance at June 30, 2013		$ 403,448

The current portion of the non-current liability to be used within the next year is estimated by management to be approximately $60,000 or 15%.

Restricted Assets and Liabilities

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

Grants

The District's grants are cost-reimbursement grants which are earned as it makes the allowable expenditures under the agreement. A receivable is recorded when the criteria established for requesting reimbursement under the grant agreement has been satisfied and the amount of reimbursement is determinable.

Connection Fees

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

Property Taxes

The County of Marin levies taxes and places liens on real property as of January 1st on behalf of the District. Property taxes are due on the following November 1st and March 1st and become delinquent December 10th and April 10th for the first and second installments, respectively. All taxes collected for debt service are maintained in separate funds designated for payment of the debt (see Note 9).

2. **Summary of Significant Accounting Policies**, continued

Property Taxes, *continued*

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, 2013 and 2012, the District received $698,477 and $699,509, respectively, in property taxes and $284,282 and $305,326, respectively, in ERAF.

Interest

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

Use of Estimates

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

Accounting Changes - Restatement

As the result of implementing GASB Statement 65, the District has restated beginning net position in the Statement of Net Position, effectively decreasing the net position as of July 1, 2012 by $158,277. The decrease resulted from no longer deferring and amortizing bond issuance costs and loan fees. Further, the District has restated its long-term liabilities to reflect the inclusion of the bond discount, net of amortization as a reduction in the principal balance of the certificates of participation. See Note 9 for additional disclosures regarding this presentation.

2. **Summary of Significant Accounting Policies**, continued

New Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact on the financial statement elements of deferred outflows of resources and deferred inflows of resources, such changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. This pronouncement is effective for periods beginning after December 31, 2012. The District implemented this Statement early during the year ended June 30, 2013 with retroactive application required. See the discussion of the restatement above.

In June 2012, GASB issued Statement No. 67, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27.* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement and Statement No. 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement--determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria relating to irrevocable contributions, dedicated plan assets, and protection of plan assets from creditors. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular

2. **Summary of Significant Accounting Policies**, continued

New Accounting Pronouncements, *continued*

requirements depending upon the type of pension plan administered, including cost-sharing multi-employer pension plans, in which the District participates.

Cost-sharing plans are those in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates. In that circumstance, it also will provide information about whether employers and non-employer contributing entities are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due. The District is required to implement the provisions of this Statement for the year ended June 30, 2014 (effective for periods beginning after June 15, 2013). The District is in the process of evaluating the impact of implementing this statement for financial reporting.

In June of 2012, GASB issued GASBS No. 68, *Financial Reporting for Pension Plans an Amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans

2. **Summary of Significant Accounting Policies**, continued

New Accounting Pronouncements, *continued*

administered as trusts that meet certain criteria relating to irrevocable contributions, dedicated plan assets, and protection of plan assets from creditors. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

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

<u>Cost-sharing employers</u>

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

In addition, the effects of (1) a change in the employer’s proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported

2. Summary of Significant Accounting Policies, continued

New Accounting Pronouncements*, continued*

as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

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

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

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) information about required contributions, contributions to the pension plan, and related ratios. The District is required to implement provisions of this Statement for the year ended June 30, 2015 (effective for periods beginning after June 15, 2014). The District is in the process of evaluating the impact of implementing this statement for financial reporting.

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

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and

2. Summary of Significant Accounting Policies, continued

New Accounting Pronouncements, continued

receive nonexchange financial guarantees. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. This pronouncement is effective for periods beginning after June 15, 2013. The District does not believe there will be a significant financial statement effect related to this statement.

Reclassification

In order to comply with current year presentation, certain prior year amounts have been reclassified.

3. Cash and Cash Equivalents

At June 30, 2013, the District maintained the majority of its cash in the Bank of Marin and the State of California Local Agency Investment Fund (LAIF) pooled investment funds. Balances in the Bank of Marin are insured by the Federal Deposit Insurance Corporation up to $250,000, are collateralized by securities at 110% of the balance, and consist of checking and savings accounts.

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

Restricted Cash

Restricted cash consists of debt service reserve funds of $854,644, including earned interest, as of June 30, 2013. As of June 30, 2012 it consists of funds to be used for construction projects of $1,469,454 and debt service reserve funds of $615,920.

3. **Cash and Cash Equivalents**, continued

Restricted Cash*, continued*

In accordance with the Consolidated Reassessment and Refunding District of 2003 (Note 9) bond covenants, the District established restricted accounts to be used for capital improvements and for paying principal and interest. The accounts are notconsidered to be the assets of the District and are not reflected in the financial statements. The restricted cash balance at June 30, 2013 and 2012 was $ 276,508 and $302,992, respectively, and was maintained by the Marin County Treasurer.

Cash and cash equivalents consist of the following:

	June 30, 2013	
	Reported/Fair Value	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	$ 2,603,790	$ -
Petty cash	1,502	-
Total cash in bank and on hand	2,605,292	-
Investments:		
Certificates of Deposit	-	854,644
Local Agency Investment Fund (LAIF)	15,545,391	-
Total investments	15,545,391	854,644
Total cash and cash equivalents as of June 30, 2013	$ 18,150,683	$ 854,644

	June 30, 2012	
	Reported/Fair Value	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	$ 5,701,371	$ 1,862,202
Petty cash	1,246	-
Total cash in bank and on hand	5,702,617	1,862,202
Investments:		
Local Agency Investment Fund (LAIF)	8,514,183	223,172
Total investments	8,514,183	223,172
Total cash and cash equivalents as of June 30, 2012	$ 14,216,800	$ 2,085,374

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.

3. **Cash and Cash Equivalents**, continued

Investments Authorized by the District's Investment Policy

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

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

Debt Proceeds

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the

3. **Cash and Cash Equivalents**, continued

Interest Rate Risk, *continued*

greater the sensitivity of its fair value to changes in market interest rates. As of year-end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 9 months.

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, 2013:

		Maturity Date
Certificates of Deposit	$ 854,644	29 days average
LAIF	15,545,391	278 days average
	$ 16,400,035	

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

3. **Cash and Cash Equivalents**, continued

***Custodial Credit Risk**, continued*

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.

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 0.295% and 0.395% respectively, and mature in July 2013 and August 2013, 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 $15,545,391 and $8,737,355 as of June 30, 2013 and 2012, respectively. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities totaling $753.4 million and $1,297 million as of June 30, 2013 and 2012, respectively, and structured notes totaling $400 million and $800 million as of June 30, 2013 and 2012, 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 are 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,

4. Accounts Receivable, continued

3% in June and 2% in July. The June and July remittances allow the County as the collection agent to true-up any changes for revisions in the sewer charges after the initial calculation in August. In addition, $56,804 of property tax funds were borrowed by the State of California under Proposition 1A as part of the State's 2009-10 budget. The District did not participate in the Proposition 1A Securitization Program and did not receive the funds until year 2012-13. The receivable was considered long-term at June 30, 2012.

The District received approximately $335,000 from a federal WaterSMART grant in May 2011 through NBWRA for the water recycling facility. The grant requires a 75% match by the District. As of June 30, 2012, the District was eligible for $335,119 of grant funds which it received in 2013. The District was also eligible to receive a grant reimbursement for planning costs related to the next phase of its participation in the NBWRA. The reimbursement of $23,431 was received in July 2013.

5. Lateral Assistance Program

The District established a lateral assistance program in March 2012 which allows property owners to receive an advance to repair or replace their sewer laterals. The maximum that may be advanced under the program is $10,000 per property, interest is charged at 2%, and the amount is repaid over 10 years through the property tax collections. The first assistance payment was issued in July 2012. During the year ended June 30, 2013, $104,831 was advanced to property owners through the program. The receivables will be collected each December and April, through April 2023.

6. Capital Assets

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

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

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

6. Capital Assets, continued

A summary of property, plant and equipment transactions for the year ended June 30, 2012 is as follows:

	Beginning Balance at July 1, 2011	Increases	Decreases	Transfers/ Reclassifications	Ending Balance at June 30, 2012
Capital assets not being depreciated:					
Land	$ 2,867,571	$ -	$ -	$ -	$ 2,867,571
Construction-in-progress	3,331,591	9,878,414	-	(1,675,578)	11,534,427
Total capital assets, not being depreciated	6,199,162	9,878,414	-	(1,675,578)	14,401,998
Capital assets being depreciated:					
Subsurface lines	14,143,970	48,060	-	-	14,192,030
Facilities and equipment					
Sewage collection	19,903,930	18,321	-	55,323	19,977,574
Sewage treatment	25,028,341	3,049,071	-	1,601,980	29,679,392
Sewage disposal	8,194,272	-	-	-	8,194,272
General plant/administration	1,148,905	20,776	-	55	1,169,736
Laboratory and pump stations	3,284,104	55,983	-	-	3,340,087
Reclamation	1,138,655	29,846	-	18,220	1,186,721
Total capital assets being depreciated	72,842,177	3,222,057	-	1,675,578	77,739,812
Less:					
Accumulated depreciation	(37,835,567)	(1,842,043)	-	-	(39,677,610)
Total capital assets being depreciated, net	35,006,610	1,380,014	-	1,675,578	38,062,202
Capital assets, net	$41,205,772	$11,258,428	$ -	$ -	$ 52,464,200

The detail for accumulated depreciation by each major class of fixed asset is not readily available for the year ended June 30, 2012.

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 2005, has been extended until December 31, 2013.

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

8. Construction Loan

The District entered into a loan agreement with the State Water Resources Control Board on May 25, 2010 to borrow $6,122,500; the agreement was amended on September 21, 2010 to reduce the amount to $4,314,750 based on the contract price for the financed improvements. The loan is for a major treatment plant improvement which began construction in April 2011 and was completed in June 2012. The District drew down all of the available funds as of June 30, 2013. Construction period interest of $58,532 was capitalized and added to the principal balance when the loan converted to a term loan. The loan converted to a fixed term in November 2012, see Note 9.

9. Long-Term Debt

A. Wastewater Revenue Certificates of Participation, Series 2005

The District issued $10,000,000 of Wastewater Revenue Certificates of Participation Bonds rated AA on November 15, 2005. The bonds have maturity dates ranging from December 1, 2006 through December 1, 2025 and carry an average interest rate of 4%. Principal payments are due each December 1st; interest payments are due each December 1st and June 1st through 2025. The bonds are 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 net proceeds from the sale, after paying issuance costs, underwriter fees, and the reserve surety bond premium was $9,774,000. Amortization expense for bond discount was $3,652, for both 2013 and 2012. The District was required to use the proceeds to construct several wastewater system improvements, including improvements to the collection system, pumping station, reclamation system and treatment pond. As of June 30, 2012, the balance remaining in the account consists of interest earned on the unspent funds since issuance. The funds were completely drawn down in August 2012 to reimburse the District for costs incurred prior to June 30, 2012.

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2014	$ 440,000	$ 295,525	$ 735,525
2015	460,000	277,525	737,525
2016	475,000	258,825	733,825
2017	495,000	239,425	734,425
2018	520,000	219,125	739,125
2019 to 2023	2,870,000	759,349	3,629,349
2024 to 2026	2,060,000	137,529	2,197,529
	$ 7,320,000	$ 2,187,303	$ 9,507,303

9. **Long-Term Debt**, continued

B. Note Payable – Bank of Marin

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

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2014	$ 167,081	$ 165,601	$ 332,682
2015	173,773	158,908	332,681
2016	180,318	152,364	332,682
2017	187,957	144,725	332,682
2018	195,486	137,196	332,682
2019 to 2023	1,100,976	562,431	1,663,407
2024 to 2028	1,339,855	323,552	1,663,407
Thereafter	939,920	58,123	998,043
	$ 4,285,366	$ 1,702,900	$ 5,988,266

C. Note Payable Bank of Marin

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

9. Long-Term Debt, continued

C. Note Payable Bank of Marin, continued

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2014	$ 176,716	$ 58,630	$ 235,346
2015	182,628	52,718	235,346
2016	188,613	46,733	235,346
2017	195,048	40,298	235,346
2018	201,573	33,773	235,346
2019 to 2023	915,028	65,682	980,710
	$ 1,859,606	$ 297,834	$ 2,157,440

D. State Revolving Fund Loan

The District had a construction loan (see Note 8) which converted to a term loan in November 2012 after the last construction draw was received. The loan bears interest at 2.7%, requires a reserve fund equal to one year's debt service or $285,464, and annual principal and interest payments beginning June 1, 2012 through June 1, 2032. The loan requires the District to maintain a debt coverage ratio of earnings before interest, depreciation and amortization over scheduled principal payments of 1.2 to 1.0.

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2014	$ 172,073	$ 113,391	$ 285,464
2015	176,719	108,745	285,464
2016	181,491	103,974	285,465
2017	186,391	99,073	285,464
2018	191,424	94,041	285,465
2019 to 2023	1,037,492	389,830	1,427,322
2024 to 2028	1,185,324	241,998	1,427,322
Thereafter	1,068,757	73,102	1,141,859
	$ 4,199,671	$ 1,224,154	$ 5,423,825

9. **Long-Term Debt,** continued

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

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

On July 30, 2003, the District issued new bonds totaling $1,736,409 for the purpose of (a) providing funds to refund the remaining principal amount of the North Circle Road Assessment District bonds, with an interest rate of 6.474% per annum and the Los Ranchitos Assessment District bonds, with an interest rate of 6.042% per annum; (b) funding a reserve for the bonds; and (c) paying certain costs associated with the issuance of the bonds. The new bonds, Consolidated Reassessment and Refunding District of 2003, bear an interest rate starting at 1.50% in 2004 and gradually increasing each year until the rate reaches 4.625% in 2016. Interest is payable semi-annually on March 2nd and September 2nd. Maturity dates of each bond range through September 2, 2016; occasionally bonds are called early as property owners pay off their obligations or if excess funds accumulate in the reserve accounts. For the year ended June 30, 2012, $50,000 in bonds were called. For the years ended June 30, 2013 and June 30, 2012, the outstanding principal balance of the bonds was $515,000 and $665,000, respectively.

For all of the District debt outstanding during the year ended June 30, 2013, the District incurred interest expense of $667,138, of which $15,159 was incurred for the construction of capital assets and was capitalized as part of construction project costs. During the year ended June 30, 2012, the District incurred interest expense of $566,909, of which $238,751 was incurred for the construction of capital assets and was capitalized as part of construction project costs.

9. Long-Term Debt, continued

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

The following is a summary of the debt activity for the year ended June 30, 2013:

	Balance June 30, 2012 **As Restated**	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Bonds Payable					
Certificates of Participation	$ 7,745,000	$ -	$ (425,000)	$ 7,320,000	$ 440,000
Discount	(48,995)	-	3,652	(45,343)	-
	7,696,005	-	(421,348)	7,274,657	440,000
Notes Payable					
Bank of Marin	4,446,012	2,000,000	(301,040)	6,144,972	343,798
State Revolving Fund	-	4,373,282	(173,611)	4,199,671	172,073
	4,446,012	6,373,282	(474,651)	10,344,643	515,871
Total debt activity	$ 12,142,017	$ 6,373,282	$ (895,999)	$ 17,619,300	$ 955,871

10. Deferred Compensation Plan

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

11. Commitments and Contingencies

The District was contractually committed to contractors and vendors for various projects totaling approximately $4,007,936 and $1,036,300 as of June 30, 2013 and 2012, respectively.

12. Defined Benefit Pension Plan

Plan Description

The District contributes to the CalPERS; an agent multiple-employer public employee defined benefit pension plan. The contribution requirements of the plan members are established by state statute and the employer contribution rates are established and may be amended by CalPERS. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. Covered payroll consists of the employees' regular rate of pay without inclusion of overtime, stand-by pay, or termination pay of accrued time off which prevents spiking of retirement benefits.

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

The District has two retirement plans for eligible employees:

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

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

Funding Policy and Annual Pension Cost

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

<u>Employer Contribution</u> is based on the actuarially determined annual rates based on CalPERS reportable payroll. Those rates for the years ended June 30, 2013, 2012 and 2011 were 18.757%, 18.661% and 16.123%, respectively for Tier 1. For Tier 2, the employer contribution rate is 6.25% of CalPERS reportable payroll.

12. **Defined Benefit Pension Plan,** continued

Funding Policy and Annual Pension Cost, *continued*

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

- Tier 1 members - the mandatory participant contribution is 8% of their annual covered salary. Due to contractual arrangements, the District pays half of the required contribution of plan members. For members of the management group, the District contributes an additional amount based on 7% of their covered payroll.
- Tier 2 members - the mandatory participant contribution is 6.25% of their annual covered salary. Due to contractual arrangements, the District pays 4% of the requirement contribution of plan members.

The required contribution to CalPERS for the years ended June 30, 2013, 2012, and 2011 were made based on the covered payroll and required rates as follows:

	June 30,		
Tier 1	**2013**	**2012**	**2011**
Covered payroll per fiscal year	$ 1,793,898	$ 1,756,886	$1,581,710
Actuarially required employer contribution rate	18.757%	18.661%	16.123%
Annual Employer Required Contribution (ARC), as calculated	336,481	327,852	255,019
Employer paid member contributions in dollars	75,143	75,153	72,285
Annual Pension Cost (APC)	411,624	403,005	327,304
Actual Contributions Made	(411,624)	(403,005)	(327,304)
Net Pension Obligation (NPO)	$ -	$ -	$ -
Percentage of APC Contributed	100%	100%	100%

The District did not have any employees eligible for Tier 2 for the year ended June 30, 2013.

Side Fund Pay-off

The Actuarially Required Employer Contribution rate for 2013, 2012 and 2011 includes a contribution, based on a percentage of payroll, to amortize the District's side fund which was created when plans with less than 100 members were required to join

12. Defined Benefit Pension Plan, continued

Side Fund Pay-off, *continued*

risk pools in 2003. The District paid off the side fund by making a one-time contribution of $505,070 on June 27, 2013. This will result in a 3.184% decrease in the employer rate effective July 1, 2013.

Required Information in Compliance with GASB 27 for Cost Sharing Multiple-Employer Defined Benefit Plans

Effective June 30, 2003, CalPERS risk pools were established for plans containing less than 100 active members as of that valuation date. The District is included in the risk pool for "Miscellaneous Retirement Plan 2.7% at 55" and/or "Miscellaneous Retirement Plan 2.0% at 62." In the latest Annual Valuation Report as of June 30, 2011, the CalPERS Board approved certain assumptions and methods used to determine the contractually required contributions for the cost sharing multiple-employer defined benefit plan.

Valuation Date	June 30, 2011 (last available)
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	20 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.5% (net of administrative expenses)
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and Type of Employment
Inflation	2.75%
Payroll Growth	3.0%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and annual production growth of 0.25%

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

13. Postemployment Benefits Other Than Pension Benefits

Plan Description

In addition to the pension benefits described in Note 12, 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, 2004 there are three 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 $582 as of January 1, 2013, $549 as of January 1, 2012 and $518 as of January 1, 2011.

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 $622 as of January 1, 2013, $566 as of January 1, 2012, and $542 as of January 1, 2011. This benefit is only available to the employee 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.

All employees who retire from the District, have five years of CalPERS service credits, and participate in the CalPERS medical plan receive a benefit paid by the District equal to the minimum Public Employees' Medical and Hospital Care Act (PEMHCA) contribution. This monthly contribution is included in the cap outlined above for all tiers. However, an employee who is a member of Tier 3 but does not work for the District for five years but has five year of CalPERS service credits, is eligible for the PEMHCA. The monthly amount was $115 as of January 1, 2013, $112 as of January 1, 2012 and $108 as of January 1, 2011.

As part of the five year rate study that the District prepared in 2008/09, the District evaluated the recommendations of the GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB No. 45). The District performed an initial actuarial valuation of the plan as of July 1, 2008 to determine the

13. Postemployment Benefits Other Than Pension Benefits, continued

Plan Description, continued

projected cost of benefits without establishing an irrevocable trust to hold the assets. Effective, July 1, 2009, the District decided to join the California Employers' Retiree Benefit Trust (CERBT) in order to pre-fund the retiree medical costs. The objective of the CERBT is to seek favorable returns that reflect the broad investment performance through asset allocation. The employers who participate in the CERBT own units of the fund's portfolio which is invested in accordance with the approved strategic asset allocation; they do not have direct ownership of the securities in the portfolio. The unit value changes with market conditions. The CERBT is a self-funded program, in which the participating employers pay the program costs. The cost charged to participating employers is based on the average daily balance of assets. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of CERBT's annual financial report may be obtained from its Affiliate Program Services Division at 400 Q Street, Sacramento, CA 95811.

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

	June 30, 2013	June 30, 2012	June 30, 2011
Market value - beginning of year	$ 285,230	$ 160,698	$ 63,348
Contributions	122,882	118,929	79,656
Gain (loss) on investments	25,979	5,841	17,815
Administrative expenses	(548)	(238)	(121)
Market value - end of year	$ 433,543	$ 285,230	$ 160,698
Change	8.92%	3.49%	27.93%

Actuarial Value of Assets

Effective July 1, 2009, the District has implemented GASB No. 45. This statement requires the District to account for the postemployment benefits on an accrual basis rather than on the pay-as-you-go method used in the past. Using the accrual method allows the employer to recognize the cost of providing the benefit during the employees' working lifetimes. The CERBT requires biennial valuation. In order to comply with the above requirements, the Actuarial Valuation of Postemployment Healthcare Benefits was prepared for the District as of July 1, 2011 by Nicolay Consulting. The expenses for the years ended June 30, 2013 and 2012 were based on this valuation.

13. Postemployment Benefits Other Than Pension Benefits, continued

Actuarial Value of Assets, continued

The actuary used the following actuarial method and assumptions:

Valuation Date	July 1, 2011 (last available)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Closed period, 28 years remaining, level percent of payroll
Average Remaining Period	28 Years as of the Valuation Date
Asset Valuation Method	Based on market value of assets
Actuarial Assumptions:	
Investment Rate of Return	7.06% (net of administrative expenses)
Projected Salary Increase	Not applicable
Inflation	General - 3.00% per year; Medical premium increases ranging from 7.3% 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, 2011.
Number of retirees receiving benefits	15

During 2011, the CERBT changed the investment strategies available to employers. Prior to July 1, 2011, the investment strategy assumed an investment rate of return of 7.75%. After that date, three investment strategies were offered with the following discount rates: 7.61%, 7.06% and 6.39%. 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. The District evaluated the various strategies in light of the funding progress, demographics and risk of return and chose to use the 7.06% strategy. This choice along with changes in demographics resulted in a substantial increase in the Actuarial Accrued Liability (AAL). The AAL was projected to be $1,616,389 for 2011/12 based on the July 1, 2009 valuation, but was determined to be $2,146,184 for 2011/12 based on the July 1, 2011 valuation. This change resulted in an increase in the ARC from $148,854 to $190,837 for the year ended June 30, 2013 and from $143,722 to $184,099 for the year ended June 30, 2012. The District is in the process of performing the July 1, 2013 actuarial valuation.

Annual OPEB Cost

The District contributes to the plan through payment of the monthly benefits for 16 retirees and their eligible spouses totaling $68,768 and $65,114 for the years ended June 30, 2013 and 2012, respectively. In addition, the District made deposits to the

13. Postemployment Benefits Other Than Pension Benefits, continued

Annual OPEB Cos, *continued*

CERBT of $122,882 for 2013 and $118,929 for 2012 based on the valuation dated July 1, 2011.

Funding Policy

GASB No. 45 sets rules for computing the employer's expense for retiree benefits other than pensions called OPEB. The expense, called the Annual OPEB Cost (AOC), is determined similarly to pensions. The Annual Required Contribution (ARC) of the employer represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to 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, 2013	June 30, 2012	June 30, 2011
Annual required contribution	$ 190,837	$ 184,099	$ 138,770
Interest on NOO	-	-	-
Annual OPEB cost	190,837	184,099	138,770
Contribution made - payment of benefits	(191,122)	(184,044)	(143,224)
Increase in NOO/(NOA)	(285)	55	(4,454)
NOO beginning of the year	55	-	-
(NOA)/NOO at the end of the year	$ (230)	$ 55	$ (4,454)

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

13. Postemployment Benefits Other Than Pension Benefits, continued

Funding status and funding progress

As of July 1, 2011, the most recent actuarial valuation date, the funded status of the plan was as follows:

	June 30,		
	2013	2012	2011
Actuarial accrued liability (AAL)	$ 2,286,322	$ 2,146,184	$ 1,539,885
Actuarial value of plan assets	418,923	285,718	160,698
Unfunded actuarial accrued liability (UAAL)	$ 1,867,399	$ 1,860,466	$ 1,379,187
Funded ratio (actuarial value of plan assets/AAL)	22.43%	15.36%	11.65%
Covered payroll (annual payroll of active employees covered by the plan)	$ 1,793,898	$ 1,756,886	$ 1,581,710
UAAL as a percentage of covered payroll	104.10%	105.90%	87.20%

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.

14. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disaster. The District's insurance coverage is carried through the California Sanitation Risk Management Association (CSRMA) in pooled programs and through a commercial insurance carrier.

CSRMA is a public entity risk pool currently operating as a common risk management and insurance program for member sanitary districts located throughout California. The purpose of CSRMA is to spread the adverse effects of losses among the member entities

14. Risk Management, continued

and to purchase excess insurance as a group. Although CSRMA may assess additional premiums to a member district in the event of losses in excess of reserves, no additional assessments have occurred nor are they contemplated.

The financial statements of CSRMA are available at the District office. Condensed financial information for CSRMA is presented below for the years ended June 30:

	2012 [1]	2011
Total assets	$ 30,047,691	$31,453,997
Total liabilities	17,709,465	15,533,884
Retained earnings	$ 12,338,226	$15,920,113
Total revenues	$ 8,879,110	$10,355,129
Total expenditures	12,460,997	7,622,401
Net income (loss)	$ (3,581,887)	$ 2,732,728

[1] Most recent available.

Wildlife in the reclamation area:

Required Supplementary Information

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

PENSION PLANS SCHEDULE OF FUNDING PROGRESS - CALPERS

Actuarial Valuation Date		(1) Actuarial Asset Value	(2) Entry Age Actuarial Accrued Liability	(3) Unfunded Liability/ (excess Assets) (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Covered Payroll	(6) Unfunded Actuarial Liability as a % of Covered Payroll ((2) - (1))/(5)
6/30/2009		$ 1,674,260,302	$ 2,140,438,884	$ 466,178,582	78.2%	$ 440,071,499	105.9%
6/30/2010		$ 1,815,671,616	$ 2,297,871,345	$ 482,199,729	79.0%	$ 434,023,381	111.1%
6/30/2011	*	$ 1,981,073,089	$ 2,486,708,579	$ 505,635,490	79.7%	$ 427,300,410	118.3%

Effective with the June 30, 2004 valuation, CalPERS switched all employers with less than 100 active participants into a pool, as reflected in the above. Note 12 describes the Pension Plan including the plan description, funding policy and annual pension cost.

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS - CERBT

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

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. Three year funding progress will be shown when data becomes available.

* Most recent available valuation.

Walkers in the reclamation area:

SUPPLEMENTARY INFORMATION

MILLER CREEK

LAS GALLINAS VALLEY SANITARY DISTRICT

BUDGETARY COMPARISON SCHEDULE

Fiscal year ended June 30, 2013

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
REVENUES:				
Sewer use charges	$ 10,088,000	$ 10,088,000	$ 10,069,648	$ (18,352)
Private sewer lateral assistance program	-	-	5,165	5,165
Miscellaneous	35,000	35,000	34,173	(827)
Property taxes	1,005,800	1,005,800	982,759	(23,041)
Federal grant	335,119	-	-	-
State grant	381,250	381,250	385,619	4,369
Reimbursement for lateral repairs	-	-	73,400	73,400
Intergovernmental fees	4,300	4,300	4,625	325
Franchise fees	25,000	25,000	25,000	-
Recycled water sales	48,840	48,840	36,676	(12,164)
Interest income	68,700	68,700	46,695	(22,005)
TOTAL REVENUES	11,992,009	11,656,890	11,663,760	6,870
EXPENDITURES:				
Personnel Costs:				
Salaries and wages	1,903,682	1,903,682	1,908,870	(5,188)
Employee benefits	1,250,237	1,255,135	1,647,093	(391,958)
Payroll processing fees	7,000	7,500	7,018	482
Operations Expense:				
Insurance	161,240	161,240	101,621	59,619
Repairs and maintenance	339,961	335,961	394,088	(58,127)
Chemicals	114,500	114,500	103,852	10,648
Pollution prevention	16,000	24,000	23,103	897
Laboratory services	69,032	71,032	58,768	12,264
Small tools	3,100	4,100	6,121	(2,021)
Sludge disposal contract services	18,558	17,558	6,625	10,933
Outside services	179,751	179,751	188,817	(9,066)
Damage claim	10,000	10,000	11,243	(1,243)
Reclamation expense	101,300	101,300	104,436	(3,136)
Engineering consultants	152,000	152,000	139,238	12,762
Operating supplies	54,800	54,400	60,473	(6,073)
Safety program and supplies	44,000	44,000	44,157	(157)
Fuel, gas and oil	50,000	50,000	48,627	1,373
Private lateral inspection program	83,117	83,117	-	83,117
Private lateral assistance program	115,763	115,763	104,831	10,932
Equipment rents	10,000	10,000	6,464	3,536
Permits and fees	39,000	39,000	41,651	(2,651)
Employee training	11,000	11,000	16,256	(5,256)
Utilities	94,390	94,390	97,504	(3,114)

See the accompanying note to this schedule.

LAS GALLINAS VALLEY SANITARY DISTRICT

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

Fiscal year ended June 30, 2013

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
General and Administrative Expense:				
Conferences	$ 34,000	$ 34,000	$ 33,999	$ 1
Mileage and travel	600	600	611	(11)
Office expense	16,000	16,002	15,388	614
Computer support and supplies	64,515	64,515	62,024	2,491
Publications and legal ads	3,000	8,000	7,838	162
Public education	60,000	55,000	72,939	(17,939)
Rents and leases	15,000	15,000	12,417	2,583
Property and other taxes	3,500	3,500	4,344	(844)
Memberships	35,000	35,000	32,439	2,561
Legal and professional	150,600	140,600	163,470	(22,870)
Bank charges and collection fees	33,200	32,200	31,334	866
Employee recognition	2,500	2,500	3,418	(918)
Miscellaneous	1,000	1,000	-	1,000
EXPENDITURES BEFORE DEPRECIATION AND INTEREST	5,247,346	5,247,346	5,561,077	(313,731)
OPERATING AND MAINTENANCE SURPLUS BEFORE DEBT SERVICE	$ 6,744,663	$ 6,409,544	$ 6,102,683	$ (306,861)

See the accompanying note to this schedule.

NOTE TO BUDGETARY COMPARISON SCHEDULE

Fiscal year ended June 30, 2013

Accounting Basis for Schedule

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

The following is a reconciliation from the Statements of Revenues, Expenses and Changes in Net Position to the Budgetary Comparison Schedule as of June 30, 2013:

Opertating and Nonoperating Revenues per the Statement of Revenues,	
Expenses and Changes in Net Position	$ 11,585,053
Private sewer lateral assistance payments	5,165
Reimbursement for lateral repairs	73,400
Interest income	142
Total Revenues per the Budgetary Comparison Schedule	$ 11,663,760
Operating Expenses per the Statement of Revenues, Expenses, and	
Changes in Net Position	$ 7,666,246
Depreciation	(2,311,407)
Capitalized salaries, wages and employee benefits	10,836
Repairs and maintenance	83,621
Chemicals	4,333
Operating supplies	(265)
Fuel, gas and oil	2,882
Private lateral assistance program	104,831
Total Expenditures included in the Budgetary Comparison Schedule	$ 5,561,077

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

GLOSSARY OF ACRONYMS (CONTINUED)

Fiscal Year Ended June 30, 2013

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.

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, non-profit organizations, federal, state and local governments. It also develops and grades the Uniform CPA Examination.
AOC	Annual OPEB Cost	An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan. The annual OPEB cost is the amount that must be calculated and reported as an expense.
APB	Accounting Principles Board	Accounting Principles Board (APB) is the former authoritative body of the AICPA. It was created by the AICPA in 1959 and issued pronouncements on accounting principles until 1973, when it was replaced by the Financial Accounting Standards Board (FASB).
ARB	Accounting Research Bulletin	Accounting Research Bulletins were documents issued by the Committee on Accounting Procedure between 1938 and 1959 on various accounting problems.
ARC	Annual Required Contribution	The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
ARRA	American Recovery and Reinvestment Act of 2009	An economic stimulus package enacted by the 111th United State Congress in response to the late-2000s recession.
CAF	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.
GASB	Governmental Accounting Standards Board	Currently the source of generally accepted accounting principles (GAAP) used by State and Local governments in the United States of America.
GFOA	Government Finance Officers Association of the United States and Canada	An organization with a mission to enhance and promote the professional management of governments for the public benefit.
I&I	Infiltration and Inflow	Infiltration is groundwater entering sanitary sewers through defective pipe joints and broken pipes. Inflow is water entering sanitary sewers from inappropriate connections such as roof drains, cellar drains, and yard drains.
LAIF	Local Agency Investment Fund	A fund managed by the Office of the Treasurer of the State of California which is available for local governments.

GLOSSARY OF ACRONYMS (CONTINUED)

Fiscal Year Ended June 30, 2013

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 portable water demand by promoting water reuse for agriculture, urban, and environmental uses.
NMWD	North Marin Water District	Water agency for Marin County serving areas north of Ignacio and some coastal communities.
NOO	Net OPEB Obligation	The cumulative difference, since the effective date of GASB No. 45, between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.
OPEB	Other Post-Employment Benefits	Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include post-employment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, except benefits defined as special termination benefits.

Statistical Section

Treatment plant facilities:

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, and required supplementary information says about the District's overall health.

Financial Trend Information

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

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

Revenue Capacity Information

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

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

Debt Capacity Information

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

Debt Service Coverage
Outstanding Debt per Connection

Demographic and Economic Information

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

Demographic and Economic Statistics
Principal Employers

Operating Information

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

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

TREATMENT PLANT FACILITIES:

STATEMENTS OF NET POSITION
FOR THE LAST TEN FISCAL YEARS
(in thousands)

	For Fiscal Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
		As Restated								
ASSETS										
Current Assets	$ 18,716	$ 15,335	$ 18,699	$ 10,374	$ 8,687	$ 8,013	$ 7,387	$ 9,009	$ 5,580	$ 8,419
Capital and other assets	53,390	54,609	41,266	40,485	39,921	39,773	39,999	38,478	32,971	28,556
TOTAL ASSETS	72,106	69,944	59,965	50,859	48,608	47,786	47,386	47,487	38,551	36,975
LIABILITIES										
Total current liabilities	1,877	8,399	2,695	1,777	1,688	1,052	1,234	1,189	897	610
Total noncurrent liabilities	17,007	11,556	12,138	8,099	8,490	8,867	9,234	9,584	297	361
TOTAL LIABILITIES	18,884	19,955	14,833	9,876	10,178	9,919	10,468	10,773	1,194	971
NET POSITION:										
Invested in capital assets, net of related debt	34,787	36,553	32,830	32,640	31,867	32,261	33,141	33,229	32,664	28,164
Restricted	855	2,085	5,231	592	-	2	55	171	-	-
Unrestricted	17,580	11,351	7,071	7,751	6,563	5,604	3,722	3,314	4,693	7,840
TOTAL NET POSITION	$ 53,222	$ 49,989	$ 45,132	$ 40,983	$ 38,430	$ 37,867	$ 36,918	$ 36,714	$ 37,357	$ 36,004

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE LAST TEN FISCAL YEARS
(in thousands)

	For Fiscal Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
OPERATING REVENUES:		As Restated								
Sewer use charges	$ 10,069	$ 9,233	$ 8,835	$ 7,604	$ 5,010	$ 4,735	$ 3,938	$ 3,237	$ 2,688	$ 2,224
Recycled Water Fees	37	-	-	-	-	-	-	-	-	-
Miscellaneous	34	54	32	41	60	61	40	51	70	97
TOTAL OPERATING REVENUES	10,140	9,287	8,867	7,645	5,070	4,796	3,978	3,288	2,758	2,321
OPERATING EXPENSES:										
Sewage collection and pump stations[1]	951	937	854	1,009	882	783	-	-	-	-
Sewage collection[1]	-	-	-	-	-	-	531	565	403	344
Sewage treatment	1,312	1,295	1,138	1,088	1,142	1,000	1,119	1,251	1,175	1,206
Sewage and solid waste disposal	267	147	143	85	205	146	121	180	168	219
Laboratory[1]	377	387	353	313	255	241	-	-	-	-
Laboratory and pump stations[1]	296	-	-	-	-	-	414	309	276	129
Recycled water	60	-	-	-	-	-	-	-	-	-
General and administrative	2,093	1,726	1,756	1,564	1,237	1,163	993	1,251	967	1,024
Depreciation and amortization	2,311	1,842	1,860	1,828	1,721	1,695	1,516	1,246	1,246	1,156
TOTAL OPERATING EXPENSES	7,667	6,334	6,104	5,887	5,442	5,028	4,694	4,802	4,235	4,078
INCOME (LOSS) FROM OPERATIONS	2,473	2,953	2,763	1,758	(372)	(232)	(716)	(1,514)	(1,477)	(1,757)
NONOPERATING REVENUES:										
Property taxes	983	1,005	1,009	1,054	1,031	1,176	951	756	697	675
Federal and state grants	386	1,107	75	-	-	-	-	-	-	-
Franchise fees	25	25	25	25	25	31	-	6	6	6
Intergovernmental fees	5	5	5	5	5	5	2	5	5	5
Gain on disposal, net	-	-	6	7	70	-	-	-	-	-
Interest income	46	65	93	76	153	280	361	272	122	124
TOTAL NONOPERATING REVENUES	1,445	2,207	1,213	1,167	1,284	1,492	1,314	1,039	830	810

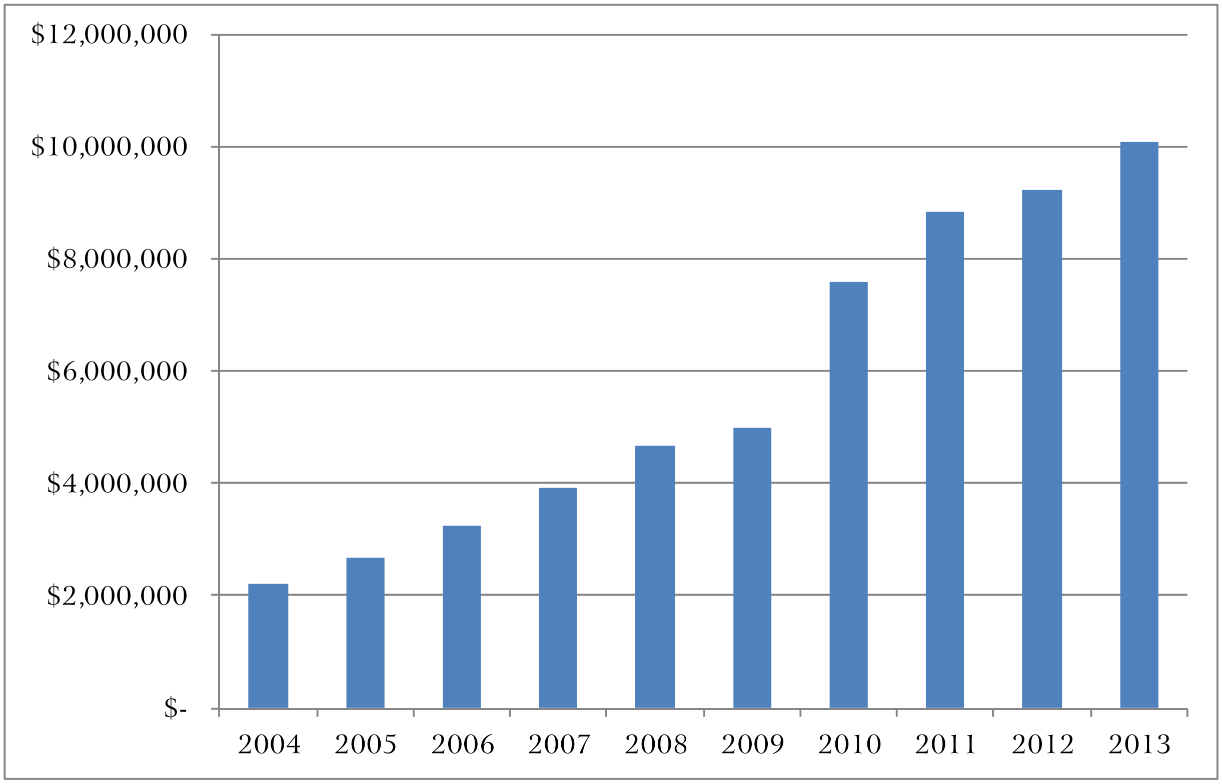
[1] In prior years, pump stations were classified with different departments.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE PAST TEN FISCAL YEARS (Continued)
(in thousands)

	For Fiscal Year Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
		As Restated								
NONOPERATING EXPENSES:										
Loss on disposals	$ 48	$ -	$ -	$ -	$ -	$ 13	$ -	$ 24	$ -	$ -
Interest expense	652	331	357	364	386	392	407	243	-	-
TOTAL NONOPERATING EXPENSES	700	331	357	364	386	405	407	267	-	-
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	3,218	4,829	3,619	2,561	526	855	191	(742)	(647)	(947)
CAPITAL CONTRIBUTIONS -										
CONNECTION FEES	15	28	530	(8)	37	44	13	99	767	1,041
PROPERTY	-	-	-	-	-	50	-	-	1,233	-
INCREASE (DECREASE) IN NET POSITION	3,233	4,857	4,149	2,553	563	949	204	(643)	1,353	94
NET POSITION - BEGINNING OF YEAR	49,989	45,132	40,983	38,430	37,867	36,918	36,714	37,357	36,004	35,910
NET POSITION - END OF YEAR	$ 53,222	$ 49,989	$ 45,132	$ 40,983	$ 38,430	$ 37,867	$ 36,918	$ 36,714	$ 37,357	$ 36,004

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.
Note: The Statements of Net Position have been restated for the implementation of GASB No. 65.

SEWER SERVICE CHARGE REVENUE FOR THE PAST TEN FISCAL YEARS

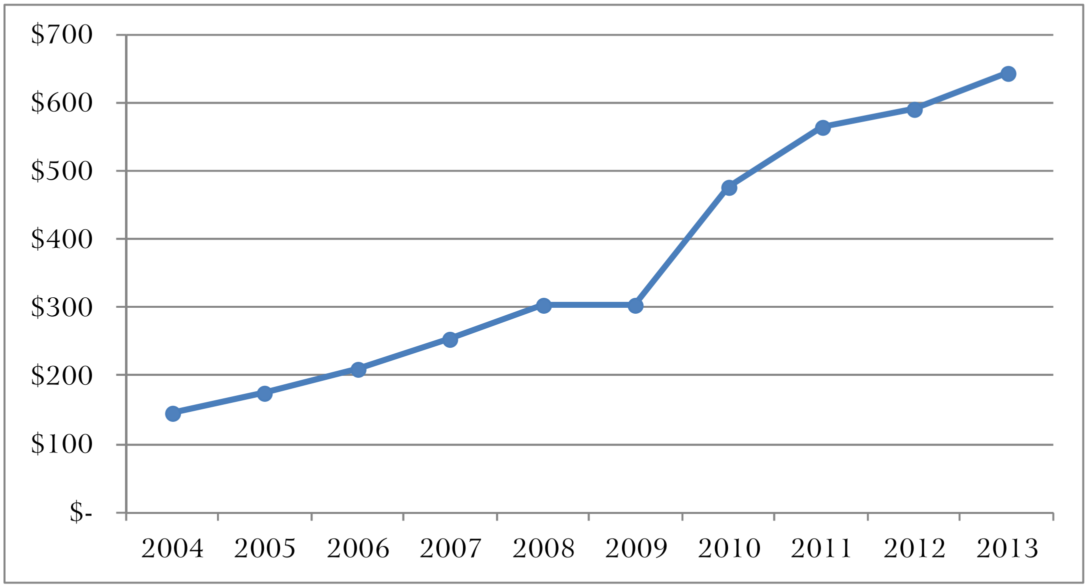


HISTORIC SEWER SERVICE REVENUES

Fiscal Year Ended June 30,	Sewer Service Revenues	Percentage Change
2004	$ 2,223,955	0.67%
2005	$ 2,687,670	20.85%
2006	$ 3,237,227	20.45%
2007	$ 3,937,800	21.64%
2008	$ 4,684,972	18.97%
2009	$ 5,006,202	6.86%
2010	$ 7,592,325	51.66%
2011	$ 8,834,558	16.36%
2012	$ 9,233,000	4.51%
2013	$ 10,069,600	9.06%

Source:
Las Gallinas Valley Sanitary District records

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
2004	$ 146	0.0%
2005	$ 176	20.5%
2006	$ 211	19.9%
2007	$ 253	19.9%
2008	$ 303	19.8%
2009	$ 303	0.0%
2010	$ 476	57.1%
2011	$ 563	18.3%
2012	$ 590	4.8%
2013	$ 642	8.8%

Source:
Las Gallinas Valley Sanitary District records

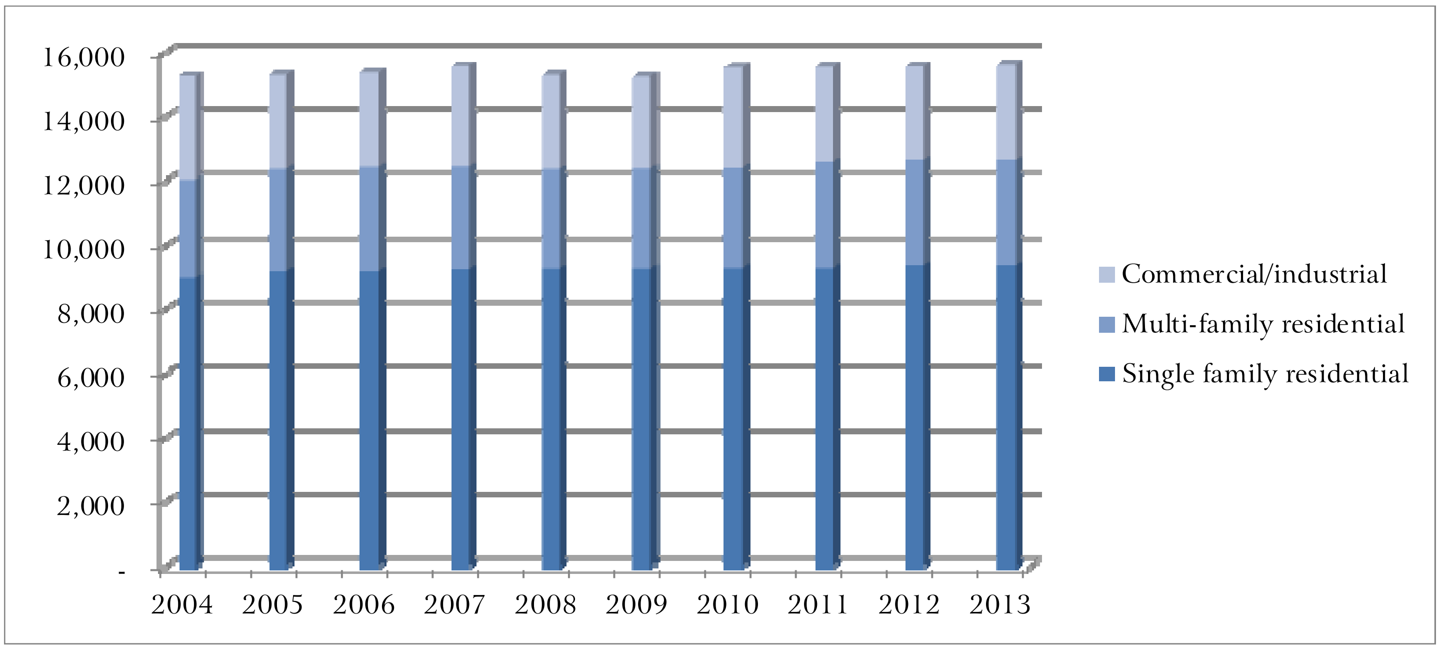
PRINCIPAL REVENUE PAYERS
FOR THE CURRENT FISCAL YEAR AND NINE YEARS PRIOR

FY 2012/13			FY 2003/04		
Payer	Total Paid	Percentage of Revenue Collected	Payer	Total Paid	Percentage of Revenue Collected
County of Marin	$ 298,103	2.96%	Contempo Marin	$ 58,400	2.63%
Contempo Marin	263,864	2.62%	Marin Valley Mobile Home Park	45,990	2.07%
Marin Valley Mobile Home Park	202,230	2.01%	Northgate Mall	45,552	2.05%
Northgate Mall	200,306	1.99%	County of Marin	41,704	1.88%
Bay Apartment Communities	164,354	1.63%	Bay Apartment Communities	37,376	1.68%
Embassy Suites	121,640	1.21%	Deer Valley Apartments	25,112	1.13%
Deer Valley Apartments	110,426	1.10%	Embassy Suites	23,652	1.06%
San Rafael Manor	103,364	1.03%	Sheraton Four Points	23,506	1.06%
Northbay Properties II	96,302	0.96%	San Rafael Manor	23,360	1.05%
Sheraton Four Points	82,178	0.82%	Northbay Properties II	21,900	0.98%
Total	$1,642,767	16.31%	Total	$ 346,552	15.58%

Source:
Las Gallinas Valley Sanitary District records

SUMMARY OF SEWER CUSTOMERS BY CLASS
FOR THE PAST TEN FISCAL YEARS

	June 30,									
Class	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Single family residential	8,989	9,138	9,147	9,209	9,223	9,228	9,237	9,240	9,325	9,325
Multi-family residential	3,048	3,213	3,260	3,209	3,123	3,134	3,142	3,323	3,302	3,298
Commercial/industrial	3,196	2,920	2,935	3,146	2,931	2,861	3,133	2,965	2,923	2,967
Total	15,233	15,271	15,342	15,564	15,277	15,223	15,512	15,528	15,550	15,590



Source:
Las Gallinas Valley Sanitary District record

DEBT SERVICE COVERAGE
FOR THE PAST EIGHT FISCAL YEARS

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

Source:
Las Gallinas Valley Sanitary District records

Notes:

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

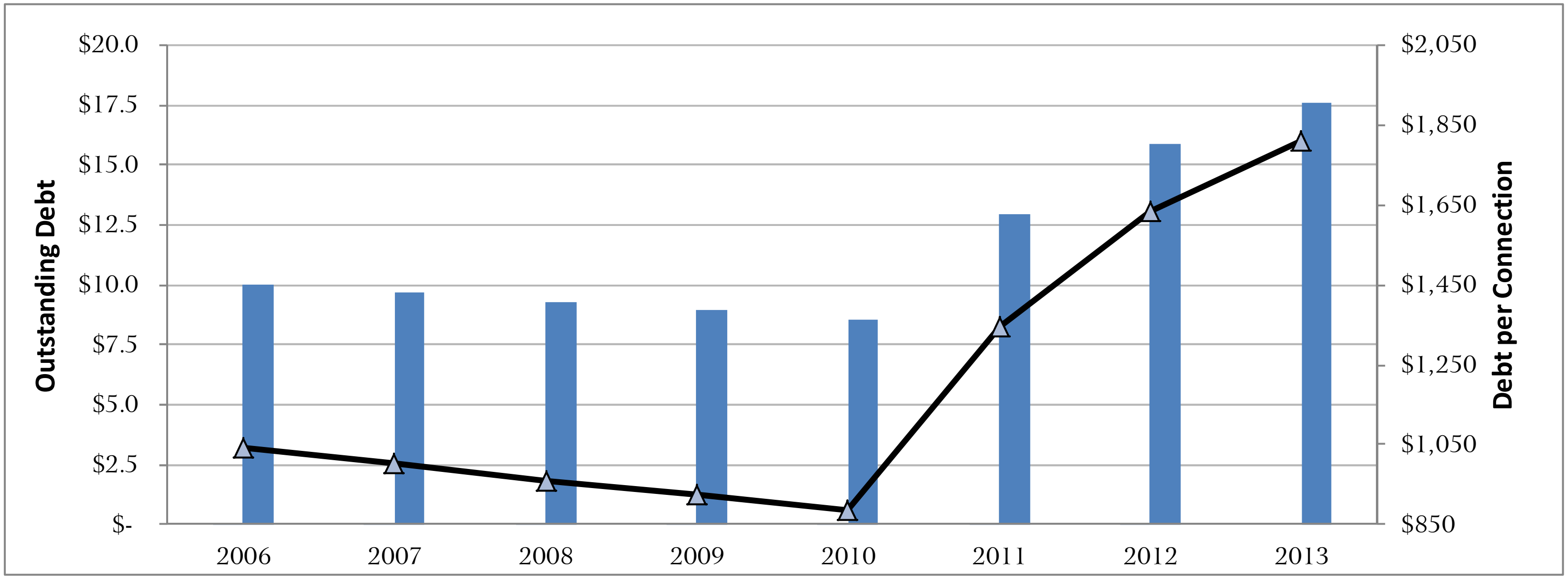
The Debt Service for June 30, 2012 includes the deposit to the debt service reserve fund for the State Revolving Fund loan which will convert to a term loan during 2012/13. The first principal and interest payment is due June 1, 2013.

[1] Gross Revenues includes all operating and non-operating revenues, except grants, and includes connection fees.

[2] Operating expense includes all operating expense and non-debt service related interest expense.

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

OUTSTANDING DEBT PER CONNECTION
FOR THE PAST EIGHT FISCAL YEARS



Fiscal Year Ended June 30,	Type of Debt: COP As Restated	Type of Debt: Notes Payable	Type of Debt: State Revolving Fund	Total Outstanding Debt	Debt per Capita [2,3]	Total Connections	Debt per Connection
2004 [1]	$ -	$ -	$ -	$ -	$ -	9,429	$ -
2005 [1]	$ -	$ -	$ -	$ -	$ -	9,519	$ -
2006	$ 9,929,094	$ -	$ -	$ 9,929,094	$ 350	9,574	$ 1,037
2007	$ 9,587,746	$ -	$ -	$ 9,587,746	$ 338	9,636	$ 995
2008	$ 9,238,398	$ -	$ -	$ 9,238,398	$ 325	9,693	$ 953
2009	$ 8,870,050	$ -	$ -	$ 8,870,050	$ 312	9,645	$ 920
2010	$ 8,493,705	$ -	$ -	$ 8,493,705	$ 292	9,650	$ 880
2011	$ 8,102,354	$ 4,600,000	$ 220,649	$ 12,923,003	$ 445	9,655	$ 1,338
2012	$ 7,696,005	$ 4,446,012	$ 3,720,274	$ 15,862,291	$ 546	9,735	$ 1,629
2013	$ 7,274,657	$ 6,144,972	$ 4,199,671	$ 17,619,300	$ 607	9,737	$ 1,810

Sources:
Las Gallinas Valley Sanitary District records

[1] Prior to November 2005 the District did not have any debt outstanding.
[2] District population of 28,201 per the 2000 Census data for zip code 94903

DEMOGRAPHIC AND ECONOMIC STATISTICS
FOR THE PAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	Population [3]	Personal Income ($000)[1]	Per Capita Personal Income ($000)[1]	School Enrollment[2]	Unemployment Rate[3]
2004	243,677	$ 18,114,794	$ 76,309	28,506	4.7%
2005	244,024	$ 19,485,341	$ 81,628	28,429	4.0%
2006	244,336	$ 21,265,962	$ 89,197	28,764	3.8%
2007	246,100	$ 22,590,008	$ 91,729	29,081	3.7%
2008	248,345	$ 23,135,609	$ 93,263	29,100	4.7%
2009	250,750	$ 22,351,575	$ 89,139	29,615	8.1%
2010	252,789	$ 20,965,394	$ 82,936	30,140	8.2%
2011	255,031	$ 21,871,623	$ 85,761	30,574	8.1%
2012	254,882	unavailable	unavailable	31,107	7.0%
2013	unavailable	unavailable	unavailable	unavailable	unavailable

Source:
County of Marin Comprehensive Annual Financial Report for FY 2011/12

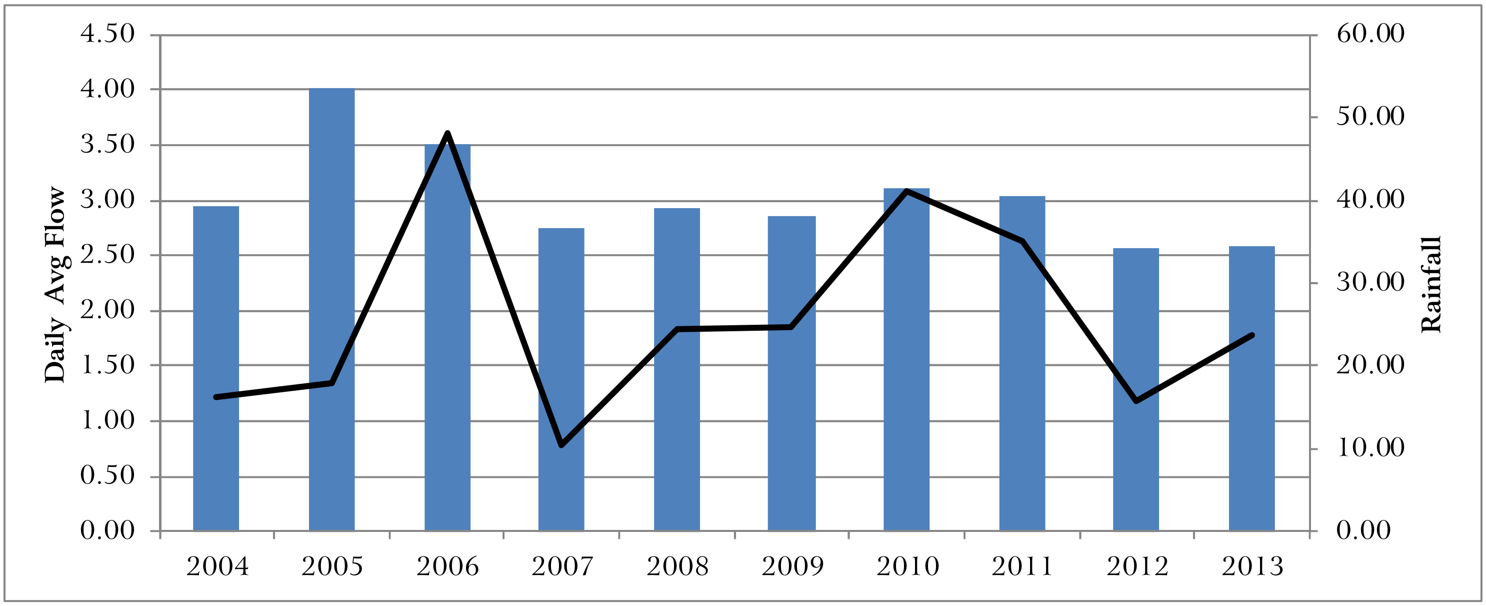
Notes:
[1] US Department of Commerce, Bureau of Economic Analysis - www.bea.gov, the most recently available data is for 2011.
[2] California Department of Education, Educational Demographics Office - www.ed-data.k12.ca.us, the most recently available data is for 2012.
[3] Employment Development Department, Labor Market Information - www.labormarketinfo.edd.ca.gov

PRINCIPAL EMPLOYERS IN MARIN COUNTY
FOR THE CURRENT FISCAL YEAR AND NINE YEARS AGO

FY 2012			FY 2003		
Employer	Employees	Percentage of Total County Employment	Employer	Employees	Percentage of Total County Employment
County of Marin	2,033	1.57%	County of Marin	2,000	1.61%
Kaiser Permanente Medical Center	1,803	1.40%	Fireman's Fund	1,700	1.37%
San Quentin State Prison	1,802	1.39%	San Quentin Prison	1,550	1.25%
Marin General Hospital	1,100	0.85%	Kaiser Permanente	1,500	1.21%
Fireman's Fund Insurance Co.	950	0.74%	Lucasfilm Ltd.	1,400	1.13%
Autodesk, Inc.	878	0.68%	Marin General Hospital	1,300	1.05%
BioMarin Pharmaceutical	871	0.67%	Autodesk, Inc.	1,100	0.89%
Safeway, Inc.	840	0.65%	Novato Unified School District	1,097	0.88%
Novato Unified School District	813	0.63%	Golden Gate Transit	900	0.72%
Comcast	620	0.48%	Safeway, Inc.	820	0.66%
Total	11,710	9.06%	Total	13,367	10.76%
Total County Employment	129,200		Total County Employment	124,200	

Sources:
Most recent available data from the County of Marin Comprehensive Annual Financial Report for FY 2011/12
Community Profile, County of Marin.
Employment Development Department, Labor Market Information - www.Labormarketinfo.edd.ca.gov

DAILY AVERAGE INFLUENT FLOW
FOR THE PAST TEN FISCAL YEARS



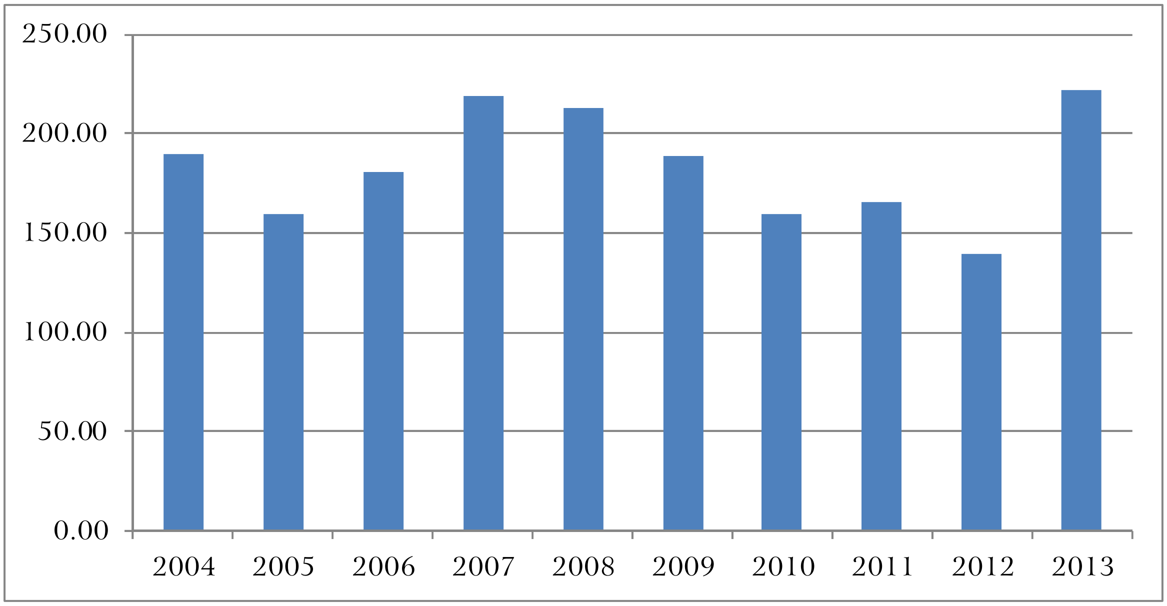
Fiscal Year Ended June 30,	Daily Average Flow (MGD) [1]	Increase (Decrease)	Rainfall [2]	Increase (Decrease)
2004	2.95	3.87%	16.25	-59.38%
2005	4.01	35.99%	18.00	10.77%
2006	3.50	-12.73%	48.00	166.67%
2007	2.74	-21.61%	10.50	-78.13%
2008	2.93	6.62%	24.50	133.33%
2009	2.85	-2.65%	24.75	1.02%
2010	3.11	9.27%	41.00	65.66%
2011	3.05	-2.17%	35.00	-14.63%
2012	2.57	-15.60%	15.75	-55.00%
2013	2.59	0.78%	23.73	50.67%

Sources:
[1] Las Gallinas Valley Sanitary District records

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

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

RECYCLED WATER PRODUCTION
FOR THE PAST TEN FISCAL YEARS



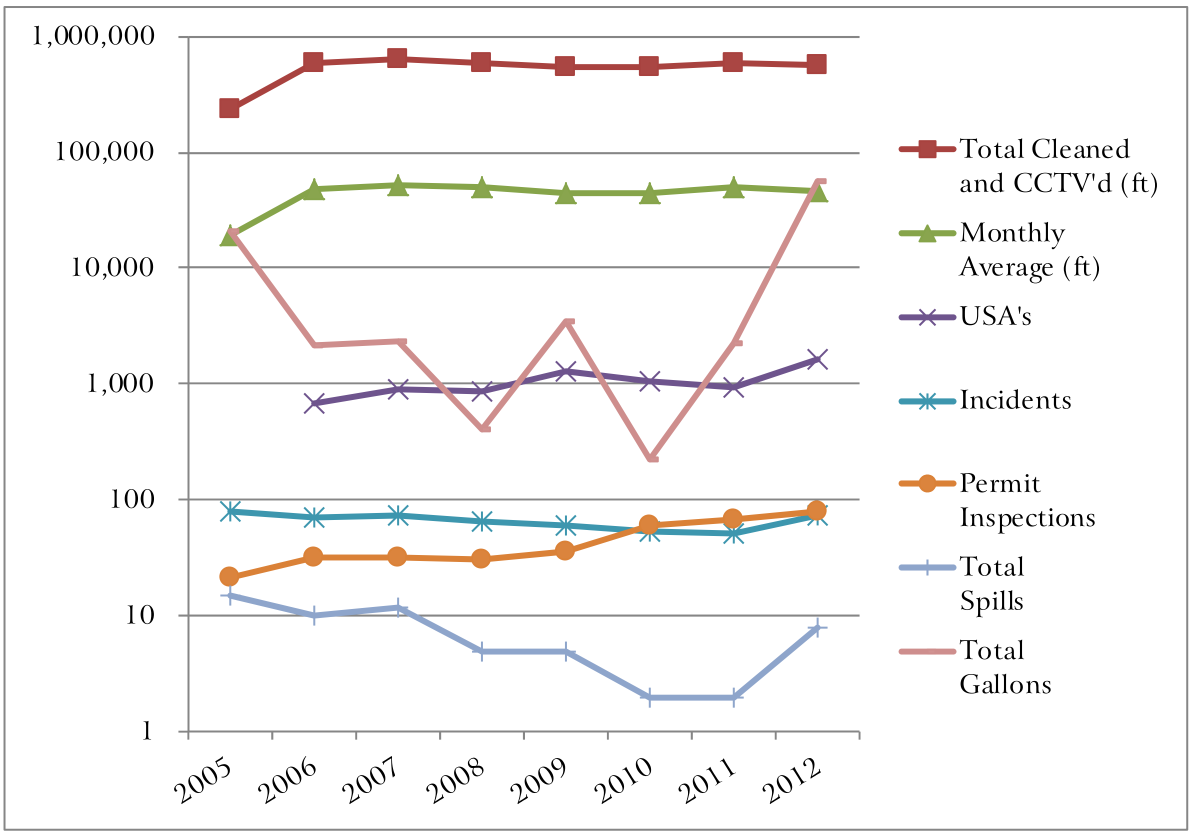
Fiscal Year Ended June 30,	Million Gallons Produced	Increase (Decrease)
2004	190.05	5.24%
2005	159.95	-15.84%
2006	180.26	12.70%
2007	219.26	21.64%
2008	213.15	-2.79%
2009	188.60	-11.52%
2010	159.48	-15.44%
2011	165.39	3.71%
2012	139.35	-15.74%
2013	221.55	58.99%

Source:
Las Gallinas Valley Sanitary District records

COLLECTION SYSTEM SERVICES
PAST EIGHT CALENDAR YEARS

Calendar Year*	Cleaned and CCTV'd (ft)	Monthly Average (ft)	USA's	Incidents	Permit Inspections	Total Spills	Total Gallons
2005	233,691	19,474	-	80	21	15	20,545
2006	587,142	48,929	693	71	32	10	2,155
2007	631,927	52,661	905	74	32	12	2,337
2008	597,230	49,769	875	65	31	5	409
2009	538,127	44,844	1,272	59	36	5	3,455
2010	535,844	44,654	1,053	54	60	2	225
2011	596,551	49,713	927	52	68	2	2,220
2012	561,940	46,828	1,645	74	81	8	56,190

* Data before 2005 is not available



Source:
Las Gallinas Valley Sanitary District records

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

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

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
2004	5	-	1.5	4	3	5	18.5
2005	5	-	1.5	5	4	5	20.5
2006	5	-	1.5	5	4	5	20.5
2007	5	-	1.5	5	4	5	20.5
2008	5	-	1.5	5	4	5	20.5
2009	5	-	2	5	4	5	21
2010	5	1	2	5	4	5	22
2011	6	2	2	5	4	5	24
2012	6	2	2	5	4	5	24
2013	6	2	2	5	4	5	24

Source:
Las Gallinas Valley Sanitary District records

Notes:
[1] 2003-2008 counts associated with paid interns

Descanso pump station construction: