NEW ISSUE - FULL BOOK-ENTRY **RATING: S&P: "AAA"**
See "RATING"

In the opinion of Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds (i) is excluded from gross income for federal income tax purposes pursuant to Section 103 the Internal Revenue Code of 1986, as amended (the "Code"), (ii) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iii) is exempt, under existing statutes, from personal income taxes imposed by the State of California. See "TAX MATTERS."

$38,365,000
MARIN PUBLIC FINANCING AUTHORITY
(LAS GALLINAS VALLEY SANITARY DISTRICT)
2017 REVENUE BONDS

Dated: Date of Delivery **Due: April 1, as shown on inside cover**

The bonds captioned above (the "Bonds") are being issued by the Marin Public Financing Authority (the "Authority") pursuant to resolutions adopted by the boards of directors of the Authority on March 23, 2017 and Las Gallinas Valley Sanitary District (the "District") on March 23, 2017; an Installment Sale Agreement dated as of April 1, 2017 (the "Installment Sale Agreement"), between the Authority, as seller, and District, as purchaser; and an Indenture of Trust dated as of April 1, 2017 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). See "THE BONDS – Authority for Issuance."

The Bonds are being issued to provide funds to (i) finance certain capital improvements to the District's wastewater system; (ii) provide a debt service reserve for the Bonds through the purchase of a debt service reserve insurance policy,; and (iii) pay the costs of issuing the Bonds. Depending on market conditions at the time of pricing, the District may obtain a reserve surety to fund the debt service reserve for the Bonds. See "FINANCING PLAN."

The Bonds will bear interest at the rates shown on the inside cover page of this Official Statement, payable semiannually on April 1 and October 1 of each year (each, an "Interest Payment Date"), commencing on October 1, 2017, and will be issued in fully registered form without coupons in denominations of $5,000 or any integral multiple of $5,000. With respect to any Interest Payment Date, the "Record Date" is the 15th calendar day of the preceding month, whether or not that day is a "Business Day" (as defined in the Indenture).

The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – General Provisions" and "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Bonds are subject to optional redemption and mandatory sinking fund redemption before maturity. See "THE BONDS – Redemption."

The Bonds are payable from and secured by a lien on "Net Revenues" (as defined in this Official Statement) of the wastewater system. The District is obligated to make payments of Net Revenues to the Authority under the Installment Sale Agreement ("Installment Payments"), and the Authority is, in turn, required under the Indenture to use the Installment Payments to pay interest on and principal of the Bonds. See "SECURITY FOR THE BONDS."

In the Installment Sale Agreement, the District is also obligated under a rate covenant to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the District during each Bond Year. See "SECURITY FOR THE BONDS – Rate Covenant." The Bonds will be secured by Net Revenues on a parity with certain outstanding obligations of the District. The District may issue or incur additional obligations and bonds on parity with or subordinate to the Installment Payments if the conditions set forth in the Installment Sale Agreement are met. See "SECURITY FOR THE BONDS – Parity Obligations; Issuance by District of Additional Debt."

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues (consisting principally of Installment Payments received from the District). Neither the full faith and credit of the Authority nor its members (including the District) is pledged for the payment of the Bonds and no tax or other source of funds other than the Revenues is pledged to pay the Bonds. The Bonds do not constitute a debt, liability or obligation of the Authority or any member of the Authority (including the District) in violation of any constitutional or statutory debt limitation or for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power. The obligation of the District to pay Installment Payments under the Installment Sale Agreement is secured solely by the Net Revenues of the District. The full faith and credit of the District is not pledged for the payment of the Installment Payments and no tax or other source of funds other than the Net Revenues is pledged to pay the Installment Payments. The Installment Payments do not constitute a debt, liability or obligation of the District in violation of any constitutional or statutory debt limitation.

BIDS FOR THE PURCHASE OF THE BONDS WILL BE RECEIVED BY THE DISTRICT AT 10:00 A.M. CALIFORNIA TIME ON APRIL 11, 2017, AS PROVIDED IN THE OFFICIAL NOTICE OF SALE INVITING BIDS DATED APRIL 5, 2017, UNLESS POSTPONED AS SET FORTH IN SUCH OFFICIAL NOTICE OF SALE. See "SALE OF THE BONDS" herein.

MATURITY SCHEDULE
(see inside cover)

This cover page contains certain information for quick reference only and is not a summary of information about the Bonds. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision relating to the purchase of any Bonds. See "BOND OWNERS' RISKS."

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Hawkins Delafield & Wood LLP, San Francisco, California, as Bond Counsel. Certain legal matters will also be passed upon for the Authority and District by Hawkins Delafield & Wood LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and the District by Byers/Richardson, Sonoma, California. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about April 28, 2017.

The date of this Official Statement is April 11, 2017.

MATURITY SCHEDULE

$21,965,000 Serial Bonds
(Base CUSIP†: 567820)

Maturity (April 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix
2018	$ 950,000	4.00%	0.870%	102.876	AX3
2019	950,000	4.00	0.97	105.764	AY1
2020	990,000	4.00	1.13	108.233	AZ8
2021	1,030,000	4.00	1.27	110.419	BA2
2022	1,070,000	4.00	1.46	112.027	BB0
2023	1,110,000	4.00	1.64	113.272	BC8
2024	1,155,000	4.00	1.81	114.192	BD6
2025	1,205,000	4.00	1.97	114.826	BE4
2026	1,250,000	4.00	2.10	115.388	BF1
2027	1,300,000	4.00	2.22	115.776	BG9
2028	1,355,000	4.00	2.35	114.529(c)	BH7
2029	1,405,000	4.00	2.55	112.642(c)	BJ3
2030	1,465,000	4.00	2.70	111.250(c)	BK0
2031	1,520,000	4.00	2.85	109.878(c)	BL8
2032	1,585,000	4.00	3.00	108.527(c)	BM6
2033	1,645,000	4.00	3.10	107.636(c)	BN4
2034	1,980,000	4.00	3.20	106.754(c)	BP9

$3,630,000 4.00% Term Bond due April 1, 2036; Yield 3.35%; Price 105.447(c) CUSIP†: 567820 BQ7

$12,770,000 4.00% Term Bond due April 1, 2042; Yield 3.57%; Price 103.564(c) CUSIP†: 567820 BR5

(c) Priced to par call on April 1, 2027.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. CUSIP data in this Official Statement is provided by CGS. CUSIP numbers are provided for convenience of reference only. Neither the District nor the Authority assumes any responsibility for the accuracy of these CUSIP data. The CUSIP number for a specific maturity is subject to being changed after delivery of the Bonds as a result of various subsequent actions, including a refunding in whole or in part or as the result of the procurement of a secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

MARIN PUBLIC FINANCING AUTHORITY
LAS GALLINAS VALLEY SANITARY DISTRICT

District Board of Directors

Russ Greenfield, *President*
Megan Clark, *Vice President*
Rabi Elias, *Director*
Craig K. Murray, *Director*
Judy Schriebman, *Director*

District Staff

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

Authority Board of Directors

Mark R. Williams
Jeffrey Kingston
Susan McGuire
Helen Lei

Municipal Advisor

Bartle Wells Associates
Berkeley, California

Bond Counsel and Disclosure Counsel

Hawkins Delafield & Wood LLP
San Francisco, California

Authority Counsel and District Counsel

Byers/Richardson
Sonoma, California

Trustee

U.S. Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part for any other purpose. This Official Statement is not a contract between any Owner of the Bonds and the Authority or the District.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District or Authority, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements." Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority, the District, or any other parties described in this Official Statement since the date hereof.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the District or the Authority to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there should be no sale of the Bonds by a person in any jurisdiction in which it is unlawful for that person to make any offer, solicitation or sale.

Limited Scope of Information. The Authority and District have obtained certain information set forth herein from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the District, or any other parties described in this Official Statement since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Installment Sale Agreement and the Indenture.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. That stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices contained on the inside cover page of this Official Statement. The public offering prices may be changed from time to time by the Underwriter.

No Registration. **The Bonds have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on an exemption contained in Section 3(a)(2) of the Securities Act. Also, they have not been registered or qualified under the securities laws of any state**.

Website Information Not Incorporated. The District maintains an Internet website, but the information that it contains is not incorporated into this Official Statement.

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OFFICIAL STATEMENT

$38,365,000
MARIN PUBLIC FINANCING AUTHORITY
(LAS GALLINAS VALLEY SANITARY DISTRICT)
2017 REVENUE BONDS

INTRODUCTION

This Official Statement, including its cover page, inside cover page and appendices, is provided to furnish information in connection with the sale by the Marin Public Financing Authority (the "Authority") of the revenue bonds captioned above (the "Bonds").

The information contained in this section is an introduction to, but not a summary of, this Official Statement. The introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including its cover page and appendices. A full review should be made of the entire Official Statement, pursuant to which the offering of the Bonds to potential investors is exclusively made.

No descriptions and summaries of documents contained in this Official Statement purport to be comprehensive or definitive, and reference is made to each document described or summarized for complete details of all its terms and conditions. Capitalized terms used but not defined in this Official Statement have the meanings given in APPENDIX A. All statements in this Official Statement are qualified in their entirety by reference to those documents.

The Authority. The Authority was created by a Joint Exercise of Powers Agreement, dated January 24, 2017, between Las Gallinas Valley Sanitary District (the "District") and Sausalito-Marin City Sanitary District. That agreement was entered into pursuant to Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. In general, the Authority has no assets and no obligation to pay debt service on the Bonds other than from Installment Payments (as defined herein) received from the District and from certain other funds held under the Indenture (as defined herein). See "THE AUTHORITY."

Authority for Issuance. The Authority is issuing the Bonds under the following:

(i) Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 (the "Bond Law");

(ii) resolutions adopted by the Authority's board of directors (the "Authority Board") on March 23, 2017 and the District's board of directors (the "District Board") on March 23, 2017; and

(iii) an Installment Sale Agreement dated as of April 1, 2017 (the "Installment Sale Agreement"), between the Authority and the District, and an Indenture of Trust dated as of April 1, 2017 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The District and Wastewater System. The District is a special district that was formed under the Sanitary District Act of 1923 (California Health and Safety Code, Section 6400 et. seq.) and was established on April 6, 1954. The District collects, treats and recycles wastewater within its jurisdictional boundaries, which includes the City of San Rafael. The District is located in Marin County, California (the "County"), and serves a population of more than 30,000 people. See "THE DISTRICT."

The District operates and maintains a wastewater collection and treatment system. The wastewater collection system is comprised of approximately 105 miles of gravity sewer lines, 6.72 miles of force mains, and 28 pump stations. There are 2,985 manholes and approximately 52.5 miles of privately owned laterals. The District's sewage treatment plant has a permitted dry weather average capacity of 2.92 million gallons per day ("mgd").

The District also has a recycled water treatment facility and a water reclamation project on 385 acres of diked bay lands located to the northeast of the treatment plant. The 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. In 2016, 94.2 million gallons were diverted to and treated at the District's water reclamation project. The recycled water treatment facility has a capacity of 0.7 mgd with redundant systems to produce up to 1.4 mgd. The District is currently planning an expansion of the facility to provide for an additional 4 mgd of filtration capacity.

The District's current five-year capital improvement plan (the "Capital Plan") was adopted in June 2015 and is updated annually for additional planned capital expenditures. The Capital Plan identifies $62 million of needed wastewater treatment plant infrastructure and operations control center improvements through fiscal year 2019-20, including $3.4 million for fiscal year 2016-17. See "THE DISTRICT – Future Capital Improvements." See "FINANCING PLAN – Estimated Sources and Uses of Funds."

Purpose of the Bonds. The Bonds are being issued to provide funds to:

(i) finance the acquisition and construction of public capital improvements to the District's facilities, consisting primarily of improvements to the wastewater treatment plant, expansion of the recycled water treatment facility, improvements to the administrative facilities of the District and other capital improvements, as further described herein;

(ii) provide a debt service reserve for the Bonds through the purchase of a debt service reserve insurance policy; and;

(iii) pay the costs of issuing the Bonds.

See "FINANCING PLAN." Depending on market conditions at the time of pricing, the District may obtain a reserve surety to fund the debt service reserve for the Bonds.

Security for the Bonds. The Bonds are payable from and secured by "Net Revenues" (as defined under "SECURITY FOR THE BONDS – Installment Payments; Application of District Revenues") of the District. The District is obligated to make payments of Net Revenues to the Authority under the Installment Sale Agreement (the "Installment Payments"), and the Authority is, in turn, required under the Indenture to use the Installment Payments to pay interest on and principal of the Bonds. See "SECURITY FOR THE BONDS – Installment Payments; Application of District Revenues."

Rate Covenant. In the Installment Sale Agreement, the District is also obligated under a rate covenant to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the District during each Bond Year as described under the heading entitled "SECURITY FOR THE BONDS – Rate Covenant."

Debt Service Reserve Policy. The Indenture establishes a Reserve Account of the Bond Fund as a debt service reserve for the Bonds, in an amount equal to the Reserve Requirement for the Bonds. The District will initially fund the Reserve Account through the deposit of a debt service reserve insurance policy (the "Reserve Policy") to be issued by Build America Mutual Assurance Company (the "Reserve Insurer") on the date of delivery of the Bonds in an amount equal to the Reserve Requirement for the Bonds. See "SECURITY FOR THE BONDS – Reserve Account."

Existing Parity Obligations of the District. The Bonds will be secured by Net Revenues on a parity with the following outstanding obligations of the District (collectively, the "Existing Parity Obligations"):

(i) Municipal Finance Corporation Loan. The District obtained a loan from Municipal Finance Corporation in April 2014, currently outstanding in the amount of $5,503,800. The proceeds of the loan were used to prepay the District's 2005 Wastewater Revenue Certificates of Participation. The loan will mature in 2025.

(ii) Bank of Marin Loans. The District obtained two loans with the Bank of Marin in June 2011 and July 2012, outstanding as of April 1, 2017 in the amounts of $3,623,634 and $1,165,890, respectively. The June 2011 loan will mature in 2031, and the July 2012 loan will mature in 2022. The proceeds of the loans were used to finance capital improvements to the District's recycled water treatment facility.

(iii) State Revolving Fund Loan. The District obtained a loan from the SWRCB in May 2010 to finance certain capital improvements to the District's facilities. The loan is currently outstanding in the amount of $3,669,387 and will mature in 2032.

The District may issue or incur additional obligations and bonds on a parity with or subordinate to the Installment Payments, provided that the conditions set forth in the Installment Sale Agreement are met. See "SECURITY FOR THE BONDS – Parity Obligations; Issuance by District of Additional Debt" and "THE DISTRICT – Outstanding District Obligations." The District will have no other outstanding debt payable on a parity or senior basis with the Bonds on their delivery date.

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption before maturity. See "THE BONDS – Redemption."

Form of Bonds; Book-Entry Only. The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company ("DTC"), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See "THE BONDS – General Provisions" and "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Risks of Investment. An investment in the Bonds involves risk. The Installment Payments are payable from and secured primarily by the Net Revenues of the District. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision relating to the purchase of any Bonds. For a discussion of some of the risks associated with the purchase of the Bonds, see "BOND OWNERS' RISKS."

Continuing Disclosure. The District will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's fiscal year (currently March 31 based on the District's fiscal year ending June 30), commencing March 31, 2018, with the report for the fiscal year ending June 30, 2017, and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended. See "CONTINUING DISCLOSURE" and "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Limited Obligations. **The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of**

its income or receipts, except the Revenues (consisting principally of Installment Payments received from the District). Neither the full faith and credit of the Authority nor its members (including the District) is pledged for the payment of the Bonds and no tax or other source of funds other than the Revenues is pledged to pay the Bonds. The Bonds do not constitute a debt, liability or obligation of the Authority or any member of the Authority (including the District) in violation of any constitutional or statutory debt limitation or for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power. The obligation of the District to pay Installment Payments under the Installment Sale Agreement is secured solely by the Net Revenues of the District. The full faith and credit of the District is not pledged for the payment of the Installment Payments and no tax or other source of funds other than the Net Revenues is pledged to pay the Installment Payments. The Installment Payments do not constitute a debt, liability or obligation of the District in violation of any constitutional or statutory debt limitation.

FINANCING PLAN

Wastewater Project

The Bonds are being issued primarily to finance capital improvements to the District's facilities consisting primarily of improvements to the wastewater treatment plant, expansion of the recycled water treatment facility, improvements to the administrative facilities of the District and other capital improvements (the "Wastewater Project"). The Wastewater Project will include needed upgrades and rehabilitation of the District's infrastructure to improve wastewater processes and to address new regulatory requirements. The District intends to use a portion of the proceeds of the Bonds to finance a portion of the capital improvements included in the District's Capital Plan. See "THE DISTRICT – Future Capital Improvements."

Under the Installment Sale Agreement, the Bonds may also be used to finance any other capital project of direct benefit to the District's wastewater system.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the Bonds are as follows:

Sources:	
Principal Amount of Bonds	$38,365,000.00
Plus Net Original Issue Premium	3,023,708.80
TOTAL ESTIMATED SOURCES	$41,388,708.80
Uses:	
Deposit to Project Fund(1)	$41,000,000.00
Costs of Issuance(2)	243,352.68
Underwriter's Discount	145,356.12
TOTAL ESTIMATED USES	$41,388,708.80

(1) To be used for the Wastewater Project. See "Wastewater Project."

(2) Represents funds to be used to pay costs of issuance, which include fees of Bond Counsel, Disclosure Counsel, Financial Advisor, Trustee, and rating agencies; premium for the Reserve Policy; printing costs; and other miscellaneous expenses.

Debt Service Schedule

Scheduled debt service on the Bonds and the Existing Parity Obligations is shown in the following table, assuming no optional redemption or prepayment occurs prior to the stated maturity of the Bonds or the Existing Parity Obligations.

Debt Service Schedule

Fiscal Year Ending June 30	Principal	Interest	Total Bonds Debt Service	Debt Service on Existing Parity Obligations	Total Debt Service
2018	$ 950,000	$1,419,505	$2,369,505	$1,551,457	$3,920,962
2019	950,000	1,496,600	2,446,600	1,543,964	3,990,564
2020	990,000	1,458,600	2,448,600	1,545,980	3,994,580
2021	1,030,000	1,419,000	2,449,000	1,552,251	4,001,251
2022	1,070,000	1,377,800	2,447,800	1,562,618	4,010,418
2023	1,110,000	1,335,000	2,445,000	1,366,037	3,811,037
2024	1,155,000	1,290,600	2,445,600	1,335,525	3,781,125
2025	1,205,000	1,244,400	2,449,400	1,343,251	3,792,651
2026	1,250,000	1,196,200	2,446,200	1,348,805	3,795,005
2027	1,300,000	1,146,200	2,446,200	618,146	3,064,346
2028	1,355,000	1,094,200	2,449,200	618,145	3,067,345
2029	1,405,000	1,040,000	2,445,000	618,146	3,063,146
2030	1,465,000	983,800	2,448,800	618,145	3,066,945
2031	1,520,000	925,200	2,445,200	618,145	3,063,345
2032	1,585,000	864,400	2,449,400	285,464	2,734,864
2033	1,645,000	801,000	2,446,000	–	2,446,000
2034	1,980,000	735,200	2,715,200	–	2,715,200
2035	1,780,000	656,000	2,436,000	–	2,436,000
2036	1,850,000	584,800	2,434,800	–	2,434,800
2037	1,925,000	510,800	2,435,800	–	2,435,800
2038	2,000,000	433,800	2,433,800	–	2,433,800
2039	2,085,000	353,800	2,438,800	–	2,438,800
2040	2,165,000	270,400	2,435,400	–	2,435,400
2041	2,250,000	183,800	2,433,800	–	2,433,800
2042	2,345,000	93,800	2,438,800	–	2,438,800
				–	
Total	$38,365,000	$22,914,905	$61,279,905	$16,526,079	$77,805,984

THE BONDS

This section provides summaries of the Bonds and certain provisions of the Indenture. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a more complete summary of the Indenture and the Installment Sale Agreement.

Authority for Issuance

The Bonds are being issued under the Bond Law and resolutions adopted by the Authority Board on March 23, 2017 and the District Board on March 23, 2017.

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of $5,000 or any integral multiple of $5,000. The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple of $5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal and interest with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM" for further information regarding DTC and the book-entry system.

Payments of Principal and Interest. Principal of the Bonds will be payable in accordance with the maturity schedule shown on the inside of the front cover of this Official Statement, subject to any optional or mandatory sinking fund redemptions prior to maturity (see "Redemption" below). Interest on the Bonds will be payable on April 1 and October 1 in each year, commencing on October 1, 2017 (each an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year of twelve 30-day months.

While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption

Optional Redemption. The Bonds maturing on or before April 1, 2027, are not subject to optional redemption prior to their respective stated maturity dates.

The Bonds maturing on or after April 1, 2028, are subject to redemption in whole, or in part at the Written Request of the Authority, among maturities on such basis as the Authority may designate (as directed by the District), at the option of the Authority, on any date on or after April 1, 2027, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Special Optional Redemption. Up to $4,300,000 in principal amount of the Bonds are subject to optional redemption in whole, or in part at the Written Request of the Authority, among maturities on such basis as the Authority may designate (as directed by the District), at the option of the Authority, on any date on or before October 31, 2018, from any available source of funds, at a redemption price equal to 102.5% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption. The District will determine amounts to be redeemed among maturities such that debt service on the Bonds remains approximately level.

Mandatory Sinking Fund Redemption. The Bonds maturing on April 1, 20__ (the "Term Bond") are also subject to redemption, by lot, on April 1 in each of the years as set forth in the following table, from deposits made for such purpose under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof may be purchased in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, that if some but not all of the Term Bonds have been redeemed through optional redemption as described above, the total amount of all future sinking fund payments with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments in integral multiples of $5,000 as determined by the Authority.

$3,630,000 Term Bond Maturing April 1, 2036

Sinking Fund Redemption Date (April 1)	**Principal Amount To Be Redeemed**
2035	$1,780,000
2036 (Maturity)	1,850,000

$12,770,000 Term Bond Maturing April 1, 2042

Sinking Fund Redemption Date (April 1)	**Principal Amount To Be Redeemed**
2037	$1,925,000
2038	2,000,000
2039	2,085,000
2040	2,165,000
2041	2,250,000
2042 (Maturity)	2,345,000

In lieu of redemption of the Term Bonds as described above, amounts on deposit in the Bond Fund (to the extent not required to be deposited by the Trustee in the Interest Account or the Principal Account during the current Bond Year) may also be used and withdrawn by the Authority, upon the Written Request of the Authority delivered to the Trustee, at any time for the purchase of such Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Authority may in its discretion determine. The par amount of any of such Term Bonds so purchased by the Authority in any 12-month period ending on April 1 in any year will be credited towards and will reduce the par amount of such Term Bonds required to be redeemed through mandatory sinking fund redemption on the next succeeding April 1.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all the Bonds of a single maturity, the Trustee will select the Bonds of that maturity to be redeemed by lot in any manner that the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee will treat each Bond as consisting of separate $5,000 portions and each such portion will be subject to redemption as if such portion were a separate bond.

Notice of Redemption. The Trustee will mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories, and will be filed electronically with the Municipal Securities Rulemaking Board or such other services providing information with respect to called bonds in accordance with then-current guidelines of the Securities and Exchange Commission.

Neither the failure to receive any redemption notice nor any defect therein will affect the sufficiency of the proceedings for redemption of the Bonds or the cessation of accrual of interest from and after the redemption date.

Rescission of Redemption Notice. The Authority has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Trustee will mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, including any applicable premium, the Bonds (or portions thereof) so called for redemption are held by the Trustee, on the redemption date designated in the redemption notice, then the Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Bonds so called for redemption will cease to accrue, those Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of those Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

SECURITY FOR THE BONDS

This section provides summaries of the security for the Bonds and certain provisions of the Installment Sale Agreement and the Indenture. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a more complete summary of the Installment Sale Agreement and the Indenture.

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and all amounts held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds and in accordance with their terms and the provisions of the Indenture.

This pledge constitutes a lien on and security interest in the Revenues and such amounts held under the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

"Revenues" means

(a) all amounts received by the Authority or the Trustee pursuant or with respect to the Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments, any late charges, and whether paid from any source, but excluding any Additional Payments), prepayments, insurance proceeds, condemnation proceeds, and

(b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

Assignment to Trustee. Under the Indenture, the Authority will irrevocably transfer, assign and set over to the Trustee, without recourse to the Authority, all of its rights in the Installment Sale Agreement (excepting only the Authority's rights to Additional Payments, release and indemnification by the District, and the payment of attorneys' fees and expenses under the Installment Sale Agreement), including but not limited to all of the Authority's rights to receive and collect all of the Installment Payments.

The Trustee is entitled to collect and receive all of the Installment Payments, and any Installment Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will immediately be paid by the Authority to the Trustee.

The Trustee is also entitled to and must, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the District under the Installment Sale Agreement.

Installment Payments; Application of District Revenues

Installment Payments. Under the Installment Sale Agreement, the District will irrevocably pledge, charge and assign all the Net Revenues (defined below) of the District and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture to the punctual payment of the Installment Payments. This pledge, charge and assignment constitutes a lien on the Net Revenues and such other moneys for the payment of the Installment Payments in accordance with the terms of the Installment Sale Agreement, on parity with the pledge and lien that secures any "Parity Obligations" (as defined under the heading entitled "Parity Obligations; Issuance by District of Additional Debt" below).

"Net Revenues" means, for any period, an amount equal to all of the Gross Revenues of the District received during such period minus the amount required to pay all Operation and Maintenance Costs of the District becoming payable during such period.

"Gross Revenues" means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the wastewater system (as further defined in Appendix A, the "Wastewater Enterprise") or otherwise arising from the Wastewater Enterprise, including but not limited to:

(a) all amounts levied by the District as a fee for connecting to the Wastewater Enterprise, as such fee is established for time to time under the applicable laws of the State of California;

(b) all income, rents, rates, fees, capital improvement fees, charges and other moneys derived from the services and facilities furnished or supplied through the facilities of the Wastewater Enterprise,

(c) ad valorem property taxes allocated to the District (but as provided below, not including ad valorem property taxes levied to pay any general obligation bond indebtedness of the District with respect to the Wastewater Enterprise),

(d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Wastewater Enterprise,

(e) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Wastewater Enterprise as permitted hereunder, and

(f) amounts transferred into the Wastewater Enterprise Fund from a Rate Stabilization Fund.

The term "Gross Revenues" does not include (i) customers' deposits or any other deposits subject to refund until such deposits have become the property of the District, (ii) the proceeds of any ad valorem property taxes levied to pay any general obligation bond indebtedness of the District with respect to the Wastewater Enterprise, (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the District, and (iv) amounts transferred from the Wastewater Enterprise Fund into the Rate Stabilization Fund during a fiscal year, but only to the extent that any amounts transferred from the Wastewater Enterprise Fund into the Rate Stabilization Fund were included in Gross Revenues for that fiscal year.

"Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Wastewater Enterprise, including but not limited to:

(a) costs of utilities, including the costs of electricity and other forms of energy supplied to the Wastewater Enterprise,

(b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order, and

(c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Wastewater Enterprise, including insurance and other costs described in the Installment Sale Agreement.

"Operation and Maintenance Costs" do not include

(i) debt service payable on obligations incurred by the District with respect to the Wastewater Enterprise, including but not limited to the Installment Payments and any Parity Obligations,

(ii) depreciation, replacement and obsolescence charges or reserves therefor, and

(iii) capital expenditures (other than as set forth in paragraph (b) above), and

(iv) amortization of intangibles or other bookkeeping entries of a similar nature, and

(v) accounting adjustments related to pension expense and other post-employment benefit plans.

Installment Payment Date. Under the Installment Sale Agreement, the District is required to make each Installment Payment with the Trustee by the fifth Business Day immediately preceding each Interest Payment Date on the Bonds.

Application of District Revenues. Under the Installment Sale Agreement, the District is required to deposit all of the Gross Revenues in the Wastewater Enterprise Fund (which has been established and is held and maintained by the District) immediately upon receipt.

The District will apply amounts in the Wastewater Enterprise Fund in accordance with the Installment Sale Agreement and any Parity Obligations Documents (for all purposes in this Official Statement, as such are defined in the Indenture), and will apply amounts on deposit in the Wastewater Enterprise Fund to pay when due the following amounts in the following order of priority:

(i) all Operation and Maintenance Costs;

(ii) the Installment Payments and all payments of principal of and interest on Parity Obligations;

(iii) to the Trustee the amount of any deficiency in the Reserve Account established for the Bonds (including without limitations amounts due to the Reserve Insurer as provider of the Reserve Policy) and in any reserve fund established for Parity Obligations, the notice of which deficiency has been given to the District in accordance with the Indenture and the related Parity Obligations Documents, respectively;

(iv) any other payments required to comply with the provisions of the Installment Sale Agreement and any Parity Obligations Documents; and

(v) any other purposes authorized under the Installment Sale Agreement.

No Preference or Priority. Under the Installment Sale Agreement, payment of the Installment Payments and the principal of and interest on Parity Obligations will be made without preference or priority among the Installment Payments and such Parity Obligations. If the amount of Net Revenues on deposit in the Wastewater Enterprise Fund is any time insufficient to enable the District to pay when due the Installment Payments and the principal of and interest on Parity Obligations, such payments will be made on a pro rata basis.

Other Uses of Gross Revenues Permitted. Under the Installment Sale Agreement the District will manage, conserve and apply the Gross Revenues on deposit in the Wastewater Enterprise Fund in such a manner that all deposits required to be made as described above will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the District may use and apply moneys in the Wastewater Enterprise Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Wastewater Enterprise, (iii) the prepayment of any other obligations of the District relating to the Wastewater Enterprise, or (iv) any other lawful purposes of the District.

Events of Default; Remedies on Default. For a description of events of default and remedies on default contained in the Installment Sale Agreement, see "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Events of Default" and "– Remedies on Default."

Allocation of Revenues by Trustee

Transfers from the Bond Fund. Under the Indenture, on or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts the following amounts in the following order of priority:

(a) <u>Deposit to Interest Account</u>. The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

(b) <u>Deposit to Principal Account</u>. The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on each April 1, including the aggregate principal amount of the Term Bonds (if any) that are subject to mandatory sinking fund redemption on that April 1.

(c) Deposit to Reserve Account. The Trustee will deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement, including, without limitation, amounts required to reimburse the Reserve Insurer for any amounts drawn under the Reserve Policy.

Application of Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it comes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Application of Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds on their respective maturity dates, and the principal amount of the Term Bonds (if any) that are subject to mandatory sinking fund redemption on such April 1.

Reserve Account

General. Under the Indenture, a Reserve Account of the Bond Fund has been established for the Bonds (the "Reserve Account"), and is held in trust by the Trustee. Depending on market conditions at the time of pricing, the District may obtain a reserve surety to fund the Reserve Account for the Bonds.

Reserve Requirement. The "Reserve Requirement" is defined in the Indenture, as of the date of calculation by the Authority or District, as the least of the following:

(i) Maximum Annual Debt Service (as defined in the Indenture) on the Bonds (excluding from the calculation Governmental Loans and Parity Obligations),

(ii) 10% of the total of the proceeds of the Bonds (excluding from the calculation Governmental Loans and Parity Obligations), and

(iii) 125% of average Annual Debt Service on the Bonds (excluding from the calculation Governmental Loans and Parity Obligations).

As of the Closing Date, the Reserve Requirement will be $2,715,200.00.

Application of Reserve Account Generally. All amounts in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of

(i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory sinking fund redemption, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account are not sufficient for such purpose, and

(ii) making the final payments of principal of and interest on the Bonds.

If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, the Trustee will apply such amounts first, to the payment of interest and second, to the payment of principal. On the date on which all Bonds are retired under the Indenture or provision is made therefor under the Indenture, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account will be withdrawn by the Trustee and paid to the District as a refund of overpaid Installment Payments.

The Reserve Policy. So long as the Reserve Policy is in force and effect, the Trustee will draw on the Reserve Policy in accordance with the provisions of such Reserve Policy; otherwise, the Trustee will apply moneys in the Reserve Account in accordance with the Indenture. The Trustee will draw on the Reserve Policy in order to make payments of principal of and interest on the Bonds when due in the event such amounts are Due for Payment and a Nonpayment has occurred (as such terms are defined in the Reserve Policy).

The Reserve Insurer has made a commitment to issue a Reserve Policy for the Reserve Account, effective as of the date of delivery of the Bonds. Under the terms of the Reserve Policy, the Reserve Insurer will, subject to the Reserve Account Policy Limit described below, unconditionally and irrevocably guarantee to pay that portion of the scheduled principal of and interest on the Bonds that becomes due for payment but shall be unpaid by reason of nonpayment by the Authority (the "Insured Payments").

The Reserve Insurer will pay each portion of an Insured Payment that is due for payment and unpaid by reason of nonpayment by the Authority to the Trustee, as beneficiary of the Reserve Policy on behalf of the holders of the Bonds on the later to occur of (i) the Business Day on which such principal or interest becomes due for payment and (ii) the first Business Day following the Business Day on which the Reserve Insurer receives a Notice of Nonpayment in a form reasonably satisfactory to the Reserve Insurer.

No payment will be made under the Reserve Policy in excess of the lesser of $2,715,200 and the Reserve Requirement established for the Bonds (the "Reserve Account Policy Limit"). Pursuant to the terms of the Reserve Policy, the amount available at any particular time to be paid to the Trustee will automatically be reduced by and to the extent of any payment made by the Reserve Insurer under the Reserve Policy, provided that, the amount available under the Reserve Policy will be reinstated in full or in part, but only up to the Reserve Account Policy Limit, to the extent of the reimbursement of such payment (after taking into account the payment of interest and expenses) by the Authority to the Reserve Insurer.

The Reserve Policy does not insure against nonpayment caused by the insolvency or negligence of the Trustee. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE OF TRUST – Funds and Accounts; Flow of Funds – *Reserve Account*" and "– Provisions Relating to Reserve Insurer and Reserve Policy" for more information relating to the Reserve Account and the Reserve Policy.

Installment Payments as Special Obligation of the District; Obligations Absolute

Special Limited Obligation. The District's obligation to pay the Installment Payments and any other amounts coming due and payable under the Installment Sale Agreement is a special obligation of the District limited solely to the Net Revenues of the District. Under no circumstances is the District required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the Installment Payments and such other amounts. No other funds or property of the District are liable for the payment of the Installment Payments and any other amounts coming due and payable under the Installment Sale Agreement.

Absolute and Unconditional Obligations. The obligations of the District to pay the Installment Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Authority or the Trustee of any obligation to the District or otherwise with respect to the Wastewater Enterprise, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Authority or the Trustee.

No Suspension of Payments or Termination of Installment Sale Agreement. Until all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable under the Installment Sale Agreement are fully paid or prepaid, the District (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Wastewater Enterprise, sale of the Wastewater Enterprise, the taking by eminent domain of title to or temporary use of any component of the Wastewater Enterprise, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State of California or any political subdivision of either thereof, or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or the Installment Sale Agreement.

Rate Stabilization Fund

The District has the right at any time to establish a fund to be held by it and administered in accordance with the Indenture, to be known as the "Rate Stabilization Fund," for the purpose of stabilizing the rates and charges imposed by the District. This Rate Stabilization Fund under the Indenture is separate and apart from the Rate Stabilization Reserve described under "THE DISTRICT – Projected Operating Results and Debt Service Coverage" herein.

From time to time the District may deposit amounts in the Rate Stabilization Fund from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien that secures the Bonds and any Parity Obligations, as the District may determine.

The District may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Wastewater Enterprise Fund in any Fiscal Year for the purpose of paying Annual Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from a Rate Stabilization Fund to the Wastewater Enterprise Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and will be applied for the purposes of the Wastewater Enterprise Fund.

Amounts on deposit in a Rate Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Debt. All interest or other earnings on deposits in a Rate Stabilization Fund will be withdrawn therefrom at least annually and accounted for as Gross Revenues in the Wastewater Enterprise Fund. The District has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the District. The District does not currently maintain any funds in a Rate Stabilization Fund.

Rate Covenant

Covenant Regarding Net Revenues. Under the Installment Sale Agreement, the District is also required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Enterprise during each Fiscal Year that are sufficient, after making allowances for contingencies and errors in estimates, to yield Net Revenues that are at least equal to 125% of the amount described in the clauses (ii) and (iii) under "– Covenant Regarding Gross Revenues" for such Fiscal Year.

Covenant Regarding Gross Revenues. Under the Installment Sale Agreement, the District is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year.

(ii) All Installment Payments and all payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Installment Payments or the principal of and interest on such Parity Obligations are payable from the proceeds of the Bonds or such Parity Obligations, as applicable, or from any source of legally available funds of the District (other than the Gross Revenues of the Wastewater Enterprise) that have been deposited with the Trustee for such purpose before the beginning of that Fiscal Year.

(iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement, including, without limitation, any amounts due to the Reserve Insurer, as provider of the Reserve Policy.

(iv) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year, except to the extent other sources of funds are reserved or encumbered therefore.

Parity Obligations; Issuance by District of Additional Debt

Existing Parity Obligations. The Bonds will be secured by Net Revenues on a parity with the District's Existing Parity Obligations. See "INTRODUCTION – Existing Parity Obligations of the District" and "THE DISTRICT – Outstanding District Obligations."

Superior and Subordinate Obligations. Under the Installment Sale Agreement, the District may not issue or incur any additional bonds or other obligations during the Term of the Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments.

Under the Installment Sale Agreement, the District may issue, enter into or incur:

(a) Parity Obligations, in accordance with the conditions described below, or

(b) Obligations that are either unsecured or which are secured by an interest in the Net Revenues that is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement.

Conditions for Issuance of Parity Obligations. Under the Installment Sale Agreement, except for obligations incurred to prepay or discharge the Installment Payments or any Parity Obligations, the District may not issue or incur any Parity Obligations during the Term of the Installment Sale Agreement unless all the following conditions are satisfied:

(a) No Event of Default has occurred and is continuing.

(b) The amount of Net Revenues, excluding connection fees and transfers from the Rate Stabilization Fund, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available or for any more recent consecutive 12-month period selected by the District, in either case verified by an Accountant or a Financial Consultant or shown in the audited financial statements of the District, plus at the option of the District any Additional Revenues, are at least equal to 125% of the amount of Maximum Annual Debt Service coming due and payable in the current or any future Bond Year with respect to the Bonds and all Parity Debt then outstanding (including the Parity Debt then proposed to be issued).

If the Parity Obligations are being issued solely to refund outstanding Parity Obligations, and the resulting Annual Debt Service for each Bond Year is less than the Annual Debt Service for each Bond Year prior to the issuance of the refunding Parity Obligations, the District need not comply with the provisions described in paragraphs (a) and (b) above.

The Parity Obligations may be, but are not required to be, in the form of Supplemental Agreements, and may, but are not required to, secure the payment of debt service on Bonds.

"Parity Obligations" means

(i) the District's obligation to pay debt service on the Existing Parity Obligations,

(ii) any bonds, notes, leases, installment sale agreements or other obligations of the District payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments, entered into or issued under and in accordance with the Installment Sale Agreement, and

(iii) any other Governmental Loan that is treated as a Parity Obligation under the Installment Sale Agreement.

"Additional Revenues" means

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12-month period selected by the District, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the District.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater Enterprise which has been adopted prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12-month period selected by the District, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of an Independent Accountant or Fiscal Consultant employed by the District.

Conditions for Entering Into Governmental Loans.

(a) The District may borrow money from a Governmental Agency and incur a Governmental Loan to finance improvements to the Wastewater Enterprise. A Governmental Loan may be treated as a Parity Obligation for purposes of the Installment Sale Agreement, so long as the District complies with subsections (a) and (b) under the conditions for issuance of Parity Obligations described above before incurring the Governmental Loan.

(b) (i) A Governmental Agency will not be entitled to be paid from monies then on hand in the Reserve Account (or amounts available to be drawn under a reserve policy, if any) if the Net Revenues are ever insufficient to make a timely payment on any Governmental Loan, and (ii) the District may not make a payment on any Governmental Loan (except as expressly described in subsection (c) below) to the extent it would have the effect of causing the District to fail to make a timely payment on the Bonds.

(c) If Net Revenues are ever insufficient to pay the full amount of Installment Payments and other Parity Obligations then Outstanding and such Governmental Loan, the District will make payments on the Installment Payments and other Parity Obligations and such Governmental Loan on a pro rata basis.

"***Governmental Agency***." The term "Governmental Loan" is defined in the Indenture as any loan made by a "Governmental Agency" (defined as the State, and the United States of America, acting through any of its agencies, to the extent that the State or such agency has loaned money to the District for the Wastewater Enterprise) to the District which is secured by a pledge of Net Revenues and incurred by the District to finance improvements to the Wastewater Enterprise pursuant to the Installment Sale Agreement.

Proceeds of Insurance, Sale or Condemnation Awards

Insurance. Under the Installment Sale Agreement, the District must at all times maintain with responsible insurers all such insurance on the Wastewater Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater Enterprise. The District will apply any amounts collected from insurance against accident to or destruction of any portion of the Wastewater Enterprise to repair or rebuild such damaged or destroyed portion of the Wastewater Enterprise.

The District must also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Authority, the Trustee and the Owners of the Bonds.

Any policy of insurance required under this provision may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

Sale of the Wastewater Enterprise. Except as described below, the District will covenant in the Installment Sale Agreement that the Wastewater Enterprise will not be encumbered, sold, leased, pledged, have any charge placed thereon, or otherwise be disposed of, as a whole or substantially as a whole, if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the Installment Payments or the principal of or interest on any Parity Obligations, or would materially adversely affect its ability to comply with the terms of the Installment Sale Agreement or any Parity Obligations Documents.

The District may not enter into any agreement that impairs the operation of the Wastewater Enterprise or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments or any Parity Obligations, or which otherwise would impair the rights of the Bond Owners or the Trustee with respect to the Net Revenues.

If any substantial part of the Wastewater Enterprise is sold, the payment therefor must be used for the acquisition or construction of improvements to the Wastewater Enterprise.

Condemnation Awards. Any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, must be used for the acquisition or construction of improvements to the Wastewater Enterprise.

THE DISTRICT

General

The District is a special district that was formed under the Sanitary District Act of 1923 (California Health and Safety Code, Section 6400 et. seq.). It was established in April 1954. The District provides wastewater collection, treatment and recycling services to over 30,000 customers in the northern San Rafael area of Marin County, California.

The District is located in the northeast portion of Marin County and north of the City of San Francisco. The District serves an area of approximately 16 square miles in the northern part of the City of San Rafael and surrounding unincorporated areas in Marin County, including the communities of Lucas Valley, Marinwood, Santa Venetia and Terra Linda (the "Service Area"). The District's boundaries are marked by 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 is primarily residential and built out. As of July 1, 2016, the District was comprised of 97% residential parcels (9,404) and 3% commercial/industrial parcels (291); the revenue generated was approximately 78% from residential users and 22% from commercial/industrial users. For certain background and demographic information regarding the region in and around the District's service area, see "APPENDIX D – GENERAL INFORMATION ABOUT THE CITY OF SAN RAFAEL AND THE COUNTY OF MARIN."

District Governance and Management

Board of Directors. The District is governed by an elected five-member Board of Directors (the "District Board"), and the District's operations are approved by the District Board.

District elections are held in November on odd-numbered years. Elections are consolidated with the Marin County Uniform District Election. Each District Board member is elected at large, for a four-year term. Terms are staggered, with two terms expiring one year, and three terms expiring two years later. Prior to 2016, the terms of the Board members were set to expire in 2017 and 2019. However, due to a change in the election law that went into effect in 2015, the Board in March 2017, after evaluating the financial ramifications of maintaining the scheduled election date of 2017, adopted a plan to move the elections to coincide with the even year election cycle beginning in 2018. This resulted in adding an additional year to each Board member's current term. Candidates for the District Board must be registered voters and must reside within the boundaries of the District. The District Board routinely meets on the second and fourth Thursday of every month.

The current members of the District Board, the expiration dates of their terms of office and brief biographies are set forth below.

Board Member	Expiration of Term
Russ Greenfield, *President*	2018
Megan Clark, *Vice President*	2018
Rabi Elias, *Director*	2018
Craig K. Murray, *Director*	2020
Judy Schriebman, *Director*	2020

Russ Greenfield. Mr. Greenfield was first elected to the District Board in 2002 and last re-elected in 2013. Mr. Greenfield is a graduate of the College of Marin and served as Inspector for Ross Valley Water District for 34 years until his retirement in 2004. Mr. Greenfield is the President of the Santa Venetia Neighborhood Association, is an advisory board member of Flood Zone 7 County of Marin, and is a member of the Gallinas Watershed Council. Mr. Greenfield has been a resident of San Rafael for 42 years.

Rabi Elias. Mr. Elias was first appointed to the District Board in 2013 and was elected to the District Board in the same year. Mr. Elias graduated from the American University of Beirut with a Bachelor's Degree in Civil Engineering. Mr. Elias worked for 10 years for the New York City Public Works as a junior and assistant civil engineer and as a resident engineer in the construction of public libraries, precincts and courthouses. He also worked for the Town of San Anselmo as an assistant public works director for four years, then later as a public works director for seven years. He also worked for the Town of Ross as a public works director for 14 years. Mr. Ross has been a resident of San Rafael for 27 years.

Megan Clark. Ms. Clark was first elected to the District Board in 2001 and was last re-elected in 2013. Ms. Clark graduated from the College of Marin with a degree in Computer Programming, and also attended The Wharton School of Finance at the University of Pennsylvania. Ms. Clark worked as a computer programmer for the City and County of San Francisco and the County of Marin. While working for the County of Marin, she joined M.A.P.E. as a member of the union's executive board and worked as a Democratic precinct captain. Ms. Clark spearheads the planning for climate change and sea level rise and their impacts on the District's facilities located on the edge of San Pablo Bay.

Craig K. Murray. Mr. Murray was appointed to the District Board in 2007 and was last re-elected in 2015. Mr. Murray grew up in Marin County and attended the College of Marin. Mr. Murray has an undergraduate degree from UC Berkeley6 and a Masters in Public Policy and Administration from California State University – Long Beach. Mr. Murray currently works as a Development Project Manager in the Engineering Department for the City of Richmond, and serves Marin County as an elected Special District Commissioner on LAFCO.

Judy Schriebman. Ms. Schriebman was first elected to the District Board in 2007 and last re-elected in 2015. Ms. Schriebman has a degree in Zoology from UC Berkeley. She is a founding member and the Secretary of the Gallinas Watershed Council and is active in Miller Creek Watershed Stewards. Ms. Schriebman is also a co-author of two books on homeopathy for practitioners. Ms. Schriebman grew up in San Rafael.

Management. The General Manager, who is appointed by the District Board, oversees the District's staff and reports directly to the District Board. Brief biographies of staff responsible for management of the District are provided below:

Mark R. Williams, General Manager. Mr. Williams has served as the General Manager of the District since 2006. Prior to being promoted to General Manager, he was the Plant Superintendent for over three years. He graduated from Hartnell College with a General Education Associates in Arts degree, Water Technology Associates of Science degree and Water Technology / Wastewater Management Associates of Science degree. He holds a State of California Grade V Treatment Plant license and a Grade II Water Treatment Operator license. He worked at Monterey Regional Water Pollution Control Agency for over 14 years. At Monterey Regional Water Pollution Control Agency he was assigned to oversee the operation of the treatment processes. Special assignments included project management for the installation of a biosolids belt press, management of the treatment plants cogeneration department and startup and management of the 22 million per day title 22 recycled water plant which supplied recycled water to Salinas Valley vegetable growers. At the District he has been involved in numerous capital project upgrades including the installation of the District's 490-kilowatt and 81-kilowatt photovoltaic power generation systems and the 700,000 gallon per day title 22membrane filtration / ultra violet disinfection recycled water plant.

Michael P. Cortez, P.E., District Engineer. Mr. Cortez has served as the District Engineer at the District since 2010. Prior to working at the District, he worked at Oro Loma Sanitary District (OLSD) for 17 years, the last 10 years of which as the District Engineer. He is a California Registered Professional Civil Engineer with a bachelor's and master's degrees in civil engineering. As District Engineer he is responsible for the construction of various capital improvement projects in the collection system and treatment plant. Notable projects include the 20-mgd Capacity Restoration Project at OLSD and Recycled Water Facility at the District.

His experience also includes working as Principal Engineer for private consulting firms for seven years. As Principal Engineer he was the Engineer-of-Record for various projects for the San Francisco Public Utilities Commission, BART, San Francisco International Airport, and cities of Oakland and San Francisco. In addition to 28 years of increasingly responsible engineering experience, he also served in the military during the 1991 Persian Gulf War.

Mel Liebmann, Plant Manager. Mr. Liebmann is serves as Plant Manager for the District and has been an employee of the District since 2013. Prior to working for the District, Mr. Liebmann has held positions as Water and Wastewater Operator, Electrical/Instrumentation Technician and Stationary Engineer. He also served as a Radioman in the U.S. Coast Guard while stationed in San Juan Puerto Rico before beginning his career in the Water and Wastewater field in 1995. Mr. Liebmann's core responsibilities as Plant Manager are to ensure that the District's wastewater treatment plant complies with all State and Federal Regulatory requirements for wastewater effluent discharge, recycled water production and atmospheric emissions. He holds a Bachelor's of Science Degree in Technical Management from DeVry University and an Associates of Science Degree in Electronics Engineering Technology. Mr. Liebmann is a State of California Certified Wastewater Treatment Plant Operator Grade V and also holds certifications with California Water Environmental Association in Electrical/Instrumentation Technologist Grade IV, Mechanical Technologist Grade II and a Water Science Wastewater Specialty Certificate from Ventura College, CA.

Susan McGuire, CPA, Administrative Services Manager. Ms. McGuire has served as the Administrative Services Manager at the District since 2008. Prior to working at the District, she had 20 years of experience in public accounting. She was an owner in a public accounting firm located in San Rafael conducting audits of public and private enterprises. She is a Certified Public Accountant with a bachelor's degree in accounting from the University of San Francisco and a master's in taxation from Golden Gate University. During her tenure at the District, she administered the accounting and reporting for an American Recovery and Reinvestment Act grant, a WaterSmart grant, and a California Proposition 84 Integrated Water Management grant for the District's recycled water treatment plant project. She also administered the accounting and reporting for a State Revolving Fund loan for the District's primary clarification system improvement project with the State Water Control Board.

Greg Pease, Collection System/Safety Manager. Mr. Pease first started working for the District in 2004 as a Collection System Operator and is currently serving as Collection System/Safety Manager for the District. Mr. Pease served as a Collection System Operator for approximately three years before accepting a job with Central Marin Sanitation Agency as a Source Control Inspector, where he remained until October of 2014 when he returned to the District in his current position.

Wastewater Facilities

The District operates and maintains the wastewater system, and provides the following services to its Service Area:

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.

Sewage Treatment. The District operates a sewage treatment plant with a permitted dry weather average capacity of 2.92 mgd. The District treated an average daily flow of 2.44 mgd of sewage per day in 2016.

The District's treatment plant uses bar screens, aerated chambers, primary clarification trickling filters and deep bed filters to provide treatment. Treated effluent is disposed of through discharge pipes into Miller Creek which flows to San Pablo Bay during the discharge season of November through May. The discharge coincides with wet weather, when treated effluent can be diluted by higher levels of bay water due to rain.

All readily settable solids, screenings and grit are removed from the wastewater stream, and screenings and grit is then disposed of in a landfill. The solids are treated by gravity thickening and anaerobic digestion, and then pumped to one or more of three storage ponds, where they are typically retained for one year prior to surface disposal. The treatment plant produced 420 dry tons of biosolids in 2016.

Reuse of Treated Wastewater and MMWD Agreement. The District has a recycled water treatment facility and a water reclamation project on 385 acres of diked bay lands located to the northeast of the treatment plant. The 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. In 2016, 94.2 million gallons were diverted to the District's water reclamation project. The water treatment facility has a capacity of 0.7 mgd with redundant systems to produce up to 1.4 mgd. The District is currently planning an expansion of the facility to provide for an additional 4 mgd of capacity.

The District delivers effluent to Marin Municipal Water District ("MMWD"), and the MMWD further treats the effluent at a leased facility located on the District's property, 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. In 2016, the District delivered 164.9 million gallons to MMWD.

The District entered into the Agreement for Purchase and Sale of Recycled Water with MMWD in March 2017 (the "MMWD Agreement"). The MMWD Agreement provides for the District to expand the existing recycled water treatment facility to provide MMWD with recycled water that it can distribute without significant additional treatment. MMWD will buy into the existing facility through an initial cash payment of $333,563 and reimburse the District a proportionate share of the District's debt from constructing the facility and share in the cost of the construction of the expanded facility.

The facility takes the plant effluent not utilized by MMWD and treats it to recycled water standards so that it can be distributed by North Marin Water District ("NMWD"), pursuant to a contract entered into by the District and NMWD in 2011. Under the contract, the District agreed to annually produce at least 204 acre feet of recycled water for NMWD for 20 years. NMWD will reimburse the District for its operating and maintenance costs associated with producing the recycled water. The District produced 43.9 million gallons for NMWD in 2016.

Lab. 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 SWRCB. The Central Marin Sanitation Agency ("CMSA") and lab staff manage the District's source control program. This includes a Fats Oils and Grease ("FOG") Program that is designed to prevent customers from discharging substances that are harmful to the sewage treatment process or that may cause clogs to sewer mains and pump stations.

Solid Waste (Garbage) Services and Recycling. The District manages the refuse hauling service for the unincorporated areas in the District. The franchise was awarded to Marin Sanitary Service which provides curbside recycling, solid waste, yard waste and food scraps hauling, and safe hazardous waste disposal services. The District's revenues from its solid waste services and recycling activities are not part of Net Revenues and are not pledged to pay debt service on the Bonds.

For additional information on the condition of the District's facilities, see "THE DISTRICT – Future Capital Improvements."

Customer Base

The District's Service Area is comprised primarily of residential units with commercial and some light industrial areas. The Service Area 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.

Summary of Sewer Customers by Class.

Residential. The District charges residential rates which are designed to cover the actual cost of service. Each residential unit is charged the basic flat rate. This applies to single-family homes, apartments, condominiums and other multi-family dwellings, and mobile homes. Apartments are charged 90% of the single family rate. See "Wastewater Rates and Charges."

Non-Residential. Non-residential rates are structured individually for each type of non-residential use. To determine an estimated cost to collect and treat wastewater from a non-residential customer, the District calculates the cost based on water usage and a strength factor, which is an average cost to treat wastewater from a particular type of non-residential customer. Thus, a low water user would pay less than a high water user in the same category of non-residential customers with the same strength factor. And, for two non-residential customers with the same water use, the one with the higher strength factor would pay more.

For calculating the non-residential rate, the District obtains an average of winter and summer water usage for each non-residential customer from the Marin Municipal Water District. The District excludes water used solely for irrigation and recycled water that does not enter the District's sewer system, *i.e.*, water not used for toilet flushing, laundry, commercial car washes, etc., in its calculation. The average water usage is then converted into sanitary units. Each 16 hundred cubic feet (11,968 gallons) of water is equal to one sanitary unit.

A strength factor is applied to each non-residential customer based on the type of use. Users such as office buildings, retail, churches, halls, public agencies, laundromats, service stations, medical offices, barber and beauty shops, car washes, convalescent hospitals, hospitals and the like are given a strength factor of 1.0. High strength users, such as restaurants/cafes, bakeries, mortuaries, hotels with restaurants, and markets with disposals, have a strength factors ranging from 2.4 to 3.2. Mixed uses with low and high strengths are given a 2.0 strength factor. The strength factor is not applied to residences or schools.

The non-residential rate is determined by multiplying the number of sanitary units by the strength factor, and by the basic residential rate.

Table 1 below shows, for the District's Service Area, the historical number of sewer customers by class for the past five fiscal years.

Table 1
Summary of Sewer Customers by Class
Fiscal Years 2011-12 through 2015-16

Customer classification	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2015-16 % of Total**
Residential						
Single-family	9,325	9,325	9,329	9,337	9,332	59.12%
Multi-family	3,302	3,298	3,300	3,060	3,053	19.34
Subtotal	12,627	12,623	12,629	12,397	12,385	78.46
Commercial/industrial	2,923	2,967	2,986	3,450	3,401	21.54
Total	15,550	15,590	15,615	15,847	15,786	100.00%

Source: Las Gallinas Valley Sanitary District.

Historical Revenues. The following table shows wastewater billings by type of customer for active wastewater accounts of the District for the past five fiscal years.

Table 2
Billings by Customer Class
Fiscal Years 2011-12 through 2015-16

Customer classification	2011-12	2012-13	2013-14	2014-15	2015-16	2015-16 % of Total
Residential[(1)]						
Single-family	$5,559,466	$6,046,686	$6,089,374	$6,098,440	$6,909,235	59.32%
Multi-family	1,948,386	2,117,520	2,135,304	1,980,024	2,241,106	19.24
Subtotal	7,507,852	8,164,206	8,224,678	8,078,464	9,150,341	78.56
Non-residential[(1)]	$1,725,148	$1,905,394	$1,932,522	$2,232,736	$2,496,916	21.44%
Total	$9,233,000	$10,069,600	$10,157,200	$10,311,200	$11,647,257	100.00%

(1) The majority of the District's revenue is collected by the County assessor via the property tax roll for the specified fiscal years. All rates and charges are collected on the tax roll. See "Billing Practices and Collection."
Source: Las Gallinas Valley Sanitary District.

Largest Users. The following table shows the largest users of the District based on billings for fiscal year 2015-16.

Table 3
Largest Users
Fiscal Year 2015-16

Customer	Type of Property	Fiscal Year 2015-16 Billings[(1)]	Percent of Total Wastewater Billings
Contempo Marin	Housing Community	$303,949	2.61%
County of Marin	Government	293,867	2.52
Marin Valley Mobile Home Park	Mobile Home Park	231,210	1.99
Embassy Suites	Hotel	223,723	1.92
Northgate Mall	Commercial	207,649	1.78
Bay Apartment Communities	Apartments	168,820	1.45
BRE Properties	Real Estate	113,697	0.98
Kaiser Permanente	Health Care	109,366	0.94
San Rafael Manor	Senior Housing	106,430	0.91
St. Vincent's/Catholic Youth Organization	Charitable Services	105,623	0.91
Total Top Ten		$1,864,334	16.01
Other	Various	9,782,923	83.99
Grand Total		$11,647,257	100.00%

(1) Represents the amounts transmitted to the County assessor for collection on the fiscal year 2015-16 property tax roll. All rates and charges are collected on the tax roll. See "THE DISTRICT – Billing Practices and Collection" below.
Source: Las Gallinas Valley Sanitary District

Wastewater Rates and Charges

General. The District transmits its rates and the majority of its charges for the wastewater system to the County Tax Collector for inclusion on the County property tax roll. See "Billing Practices and Collection" below.

The principal consideration in designing rate schedules is to assure that the revenues of the District cover total system expenditures and allow for a surplus that is used for capital improvements.

Any increase in the District's wastewater rates is subject to both a (i) noticed public hearing under Proposition 218, at which a majority of written protests could disapprove of the proposed changes, and (ii) requirement, under section 6520.5 of the Health and Safety Code, that the District Board approve any rate increase by a two-thirds vote (requiring the affirmative votes of four of the District Board's five members).

Historical and Adopted Future Wastewater Rates. The District is responsible for charging its customers fair rates that cover its cost of service. The table below shows the rates approved by the District Board pursuant to Ordinance No. 166 for fiscal years 2015-16 through 2019-20. Following fiscal year 2019-20, the District may continue charging the same rates, or adjust them subject to Proposition 218 procedures.

Approved Annual Service Charge
Fiscal Years 2015-16 through 2019-20

Fiscal Year	Annual Sewer Service Charge
2015-16	$734
2016-17	835
2017-18	868
2018-19	898
2019-20	927

Source: Las Gallinas Valley Sanitary District.

Comparative Wastewater Service Charges. The following table shows the District's annual sewer service charges per equivalent dwelling unit ("EDU") as compared with annual charges per EDU for surrounding communities.

Table 4
Comparative Annual Wastewater Charges Per EDU
Fiscal Year 2015-16

Agency	Annual Sewer Charge Per EDU
Sanitary District No. 5 (Belvedere)	1,985
Tamalpais Community Services District	1,111
Sanitary District No. 5 (Tiburon)	1,034
City of Mill Valley	1,017
Ross Valley Sanitary District (Larkspur – Single Family & Commercial)	1,012
Sausalito Marin City Sanitary District (Unincorporated Area)	883
San Rafael Sanitary District	828
Sausalito Marin City Sanitary District (Incorporated Area)	817*
Almonte Sanitary District	800
Ross Valley Service Area (Ross Valley – Single Family & Commercial)	743
Las Gallinas Valley Sanitary District	**734**
Novato Sanitary District	552
Sanitary District 2 (Corte Madera)	500
Richardson Bay Sanitary District	246

* Does not include fees charged by the City of Sausalito for the collection of wastewater, which averaged $585 for fiscal year 2015-16.
Source: Las Gallinas Valley Sanitary District.

Capital Facilities Charge. The District charges capital facilities charges for connecting to its sewer system, which are one-time fees paid by developers or builders of new houses or buildings. These fees represent new users' fair share of the capital costs which have been incurred to build out wastewater system. The District charges capital facilities charges to developers and builders to reserve system capacity. Amounts charged are recorded as liabilities (as deferred capital facilities charges) until connections are actually made. Once connections are made, the fees are recognized as increases to capital contributions. Capital facilities charges have not been a source of operating revenues for the District and are restricted for capital purposes. See "Historical Operating Results" herein.

Ad Valorem Tax Revenues

In fiscal year 2015-16, the District received approximately $1.1 million in ad valorem tax revenue. The ad valorem tax revenue represents a portion of the 1% ad valorem property taxes assessed and collected by the County of Marin in the District's Service Area. See "Historical Operating Results" below for historical information on the District's ad valorem tax revenues.

Pursuant to Article XIIIA of the California Constitution, the County levies a 1% ad valorem property tax on behalf of all taxing agencies in the County and, in addition, the ad valorem property tax for payment of the general obligation bonds of school districts and other governmental entities in the County. The proceeds of the 1% ad valorem property taxes are apportioned on the basis of a formula established by State law. The assessed valuation of property is established by the County Assessor, except for public utility property, which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full cash value of the property, defined as the County Assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed the lesser of 2% per year or the change in the consumer price index, or a reduction in the consumer price index or comparable local data for the area or may be reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The full cash value may also be adjusted due to change of ownership or new construction. The County Assessor may also temporarily reduce assessed values of property within the County pursuant to Proposition 8, a voter-approved Constitutional amendment adopted in November 1978, pursuant to which property owners are entitled to the lower of the fair market value of their property as of January 1 or the assessed value as determined at the time of purchase or construction, and increased by no more than 2% annually. See "BOND OWNERS' RISKS – Risk of Ad Valorem Property Tax Diversion" herein.

Billing Practices and Collection

Billing Procedures. Each year the District transmits its sewer service charges to the County Treasurer-Tax Collector for collection on the County property tax roll. The property tax billings are due in two equal installments on December 10 and April 10. The District generally receives the first and second installments from the County in December and April, respectively, with final reconciliation payments in June and July. The District also directly bills certain customers who have tax exempt properties such as schools and government entities. The District has the ability to lien properties for delinquent charges. At this time there are no liens for delinquent or current charges.

Delinquent Charges. The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, each taxing entity receives 100% of the taxes and assessments levied, without regard to delinquencies.

The District's wastewater rates and charges are currently covered under the County's Teeter Plan. *However, there can be no assurance that the County will not choose to discontinue the Teeter Plan in the future, or modify its Teeter Plan to exclude or limit the coverage for sanitary districts, or choose to remove the District from its Teeter Plan coverage. At the date of this Official Statement, no such discontinuation or removal is under consideration.*

No Information Regarding Delinquencies. No information is available from the County regarding actual delinquency rates. All enforcement and collection is handled by the County.

Outstanding District Obligations

Existing Parity Debt of the District. The Bonds will be secured by Net Revenues on a parity with the Existing Parity Obligations. Aside from the Existing Parity Obligations, the District will have no other outstanding obligations that constitute Parity Debt on the date of issuance of the Bonds. See "INTRODUCTION – Existing Parity Obligations of the District" and "SECURITY FOR THE BONDS – Parity Obligations; Issuance by District of Additional Debt."

Employees and Benefits

The District currently employs 21 full-time employees. The majority are represented by Operating Engineers 3. The current collective bargaining agreement is for five years and expires on June 30, 2019. The District has not experienced any formal grievances or disputes with the represented labor group during the last five years. The District also has five year contracts with it management and confidential employees which terminate on June 30, 2019. The District provides retirement benefits and other post-employment benefits for its employees. See Notes (11) and (12) in the District's audited financial statements, attached hereto as APPENDIX B.

Investments

The District's money is currently held in the investments shown in the following table. It makes its investments in accordance with the California Government Code, and the District's investment policy adopted in February 2017. For information regarding the District's investments as of June 30, 2016, see Note (3) of the District's audited financial statements, which are attached as APPENDIX B.

Investment Type	Fair Value at June 30, 2016
Cash in bank and on hand:	
Bank of Marin	$4,148,074
Petty cash	851
	$4,148,925
Investments:	
Certificates of Deposit restricted for debt service	$867,096
Local Agency Investment Fund	16,167,192
Total:	$20,316,117

Insurance

The District is exposed to risks of loss from property, liability, and workers' compensation. The District mitigates risk by participating in risk sharing and insurance purchasing pools through membership in the California Sanitation Risk Management Authority ("CSRMA"). Risk sharing pools provide general liability and workers' compensation coverage. The pools operate to share risk among the members of the pool up to a limit of $15,500,000 and $750,000 for general liability and workers' compensation, respectively.

See Note (13) of the District's audited financial statements, which are attached as APPENDIX B to this Official Statement.

Financial Statements

A copy of the most recent audited financial statements of the District for the fiscal year ended June 30, 2016, prepared by Burr Pilger Mayer, Inc. (the "Auditor"), is included in the District's audited financial statements attached to this Official Statement as APPENDIX B.

The District has neither requested nor obtained permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit work on the financial statements.

Balance Sheet

The following table shows historical balance sheets for the District for fiscal years ended June 30, 2012 through 2016, which are based on the District's audited financial statements.

Table 5
Historical Balance Sheet
(for Fiscal Years Ended June 30)

	2012 (Restated)	2013	2014(1) (Restated)	2015(1) (Restated)	2016
Assets					
Current Assets:					
Cash and cash equivalents, unrestricted	$14,216,800	$18,150,684	$18,948,345	$19,742,483	$20,316,117
Receivables					
Capital facilities charges	600	22,920	9,300	27,548	–
User charges	150,036	106,477	74,705	71,692	84,024
Interest	7,761	11,674	9,058	13,135	20,758
Private sewer lat. assist. program	–	22,670	26,199	9,841	19,903
Grant reimbursement	335,119	23,431	–	34,900	787,367
Other	278,969	38,311	24,041	44,618	26,926
Current portion of private sewer lat. assist. program receivable	–	–	–	35,739	57,074
Inventory of supplies	281,545	279,584	266,441	266,895	284,961
Net prepaid OPEB	–	230	–	–	–
Prepaid expenses	64,643	59,766	50,971	153,859	60,260
Total Current Assets	15,335,473	18,715,747	19,409,060	20,400,710	21,657,390
Noncurrent Assets:					
Property, plant and equipment, net of accumulated depreciation	52,464,200	52,452,100	53,788,914	55,491,218	58,497,940
Cash – restricted for debt service	615,920	854,644	858,263	860,493	867,096
Purchase of capital assets	1,469,454	–	–	–	–
Receivables, private sewer lat. assist. program	–	82,277	172,669	299,874	458,021
Receivables, user charges	2,182	1,091	–	–	–
Receivables, others	56,804	–	–	–	–
Total Noncurrent Assets	54,608,560	53,390,112	57,819,846	56,651,585	59,823,057
Total Assets	$69,944,033	$72,105,859	$74,228,906	$77,052,295	$81,480,447
Deferred Outflows of Resources					
Deferred amount on debt refunding	–	–	109,664	100,197	90,730
Pension plan	–	–	800,052	385,468	611,173
Total Def. Out. of Resources	–	–	909,716	485,665	701,903
Total Assets and Def. Out. of Resources	$69,944,033	$72,105,859	$75,138,622	$77,537,960	$82,182,350

	2012 (Restated)	2013	2014 (Restated)	2015 (Restated)	2016
Liabilities					
Current Liabilities:					
Accounts payable	$3,495,561	$671,992	$702,461	$883,097	$532,570
Net OPEB Obligation	55	–	115	–	–
Accrued payroll	45,627	37,134	55,226	60,405	78,076
Accrued compensated absences	57,000	60,000	65,000	67,000	67,830
Accrued interest payable	101,492	47,405	40,087	37,706	35,249
Current portion of long-term debt	585,646	955,871	998,120	1,030,420	1,069,396
Deferred capital facilities charges	71,902	104,114	94,939	57,768	57,768
Construction loan	3,720,274	–	–	–	–
Total Current Liabilities	8,077,557	1,876,516	1,955,948	2,136,396	1,840,889
Noncurrent Liabilities:					
Accrued compensated absences	321,517	343,448	360,895	380,465	384,395
Notes payable, long-term	4,285,366	9,828,772	15,779,452	14,749,031	13,679,635
Bonds payable, long-term	7,271,005	6,834,657	–	–	–
Collective net pension liability	–	–	2,778,750	1,693,868	2,098,373
Total Noncurrent Liabilities	11,877,888	17,006,877	18,919,097	16,823,364	16,162,403
Total Liabilities	19,955,445	18,883,393	20,875,045	18,959,760	18,003,292
Deferred Inflows of Resources					
Pension plan	–	–	–	621,566	295,843
Net Position					
Net Investment in Capital Assets	36,552,914	34,787,458	37,011,342	39,711,767	43,748,909
Restricted for Debt Service	–	854,644	858,263	860,493	867,096
Restricted	2,085,374	–	–	–	–
Unrestricted	11,350,300	17,580,364	16,393,972	17,384,374	19,267,210
Total Net Position	$49,988,588	$53,222,466	$54,263,577	$57,956,634	$63,883,215

(1) Fiscal year 2013-14 and fiscal year 2014-15 financial statements were restated to reflect the implementation of GASB 68. In addition, the restated fiscal year 2013-14 financial statements reflect costs in connection with the prepayment of the District's 2005 Wastewater Revenue Certificates of Participation.

Source: Las Gallinas Valley Sanitary District audited financial statements for the fiscal years 2011-12 through 2015-16.

Historical Operating Results

The following table is a summary of revenues, expenditures and debt service coverage of the District for the fiscal years ended June 30, 2012 through 2016 based on the District's audited financial statements.

Table 6
Historical Revenues and Expenditures
Fiscal Years 2011-12 through 2015-16
(for Fiscal Years Ended June 30)

	2012 (Restated)	2013	2014 (Restated)	2015 (Restated)	2016
Operating Revenues:					
Sewer use charges	$9,233,153	$10,069,648	$10,157,194	$10,311,215	$11,647,257
Recycled water fees	–	36,676	74,703	120,037	49,814
Miscellaneous	54,185	34,173	45,846	21,442	46,103
Total operating revenues	9,287,338	10,140,497	10,277,743	10,452,694	11,743,174
Operating Expenses:					
Sewage collection and pump stations	936,839	951,137	1,089,209	1,155,844	945,090
Sewage treatment	1,295,487	1,311,611	1,519,099	1,424,600	1,546,504
Sewage and solid waste disposal	146,728	266,863	340,317	126,931	82,842
Laboratory	386,656	376,781	402,417	352,396	295,394
Engineering	258,184	295,792	324,677	434,849	448,195
Recycled water	–	59,917	90,151	108,645	97,916
General and administrative	1,468,105	2,092,738	1,691,202	1,467,442	1,634,874
Depreciation and amortization	1,842,043	2,311,407	2,431,549	2,413,458	2,429,063
Total operating expenses	6,334,042	7,666,246	7,888,621	7,484,165	7,479,878
Operating Income (Loss)	2,953,296	2,474,251	2,389,122	2,968,529	4,263,296
Nonoperating Revenues:					
Property taxes	1,004,835	982,759	1,117,756	1,086,881	1,124,885
Federal and state grants	–	–	19,063	–	–
Franchise fees	25,000	25,000	25,000	25,000	25,000
Intergovernmental fees	4,797	4,625	4,588	4,521	4,442
Gain on disposal, net	–	–	–	1,117	–
Interest income	64,698	46,553	46,694	51,103	79,194
Total nonoperating revenues	1,099,330	1,058,937	1,213,101	1,168,622	1,233,521
Nonoperating Expenses:					
Interest expense	331,810	651,979	624,564	553,432	401,975
Loss on disposal	–	48,000	1,575	–	–
Total nonoperating expense	331,810	699,979	626,139	553,432	401,975
Income before capital contributions	3,720,816	2,833,209	2,976,084	3,583,719	5,094,842
Prior period adjustment	–	–	(1,978,698)	–	–
Capital Contributions					
Connection fees	28,347	15,050	43,725	74,438	33,879
Federal and State grants	1,107,034	385,619	–	34,900	797,860
Change in Net Position	4,856,197	3,233,878	1,041,111	3,693,057	5,926,581
Beginning net position	45,132,391	49,988,588	53,222,466	54,263,577	57,956,634
Ending net position	$49,988,588	$53,222,466	$54,263,577	$57,956,634	$63,883,215

Source: Las Gallinas Valley Sanitary District audited financial statements for the fiscal years 2011-12 through 2015-16.

Projected Operating Results and Debt Service Coverage

The table below shows the District's revenues, expenditures, debt service coverage and fund balance for the District for fiscal year 2015-16, fiscal year 2016-17 (budgeted), and fiscal years 2017-18 through 2019-20 (projected).

The revenue projections shown below reflect the wastewater rate structure under Ordinance No. 166. See "Wastewater Rates and Charges" above. The projections also assume the issuance of the Bonds by the District in fiscal year 2016-17. Expenses projections are based on the projections from the District's adopted budget.

The projections set forth in the table below are forward-looking statements, as such term is defined in the Securities Act of 1933, as amended, and reflect certain significant assumptions concerning future events and circumstances. The forecast represents the District's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the table below are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material.

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Table 7
Projected Revenues, Expenditures, Debt Service Coverage and Fund Balances
Fiscal Years 2015-16, 2016-17 (Budgeted) and
2017-18 through 21-22 (Projected)

	Audited 2015-16	Budgeted 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Revenues							
Sewer user charges	$11,647,257	$12,989,000	$13,565,000	$14,030,000	$14,480,000	$14,480,000	$14,480,000
Property taxes	826,905	792,000	824,000	832,240	840,562	848,968	857,458
ERAF	297,980	295,000	284,000	284,000	284,000	284,000	284,000
Recycled water fees	49,814	106,913	107,000	107,000	107,000	107,000	107,000
Other	154,739	105,400	94,500	89,500	84,500	84,500	84,500
	$12,976,695	$14,288,313	$14,874,500	$15,342,740	$15,796,062	$15,804,468	$15,812,958
Marin Municipal Water District Debt Reimbursement							
Existing Debt	0	51,637	206,549	206,549	206,549	206,549	206,549
2017 Revenue Bonds	0	0	248,509	256,595	256,804	256,846	256,720
	$ 0	$51,637	$455,058	$463,144	$463,353	$463,395	$463,269
Expenses							
Sewage collection treatment and disposal	$2,574,436	$3,002,287	$3,122,378	$3,247,274	$3,377,165	$3,512,251	$3,652,741
Laboratory	295,394	307,339	319,633	332,418	345,715	359,543	373,925
Engineering	448,195	488,363	507,898	528,213	549,342	571,316	594,168
Recycled water	97,916	106,913	111,190	115,637	120,263	125,073	130,076
General and administrative	1,634,874	1,848,960	1,922,918	1,999,835	2,079,829	2,163,022	2,249,543
	$5,050,815	$5,753,862	$5,984,016	$6,223,377	$6,472,312	$6,731,205	$7,000,453
Net Operating Income	$7,925,880	$8,586,088	$9,358,108	$9,586,987	$9,791,374	$9,540,887	$9,280,129
Debt Service	$1,539,538	$1,543,368	$ 3,920,962	$ 3,990,564	$ 3,994,580	$ 4,001,251	$ 4,010,418
Coverage (1.25x Requirement)	5.15x	5.56x	2.38x	2.40x	2.45x	2.38x	2.31x
Projected Cash Flow from Operations	$6,386,342	$7,042,720	$ 5,424,580	$ 5,591,943	$ 5,792,523	$ 5,535,407	$ 5,265,356

Source: Las Gallinas Valley Sanitary District.

Fiscal Year 2016-17 Budget. The District's fiscal year 2016-17 budget projects approximately $13.5 million in total operating revenues, including approximately $13 million in user charges. The adopted budget also identifies $6.0 million in operating expenses and $4.1 million in pay as you go capital expenditures and projects the issuance of approximately $42 million of Bonds to finance capital expenditures of the District.

Reserve and Fund Balance Policies. The District has a Reserve Fund Policy which was approved by the District's Board in 2009 and updated in 2017. The District maintains specific reserves and fund balances that it deems appropriate to the operations and capital needs of the District.

Working Cash Flow. The District maintains cash and investments necessary to insure that a minimum balance of seven months of average budgeted expenses is available. When the balance is below the target, other reserves are used to meet the cash flow needs of the District.

Rate Stabilization Reserve. The District maintains a rate stabilization reserve to fund unexpected District expense increases and to replenish any reserves used over a 3-4 year period. This rate stabilization reserve is separate and apart from the Rate Stabilization Fund described under "SECURITY FOR THE BONDS – Rate Stabilization Fund" herein.

Emergency Repair Reserve. The District maintains an emergency repair reserve to fund emergency repairs necessary. The reserve may be used to fund working capital needs.

Capital Reserve. The District maintains a capital reserve for major capital projects, including upgrades and expansions to the District's facilities.

The target balances for 2009 and 2017 and the projected reserve balances for June 30, 2017 are as follows:

	Target Balance 2009	**Target Balance 2017**	**Projected June 30, 2017**
Operating Reserves:			
Working cash flow	$2,590,000	$5,930,000	$2,449,039
Rate stabilization	300,000	300,000	300,000
Emergency repair	1,000,000	1,000,000	1,000,000
Total Operating Reserves	$3,890,000	$7,230,000	$3,749,039
Capital reserves	$4,000,000	$4,000,000	$2,160,916
Total Reserves	$7,890,000	$11,230,000	$5,909,955

The history of funding reserves for each fiscal year since fiscal year 2008-2009 and the projected balances for fiscal year 2016-17 is shown below:

Fiscal Year	**Working Cash Flow Reserve Balance**	**Rate Stabilization Reserve Balance**	**Emergency Repair Reserve Balance**	**Capital Reserve Balance**	**Total**
2009-10	$1,700,000	$300,000	$700,000	$1,500,000	$4,200,000
2010-11	1,791,538	300,000	737,692	1,580,770	4,410,000
2011-12	1,887,654	300,000	777,269	1,665,577	4,630,500
2012-13	1,988,575	300,000	818,825	1,754,625	4,862,025
2013-14	2,094,542	300,000	862,459	1,848,125	5,105,126
2014-15	2,205,805	300,000	908,273	1,946,298	5,360,376
2015-16	2,322,631	300,000	956,378	2,049,380	5,628,389
2016-17 (Projected)	2,449,039	300,000	1,000,000	2,160,916	5,909,955

Source: Las Gallinas Valley Sanitary District.

Future Capital Improvements

The District's current five-year Capital Plan was adopted in June 2015 and is updated for miscellaneous capital expenses yearly. The Capital Plan identifies $62 million of needed sewer infrastructure improvements through fiscal year 2019-20, including a portion of the proceeds of the Bonds and $3.4 million of pay as you go for fiscal year 2016-17. The District's Capital Plan is subject to change, and the project costs and timing of projects are likely to be revised from time to time.

Regulatory Requirements

Wastewater System Operations. The District is subject to the requirements contained in the following state and federal regulations and related permits:

- Federal Water Pollution Control Act, as amended (33 U.S.C. §1311 et seq.) (the "Clean Water Act").
- Resource Conservation and Recovery Act (42 U.S.C. §6901 et. seq.) (the "Resource Conservation and Recovery Act").
- State of California Porter-Cologne Water Quality Control Act of 1969, as amended.
- California State Water Resources Control Board (SWRCB) Order No. 2006-0003-DWQ ("Order No. 2006-0003-DWQ"). (http://www.waterboards.ca.gov/board_decisions/adopted_orders/water_quality/2006/wqo/wqo2006_0003.pdf)
- SWRCB Order No. WQ 2013-0058-EXEC – Amending Monitoring and Reporting Program for Statewide General Waste Discharge Requirements for Sanitary Sewer Systems ("Order No. 2013-0058-EXEC"). (http://www.waterboards.ca.gov/board_decisions/adopted_orders/water_quality/2013/wqo2013_0058exec.pdf)
- Regional Water Quality Control Board (RWB) Order R2-2015-0021- plant NPDES discharge permit. (http://www.waterboards.ca.gov/sanfranciscobay/board_decisions/adopted_orders/2015/R2-2015-0021.pdf)
- RWB Order R2-2012-0096 - regional NPDES permit for mercury and Polychlorinated Biphenyls (PCBs) from municipal and industrial dischargers. (http://www.waterboards.ca.gov/sanfranciscobay/board_decisions/adopted_orders/2012/R2-2012-0096.pdf)
- RWB Order R2-2014-0014 - regional NPDES permit for nutrients from municipal dischargers. (http://www.waterboards.ca.gov/sanfranciscobay/board_decisions/adopted_orders/2014/R2-2014-0014.pdf)
- RWB Order 92-064 - Water Reclamation Requirements for operation of and discharge to the District's on-site reclamation system. (http://www.waterboards.ca.gov/sanfranciscobay/board_decisions/adopted_orders/1992/R2-1992-0064.pdf)
- RWB Order 89-127 - Water Reclamation Requirements issued jointly to the Marin Municipal Water District (MMWD) and LGVSD for MMWD recycled water system. (http://www.waterboards.ca.gov/sanfranciscobay/board_decisions/adopted_orders/1989/R2-1989-127.pdf)

- RWB Order 96-011 – General Water Reuse Requirements production of Recycled Water delivered to North Marin Water District. (http://www.waterboards.ca.gov/sanfranciscobay/board_decisions/adopted_orders/1996/R2-1996-0011.pdf)

- Bay Area Air Quality Management District (BAAQMD) Permits to Operate:

  Plant # 1597 (Treatment Plant Processes and Equipment)
  Plant # 16876 (Hawthorn Pump Station standby generator)
  Plant # 16875 (Venecia Harbor Pump Station standby generator)
  Plant # 19510 (Mulligan Pump Station standby generator)
  Plant # 20504 (Duckett Pump Station standby generator)
  Plant # 20503 (Civic Center Pump Station standby generator)

- State of California Air Resources Board - Statewide Portable Equipment Registration #172564, #172565, #151427, #151426 (diesel engine-driven portable generators) and #133513 (diesel engine-driven portable trash pump)

- State of California Dept. of Industrial Relation - Permits to Operate Air Pressure Tanks (S/N A022438-13, A00167-09, A001016-08)

The references to the Internet websites made above are made for convenience only. The information contained within the websites may not be current, has not been reviewed by the District and is not incorporated by reference in this Official Statement.

The District has a Sewer System Management Plan, which describes the management of the District's wastewater system. The District's Sewer System Management Plan was prepared in compliance with Order No. 2006-0003-DWQ, which was amended by Order No. 2013-0058-EXEC. Under Order No. 2006-0003-DWQ, sanitary sewer systems were required to develop and implement a system-specific Sewer System Management Plan. The District updated and certified that its Sewer System Management Plan was in compliance with Order No. 2006-0003-DWQ in 2008 and, again, in 2013 to comply with Order No. WQ 2013-0058-EXEC. Order No. WQ 2013-0058-EXEC revised the categories of severity, timelines for reporting, and water quality sampling and testing requirements.

THE AUTHORITY

The Authority was created by a Joint Exercise of Powers Agreement, dated as of January 24, 2017, between the District and Sausalito-Marin City Sanitary District ("SMCSD". That agreement was entered into pursuant to Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code (the "JPA Law").

The Authority was created for the purpose, among others, of issuing bonds to finance the acquisition and construction of certain public capital improvements of and relating to the District and SMCSD. The Authority is governed by a four-member board of directors, two of whom are appointed by the District, and the other two by SMCSD. The Authority has no employees, and all staff work is done by the District's or SMCSD's staff or consultants to the Authority.

BOND OWNERS' RISKS

This section describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and the order does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider these special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other *considerations will not materialize in the future, and if additional considerations materialize to a sufficient degree, they could delay or prevent payment of principal of and interest on the Bonds.*

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for wastewater services, which can be affected by population factors, more stringent wastewater standards, wastewater regulations, water conservation, water shortages, problems with the District's wastewater collection and other factors. There can be no assurance that wastewater service demand will be consistent with the levels contemplated in this Official Statement. A decrease in demand could require an increase in rates or charges in order to comply with the rate covenant contained in the Installment Sale Agreement.

The District's ability to meet its rate covenant is dependent upon its capacity to increase rates to a level sufficient to meet debt service on the Bonds and other Parity Obligations.

Risks Related to Facilities and Operations

The operation of the District and physical condition of the District's facilities are subject to a number of risk factors that could adversely affect the reliability of sewer service or increase the operating expenses of the District. Prolonged damage to the District's facilities could interrupt the ability of the District to realize Revenues sufficient to pay principal of and interest on the Bonds, require substantial increases in rates or charges in order to comply with the rate covenant in the Installment Sale Agreement (which could drive down demand for wastewater and related services), or require the District to increase expenditures for repairs significantly enough to adversely impact the District's ability to pay the principal of or interest on the Bonds.

These factors could include, among others, the following.

Operation and Maintenance Expenses. There can be no assurance that operation and maintenance expenses of the District will be consistent with the levels contemplated in this Official Statement.

Seismic Hazards and Natural Disasters. The wastewater system is located in a seismically active region. From time to time, the service area of the District may be subject to other natural disasters, including without limitation wildfires, flooding and landslides, tsunamis, or man-made disasters that could interrupt operation of the District, or adversely affect economic activity in the District's service area.

There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the District, including exacerbated infiltration and/or inflow of ground and other waters into the wastewater system, or that the District would have insurance or other resources available to make repairs in order to generate sufficient Net Revenues to pay debt service on the Bonds when due. The casualty and liability insurance maintained by the District may not cover damages and losses to the District due to earthquake, fire or flood.

Aging Facilities. The District's facilities are aging and in need of repair or replacement. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on District operations.

Private Sewer Laterals. Private sewer laterals are not owned or operated by the District; however, faulty private sewer laterals can increase inflow and infiltration into the District's facilities. Excessive inflow and infiltration into the facilities due to faulty sewer laterals may cause damage to the District's facilities.

Statutory and Regulatory Compliance. The operation of the District is subject to a variety of federal and State statutory and regulatory requirements. Any failure by the District to comply with applicable laws and regulations could result in significant fines and penalties. See "– Risk of Fines and Litigation." Further, compliance with these laws and regulations may result in significant increases in the capital and operating costs of the District.

Casualty Losses. The Installment Sale Agreement obligates the District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the District's facilities in the event of damage or destruction to such portion of the facilities. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the District's facilities.

Project Costs and Management. The costs of the Wastewater Project and other projects in the District's capital plan are currently estimated and have not been bid out. Such projects will be subject to all of the ordinary construction risks and delays applicable to projects of its kind. Such risks include but are not limited to (i) higher bids than forecasted by the District and other cost overruns; (ii) inclement weather, affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (iii) natural disasters (including earthquakes, for which losses are uninsured), operating risks or hazards or other unexpected conditions or events adversely affecting the progress of work; (iv) contractor claims or nonperformance; (v) increased materials costs, labor costs, or failure of contractors to execute within contract price, resulting in insufficient funding for the projects; (v) work stoppages or slowdowns; (vi) failure of contractors to meet schedule terms; (vii) the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards, which can arise at any time during the construction of the project, or (viii) other factors.

Risk of Fines and Litigation

There is no certainty that the District can eliminate all future sanitary sewer overflows that reach waters of the United States. Sanitary sewer overflows could result in administrative civil penalties or the request for civil penalties by third parties brought under the citizen suit provisions of the Clean Water Act. Any such actions could impose additional payment obligations on the District. Any fines or civil penalties would be classified by the District as Operation and Maintenance Costs and, therefore, payable prior to debt service on the Bonds.

Risk of Ad Valorem Property Tax Diversion

As part of the State of California budget process, the diversion (either temporarily or permanently) of ad valorem property tax revenues allocated to utility districts like the District has been proposed from time to time. Property taxes have represented approximately 8-10% of the District's revenues over the last three fiscal years. Any legislative change to the allocation of ad valorem property tax revenues to special districts, if implemented, could decrease the District's revenues.

Limitations on Remedies Available to Bond Owners

The ability of the District to comply with its covenants under the Installment Sale Agreement and generate Net Revenues sufficient to pay the Installment Payments may be adversely affected by actions and events outside of the control of the District or taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "Articles XIIIC and XIIID of the California Constitution" below. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Sale Agreement or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Installment Sale Agreement and the Indenture, the rights and obligations under the Bonds, the Installment Sale Agreement and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority or the District in violation of their respective covenants in the Installment Sale Agreement and the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Limitations on Rate Setting Under the California Constitution

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIIIA and XIIIC of the State Constitution. The amendments to Article XIIIA limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIIIC broadly define "tax," but specifically exclude, among other things:

- A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.

- A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

- A charge imposed as a condition of property development.

- Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Property-Related Fees and Charges. Under Article XIIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIIIC states that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives."

Judicial Interpretation of Articles XIIIC and XIIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General's opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIIID to certain charges related to water service. In Richmond, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218, and a municipality must comply with Article XIIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Current Practice Regarding Rates and Charges. The District's practice in implementing increases in rates and charges has been to mail a notice to all property owners and, at least 45 days later, hold a public hearing before adopting increased rates, in compliance with the *Bighorn* decision.

The District believes its Sewer Service Charges do not constitute "taxes" under Article XIIIC as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIIIC, they are "property-related fees imposed in accordance with the provisions of Article XIIID" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIIID) and because, as described in subsection 1(e)(2) of Article XIIIC, they are charged for wastewater service, "a specific government service or product provided directly to the payor that is not provided to those not charged."

The District believes neither its connection fees nor any similar fees relating to the wastewater system is a "tax" as defined by Proposition 26 because it is a charge to a landowner that is imposed (typically as a condition of property development) for a specific privilege and does not exceed the reasonable costs of conferring the privilege.

Conclusion. It is not possible to predict how courts will further interpret Article XIIIC and Article XIIID in future judicial decisions and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the District's wastewater rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIIC and Article XIIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted wastewater rate increases.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

Future Parity Obligations

As described in "SECURITY FOR THE BONDS – Parity Obligations; Issuance by District of Additional Debt" above, the Installment Sale Agreement permits the District to issue Parity Obligations, under which its obligations would be payable on a parity with the payment of the Installment Payments.

The coverage tests described in "SECURITY FOR THE BONDS – Parity Obligations; Issuance by District of Additional Debt" involve, to some extent, projections of Net Revenues. If Parity Obligations are issued, the debt service coverage for the Bonds could be diluted below what it otherwise would be. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Bonds and any future Parity Obligations.

Bankruptcy

While an involuntary bankruptcy petition cannot be filed against the District or the Authority, each of the District and the Authority is authorized to file for bankruptcy under certain circumstances. Should the District or the Authority file for bankruptcy, there could be adverse effects on the holders of the Bonds.

To the extent that the Net Revenues are "special revenues" under the Bankruptcy Code and the Bonds are covered by the provisions of the Bankruptcy Code relating to pledges of special revenues, then Net Revenues collected after the date of the bankruptcy filing should secure the District's obligations under the Installment Sale Agreement. If any or all of the Net Revenues are determined not to be special revenues or if it is determined that the Bonds are not covered by the relevant provisions of the Bankruptcy Code, then any such amounts collected after the commencement of the bankruptcy case will likely not secure the District's obligations under the Installment Sale Agreement. The holders of the Bonds may not be able to assert a claim against any property of the District other than the Net Revenues, and if any or all of the Net Revenues no longer secure the Installment Sale Agreement, then there may be limited, if any, funds from which the holders of the Bonds are entitled to be paid.

The Bankruptcy Code provides that "special revenues" can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the transaction documents may not be applicable.

If the District or the Authority is in bankruptcy, the parties (including the Trustee and the holders of the Bonds) may be prohibited from taking any action to collect any amount from the bankrupt party or to enforce any obligation of the bankrupt party, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee's possession. If the Authority is in bankruptcy, it may be able to require that all amounts due under the Installment Sale Agreement (including Net Revenues) be paid directly to it, notwithstanding the provisions of the transaction documents that require such payments be made directly to the Trustee. The rate covenant (see "SECURITY FOR THE BONDS – Rate Covenant") may not be enforceable in bankruptcy by the Trustee or the holders of the Bonds.

The District is permitted to commingle Net Revenues with its own funds for certain periods of time before turning over the Net Revenues to the Trustee. If the District goes into bankruptcy, the District may not be required to turn over to the Trustee any Net Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. If the District has possession of Net Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Net Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the holders of the Bonds would have to follow to attempt to obtain possession of such Net Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful.

If the District or the Authority is in bankruptcy it may be able to repudiate the Installment Sale Agreement. If the Installment Sale Agreement is repudiated, the District will no longer be obligated to make any payments under it.

If the District or the Authority is in bankruptcy it may be able, without the consent and over the objection of the Trustee and the holders of the Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Installment Sale Agreement, the Indenture, and the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the District or the Authority that could result in delays or reductions in payments on the Bonds, or result in losses to the holders of the Bonds. Regardless of any specific adverse determinations in a District or Authority bankruptcy proceeding, the fact of a District or Authority bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds.

TAX MATTERS

Opinion of Bond Counsel. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District in connection with the Bonds, and Bond Counsel has assumed compliance by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the execution and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The District has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of Bonds. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest evidenced thereby is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount. "Original issue discount" ("OID") on a tax-exempt bond is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Tax-Exempt Discount Bond"), OID that has accrued and is properly allocable to the owners of the Tax-Exempt Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Tax-Exempt Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Tax-Exempt Discount Bond. An owner's adjusted basis in a Tax-Exempt Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Tax-Exempt Discount Bond even though there will not be a corresponding cash payment.

Owners of Tax-Exempt Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Tax-Exempt Discount Bonds.

Bond Premium. In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Tax-Exempt Premium Bond"). In general, under Section 171 of the Code, an owner of a Tax-Exempt Premium Bond must amortize the bond premium over the remaining term of the Tax-Exempt Premium Bond, based on the owner's yield over the remaining term of the Tax-Exempt Premium Bond determined based on constant yield principles (in certain cases involving a Tax-Exempt Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Tax-Exempt Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a Tax-Exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Tax-Exempt Premium Bond may realize a taxable gain upon disposition of the Tax-Exempt Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Tax-Exempt Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Tax-Exempt Premium Bonds.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or State level, may adversely affect the tax-exempt status of interest on the Bonds under federal or State law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

CERTAIN LEGAL MATTERS

Hawkins Delafield & Wood LLP, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the District by Hawkins Delafield & Wood LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and the District by Byers/Richardson, Sonoma, California, Authority Counsel and District Counsel.

REGULATORY MATTERS AND LITIGATION

In connection with issuance of the Bonds, the District will certify that, except as described in this Official Statement, to the best knowledge of the District, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the District after reasonable investigation, threatened against or affecting the District or the assets, properties or operations of the District which, if determined adversely to the District or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Installment Sale Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the District.

RATING

S&P Global Ratings has assigned underlying municipal bond rating of "AAA" to the Bonds.

This rating reflect only the views of the rating agency, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The District has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The District will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently March 31 based on the District's fiscal year ending June 30), commencing March 31, 2018, with the report for the fiscal year ending June 30, 2017, and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of certain listed events is set forth in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE." The initial Dissemination Agent will be U.S. Bank National Association.

SALE OF THE BONDS

The Bonds are scheduled to be sold at competitive bid on April 11, 2017, as provided in the Official Notice of Sale, dated April 5, 2017 (the "Official Notice of Sale"). The Official Notice of Sale provides that all Bonds would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Bond Counsel and certain other conditions. The Purchaser will represent to the Authority and the District that the Bonds have been reoffered to the public at the price or yield to be stated on the inside cover page hereof.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds:

- Hawkins Delafield & Wood LLP, as Bond Counsel and Disclosure Counsel;
- Bartle Wells Associates, as Municipal Advisor;
- U.S. Bank National Association, as Trustee.

EXECUTION

The execution and delivery of this Official Statement have been authorized by the board of directors of the Authority and the board of directors of the District.

MARIN PUBLIC FINANCING AUTHORITY

By: /s/ Mark R. Williams
Board Member

LAS GALLINAS VALLEY SANITARY DISTRICT

By: /s/ Mark R. Williams
General Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture and the Installment Sale Agreement. Such summary is not intended to be definitive. Reference is made to the actual documents (copies of which are available from the District) for the complete terms thereof.

DEFINED TERMS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

"Additional Payments" means the amounts payable by the District under the Installment Sale Agreement.

"Additional Revenues" means, with respect to the issuance of any Parity Obligations, any or all of the following amounts:

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12-month period selected by the District, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the District.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater Enterprise which has been adopted prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12-month period selected by the District, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of an Independent Accountant or Fiscal Consultant employed by the District.

"Annual Debt Service" means, as of the date of any calculation and with respect to the Installment Payments or any Parity Obligations, as the case may be, the sum obtained for the current or any future Bond Year during the Term of the Installment Sale Agreement by totaling the following amounts for such Bond Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Bond Year pursuant hereto, except to the extent payable from any security deposit pursuant to the Installment Sale Agreement; and

(b) the principal amount of all outstanding Parity Obligations, if any, coming due and payable by their terms in such Bond Year.

"Authority" means the Marin Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State of California and that certain Joint Exercise of Powers

Agreement, dated as of January 24, 2017, by and between the District and the Las Gallinas Valley Sanitary District, together with any amendments thereof and supplements thereto.

"Authorized Representative" means:

(a) with respect to the Authority, its President, Vice President, Treasurer, Secretary, any other member of the Board, Executive Director, or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority filed with the District and the Trustee; and

(b) with respect to the District, its President of the Board, Secretary of the Board, any other member of the Board, the General Manager of the District, or any other person designated as an Authorized Representative of the District by a Written Certificate of the District filed with the Authority and the Trustee.

"Bond Counsel" means (a) Hawkins Delafield & Wood LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Fund" means the fund by that name established and held by the Trustee under the Indenture.

"Bond Law" means the provisions of Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

"Bond Year" means each twelve-month period extending from April 2 in one calendar year to April 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year with respect to the Bonds commences on the Closing Date and extends to and including April 1, 2018.

"Business Day" means any day (i) other than a Saturday or a Sunday or (ii) any other day on which commercial banks located in the city in which the Office of the Trustee is located are authorized or required by law to close.

"Closing Date" means the date of delivery of the Bonds to the Original Purchaser.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee, and the Trustee's counsel, including the Trustee's first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; bond insurance and surety bond premiums, if any; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee under the Indenture.

"Defeasance Obligations" means:

(a) Cash;

(b) Federal Securities;

(c) evidences of ownership of proportionate interests in future interest and principal payments on Federal Securities held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Federal Securities are not available to any person claiming through the custodian or to whom the custodian may be obligated;

(d) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively; or

(e) securities eligible for "AAA" defeasance under then existing criteria of S&P or any combination thereof.

"Depository" means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository under the Indenture.

"Depository System Participant" means any participant in the Depository's book-entry system.

"DTC" means The Depository Trust Company and its successors and assigns.

"Event of Default" means any of the events specified in the Indenture.

"Excess Investment Earnings" means an amount required to be rebated to the United States of America under Section 148(f) of the Tax Code due to investment of gross proceeds of the Bonds at a yield in excess of the yield on the Bonds.

"Existing Parity Obligations" means the Bank of Marin Loans, the Municipal Finance Corporation Loan, and the SRF Loan.

"Federal Securities" means: (a) any non-callable direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; and (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are fully, unconditionally and directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

"Fiscal Consultant" means any consultant or firm of such consultants appointed by the District and who, or each of whom: (a) is judged by the District to have experience in matters relating to the financing of wastewater system enterprises; (b) is in fact independent and not under domination of the District; (c) does not have any substantial interest, direct or indirect, with the District other than as purchaser of the Bonds or any Parity Obligations; and (d) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

"Fiscal Year" means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

"Fitch" means Fitch Ratings and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority or the District.

“Governmental Agency” means the State of California, and the United States of America, acting through any of its agencies, to the extent that the State of California or such agency has loaned money to the District for the Wastewater Enterprise.

“Governmental Loan” means any loan made by a Governmental Agency to the District that is secured by a pledge of Net Revenues and incurred by the District to finance improvements to the Wastewater Enterprise pursuant to the Installment Sale Agreement.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Wastewater Enterprise or otherwise arising from the Wastewater Enterprise, including but not limited to:

(a) all amounts levied by the District as a fee for connecting to the Wastewater Enterprise, as such fee is established from time to time under the applicable laws of the State of California,

(b) all income, rents, rates, fees, capital improvement fees, charges and other moneys derived from the services and facilities furnished or supplied through the facilities of the Wastewater Enterprise,

(c) ad valorem property taxes allocated to the District (but as provided below, not including ad valorem property taxes levied to pay any general obligation bond indebtedness of the District with respect to the Wastewater Enterprise),

(d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Wastewater Enterprise,

(e) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Wastewater Enterprise as permitted hereunder, and

(f) amounts transferred into the Wastewater Enterprise Fund from a Rate Stabilization Fund.

However, the term “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District, (ii) the proceeds of any ad valorem property taxes levied to pay any general obligation bond indebtedness of the District with respect to the Wastewater Enterprise, (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the District, and (iv) amounts transferred from the Wastewater Enterprise Fund into the Rate Stabilization Fund during a fiscal year, but only to the extent that any amounts transferred from the Wastewater Enterprise Fund into the Rate Stabilization Fund were included in Gross Revenues for that fiscal year.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

“Independent Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the District, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the District; (b) does not have any substantial interest, direct or indirect, in the Authority or the District; and (c) is not connected with the Authority or the District as an officer or employee of the Authority or the District but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the District.

"Installment Payment Date" means, with respect to any Interest Payment Date, the fifth Business Day immediately preceding that Interest Payment Date.

"Installment Payments" means all payments required to be paid by the District on any date under the Installment Sale Agreement, including any amounts payable upon delinquent installments and including any prepayment thereof under the Installment Sale Agreement, but does not include Additional Payments.

"Installment Sale Agreement" means the Installment Sale Agreement dated as of April 1, 2017, between the District and the Authority, together with any duly authorized and executed amendments thereto.

"Interest Account" means the account by that name established and held by the Trustee in the Bond Fund under the Indenture.

"Interest Payment Dates" means each April 1 and October 1, commencing October 1, 2017, so long as any Bonds remain unpaid.

"Maximum Annual Debt Service" means, as of the date of any calculation and with respect to the Installment Payments or any Parity Obligations, as the case may be, the maximum sum obtained for the current or any future Bond Year during the Term of the Installment Sale Agreement by totaling the following amounts for such Bond Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Bond Year pursuant hereto, except to the extent payable from any security deposit pursuant to the Installment Sale Agreement;

(b) the principal amount of all outstanding Parity Obligations, if any, coming due and payable by their terms in such Bond Year;

(c) the amount of interest which would be due during such Bond Year on the aggregate principal amount of all outstanding Parity Obligations, if any, which would be outstanding in such Bond Year if such Parity Obligations are retired as scheduled; and

(d) loan payments to be made to a Governmental Agency under a Governmental Loan, if any, coming due and payable by its terms in such Bond Year.

"Moody's" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority or the District.

"Municipal Finance Corporation Loan" means the District's loan from Municipal Finance Corporation, dated as of April 1, 2014, currently outstanding in the aggregate principal amount of $5,503,800.

"Net Revenues" means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

"Nominee" means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under the Indenture.

"Office" means the corporate trust office of the Trustee, or such other or additional offices as the Trustee may designate in writing to the Authority from time to time as the corporate trust office for purposes of the Indenture; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

"Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Wastewater Enterprise, including but not limited to

(a) costs of utilities, including the costs of electricity and other forms of energy supplied to the Wastewater Enterprise,

(b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order, and

(c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Wastewater Enterprise, including insurance and other costs described in the Installment Sale Agreement;

but in all cases excluding

(i) debt service payable on obligations incurred by the District with respect to the Wastewater Enterprise, including but not limited to the Installment Payments and any Parity Obligations,

(ii) depreciation, replacement and obsolescence charges or reserves therefor,

(iii) capital expenditures (other than as set forth in paragraph (b) above), and

(iv) amortization of intangibles or other bookkeeping entries of a similar nature.

"Original Purchaser" means the original purchaser of the Bonds at the competitive sale thereof.

"Outstanding," when used as of any particular time with reference to Bonds, means, subject to the terms of the Indenture, all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds with respect to which all liability of the Authority has been discharged in accordance with the Indenture, including Bonds (or portions thereof) described in the provisions of the Indenture regarding disqualified Bonds; and

(c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Trustee under the Indenture.

"Overdue Rate" means the highest rate of interest on any of the Outstanding Bonds.

"Owner," whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

"Parity Obligations" means the following:

(a) the District's obligation to pay debt service on the Existing Parity Obligations;

(b) any bonds, notes, leases, installment sale agreements or other obligations of the District payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments, entered into or issued under and in accordance with the Installment Sale Agreement, and

(c) any Governmental Loan that is treated as a Parity Obligation under the Installment Sale Agreement.

"Parity Obligations Documents" means, collectively, the indenture of trust, trust agreement, installment sale agreement, or other document authorizing the issuance of any Parity Obligations or any securities which evidence Parity Obligations.

"Permitted Investments" means any of the following which at the time of investment are determined by the Authority to be legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall be entitled to rely upon any investment directions from the District as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California):

(a) Federal Securities.

(b) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farmers Home Administration, General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development, and Federal Housing Administration;

(c) bonds, notes or other evidences of indebtedness rated AAA by S&P and Aaa by Moody's issued by the Fannie Mae or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years;

(d) U.S. dollar denominated deposit accounts (including those with the Trustee or with any affiliate of the Trustee), unsecured certificates of deposit, including those placed by a third party pursuant to an agreement between the Trustee and the Authority, demand deposits, including interest bearing money market accounts, trust deposits, trust accounts, time deposits, overnight bank deposits, interest-bearing deposits, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of A-1 or A-1+ by S&P and P-1 by Moody's, and maturing no more than 360 days after the date of purchase;

(e) commercial paper which is rated at the time of purchase in the single highest classification, A-1+ by S&P and P-1 by Moody's and which matures not more than 270 days after the date of purchase;

(f) investments in a money market mutual fund rated, at the time of purchase, AAAm or AAAm-G or better by S&P, which may include funds for which the Trustee or its affiliates provide investment advisory or other management services for a fee, including serving as administrator, shareholder servicing agent, and/or custodian or sub-custodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(g) Repurchase and reverse repurchase agreements collateralized with Federal Securities, including those of the Trustee or any of its affiliates.

(h) any pre-refunded bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, at the time of purchase, based on the refunding escrow, in the highest rating category of S&P and Moody's or (ii)(A) which are fully secured as to principal and interest and redemption premium (if any) by a fund consisting only of cash or Federal Securities, which fund may be applied only to the payment of such principal of and interest and redemption premium (if any) in such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates under such irrevocable instructions, as appropriate, and (B) which fund is sufficient, as verified by an Independent Accountant, to pay principal of and interest and redemption premium (if any) on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(i) investment agreements, with notice to each rating agency then rating the Bonds;

(j) the Local Agency Investment Fund established under Section 16429.1 of the Government Code of the State of California; and

(k) any other investment permitted under Section 53601 of the California Government Code.

"Principal Account" means the account by that name established and held by the Trustee in the Bond Fund under the Indenture.

"Project Costs" means, with respect to the Wastewater Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Wastewater Project;

(b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Wastewater Project;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Wastewater Project;

(d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Wastewater Project;

(e) any sums required to reimburse the District for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Wastewater Project;

(f) all financing costs incurred in connection with the acquisition, construction and installation of the Wastewater Project; and

(g) the interest components of the Installment Payments allocable to the Wastewater Project that come due during the period of acquisition, construction and installation of the Wastewater Project.

"Project Fund" means the fund by that name established and held by the District under the Indenture.

"Qualified Reserve Account Credit Instrument" means an irrevocable standby or direct-pay letter of credit, financial guaranty insurance policy or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all the following requirements are met:

(a) (a) in the case of a commercial bank, the long-term credit rating of such bank at the time of delivery of the irrevocable standby or direct-pay letter of credit is at least "A" from S&P or "A" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company at the time of delivery of the insurance policy or surety bond is at least "A" from S&P, or "A" from Moody's or, if not rated by S&P or Moody's but is rated by A.M. Best & Company, is rated at the time of delivery in the highest rating category by A.M. Best & Company;

(b) such letter of credit, financial guaranty insurance policy or surety bond has a term of at least 12 months;

(c) such letter of credit, financial guaranty insurance policy or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and

(d) the Trustee is authorized pursuant to the terms of such letter of credit, financial guaranty insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established and held by the Trustee under the Indenture.

"Registration Books" means the records maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

"Reserve Insurer" means Build America Mutual Assurance Company, as the issuer of the Reserve Policy, or any successor thereto or assignee thereof.

"Reserve Policy" means the municipal bond debt service reserve insurance policy issued by the Reserve Insurer for deposit into the Reserve Account.

"Reserve Requirement" means, subject to the Indenture, as of the date of calculation by the Authority or District, the least of

(i) Maximum Annual Debt Service on the Bonds (excluding from the calculation thereof Government Loans and Parity Obligations),

(ii) 10% of the total of the proceeds of the Bonds (excluding from the calculation thereof Government Loans and Parity Obligations), and

(iii) 125% of average Annual Debt Service on the Bonds (excluding from the calculation thereof Government Loans and Parity Obligations).

"Revenues" means:

(a) all amounts received by the Authority or the Trustee pursuant or with respect to the Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments, any late charges, and whether paid from any source, but excluding any Additional Payments), prepayments, insurance proceeds, condemnation proceeds, and

(b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

"S&P" means S&P Global Ratings, its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority or the District.

"Securities Depositories" means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses or such other securities depositories as the Authority designates in written notice filed with the Trustee.

"SRF Loan" means the District's loan from the State of California (State Water Resources Control Board) dated May 25, 2010, as amended on November 15, 2010, as of April 1, 2017 outstanding in the principal amount of $3,669,387.

"Supplemental Indenture" means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Tax Code.

"Term" means, when used with respect to the Installment Sale Agreement, the time during which the Installment Sale Agreement is in effect.

"Trustee" means the Trustee identified in the Indenture.

"Wastewater Enterprise" means the wastewater system of the District, including but not limited to all facilities, properties and improvements at any time owned or operated by the District for the collection and conveyance of wastewater from residents served thereby, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the District.

"Wastewater Enterprise Fund" means the fund or funds established and held by the District with respect to the Wastewater Enterprise for the receipt and deposit of Gross Revenues.

"Wastewater Project" means the facilities, improvements and other property described more fully in Appendix B attached to the Installment Sale Agreement, as that Appendix may be amended from time to time in accordance with the Installment Sale Agreement.

"Written Certificate," "Written Request" and "Written Requisition" of the Authority or the District mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the District by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

INSTALLMENT SALE AGREEMENT

Installment Payments

The District agrees to pay Installment Payments as the purchase price of the Wastewater Project. The Installment Payments are payable solely from the Net Revenues and other funds pledged under the Installment Sale Agreement.

Option to Prepay

The District has the option to prepay the Installment Payments or post a security deposit to pay the Installment Payments, in whole or in part, in the amounts and on the dates set forth in the Installment Sale Agreement. The optional prepayment dates and prices have been determined to correspond to the optional redemption dates and prices applicable to the Bonds under the Indenture.

Assignment and Amendment

The Authority and the District may at any time amend or modify any of the provisions of the Installment Sale Agreement, but only: (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds, or (b) without the consent of the Trustee or any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District contained in the Installment Sale Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Installment Sale Agreement, to conform to the original intention of the District and the Authority;

(iii) to modify, amend or supplement the Installment Sale Agreement in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code (provided that this provision shall not apply to bonds the interest on which is intended to be included in gross income for purposes of federal income taxation);

(iv) in any other respect whatsoever as the Authority and the District deem necessary or desirable, if in the opinion of Bond Counsel such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds; and

(v) to provide for the issuance of Parity Obligations pursuant to the Installment Sale Agreement.

No such modification or amendment may (a) extend or have the effect of extending any Installment Payment Date or reducing any Installment Payment or any premium payable upon the prepayment thereof, without the express consent of the Owners of the affected Bonds, or (b) modify any of the rights or obligations of the Trustee without its written assent thereto.

Events of Default

Each of the following constitutes an event of default under the Installment Sale Agreement:

(a) Failure by the District to pay any Installment Payment when due and payable under the Installment Sale Agreement.

(b) Failure by the District to pay any Additional Payment when due and payable under the Installment Sale Agreement, and the continuation of such failure for a period of 30 days.

(c) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Authority or the Trustee; *provided*, *however*, that if the District notifies the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure will not constitute an event of default if the District commences to cure such failure within such 60 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time not to exceed 180 days of the date of such written notice of failure.

(d) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence of any event defined to be an event of default under any Parity Obligations Documents.

Remedies on Default

If an Event of Default occurs and is continuing, the Trustee as assignee of the Authority and subject to its rights and protections under the Indenture has the right, at its option and without any further demand or notice, to take any one or more of the following actions:

(a) Declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the Overdue Rate from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable.

Notwithstanding the foregoing provisions of this subsection (a), the Trustee shall rescind and annul such declaration and its consequences if, before any judgment or decree for the payment of the moneys due has been obtained or entered, if (i) the District deposits with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the Overdue Rate, and (ii) the District pays the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and (iii) any and all other defaults actually known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) have been made good. No such rescission and annulment will extend to or shall affect any subsequent default, or impair or exhaust any right or power consequent thereon.

(b) Take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under the Installment Sale Agreement.

(c) As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners hereunder, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged under the Installment Sale Agreement, with such powers as the court making such appointment may confer.

No Remedy Exclusive

No remedy conferred upon or reserved to the Authority under the Installment Sale Agreement is intended to be exclusive. Every such remedy is cumulative and in addition to every other remedy given under the Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default impairs any such right or power or operates as a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in the Installment Sale Agreement, it is not necessary to give any notice, other than such notice as may be required in the Installment Sale Agreement or by law.

No Additional Waiver Implied by One Waiver

If any agreement contained in the Installment Sale Agreement is breached by either party and thereafter waived by the other party, such waiver is limited to the particular breach so waived and does not waive any other breach thereunder.

Trustee and Bond Owners to Exercise Rights

Such rights and remedies as are given to the Authority under the Installment Sale Agreement have been assigned by the Authority to the Trustee under the Indenture, to which assignment the District consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

Provisions Relating to Reserve Insurer

The Installment Sale Agreement incorporates by reference the provisions under the heading "INDENTURE OF TRUST – Provisions Relating to Reserve Insurer and Reserve Policy," and the District agrees to such provisions under the Installment Sale Agreement.

INDENTURE OF TRUST

Funds and Accounts; Flow of Funds

Costs of Issuance Fund. A portion of the proceeds of the Bonds will be deposited by the Trustee in the Costs of Issuance Fund on the Closing Date. The Trustee will disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on the representations and certifications set forth in such Written Requisitions and shall be fully protected in relying thereon.

Project Fund. The District shall establish and maintain a separate fund to be known as the "Project Fund" into which the Trustee shall deposit a portion of the proceeds of sale of the Bonds pursuant to the Indenture. Except as otherwise provided in the Indenture, moneys in the Project Fund will be used solely for the payment of the Project Costs. The District shall determine if amounts charged against the Project Fund are proper charges against such fund, and the District shall maintain a record of disbursed amounts from the Project Fund, including the person to whom payment was made, the amount paid, and the purpose for which the obligation was incurred.

Upon the completion of the Wastewater Project, as evidenced by the filing by the District with the Trustee of a Written Certificate pursuant to the Installment Sale Agreement stating that the Wastewater Project has been completed, the District shall deposit in the Interest Account held by the Trustee all amounts remaining on deposit in the Project Fund, and the District shall thereupon close the Project Fund.

Bond Fund. All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required hereunder or under the Installment Sale Agreement to be deposited in the Redemption Fund shall be promptly deposited in such fund.

All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the Bonds or provision therefore under the provisions of the Indenture regarding defeasance, and (ii) any applicable fees and expenses of the Trustee, will be withdrawn by the Trustee and remitted to the District.

Redemption Fund. The Trustee will establish and maintain the Redemption Fund, into which the Trustee shall deposit a portion of the Revenues received representing optional prepayments of the Installment Payments, in accordance with a Written Request of the Authority.

Amounts on deposit in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and premium (if any) of the Bonds to be redeemed under the Indenture; provided, however, that at any time prior to the selection of Bonds for redemption, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed under a Written Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

The Trustee shall be entitled to conclusively rely on any Written Request of the Authority received under this provision of the Indenture, and shall be fully protected in relying thereon.

Reserve Account.

Application of Reserve Account. All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory sinking fund redemption under the Indenture, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds.

If the amounts on deposit in the Reserve Account are insufficient at any time to pay the full amount of principal of and interest on the Bonds then required to be paid from the Reserve Account, the Trustee shall apply such amounts first, to the payment of interest and second, to the payment of principal. On the date on which all Bonds are retired hereunder or provision is made therefor under the Indenture, after payment of any amounts then owed to the Trustee, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the District as a refund of overpaid Installment Payments.

If, on any date, moneys on deposit in the Reserve Account, together with amounts then on deposit in the Bond Fund, are sufficient to pay all Outstanding Bonds, including all principal thereof, and interest thereon, the Trustee shall, at the Written Request of the Authority, transfer all amounts then on deposit in the Reserve Account, together with such amounts in the Bond Fund, to the Redemption Fund to be applied to the redemption of the Bonds in accordance with the provisions of the Indenture. The Trustee shall be entitled to conclusively rely on any such Written Request and shall be fully protected in relying thereon. On each April 1, the Trustee shall transfer any amounts on deposit in the Reserve Account in excess of the Reserve Requirement, including amounts derived from the investment of moneys in the Reserve Account, to the Bond Fund.

Qualified Reserve Account Credit Instrument. The Authority shall have the right at any time to release any cash (including Permitted Investments) on deposit from the Reserve Account, in whole or in part, by tendering to the Trustee: (1) a Qualified Reserve Account Credit Instrument, and (2) an opinion of Bond Counsel stating that such release will not, of itself, cause the interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, the Trustee shall transfer such funds from the Reserve Account to or upon the direction of the Authority.

Prior to the expiration of any Qualified Reserve Account Credit Instrument, the Authority shall be obligated either (a) to replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (b) to deposit or cause to be deposited with the Trustee an amount of funds such that the funds on deposit in the Reserve Account, together with all Qualified Reserve Account Credit Instruments held by the Trustee, is at least equal to the Reserve Requirement.

Investment of Funds

All moneys in any of the funds or accounts established with the Trustee under the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority under a Written Request of the Authority filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee will hold any such moneys uninvested.

Permitted Investments purchased as an investment of moneys in any fund will be deemed to be part of such fund or account. To the extent Permitted Investments are registrable, such Permitted Investments must be registered in the name of the Trustee.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the Bond Fund All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Bond Fund, *provided*, *however*, that earnings on the investment of the amount in the Reserve Account shall be retained therein to the extent required to maintain the Reserve Requirement, and otherwise shall be transferred to the Bond Fund in accordance with the Indenture.

For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it thereunder. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee may rely conclusively on the written investment direction of the Authority as to the suitability and legality of the directed investments.

The Trustee shall incur no liability for losses arising from any investments made under this provision of the Indenture.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The Trustee is authorized, in making or disposing of any investment permitted by this provision of the Indenture, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or is dealing as a principal for its own account.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur at no additional cost, the Authority will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The moneys on deposit in the funds and accounts established under the Indenture shall not be deemed "surplus" under Section 53601 of the Government Code.

Amounts in the Project Fund held by the District shall be invested by the District in Permitted Investments.

Covenants of the Authority

Payment of Bonds. The Authority will punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of the Revenues and other amounts pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which have not been so extended.

Nothing in this provision of the Indenture limits the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance does not constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture.

Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized under law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other amounts purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture.

The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established under the Indenture. The Trustee will make such books of record and account available for inspection by the Authority and the District during business hours, upon reasonable notice, and under reasonable circumstances.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness will be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants.

(a) Private Business Use Limitation. The Authority will assure that the proceeds of the Bonds are not used in a manner that would cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Authority may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The Authority may not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds or of any other obligations which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

(d) Maintenance of Tax Exemption. The Authority will take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings to United States. The Authority will calculate or cause to be calculated all amounts of excess investment earnings with respect to the Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code.

The Authority will pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the Authority.

The Authority will keep or cause to be kept, and retain or cause to be retained for a period of 6 years following the retirement of the Bonds, records of the determinations made under this subsection (e).

The Trustee may rely conclusively upon the Authority's determinations, calculations and certifications required by this section of the Indenture. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Authority's calculations thereunder.

Enforcement of Installment Sale Agreement. The Trustee will promptly collect all amounts (to the extent any such amounts are available for collection) due from the District under the Installment Sale Agreement.

Subject to the provisions of the Indenture, the Trustee may enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the District under the Installment Sale Agreement.

Waiver of Laws. The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Amendment of Indenture

Amendments With Bond Owner Consent. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by Supplemental Indenture, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding are filed with the Trustee.

No such modification or amendment may:

(i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or

(ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted therein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding.

It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof.

Amendments Without Owner Consent. The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;

(ii) to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority deems necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code; or

(v) to modify any of the provisions of the Indenture in any other respect, including the substitution of a Qualified Reserve Account Credit Instrument as set forth in the Indenture, provided that such modifications do not have a material adverse effect on the interests of the Owners of the Bonds, in the opinion of Bond Counsel filed with the Trustee.

Limitation. The Trustee is not obligated to enter into any Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Bond Counsel Opinion Requirement. Prior to the Trustee entering into any Supplemental Indenture, the Authority shall deliver to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

Notice of Amendments. The Authority will deliver or cause to be delivered a draft of any Supplemental Indenture to each rating agency which then maintains a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture.

Events of Default

Events of Default Defined. The following events constitute events of default under the Indenture:

(a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Failure to pay any installment of interest on the Bonds when due.

(c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee provided, however, if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such 60-day period, such failure will not constitute an Event of Default if the Authority institutes corrective action within such 60-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time, not to exceed 180 days of the date of the written notice of such failure.

(d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

(e) The occurrence and continuation of an event of default under and as defined in the Installment Sale Agreement.

Remedies. If any Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and shall, at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

The foregoing provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, the Authority shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal of the Bonds maturing prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) are made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate is made therefor, then, and in every such case, the Trustee, on behalf of the Owners of all of the Bonds, shall rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon; provided, however, that no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

In addition to declaring the principal of all of the Bonds, and the interest accrued thereon, to be immediately due and payable as set forth above, the Trustee shall have the right to pursue any other remedy provided by law or in equity or otherwise after an Event of Default has occurred.

Application of Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee in the following order of priority:

(a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal attorneys) incurred in and about the performance of its powers and duties under the Indenture; and

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available is not sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Limitation on Bond Owners' Right to Sue. Notwithstanding any other provision of the Indenture, no Owner of any Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Sale Agreement or any other applicable law with respect to such Bonds, unless

(a) such Owner has given to the Trustee written notice of the occurrence of an Event of Default;

(b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name;

(c) such Owner or Owners have tendered to the Trustee satisfactory indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and

(e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Sale Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority. Nothing in the Indenture or in the Bonds affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon acceleration or call for redemption, as provided in the Indenture, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or by any one or more Bond Owners on account of any Event of Default have been discontinued or abandoned for any reason or have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners will continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee, or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or the Bond Owners.

Defeasance

Discharge of Indenture. Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

(a) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem such Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Bonds.

If the Authority pays all outstanding Bonds as provided above and also pays or causes to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, subject to the provisions of the Indenture regarding discharge of liability on the Bonds.

In such event, upon the Written Request of the Authority, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the District all moneys or securities or other property held by it under the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

The Trustee is entitled to conclusively rely on any such Written Certificate or Written Request and, in each case, is fully protected in relying thereon.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption is given as provided in the Indenture or provision satisfactory to the Trustee is made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture regarding unclaimed funds.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established under the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee is made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or

(b) non-callable Defeasance Obligations, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the District, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption is given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority has delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

The Trustee will be entitled to conclusively rely on such Written Request or opinion and shall be fully protected, in each case, in relying thereon.

Unclaimed Funds. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for 2 years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or 2 years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall (at the cost of the Authority) first mail to the Owners of

Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

In the absence of any such written request, the Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Trustee in its sole discretion, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations. Any such delivery shall be in accordance with the customary practices and procedures of the Trustee and the escheat authority. All moneys held by the Trustee and subject to this provision of the Indenture shall be held uninvested and without liability for interest thereon.

Provisions Relating to Reserve Insurer and Reserve Policy.

(a) The provisions of this subheading shall govern, notwithstanding anything to the contrary set forth in the Indenture and the Installment Sale Agreement (the Indenture and the Installment Sale Agreement are collectively referred to in this subheading as the "Security Documents"). Under the Installment Sale Agreement, the District has agreed to the provisions in this subheading.

(b) The Authority shall repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Reserve Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Reserve Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of (A) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such changes are announced by JPMorgan Chase Bank) plus 5%, and (ii) the then applicable highest rate of interest on the Bonds, and (B) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such bank, banking association or trust company bank as the Reserve Insurer in its sole and absolute discretion shall specify.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Reserve Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Reserve Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

All cash and investments in the Reserve Account established for the Bonds and all other available amounts in any funds available to pay debt service on the Bonds shall be transferred to the Bond Fund for payment of the debt service on the Bonds before any drawing may be made on the Reserve Policy or any other Qualified Reserve Account Credit Instrument on deposit in the Reserve Account in lieu of cash.

Payment of any Policy Cost shall be made prior to replenishment of any cash amounts. Draws on all Qualified Reserve Account Credit Instruments (including the Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to other Qualified Reserve Account Credit Instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Account. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable Qualified Reserve Account Credit Instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Reserve Requirement.

(c) Draws under the Reserve Policy may only be used to make payments on Bonds covered under the Reserve Policy.

(d) If the Authority shall fail to pay any Policy Costs in accordance with the requirements of paragraph (a) above, the Reserve Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Security Documents.

(e) The Security Documents shall not be discharged until all Policy Costs owing to the Reserve Insurer shall have been paid in full. The Authority's obligation to pay such amount shall expressly survive payment in full of the Bonds.

(f) The Reserve Policy shall expire and terminate in accordance with the terms and provisions of the Reserve Policy.

(g) Any amendment, supplement, modification to, or waiver of any of the Security Documents that requires the consent of the Owners of the Bonds or adversely affects the rights or interest of the Reserve Insurer shall be subject to the prior written consent of the Reserve Insurer.

(h) The Reserve Insurer is recognized as and shall be deemed to be a third party beneficiary of the Security Documents and may enforce the provisions of the Security Documents as if it were a party thereto.

(i) Policy Costs due and owing shall be included in debt service requirements for purposes of calculation of the additional bonds test and the rate covenant in the Security Documents.

(j) The Trustee shall ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of paragraph (a) hereof and shall provide notice to the Reserve Insurer in accordance with the terms of the Reserve Policy at least five business days prior to each date upon which interest or principal is due on the Bonds. Where deposits are required to be made by the Authority with the Trustee to the debt service fund for the Bonds more often than semi-annually, the Trustee shall give notice to the Reserve Insurer of any failure of the Authority to make timely payment in full of such deposits within two business days of the date due.

(k) The Authority agrees unconditionally that it will pay or reimburse the Reserve Insurer on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that the Reserve Insurer may pay or incur, including, but not limited to, fees and expenses of the Reserve Insurer's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of this Indenture or any other Security Document ("Administrative Expenses"). For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of the Reserve Insurer spent in connection with the actions described in the preceding sentence. The Authority agrees that failure to pay any Administrative Expenses on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to the Reserve Insurer until the date the Reserve Insurer is paid in full.

(l) Payments made by the Reserve Insurer under the Reserve Policy with respect to claims for interest on or principal of the Bonds shall not discharge the obligation of the Authority with respect to such Bonds, and the Reserve Insurer shall become the owner of such unpaid Bonds and claims for the interest thereon. The Authority and the Trustee recognize and agree that to the extent the Reserve Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Bonds, the Reserve Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Authority, with interest thereon.

(m) In order to secure the Authority's payment obligations with respect to Policy Cost, there is granted under the Indenture and perfected in favor of the Reserve Insurer a security interest (subordinate only to that of the Owners of the Bonds) in all revenues and collateral pledged as security for the Bonds. Policy Costs shall be paid to the Reserve Insurer immediately following the payment of principal of and interest on the Bonds, including following the occurrence of a default or event of default.

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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VALLEY SANITARY DISTRICT

San Rafael, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2016 and 2015

Treatment facilities

Las Gallinas
VALLEY SANITARY DISTRICT

San Rafael, California

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2016 and 2015

Mark R. Williams, General Manager

Prepared by:

Susan M. McGuire, CPA – Administrative Services Manager

Secondary clarifier

Collection System Vehicles

Las Gallinas Valley Sanitary District

Table of Contents

Table of Contents (continued)

INTRODUCTORY SECTION

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October 28, 2016

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

It is our pleasure to submit this Comprehensive Annual Financial Report (CAFR) of the Las Gallinas Valley Sanitary District (the District) for the fiscal year ended June 30, 2016. This report was prepared by the District staff that collected and analyzed the financial statements and other information presented herein.

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

California law requires that every local government publish a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2016.

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

The District's basic financial statements have been audited by Burr Pilger Mayer, Inc, a registered public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2016 are fairly presented in conformity with GAAP, and are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. The independent auditors have issued an unqualified ("clean") opinion on the Las Gallinas Valley Sanitary District's financial statements for the fiscal year ended June 30, 2016. Their audit report is presented as the first component of the financial section of this report.

The CAFR represents the culmination of all budgeting and accounting activities engaged in by management during the fiscal year. GAAP requires that management provide a narrative

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introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A) which is presented after the independent auditors' report. This letter of transmittal and introduction is designed to complement the MD&A and should be read in conjunction with it.

FINANCIAL CONTROLS AND ACCOUNTING SYSTEMS

Internal Controls

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

Budgetary Controls

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

Accounting System

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

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

HISTORY AND PROFILE OF THE DISTRICT

The District was established on April 6, 1954 pursuant to the California Health and Safety Code, Division 6 – Sanitary District Act of 1923. It is located approximately two miles northeast of the City of San Rafael and 20 miles north of San Francisco. It covers an area of about sixteen square miles in the northern part of the City of San Rafael and surrounding unincorporated areas in Marin County, California, including the communities of Lucas Valley, Marinwood, Santa Venetia and Terra Linda. The District's boundaries are Hamilton Field (a former air force base) to the north, San Pablo Bay to the east, and central San Rafael to the south. The District serves a population of approximately 30,000 people. The District is primarily residential and built out, resulting in a fairly stable customer base. As of July 1, 2015, it is comprised 97.5% residential (12,941 units) and 2.5% commercial/industrial (333 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.
- The District regularly performs smoke testing of the District to detect leaks in sewer mains and laterals. It is a process whereby smoke is blown into the sewer mains, lower and upper laterals, to determine where there may be cracked pipes or storm water cross connections. This process helps to identify where there may be Infiltration and Inflow (I&I) into the sewage collection system. I&I is a major concern for wastewater treatment plants since large storms may produce flows that overwhelm the capacity of the sewage collection system and possibly the plant, resulting in sewage spills, plant violations, overflows and fines.
- The District has completed two cycles of televising all of its sewer mains; 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.

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 2.44 MGD of sewage per day in 2016.
- The District's treatment plant uses primary treatment to separate the solids from the wastewater; trickling filters and deep bed filters to provide secondary treatment. Treated effluent is disposed of through discharge pipes into Miller Creek which flows to San Pablo Bay during discharge season, November through May. Discharge coincides with wet weather when treated effluent can be diluted by higher levels of bay water due to rain.
- All readily settable solids and grit are removed from the wastewater stream; grit is then disposed of in a landfill. The solids are treated by gravity thickening and anaerobic digestion, and then pumped to one or more of three storage ponds, where they are typically retained for one year prior to surface disposal. The treatment plant produced 327 dry tons of biosolids during the calendar year 2015.

Reuse of Treated Wastewater

- The District is producing recycled water year round to meet increasing demand during the continuing drought in the region. In the past, recycled water was predominately used during the summer months, which aligned with the District's non discharge period of June through October.
- The District has a water reclamation project on 385 acres of diked bay lands located to the northeast of the treatment plant. This project includes a 20 acre wildlife marsh pond, 40 acres of storage ponds, 200 acres of irrigated pasture, and 3.5 miles of public trails which are part of the San Francisco Bay Trail. During 2016, 94.2 million gallons were diverted to the District's water reclamation project.
- The District delivers effluent to Marin Municipal Water District (MMWD), which further treats it so that it can be used for irrigation of landscapes, including golf courses and playing/recreation fields, dual plumbing, toilet flushing, cooling water uses, and car washes within the District's boundaries. During 2016, 164.9 million gallons were delivered to MMWD.
- The District's recycled water treatment facility, online since September 2012, has a capacity of 0.7 mgd with redundant systems to produce up to 1.4 mgd. The District is planning an expansion of the facility to provide for an additional 4 mgd of capacity. The facility takes the plant effluent not utilized by MMWD and treats it to recycled water standards so that it can be distributed by North Marin Water District (NMWD). The District produced 43.9 million gallons for NMWD during 2016.

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 that is designed to prevent customers from discharging substances that are harmful to the sewage treatment process or that may cause clogs to sewer mains and pump stations.
- Lab staff participates in the Marin County Sanitation Agencies Public Education Program. This program allows the participating agencies to combine resources and have a unified message to educate the public about the proper disposal of and to collect pharmaceuticals, mercury, batteries and other household hazardous waste in the County. They participate in programs with school children, the Marin County Fair and various farmers' markets and festivals. The participating agencies won the Redwood Empire Public Education Award Large Budget from the California Water Environment Association for 2015.
- The District offers tours of the plant treatment works and enhanced wetlands upon request from schools, community groups and other members of the public.
- The District produces a newsletter twice a year to educate the public about the sewer collection system, treatment plant and their sewer laterals. Staff has noted an increase in knowledge by homeowners regarding maintaining their sewer laterals.

- The District has a website at www.lgvsd.org where it posts current developments, public education topics and information about what is happening at the Board meetings, the plant and in the District.
- The District was awarded the District Transparency Certificate of Excellence by the Special District Leadership Foundation during July 2015 in recognition of its outstanding efforts to promote transparency and good governance.

Solid Waste (Garbage) Services and Recycling

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

ECONOMIC CONDITIONS AND OUTLOOK

The District is comprised primarily of residential units with commercial and some light industrial areas. It is substantially built out with in-fill developments in pockets of undeveloped land and redevelopment of commercial areas that were built over twenty years ago. The District does not expect significant new, customers in the near future. A capital facilities charge study was performed during 2015. The study reviewed the capital facilities plan developed by staff and the Board during 2015, which will be undertaken during the upcoming five years. The capital facilities charge is $5,327 effective July 1, 2015 and will be adjusted by the Engineering News Record Construction Cost Index for San Francisco each July.

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

Compared to neighboring jurisdictions, the District's customers in the unincorporated area enjoy one of the lowest garbage and recycling rates. As of January 1, 2016, customers pay a monthly service fee of $25.18 for a 20-gallon cart and $29.62 for a 32-gallon cart. This is below the Marin County average of $35.27 per month for a 32-gallon cart.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Las Gallinas Valley Sanitary District for its CAFR for the year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

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

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

Mark R. Williams
General Manager

Susan McGuire

Susan McGuire, CPA
Administrative Services Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Las Gallinas Valley Sanitary District

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Mission Statement

Our Mission

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

Vision

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

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

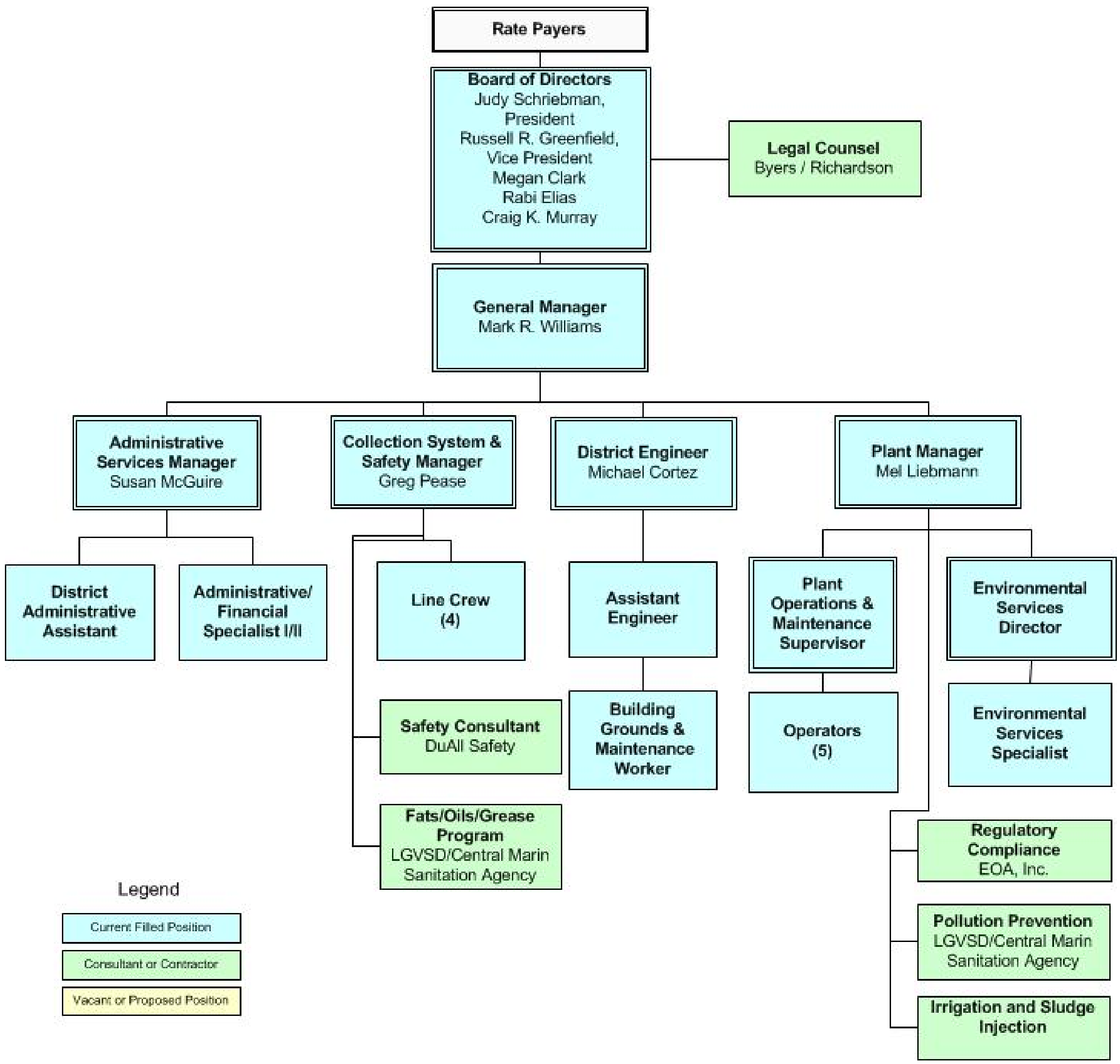
Our Core Values

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

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Organizational Chart



Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

Directory of Officials

Board of Directors

Megan Clark	Director	12/13/2013 – 12/13/2017
Rabi Elias	Director	12/13/2013 – 12/13/2017
Russ Greenfield	Director	12/13/2013 – 12/13/2017
Craig K. Murray	Director	12/10/2015 – 12/12/2019
Judy Schriebman	Director	12/10/2015 – 12/12/2019

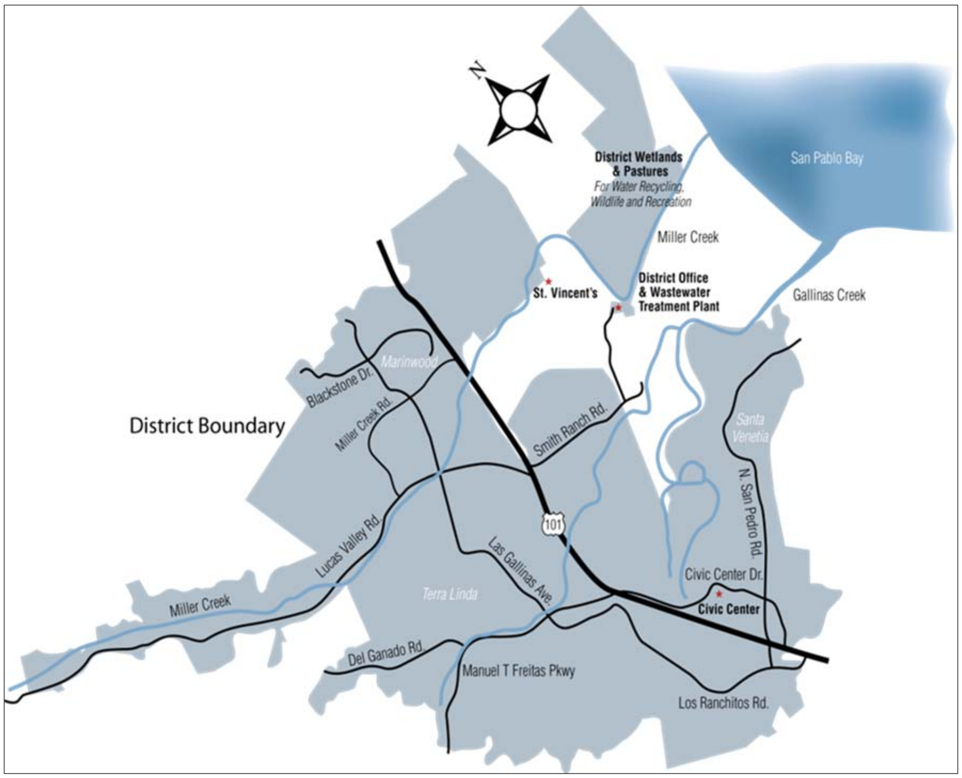
Administration

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

Las Gallinas Valley Sanitary District

Comprehensive Annual Financial Report

District Service Area



Walkers in Reclamation

FINANCIAL SECTION

Las Gallinas Valley Sanitary District

Primary Clarifier Drain, Clean, Inspect and Repair

BERS Project Ready for May 9, 2016 Start Up

BPM
2000 University Avenue, Suite 201, East Palo Alto, CA 94303
Phone 650-855-6800 **Fax** 650-855-6899 **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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Las Gallinas Valley Sanitary District as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the District restated the June 30, 2015 financial statements due to a correction of an error. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Las Gallinas Valley Sanitary District's basic financial statements. The introductory section, budgetary comparison section, and statistical section on pages i-xi, 58-63, and 64-81, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Burr Pilger Mayer, Inc.

Burr Pilger Mayer, Inc.
E. Palo Alto, California
October 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public education, outreach and tours of the treatment plant

Inspecting a Sewer Easement

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2016 and 2015

The following discussion and analysis of the Las Gallinas Valley Sanitary District's (the District) financial performance provides an overview and analysis of the District's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

Financial Highlights

- Operating revenues increased by approximately $1,290,000 over the previous year. This increase was due to a 13% increase in the sewer service revenue which was offset by a decrease in recycled water revenue. Recycled water revenue is from a cost reimbursement agreement. During 2016, the reimbursable costs were lower and there was less demand due to overall conservation.
- Operating expenses, net of depreciation, decreased by $4,286 or 0.06%. Personnel costs increased by $52,338 which was offset by decreases in repairs and maintenance of $38,543 and other items.
- Nonoperating expenses are comprised primarily of interest expense. The total interest incurred in 2016 was $506,659; however, $114,151 was capitalized as part of the cost of constructing fixed assets. Interest expense is trending lower since the District refinanced the Certificates of Participation in April 2014 to reduce the interest rate from an average of 4% to 3.3%. The projected cash flow savings over the remaining period outstanding is $344,000. As the principal is repaid, the interest expense decreases.
- Capital contributions from Connection Fees are dependent on the level of development within the District. In recent years, the development has consisted of the expansion of existing facilities rather than new housing. The State Grant is a reimbursement grant and the increase of $762,960 in 2016 reflects the level of construction activity for the funded project.

District Highlights

- The District treated 895 million gallons of wastewater and produced 209 million gallons of effluent for recycled water treatment and distribution by Marin Municipal Water District (MMWD) and North Marin Water District (NMWD) during 2016.
- The District has two photovoltaic systems which power the reclamation pump station and the treatment plant. These systems generated 135,000 kWh of electricity for operations resulting in the District utilizing net 521,000 kWh of electricity for operating the plant during the year. This was an increase in power utilization due to a capital improvement project which took the District's co-generation system offline in December, 2015. The project is slated for completion during 2017.

- The District was awarded a $999,070 grant from the California Energy Commission in May 2015 for its Biogas Energy Recovery System (BERS) project. This closed-loop system will be installed at the treatment plant and allow the District to recover 100 percent of the methane produced from the mesophilic anaerobic digestion of wastewater sludge at the facility and condition it for on-site combined heat and power generation and transportation fuel use. In August 2015, the District received a $250,000 grant from the California Energy Commission for fueling station equipment for the BERS project. Both of these grants are reimbursement grants that require expenditure of funds by the District before any grant funds are received. In July 2015, the District was awarded a sales tax exclusion grant on the purchase of equipment for the project. The grant is based on the equipment having a maximum purchase price of $788,757, resulting in a maximum sales and use tax exemption of $72,960. This grant relieves the District from paying sales tax to the seller of the equipment as part of the purchase price.
- The District was awarded an $847,000 federal grant from the United States Bureau of Reclamation under its Title XVI program to expand the recycled water treatment facility. Design of the expansion is currently underway and construction is expected to begin in the second half of 2017.
- The District has a Private Sewer Lateral Assistance Program which allows property owners to apply for low interest loans, currently 2% interest, to obtain up to $10,000 to replace their upper, lower or both laterals. The loans are repaid through special assessments through the property taxes over ten years. During 2016, $272,322 was advanced to forty-one property owners to repair or replace their laterals.
- The District maintained its achievement of having among the lowest reported sewer overflow rate in Marin County.

USING THIS ANNUAL REPORT

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

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District activities in a way that will help answer this question. These two statements report the net position of the District and changes from year to year. The difference between assets and liabilities (net position) is one way to measure financial health or financial position. Over time, increases or decreases in 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 by $5,926,581 in 2016 and $3,693,057 in 2015. The following Condensed Statements of Net Position shows these changes.

CONDENSED STATEMENTS OF NET POSITION
Fiscal years ended June 30, 2016, 2015 and 2014

	2016	2015 As Restated	2014
ASSETS			
Current assets	$ 21,657,390	$ 20,400,710	$ 19,409,060
Capital assets	58,497,940	55,491,218	53,788,914
Other noncurrent assets	1,325,117	1,160,367	1,030,932
Total assets	**81,480,447**	**77,052,295**	**74,228,906**
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refunding	90,730	100,197	109,664
Pension plan	611,173	385,468	800,052
Total deferred outflows of resources	**701,903**	**485,665**	**909,716**
LIABILITIES			
Current liabilities	1,840,889	2,136,396	1,955,948
Noncurrent liabilities	16,162,403	16,823,364	18,919,097
Total liabilities	**18,003,292**	**18,959,760**	**20,875,045**
DEFERRED INFLOWS OF RESOURCES			
Pension plan	**295,843**	**621,566**	**-**
NET POSITION			
Invested in capital assets	43,748,909	39,711,767	37,011,342
Restricted	867,096	860,493	858,263
Unrestricted	19,267,210	17,384,374	16,393,972
Total net position	**$ 63,883,215**	**$ 57,956,634**	**$ 54,228,577**

Analysis of Changes in Statements of Net Position

Current assets increased by $1,256,680 in 2016 due to increases in cash and accounts receivable, primarily for the grant related to the BERS project. In 2015, current assets increased by $991,650 due to increases in cash, receivables and prepaid expenses. The District has built up cash to pay for future construction. Capital assets, net of accumulated depreciation, increased by $3,006,722 in 2016. Spending on projects was $5,556,368; this was offset by depreciation of $2,429,063. In 2015, capital assets, net of accumulated depreciation, increased by $1,702,304. Spending on projects was $3,409,050; this was offset by depreciation of $2,431,458. Other noncurrent assets increased by $164,750 in 2016 and $129,435 in 2015 due to additional advances under the private sewer lateral assistance program. Deferred outflows of resources increased in 2016 by $216,238 and decreased by $424,051 in 2015 due to the changes in the pension related items in accordance Government Accounting Standards Board No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 27* (GASB No. 68). Deferred inflows of resources decreased in 2016 due to changes in the valuation of pension related items and increased in 2015 as part of the implementation of GASB No. 68. See Note 11 for additional information about implementation of GASB No. 68.

Current liabilities decreased by $11,909 in 2016 due to a decrease in accounts payable and an increase in the current portion of accrued compensated absences. In 2015, current liabilities increased by $180,450 due to increases in accounts payable. Noncurrent liabilities decreased by $956,468 in 2016 due to a decrease in the long-term portion of the accrued compensated absences and regularly scheduled principal payments on long-term debt, which was offset by an increase in the collective net pension liability of $404,505. In 2015, non-current liabilities decreased by $1,915,285 in 2015 due to regularly scheduled principal payments on debt and a decrease in the collective net pension liability of $1,084,882.

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

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

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, 2016, 2015 and 2014

	2016	2015 As Restated	2014
REVENUE			
Operating revenues			
Sewer use charges	$ 11,647,257	$ 10,311,215	$ 10,157,194
Recycled water fees	49,814	120,037	74,703
Miscellaneous	46,103	21,442	45,846
Nonoperating revenues			
Tax revenues	1,124,885	1,086,881	1,117,756
Federal and state grants	-	-	19,063
Interest income and other	108,636	81,741	76,282
	12,976,695	11,621,316	11,490,844
EXPENSES			
Operating expenses	7,479,878	7,484,165	7,888,621
Nonoperating expenses	401,975	553,432	626,139
	7,881,853	8,037,597	8,514,760
Change in net position	5,094,842	3,583,719	2,976,084
CAPITAL CONTRIBUTIONS -			
CONNECTION FEES	33,879	74,438	43,725
STATE GRANTS	797,860	34,900	-
Net position - beginning of year	57,956,634	54,263,577	51,243,768
Net position - end of year	**$ 63,883,215**	**$ 57,956,634**	**$ 54,263,577**

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

Revenue of the District increased in 2016 due to an increase in the sewer user charge from $647 to $734, or 13%. Recycled water fees are based on production to meet demand and costs incurred by the District. During 2016, demand dropped due to overall water conservation and the costs incurred were less. In 2015, revenue increased due to a change in the sanitary sewer calculation method, although the overall rate remained at $647, and recycled water demand increased as wells as production costs, which resulted in higher revenue. Miscellaneous income increased in 2016 due to higher insurance dividends; in 2015 miscellaneous income decreased from 2014, due to a drop in reimbursements from developers for engineering review fees.

Operating expenses decreased by $4,287 in 2016 due to decreased repairs and maintenance costs, which were offset by increases in personnel costs. In 2015, operating expenses decreased by $404,456 due to lower feasibility study costs, repairs and maintenance expense, and lab analysis costs.

Nonoperating revenues increased by $64,900 in 2016 due to increase property tax revenue and interest income. In 2015, it decreased in by $44,479 because an operating grant was not received and due to a decrease in Education Revenue Augmentation Funds (ERAF) receipts, which was offset by an increase in interest income.

Nonoperating expenses decreased by $151,457 and $72,707 in 2016 and 2015, respectively, due to the capitalization of interest paid as part of capital construction projects and the overall reduced interest costs, from refinancing one of the loans at a lower rate and a general reduction in interest as the principal amount of the debt is paid.

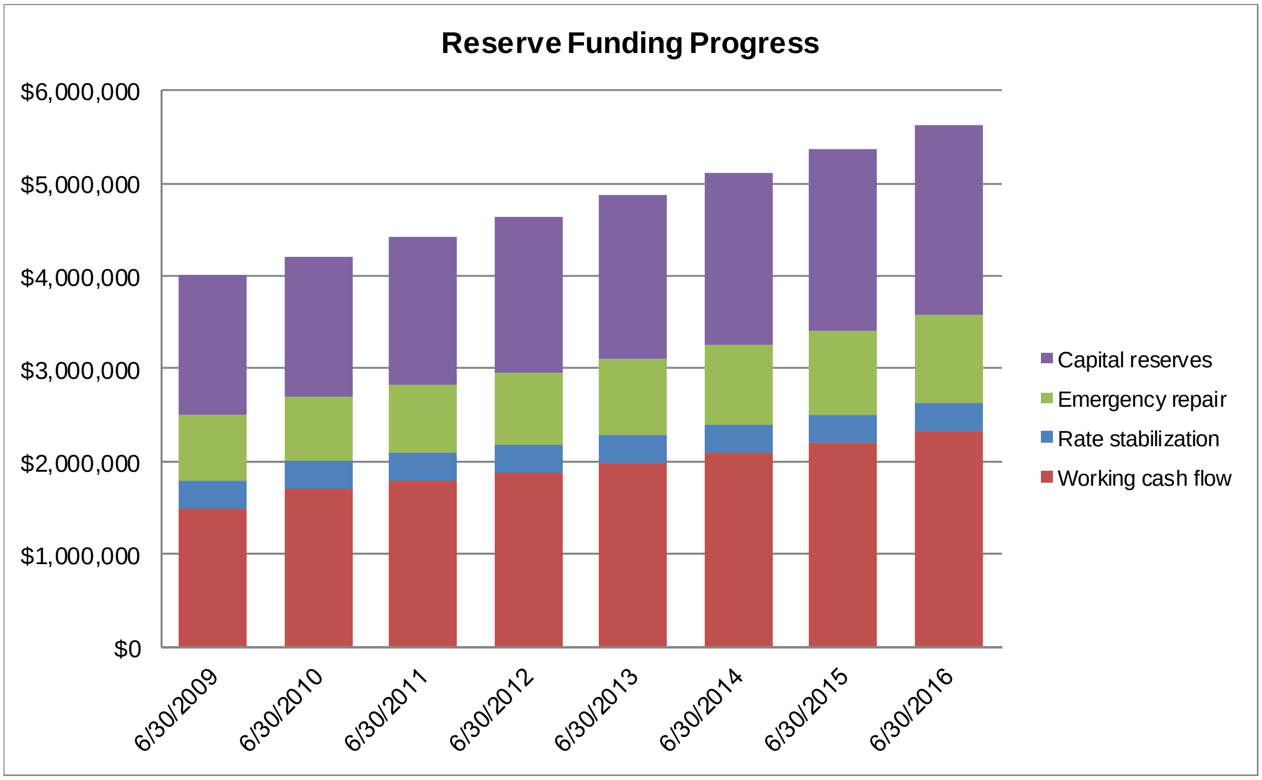
Connection fees decreased in 2016 due to a drop in applications for plant and line capacity, but increased in 2015 due to renewed construction. The state grant relates to the BERS project discussed previously.

DESIGNATED RESERVES

The District's current reserve policy, as put forth in the Board Policies and Procedures in 2009, established a goal of increasing the reserves, originally established in 2002, to meet updated financial needs. Unrestricted net position was designated for the following at June 30, 2016:

	Actual June 30, 2016	Current Target Balance	Original Target
Operating reserves:			
Working cash flow	$ 2,322,631	$ 2,590,000	$ 1,500,000
Rate stabilization	300,000	300,000	300,000
Emergency repair	956,378	1,000,000	700,000
Total operating reserves	3,579,009	3,890,000	2,500,000
Capital reserves	2,049,380	4,000,000	1,500,000
Total reserves	**$ 5,628,389**	**$ 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 2016, the District had $58,497,940 (net of accumulated depreciation) invested in capital assets. The District's investment in capital assets increased by $3,006,722, from $102,246,335 at the beginning of the year to $107,682,120 at the end of the year. There was a charge-off of $72,691 for preliminary engineering design that will not go forward and the reclassification of a spare piece of equipment from construction in process to inventory.

Major capital asset events during the year included the following:

- Construction of the BERS project.
- Upgrades to the treatment plant.
- Completion of a sewer system rehabilitation project.
- Upgrades to air release valves.

The following summarizes the District's capital assets for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Disposals/ Charge off	Transfers/ Reclass	Balance June 30, 2016
Land	$ 2,867,571	$ -	$ -	$ -	$ 2,867,571
Construction-in-progress	4,546,441	5,248,676	(120,583)	(1,464,193)	8,210,341
Subsurface lines	29,455,502	163,515	-	1,086,371	30,705,388
Facilities and equipment	65,376,821	144,177	-	377,822	65,898,820
	102,246,335	5,556,368	(120,583)	-	107,682,120
Less: Accumulated depreciation	(46,755,117)	(2,429,063)	-	-	(49,184,180)
Capital assets, net of accumulated depreciation	**$ 55,491,218**	**$ 3,127,305**	**$ (120,583)**	**$ -**	**$ 58,497,940**

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

Long-Term Debt

As of June 30, 2016, the District has total debt of $14,749,031 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 decreased by $1,030,420 (6.5%) due to regularly scheduled principal payments.

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

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Notes Payable				
Bank of Marin	$ 5,444,773	$ -	$ (368,929)	$ 5,075,844
Municipal Finance Corporation	6,483,800	-	(480,000)	6,003,800
State Revolving Fund Loan	3,850,878	-	(181,491)	3,669,387
	$ 15,779,451	**$ -**	**$ (1,030,420)**	**$ 14,749,031**

Additional information on the long-term debt can be found in Note 8 of the notes to the financial statements of this report.

ECONOMIC FACTORS, RATES AND BUDGETARY CONTROL

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

The District, as a wastewater treatment plant, is subject to increasing regulatory compliance regulations. These regulations require upgrades to plant and equipment, as well as increased staff to effectively operate the system. The District reviewed its operating and capital needs during 2015 in order to establish sewer service rates for the years beginning July 1, 2015 through June 30, 2020. The majority of the rate increase is for planned capital improvements totaling $41 million, the largest of which is a $32.5 million upgrade to the treatment plant to improve wastewater processes to meet regulatory requirements. The District plans to finance this upgrade with a loan or bonds.

The expected revenue from sanitary service charges is as follows:

Fiscal Year	Price per Sanitary Unit	Expected Total Revenue	Status
2015-16	$ 734	$ 11,614,992	Approved June 2015
2016-17	$ 835	$ 12,989,000	Approved June 2016
2017-18	$ 868	$ 13,454,000	
2018-19	$ 898	$ 13,919,000	
2019-20	$ 927	$ 14,368,500	

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

The District is monitoring the changes in the current financial and credit markets. Reserve funds are invested in two manners. The majority of funds are invested in the Local Agency Investment Fund (LAIF), which is an investment pool managed by the Treasurer of the State of California.

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

REQUEST FOR INFORMATION

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

Photovoltaic Panels Generate Power for the Treatment Plant

Trickling filters

BASIC FINANCIAL STATEMENTS

Wildlife in the reclamation area

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2016 and 2015

	2016	2015 As Restated
CURRENT ASSETS:		
Cash and cash equivalents, unrestricted	$ 20,316,117	$ 19,742,483
Receivables:		
Connection fees	-	27,548
User charges	84,024	71,692
Interest	20,758	13,135
Private sewer lateral assistance program	19,903	9,841
Grant reimbursement	787,367	34,900
Other	26,926	44,618
Current portion of Private Sewer Lateral Assistance program receivable	57,074	35,739
Inventory of supplies	284,961	266,895
Prepaid expenses	60,260	153,859
TOTAL CURRENT ASSETS	**21,657,390**	**20,400,710**
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	58,497,940	55,491,218
OTHER NON-CURRENT ASSETS:		
Cash - restricted for debt service	867,096	860,493
Receivables, Private Sewer Lateral Assistance Program	458,021	299,874
TOTAL NONCURRENT ASSETS	**59,823,057**	**56,651,585**
TOTAL ASSETS	**81,480,447**	**77,052,295**
DEFERRED OUTFLOWS of RESOURCES		
Deferred amount on debt refunding	90,730	100,197
Pension plan	611,173	385,468
TOTAL DEFERRED OUTFLOWS OF RESOURCES	701,903	485,665
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 82,182,350**	**$ 77,537,960**

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

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2016 and 2015

	2016	2015 As Restated
CURRENT LIABILITIES:		
Accounts payable	$ 532,570	$ 883,097
Accrued payroll	78,076	60,405
Accrued compensated absences	67,830	67,000
Accrued interest payable	35,249	37,706
Current portion of long-term debt	1,069,396	1,030,420
Deferred connection fees	57,768	57,768
TOTAL CURRENT LIABILITIES	**1,840,889**	**2,136,396**
NONCURRENT LIABILITIES:		
Accrued compensated absences	384,395	380,465
Notes payable, long-term	13,679,635	14,749,031
Collective net pension liability	2,098,373	1,693,868
TOTAL NONCURRENT LIABILITIES	**16,162,403**	**16,823,364**
TOTAL LIABILITIES	**18,003,292**	**18,959,760**
DEFERRED INFLOWS of RESOURCES		
Pension plan	**295,843**	**621,566**
NET POSITION:		
Net investment in capital assets	43,748,909	39,711,767
Restricted for debt service	867,096	860,493
Unrestricted	19,267,210	17,384,374
TOTAL NET POSITION	**$ 63,883,215**	**$ 57,956,634**

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, 2016 and 2015

	2016	2015 As Restated
OPERATING REVENUES:		
Sewer use charges	$ 11,647,257	$ 10,311,215
Recycled water fees	49,814	120,037
Miscellaneous	46,103	21,442
TOTAL OPERATING REVENUES	**11,743,174**	**10,452,694**
OPERATING EXPENSES:		
Sewage collection and pump stations	945,090	1,155,844
Sewage treatment	1,546,504	1,424,600
Sewage and solid waste disposal	82,842	126,931
Laboratory	295,394	352,396
Engineering	448,195	434,849
Recycled water	97,916	108,645
General and administrative	1,634,874	1,467,442
Depreciation and amortization	2,429,063	2,413,458
TOTAL OPERATING EXPENSES	**7,479,878**	**7,484,165**
INCOME FROM OPERATIONS	**4,263,296**	**2,968,529**
NONOPERATING REVENUES:		
Property taxes	1,124,885	1,086,881
Franchise fees	25,000	25,000
Intergovernmental fees	4,442	4,521
Gain on disposal, net	-	1,117
Interest income	79,194	51,103
TOTAL NONOPERATING REVENUES	**1,233,521**	**1,168,622**
NONOPERATING EXPENSES:		
Interest expense	401,975	553,432
TOTAL NONOPERATING EXPENSES	**401,975**	**553,432**
CHANGE IN NET POSITION	**5,094,842**	**3,583,719**
NET POSITION - BEGINNING OF YEAR	57,956,634	54,263,577
CAPITAL CONTRIBUTIONS		
Connection fees	33,879	74,438
State grants	797,860	34,900
NET POSITION - END OF YEAR	**$ 63,883,215**	**$ 57,956,634**

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

Las Gallinas Valley Sanitary District

Statements of Cash Flows

Fiscal Years Ended June 30, 2016 and 2015

	2016	2015 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	$ 11,711,676	$ 10,413,639
Cash payments to employees	(2,321,105)	(2,194,662)
Cash payments to suppliers	(2,613,489)	(3,048,721)
Other receipts	36,533	19,619
Net cash provided by operating activities	**6,813,615**	**5,189,875**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	4,442	4,521
Franchise fees	25,000	25,000
Advances for the Private Sewer Lateral Assistance Program	(291,968)	(149,217)
Repayment from the Private Sewer Lateral Assistance Program	82,778	26,202
Property taxes received	1,125,209	1,086,754
Net cash provided by noncapital financing activities	**945,461**	**993,260**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from grants	45,393	-
Connection fees collected	61,427	19,018
Proceeds from sale of assets	-	1,117
Acquisition and construction of capital assets	(5,931,845)	(3,909,462)
Principal payments, long-term debt	(1,030,420)	(998,120)
Net cash used by capital and related financing activities	**(6,855,445)**	**(4,887,447)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	71,571	47,026
Interest expense	(394,965)	(546,346)
Net cash used by investing activities	**(323,394)**	**(499,320)**
NET INCREASE IN CASH AND EQUIVALENTS	580,237	796,368
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	20,602,976	19,806,608
CASH AND CASH EQUIVALENTS - END OF YEAR	**$ 21,183,213**	**$ 20,602,976**

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, 2016 and 2015

	2016	2015 As Restated
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 4,263,296	$ 2,968,529
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,429,063	2,413,458
Construction-in-progress charge off for abandoned project	72,690	7,500
Changes in assets and liabilities:		
User charges receivable	(12,332)	3,013
Other receivables	17,367	(22,450)
Inventory of supplies	7,503	(454)
Prepaid expenses	93,600	(102,888)
Deferred outflows of resources	(225,705)	414,584
Accounts payable	66,919	(54,849)
Accrued payroll	17,671	5,179
Accrued compensation	4,761	21,569
Collective net pension liability	404,505	(1,084,882)
Deferred inflows of resources	(325,723)	621,566
Net cash provided by operating activities	**$ 6,813,615**	**$ 5,189,875**
SUPPLEMENTARY INFORMATION - NONCASH ACTIVITIES		
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	$ 5,556,368	$ 4,123,261
Transferred from inventory	(22,324)	-
Financed through accounts payable	397,801	(213,799)
Cash paid for acquisition and construction of capital assets	**$ 5,931,845**	**$ 3,909,462**

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

2. Summary of Significant Accounting Policies

Financial Reporting Entity, Measurement Focus, and Financial Statement Presentation

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

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

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

2. Summary of Significant Accounting Policies (continued)

Net Position

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

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

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

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

Budgetary Accounting

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

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

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

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

Inventory of Supplies

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

Capital Assets

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

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

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

Intangible Assets

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

2. Summary of Significant Accounting Policies (continued)

Compensated Absences

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

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

Balance at June 30, 2015		$ 447,465
Accrued compensated absences earned	341,055	
Accrued compensated absences used	(336,295)	
Net change in accrued compensated absences		4,760
Balance at June 30, 2016		**$ 452,225**

The current portion of the noncurrent liability to be used within the next year is estimated by management to be approximately $67,830, or 15%.

Deferred Outflows and Inflows of Resources

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

Restricted Assets and Liabilities

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

Grants

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

Connection Fees

The District charges connection fees to developers to reserve system capacity. Amounts charged are recorded as liabilities (deferred connection fees) until connections are actually made. Once connections are made, the fees are recognized as increases to capital contributions. In accordance with GASB No. 33, *Accounting and Financial Reporting for 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 8).The District receives property taxes and Education Revenue Augmentation Funds (ERAF) from the County of Marin. The ERAF allows the state legislature to reallocate property tax amounts to local governments. For the years ended June 30, 2016 and 2015, the District received $826,906 and $779,019, respectively, in property taxes and $297,979 and $307,862, respectively, in ERAF.

2. Summary of Significant Accounting Policies (continued)

Pensions

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

Interest

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

Use of Estimates

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

Accounting Change – Restatement

The District implemented GASB No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB No. 27,* during 2015. During the calculation of the 2016 financial items related to pensions, it was determined that corrections were required to the 2015 amounts.

2. Summary of Significant Accounting Policies (continued)

The impact of the restatement is as follows:

	2015 As Restated		2015 Originally Reported		Change	
Statements of Net Position						
Deferred Outflows of Resources						
Pension plan	$	385,468	$	330,377	$	55,091
Deferred Inflows of Resources						
Pension plan	$	621,566	$	459,511	$	162,055
Net Position						
Unrestricted	$	17,384,374	$	17,491,338	$	(106,964)
Statements of Revenues, Expenses and Changes in Net Position						
Operating Expenses						
Sewage collection and pump stations	$	1,155,844	$	1,130,748	$	25,096
Sewage treatment		1,424,600		1,396,107		28,493
Laboratory		352,396		341,766		10,630
Engineering		434,849		419,538		15,311
General and administrative		1,467,442		1,440,008		27,434
Total Operating Expenses	$	7,484,165	$	7,377,201	$	106,964
Income from Operations	$	2,968,529	$	3,075,493	$	(106,964)
Net Position - End of Year	$	57,956,634	$	58,063,598	$	(106,964)

New Accounting Pronouncements

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Pension Plans* (GASB No. 78). The objective of GASB No. 78 is to address a practice issue regarding the scope and applicability of GASB No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of GASB No. 78, the requirements of GASB No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of GASB No. 68.

2. Summary of Significant Accounting Policies (continued)

GASB No. 78 amends the scope and applicability of GASB No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). GASB No. 78 establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of GASB No. 78 are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The District does not believe that there will be a significant financial statement effect related to GASB No. 78.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB No. 79). GASB No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB No. 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by GASB No. 79 during the reporting period, individually or in the aggregate, was significant.

If an external investment pool does not meet the criteria established by GASB No. 79, that pool should apply the provisions in paragraph 16 of GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB No. 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB No. 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB No. 31, as amended.

GASB No. 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting

2. Summary of Significant Accounting Policies (continued)

purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

GASB No. 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

The requirements of GASB No. 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The District does not believe that there will be a significant financial statement effect related to GASB No. 79.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* (GASB No. 80). The objective of GASB No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB No. 80 amends the blending requirements established in paragraph 53 of GASB No. 14, *The Financial Reporting Entity, as amended*.

GASB No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of GASB No. 80 are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged. The District does not believe that there will be any financial statement effect related to GASB No. 80.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB No. 81). The objective of GASB No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

2. Summary of Significant Accounting Policies (continued)

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

GASB No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB No. 81 requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB No. 81 requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of GASB No. 81 are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The District does not believe that there will any financial statement effect related to GASB No. 81.

In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statement Nos. 67, 68, and 73* (GASB No. 82). The objective of GASB No. 82 is to address certain issues that have been raised with respect to GASB No. 67, *Financial Reporting for Pension Plans*, GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, GASB No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of GASB No. 82, GASB Nos. 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This GASB No. 82 amends GASB Nos. 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

2. Summary of Significant Accounting Policies (continued)

GASB No. 82 clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Nos. 67, 68, or 73 for the selection of assumptions used in determining the total pension liability and related measures.

GASB No. 82 clarifies those payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB No. 67 and as employee contributions for purposes of GASB No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The requirements of GASB No. 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District does not believe that there will be a significant financial statement effect related to GASB No. 82.

3. Cash and Cash Equivalents

At June 30, 2016, the District maintained the majority of its cash in the Bank of Marin and the State of California LAIF pooled investment funds. Balances in the Bank of Marin are insured by the Federal Deposit Insurance Corporation up to $250,000, are collateralized by securities at 110% of the balance, and consist of checking and savings accounts.

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

3. Cash and Cash Equivalents (continued)

Restricted Cash

Restricted cash consists of debt service reserve funds of $867,096 and $860,493, including earned interest, as of June 30, 2016 and 2015, respectively.

In accordance with the Consolidated Reassessment and Refunding District of 2003 bond covenants (Note 8), the District established restricted accounts to be used for capital improvements and for paying principal and interest. The accounts are not considered to be the assets of the District and are not reflected in the financial statements. The restricted cash balance at June 30, 2015 was $288,650 and was maintained by the Marin County Treasurer. The bonds were called on September 2, 2015 and retired with the funds on hand in the reserve and debt service accounts. After retiring the debt, the excess funds were used to pay administrative expenses related to the close out of the fund and refunded to the property owners who were still being assessed on the date of the call.

Cash and cash equivalents consist of the following:

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

3. Cash and Cash Equivalents (continued)

	June 30, 2015	
	Reported/Fair Value	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	$ 3,224,704	$ -
Petty cash	989	-
Total cash in bank and on hand	3,225,693	-
Investments:		
Certificates of Deposit	-	860,493
Local Agency Investment Fund (LAIF)	16,516,790	-
Total investments	16,516,790	860,493
Total cash and cash equivalents as of June 30, 2015	**$ 19,742,483**	**$ 860,493**

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 greater the sensitivity of its fair value to changes in market interest rates. As of year-end, the weighted

3. Cash and Cash Equivalents (continued)

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of its investments at June 30, 2016:

		Maturity Date
Certificates of Deposit	$ 867,096	1,492 days average
LAIF	16,167,192	167 days average
	$ 17,034,288	

Credit Risk

Generally, credit risk is the risk of an issuer that an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits nor will it be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. With respect to investments, custodial credit risk generally applies only to direct investment in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). The State of California has no additional requirements for custodial credit risk, nor does the District.

3. Cash and Cash Equivalents (continued)

Certificates of Deposit

The District is required to maintain cash of $853,491 in debt reserve funds, equal to one year's debt service for the State Revolving Fund and for the loans from Bank of Marin. Since these funds will not be needed until the final year of maturity of the loans, the District has invested them in certificates of deposit. These accounts pay interest at 0.792% and mature in July and August 2020, respectively.

Investment in State Investment Pool

The District is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The District's proportionate share of that value was $16,527,051 and $16,532,560 as of June 30, 2016 and 2015, respectively. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities totaling $1,718 million and $1,447.9 million as of June 30, 2016 and 2015, respectively, and $400 million in structured notes as of June 30, 2016. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The current and prior year changes in fair value were not material to the financial statements as a whole and, therefore, have not been presented.

4. Accounts Receivable

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

5. Private Sewer Lateral Assistance Program

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

As of June 30, 2016 and 2015, collections made by the County of Marin, but remitted to the District subsequently, were $19,903 and $9,841, respectively.

5. Private Sewer Lateral Assistance Program (continued)

The activity in the program for 2016 and 2015 is a follows:

Balance at June 30, 2014	$	192,334
Payments received		(29,509)
Advances made		172,788
Balance at June 30, 2015		335,613
Payments received		(92,840)
Advances made		272,322
Balance at June 30, 2016	$	515,095

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

Fiscal year ending June 30,		
2017	$	57,074
2018		58,153
2019		59,335
2020		60,524
2021		61,770
2022 to 2026		218,239
	$	515,095

In addition to regularly schedule repayments collected through the tax roll, property owners may prepay the amounts outstanding under the lateral assistance program if they sell or refinance the property. Included in payments received are prepayments of $38,858 in 2016 and $1,683 in 2015.

6. Capital Assets

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

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

6. Capital Assets (continued)

A summary of property, plant and equipment transactions for the year ended June 30, 2015 is as follows:

	Beginning Balance at July 1, 2014	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2015
Capital assets not being depreciated:					
Land	$ 2,867,571	$ -	$ -	$ -	$ 2,867,571
Construction-in-progress	3,839,726	2,964,924	(7,500)	(2,250,709)	4,546,441
Total capital assets not being depreciated	6,707,297	2,964,924	(7,500)	(2,250,709)	7,414,012
Capital assets being depreciated:					
Subsurface lines	26,410,358	806,737	-	2,238,407	29,455,502
Facilities and equipment					
Sewage collection	2,209,408	14,303	-	-	2,223,711
Sewage treatment	30,357,256	105,594	-	9,052	30,471,902
Sewage disposal	8,200,137	-	-	-	8,200,137
Reclamation	1,302,961	2,990	-	-	1,305,951
Recycled water production	9,411,520	34,536	-	3,250	9,449,306
Pump stations	12,248,315	43,513	-	-	12,291,828
Administration	750,256	134,290	-	-	884,546
Laboratory	533,066	16,374	-	-	549,440
Total capital assets being depreciated	91,423,276	1,158,337	-	2,250,709	94,832,323
Less accumulated depreciation for:					
Subsurface lines	(13,137,724)	(531,156)	-	-	(13,668,880)
Facilities and equipment				-	
Sewage collection	(1,693,501)	(76,358)	-	-	(1,769,859)
Sewage treatment	(14,649,883)	(787,808)	-	-	(15,437,691)
Sewage disposal	(6,018,471)	(157,086)	-	-	(6,175,557)
Reclamation	(738,954)	(79,241)	-	-	(818,195)
Recycled water production	(659,192)	(377,623)	-	-	(1,036,815)
Pump stations	(6,775,013)	(343,339)	-	-	(7,118,352)
Administration	(464,345)	(43,110)	-	-	(507,455)
Laboratory	(204,576)	(17,737)	-	-	(222,313)
Accumulated depreciation	(44,341,659)	(2,413,458)	-	-	(46,755,117)
Total capital assets being depreciated, net	**47,081,617**	**(1,255,121)**	**-**	**2,250,709**	**48,077,206**
Capital assets, net	**$ 53,788,914**	**$ 1,709,803**	**$ (7,500)**	**$ -**	**$ 55,491,218**

7. Water Disposal and Recycled Water

In 1988, the District entered into a water-reclamation agreement with MMWD to provide for the disposal of treated wastewater. At a facility located on the District's property, MMWD provides further treatment to the wastewater in order to distribute it as recycled water. The contract, which was set to expire in December 2013, has been extended until December 31, 2016.

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

8. Long-Term Debt

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

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

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

The remaining unamortized discount of $42,442 and the call premium of $68,800 are recorded as a Deferred Outflow of Resources – Deferred amount on debt refunding and will be amortized over the remaining period that the debt is outstanding, of 141 months. The amount charged to interest expense was $9,467 for both June 30, 2016 and 2015.

The debt is payable solely from net revenues of the District. Net revenues consist generally of all revenues after payment of adjusted operation and maintenance costs and include property taxes received by the District.

8. Long-Term Debt (continued)

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 500,000	$ 189,875	$ 689,875
2018	525,000	172,963	697,963
2019	535,000	155,473	690,473
2020	555,000	137,488	692,488
2021	580,000	118,760	698,760
2022 to 2026	3,308,800	282,137	3,590,937
	$ 6,003,800	**$ 1,056,696**	**$ 7,060,496**

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
2017	$ 187,957	$ 144,725	$ 332,682
2018	195,486	137,196	332,682
2019	203,316	129,365	332,681
2020	211,129	121,552	332,681
2021	219,917	112,764	332,681
2022 to 2026	1,238,742	424,665	1,663,407
2027 to 2031	1,507,648	155,760	1,663,408
	$ 3,764,195	**$ 1,226,027**	**$ 4,990,222**

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.

8. Long-Term Debt (continued)

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 195,048	$ 40,298	$ 235,346
2018	201,573	33,773	235,346
2019	208,316	27,030	235,346
2020	215,233	20,113	235,346
2021	222,485	12,861	235,346
2022 to 2023	268,994	5,578	274,572
	$ 1,311,649	**$ 139,653**	**$ 1,451,302**

D. State Revolving Fund Loan

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

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

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2017	$ 186,391	$ 99,073	$ 285,464
2018	191,423	94,041	285,464
2019	196,592	88,872	285,464
2020	201,900	83,564	285,464
2021	207,351	78,113	285,464
2022 to 2026	1,123,819	303,504	1,427,323
2027 to 2031	1,283,951	143,371	1,427,322
Thereafter	277,960	7,505	285,465
	$ 3,669,387	**$ 898,043**	**$ 4,567,430**

8. Long-Term Debt (continued)

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

The District acted 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 did 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.

For the year ended June 30, 2015, the outstanding principal balance of the bonds was $260,000. The bonds were called and retired on September 2, 2015.

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

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Notes Payable					
Bank of Marin	$ 5,444,773	$ -	$ (368,929)	$ 5,075,844	$ 383,005
Municipal Finance Corporation	6,483,800	-	(480,000)	6,003,800	500,000
State Revolving Fund	3,850,878	-	(181,491)	3,669,387	186,391
Total debt activity	**$ 15,779,451**	**$ -**	**$ (1,030,420)**	**$ 14,749,031**	**$ 1,069,396**

The following is a summary of the debt activity for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
Notes Payable					
Bank of Marin	$ 5,801,174	$ -	$ (356,401)	$ 5,444,773	$ 368,929
Municipal Finance Corporation	6,948,800	-	(465,000)	6,483,800	480,000
State Revolving Fund	4,027,598	-	(176,720)	3,850,878	181,491
Total debt activity	**$ 16,777,572**	**$ -**	**$ (998,121)**	**$ 15,779,451**	**$ 1,030,420**

During the years ended June 30, 2016 and 2015, the District incurred interest on long-term debt of $506,659 and $538,621, respectively. For the year ended June 30, 2016, $114,151 of interest was capitalized as part of construction projects.

9. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all permanent, full-time District employees, permits employees to defer a portion of their current salary until future years. Employees may defer up to the Internal Revenue Code limits. For 2016 and 2015, employees contributed $126,747 and $92,683, respectively. Generally, deferred compensation is payable upon retirement, termination of employment, disability or death. Deferred amounts are held in a 457 plan trust established by the District for the exclusive benefit of the participants and their beneficiaries. Contributions are made to the Supplemental Income Plan (SIP) administered by the CalPERS for the benefit of each individual participant. The SIP is an entity separate from the District and, accordingly, the trust assets are not considered to be assets of the District itself. Additional information about the trust may be obtained from the CalPERS Supplemental Income Plan, which has a mailing address of 400 Q Street, Room E2812, Sacramento, CA 95814.

10. Commitments

The District was contractually committed to contractors and vendors for various projects totaling $4,930,747 and $5,796,743 as of June 30, 2016 and 2015, respectively.

11. Defined Benefit Pension Plan

Plan Description and Benefits Provided

The District contributes to the CalPERS, a cost sharing multiple-employer defined benefit pension plan. The contribution requirements of the plan members are established by state statute and the employer contribution rates are established and may be amended by CalPERS. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. Contributions by the employer and the employee are based on eligible employees' regular rate of pay without inclusion of overtime, stand-by pay, or separation pay of accrued time off, which prevents spiking of retirement benefits, this is reportable payroll. For purposes of GASB No. 68, covered payroll includes all compensation, including overtime, stand-by pay and separation pay for eligible employees; therefore, it is higher than the base wages used for calculating required contributions.

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

11. Defined Benefit Pension Plan (continued)

Copies of CalPERS' annual financial report may be obtained from its Executive Office at 400 P Street, Sacramento, CA 95814.

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

	Miscellaneous	
	Hired Prior to January 1, 2013	Hired On or after January 1, 2013
Benefit formula	2.7% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required contribution rate as a percentage of reportable payroll:		
Employee	8.000%	6.250%
Employer:		
2015-2016	10.958%	6.237%
2014-2015	16.691%	6.250%
Required employer contribution for prior year unfunded liability	$ 99,510	NA

Contributions

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

For employees hired prior to January 1, 2013, the District pays a portion of the employees' required contribution. For 2016, the District paid 2% of the employees' required 8% contribution; for 2015 it was 3%. For employees hired after January 1, 2013, the District did not pay any of the employees' required contribution of 6.25%.

11. Defined Benefit Pension Plan (continued)

For the years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	June 30, 2016	June 30, 2015
Contributions - employer	$ 295,427	$ 266,914
Contributions - employee (paid by employer)	27,985	69,822
	$ 323,412	$ 336,736

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

The District’s proportionate share of the net pension liability is $2,098,373 and $1,693,868 as of June 30, 2016 and 2015, respectively.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The liability and deferred outflows and inflows of resources are determined from actuarial valuations that are prepared at dates that differ from the financial statement reporting periods in these statements. For June 30, 2016, the CalPERS actuarial valuation is dated June 30, 2014 and the liabilities are rolled forward to June 30, 2015. For June 30, 2015, the CalPERS actuarial valuation is dated June 30, 2013 and the liabilities are rolled forward to June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

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

	Financial Statement Report as of June 30, 2016	
	Dollars	Percentage
Proportion - June 30, 2014	$ 1,693,868	0.02722%
Proportion - June 30, 2015	2,098,373	0.03057%
Change - Increase (Decrease)	$ 404,505	0.00795%

	Financial Statement Report as of June 30, 2015	
	Dollars	Percentage
Proportion - June 30, 2013	$ 2,778,750	Not available
Proportion - June 30, 2014	1,693,868	0.02722%
Change - Increase (Decrease)	$ (1,084,882)	Not available

11. Defined Benefit Pension Plan (continued)

The District's decrease in the proportionate share of the net pension liability for 2015 is disproportionate due to the payoff of the District's side fund of $505,070 in June 2013, which is reflected in the actuarial valuation as of the June 30, 2014 measurement date.

For the years ended June 30, 2016 and 2015, the District recognized pension expense of $148,225 and $281,645, respectively. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 18,013	$ -
Changes of assumptions		170,424
Net differences between projected and actual earnings on plan investments	-	85,435
Changes in employer's proportion	241,394	39,984
Differences between the employer's contributions and the employer's proportionate share of contributions	56,618	-
Pension contributions subsequent to measurement date	295,148	-
Total	$ 611,173	$ 295,843

The $295,148 is reported as deferred outflows of resources related to contributions subsequent to the measurement date of June 30, 2015 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Deferred inflows of resources will be recognized as pension expense as follows:

Fiscal year ending June 30,	
2017	$ (28,067)
2018	(27,560)
2019	(33,398)
2020	109,207
2021	-
Thereafter	-
	$ 20,182

11. Defined Benefit Pension Plan (continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014 (last available)
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 Actuarial Experience Study for the period 1997 to 2011. Further details of this study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. This is a Change in Assumption from prior year valuations which used a discount rate of 7.5% (net of administrative expenses). The discount rate was changed to 7.65% to correct for the previously excluded administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected rate of return will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

11. Defined Benefit Pension Plan (continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as it has changed their methodology.

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

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

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

Asset Class	Current Target Asset Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
	Percent		
Global Equity	51.00	5.25	5.71
Global Debt Securities	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

[1]An expected inflation of 2.5% was used for this period.
[2]An expected inflation of 3.0% was used for this period.

11. Defined Benefit Pension Plan (continued)

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

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

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	$ 3,571,571	$ 2,098,373	$ 882,077

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2016 and 2015, the District did not have a payable for outstanding contributions.

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

Effective June 30, 2003, CalPERS risk pools were established for plans containing less than 100 active members as of that valuation date. The District is included in the risk pool for “Miscellaneous Retirement Plan 2.7% at 55” and/or “Miscellaneous Retirement Plan 2.0% at 62.” In the latest Annual Valuation Report as of June 30, 2014, the CalPERS Board approved certain assumptions and methods used to determine the contractually required contributions for the cost sharing multiple-employer defined benefit plan.

Public Employees’ Pension Reform Act of 2013 (PEPRA)

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

11. Defined Benefit Pension Plan (continued)

pools. Furthermore, the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

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

Beginning in 2015-16, CalPERS collected employer contributions toward the unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund payments, the plan's normal cost contribution will continue to be collected as a percentage of payroll.

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

The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation that sets the contribution rates for the 2015-16 fiscal year. For more detailed information on changes due to PEPRA, please refer to the CalPERS website.

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

12. Other Post-employment Benefits

Plan Description

In addition to the pension benefits described in Note 11, the District provides other post-employment benefits (OPEB) in the form of health insurance to employees in accordance with the Memorandum of Understanding between the District and its employees. These employees must meet certain service requirements and retire directly from employment with the District. According to the most current post-employment medical benefits plan, effective July 1, 2014 there are four tiers of benefits.

Tier 1 – Employees who retired prior to January 1, 2003, with five years of service, receive a benefit that is indexed by 6% each year and are eligible for spousal coverage up to the benefit cap. The monthly cap was $694 as of January 1, 2016, $654 as of January 1, 2015, and $617 as of January 1, 2014.

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 $705 as of January 1, 2016, $655 as of January 1, 2015, and $642 as of January 1, 2014. This benefit is available to the employee only without any spousal coverage.

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

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

All employees who retire from the District, have five years of CalPERS service credits, and participate in the CalPERS medical plan receive a benefit paid by the District equal to the minimum Public Employees' Medical and Hospital Care Act (PEMHCA) contribution. This monthly contribution is included in the cap outlined above for all tiers. However, an employee who is a member of Tier 3, but does not work for the District for five years, and has five year of CalPERS service credits, is eligible for the PEMHCA. The monthly amount was $125 as of January 1, 2016, $122 as of January 1, 2015, and $119 as of January 1, 2014.

Effective, July 1, 2009, the District joined the California Employers' Retiree Benefit Trust (CERBT) in order to pre-fund the retiree medical costs. The objective of the CERBT is to seek

12. Other Post-employment Benefits (continued)

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

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

	June 30,		
	2016	**2015**	**2014**
Market value - beginning of year	$ 684,208	$ 601,454	$ 433,543
Contributions	113,345	85,616	93,574
Gain (loss) on investments	25,149	(2,217)	75,052
Administrative expenses	(616)	(645)	(715)
Market value - end of year	**$ 822,086**	**$ 684,208**	**$ 601,454**
Gain (loss)	**3.59%**	**-0.48%**	**17.15%**

Actuarial Value of Assets

Effective July 1, 2009, the District has implemented GASB No. 45. This statement requires the District to account for the post-employment benefits on an accrual basis rather than on the pay-as-you-go method used in the past. Using the accrual method allows the employer to recognize the cost of providing the benefit during the employees' working lifetimes. The CERBT requires biennial valuation. In order to comply with the above requirements, the Actuarial Valuation of Post-employment Healthcare Benefits was prepared for the District as of January 1, 2015, with the results rolled forward to July 1, 2015, by Nicolay Consulting. The expense for the years ended June 30, 2016 was based on this valuation. The expense for June 30, 2015 was based on the valuation prepared as of July 1, 2013.

12. Other Post-employment Benefits (continued)

The actuary used the following actuarial method and assumptions:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Closed period, 24 years remaining, level percent of payroll
Average Remaining Period	24 Years as of the Valuation Date
Asset Valuation Method	Based on market value of assets
Actuarial Assumptions:	
Investment Rate of Return	6.73% (net of administrative expenses)
Projected Salary Increase	3.25% per year
Inflation	General - 3.00% per year; Medical premium increases ranging from 6.4% in early years to 5% for 2021 and later.
Rates of death and disability	CalPERS rates for public agencies from most recent CalPERS valuation, June 30, 2013.
Number of retirees receiving benefits	21
Number of active employees covered by the plan	19

The District, after evaluating the various strategies in light of the funding progress, demographics and risk of return, chose to use CalPERS' investment Strategy 2 which has a current discount rate of 6.73% (7.06% in 2014) offered by the CERBT. A higher discount rate results in a higher projected investment return. This in turn results in a lower actuarial liability and a lower required contribution by the employer.

Annual OPEB Cost

The District contributes to the plan through payment of the monthly benefits for 21 retirees and their eligible spouses, totaling $99,306 and $94,295 for the years ended June 30, 2016 and 2015, respectively. In addition, the District made deposits to the CERBT of $113,459 and $85,501 for 2016 and 2015, respectively, based on the valuations dated January 1, 2015 and July 1, 2013, respectively.

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

12. Other Post-employment Benefits (continued)

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,		
	2016	**2015**	**2014**
Annual required contribution	$ 211,861	$ 179,796	$ 173,521
Interest on NOO	-	-	-
Annual OPEB cost	211,861	179,796	173,521
Contribution made - payment of benefits	(211,861)	(179,911)	(173,176)
Increase in NOO/(NOA)	-	(115)	345
NOA at the beginning of the year	-	115	(230)
NOO/(NOA) at the end of the year	**$ -**	**$ -**	**$ 115**
Percentage of OPEB contributed	100.00%	100.06%	99.80%

Funding Status and Funding Progress

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

12. Other Post-employment Benefits (continued)

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

	June 30, 2016	June 30, 2015	June 30, 2014
Actuarial accrued liability (AAL)	$ 2,910,217	$ 2,792,788	$ 2,278,516
Actuarial value of plan assets	815,237	698,909	557,250
Unfunded actuarial accrued liability (UAAL)	**$ 2,094,980**	**$ 2,093,879**	**$ 1,721,266**
Funded ratio (actuarial value of plan assets/AAL)	38.91%	33.38%	32.37%
Covered payroll (annual payroll of active employees covered by the plan)	$ 2,086,774	$ 1,983,247	$ 1,793,898
UAAL as a percentage of covered payroll	100.39%	105.58%	95.95%

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

13. Risk Management

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

CSRMA is a public entity risk pool currently operating as a common risk management and insurance program for member sanitary districts located throughout California. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group. Although CSRMA may assess additional premiums to a member district in the event of losses in excess of reserves, no additional assessments have occurred nor are they contemplated.

13. Risk Management (continued)

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

	Years Ended June 30, 2015[1]	2014
Total assets	$ 27,418,098	$ 27,379,073
Total liabilities	16,714,638	16,413,379
Net Position	**$ 10,703,460**	**$ 10,965,694**
Total revenues	$ 10,895,632	$ 10,812,970
Total expenditures	11,157,866	11,887,608
Net income (loss)	**$ (262,234)**	**$ (1,074,638)**

[1] Most recent available.

REQUIRED SUPPLEMENTARY INFORMATION

Miller Creek

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

	2016	2015
Measurement Date	6/30/2015	6/30/2014
Proportion of the net pension liability	0.030571%	0.027220%
Proportionate share of the net pension liability	$ 2,098,373	$ 1,693,868
Covered employee payroll	$ 2,002,442	$ 1,801,016
Proportionate share of the net pension liability as a percentage of covered-employee payroll	104.79%	94.05%
Plan's fiduciary net position	$ 8,719,117	$ 8,648,606
Plan fiduciary net position as a percentage of the plant's total pension liability	78.40%	79.82%

Schedule of Contributions – Last 10 Years*

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

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

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)
7/1/2011		$ 160,698	$ 2,146,184	$ 1,985,486	7.5%	$ 1,756,886	113.0%
7/1/2013		$ 433,543	$ 2,278,516	$ 1,844,973	19.0%	$ 1,723,049	107.1%
1/1/2015	^	$ 698,909	$ 2,782,788	$ 2,083,879	25.1%	$ 1,983,247	105.1%

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

Note 12 describes additional funding information.

^ Most recent available valuation.

SUPPLEMENTARY INFORMATION

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

Las Gallinas Valley Sanitary District

Budgetary Comparison Schedule

Fiscal Year Ended June 30, 2016

	Original Appropriated Budget	Final Appropriated Budget	Actual	Variance From the Budget
REVENUES:				
Sewer use charges	$ 11,614,992	$ 11,614,992	$ 11,647,257	$ 32,265
Private sewer lateral assistance program	35,000	35,000	92,840	57,840
Miscellaneous	35,000	35,000	46,103	11,103
Property taxes	1,045,000	1,045,000	1,124,885	79,885
Intergovernmental fees	4,000	4,000	4,442	442
Franchise fees	25,000	25,000	25,000	-
Recycled water sales	102,000	102,000	49,814	(52,186)
Interest income	40,300	40,300	79,194	38,894
TOTAL REVENUES	**12,901,292**	**12,901,292**	**13,069,535**	**168,243**
EXPENDITURES:				
Personnel Costs:				
Salaries and wages	2,336,000	2,336,000	2,269,172	(66,828)
Employee benefits	1,190,330	1,190,330	1,122,658	(67,672)
Payroll processing fees	8,000	8,000	9,128	1,128
Operations Expense:				-
Insurance	172,250	172,250	150,107	(22,143)
Repairs and maintenance	362,217	362,217	272,048	(90,169)
Chemicals	133,000	133,000	149,876	16,876
Pollution prevention	18,800	18,800	23,558	4,758
Laboratory services	57,000	57,000	45,706	(11,294)
Small tools	4,000	4,000	2,127	(1,873)
Outside services	85,100	85,100	79,797	(5,303)
Damage claim	10,000	10,000	(4,133)	(14,133)
Reclamation expense	48,000	48,000	40,000	(8,000)
Engineering consultants	180,000	180,000	170,829	(9,171)

Las Gallinas Valley Sanitary District

Budgetary Comparison Schedule (continued)

Fiscal Year Ended June 30, 2016

	Appropriated Budget	Appropriated Budget	Actual	From the Budget
Operating supplies	$ 54,250	$ 54,250	$ 51,969	(2,281)
Safety program and supplies	47,920	47,920	46,135	(1,785)
Fuel, gas and oil	36,000	36,000	21,531	(14,469)
Private lateral assistance program	120,000	335,676	272,322	(63,354)
Equipment rent	11,000	11,000	15,597	4,597
Permits and fees	45,900	45,900	44,074	(1,826)
Employee training	20,000	20,000	20,224	224
Utilities	115,973	115,973	102,127	(13,846)
General and Administrative Expense:				
Conferences	40,500	40,500	58,804	18,304
Mileage and travel	1,500	1,500	1,330	(170)
Election	24,000	1,000	250	(750)
Office expense	18,000	18,000	14,924	(3,076)
Computer support and supplies	30,000	30,000	33,863	3,863
Publications and legal ads	12,000	12,000	16,770	4,770
Public education	75,000	75,000	52,774	(22,226)
Rents and leases	10,000	10,000	12,006	2,006
Property and other taxes	7,000	7,000	6,527	(473)
Memberships	41,000	41,000	43,440	2,440
Legal and professional	140,000	140,000	142,891	2,891
Bank charges and collection fees	33,000	33,000	30,216	(2,784)
Employee recognition	4,500	4,500	2,606	(1,894)
Fines	-	-	6,000	6,000
Miscellaneous	1,000	1,000	1,112	112
EXPENDITURES BEFORE DEPRECIATION AND INTEREST	5,493,240	5,685,916	5,328,365	(357,551)
OPERATING AND MAINTENANCE SURPLUS BEFORE DEPRECIATION AND INTEREST	**$ 7,408,052**	**$ 7,215,376**	**$ 7,741,170**	**$ (189,308)**

Las Gallinas Valley Sanitary District

Note to Budgetary Comparison Schedule

Accounting Basis for Schedule

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

The following is reconciliation from the Statements of Revenues, Expenses and Changes in Net Position to the Budgetary Comparison Schedule as of June 30, 2016:

The reconciling items are:

Opertating and Nonoperating Revenues per the Statement of Revenues, Expenses and Changes in Net Position	$	12,976,695
Private sewer lateral assistance payments		92,840
Total Revenues per the Budgetary Comparison Schedule	**$**	**13,069,535**
Operating Expenses per the Statement of Revenues, Expenses, and Changes in Net Position	$	7,479,878
Depreciation		(2,429,063)
Repairs and maintenance		43,505
Employee benefits		146,925
Chemicals		(14,567)
Outside services		(139,819)
Operating supplies		(2,039)
Fuel, gas and oil		(905)
Private sewer lateral assistance program		272,322
Computer services		(27,872)
Total Expenditures included in the Budgetary Comparison Schedule	**$**	**5,328,365**

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

Glossary of Acronyms

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

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

Glossary of Acronyms (continued)

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

Glossary of Acronyms (continued)

ACRONYM	NAME	DEFINITION
GASB	Governmental Accounting Standards Board	Currently the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States of America.
I&I	Infiltration and Inflow	Infiltration is groundwater entering sanitary sewers through defective pipe joints and broken pipes. Inflow is water entering sanitary sewers from inappropriate connections such as roof drains, cellar drains, and yard drains.
LAIF	Local Agency Investment Fund	A fund managed by the Office of the Treasurer of the State of California, which is available for local governments.
MD&A	Management Discussion and Analysis	An integrated part of the annual financial statements. The purpose of the MD&A is to provide a narrative explanation, through the eyes of management, of how an entity has performed in the past, its financial condition, and its future prospects.
MGD	Million Gallons per Day	Measurement unit used for calculating volume of wastewater treated at the plant.
MMWD	Marin Municipal Water District	Water agency for Marin County serving areas south of Ignacio.
NBWRA	North Bay Water Reuse Authority	A coordinated regional group of water and sanitation agencies in Sonoma, Marin, and Napa Counties to offset potable water demand by promoting water reuse for agriculture, urban, and environmental uses.
NMWD	North Marin Water District	Water agency for Marin County serving areas north of Ignacio and some coastal communities.
NOO	Net OPEB Obligation	The cumulative difference, since the effective date of GASB No. 45, between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.
OPEB	Other Post-Employment Benefits	Post-employment benefits other than pension benefits. Other post-employment benefits (OPEB) include post-employment healthcare benefits, regardless of the type of plan that provides them, and all post-employment benefits provided separately from a pension plan, except benefits defined as special termination benefits.

STATISTICAL SECTION

Primary Clarifier #3 Drained, Inspected and Stamford Baffles Removed

Marinwood Pump Station Motor Control Center

Introduction to the Statistical Section

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

Financial Trend Information

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

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

Revenue Capacity Information

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

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

Debt Capacity Information

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

- Debt Service Coverage
- Outstanding Debt per Connection
- Other Post-Employment Benefits Funding Status and Covered Lives

Demographic and Economic Information

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

- Demographic and Economic Statistics
- Principal Employers in Marin County

Operating Information

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

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

Recycled water treatment facilities

Las Gallinas Valley Sanitary District

Statements of Net Position
for the Last Ten Fiscal Years

(in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
					Fiscal Years Ended June 30,					
		As Restated								
ASSETS										
Current Assets	$ 21,657	$ 20,401	$ 19,409	$ 18,716	$ 15,335	$ 18,699	$ 10,374	$ 8,687	$ 8,013	$ 7,387
Capital and other assets	59,823	56,651	54,820	53,390	54,609	41,266	40,485	39,921	39,773	39,999
TOTAL ASSETS	**81,480**	**77,052**	**74,229**	**72,106**	**69,944**	**59,965**	**50,859**	**48,608**	**47,786**	**47,386**
Deferred Outflows of Resources	**702**	**486**	**910**	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**82,182**	**77,538**	**75,139**	**72,106**	**69,944**	**59,965**	**50,859**	**48,608**	**47,786**	**47,386**
LIABILITIES										
Total current liabilities	1,841	2,136	1,956	1,877	8,399	2,695	1,777	1,688	1,052	1,234
Total noncurrent liabilities	16,162	16,823	18,919	17,007	11,556	12,138	8,099	8,490	8,867	9,234
TOTAL LIABILITIES	**18,003**	**18,959**	**20,875**	**18,884**	**19,955**	**14,833**	**9,876**	**10,178**	**9,919**	**10,468**
Deferred Inflows of Resources	**296**	**622**	**-**	-	-	-	-	-	-	-
NET POSITION:										
Invested in capital assets, net of related debt	43,749	39,712	37,011	34,787	36,553	32,830	32,640	31,867	32,261	33,141
Restricted	867	860	858	855	2,085	5,231	592	-	2	55
Unrestricted	19,227	17,491	16,394	17,580	11,351	7,071	7,751	6,563	5,604	3,722
TOTAL NET POSITION	**$ 63,883**	**$ 57,957**	**$ 54,264**	**$ 53,222**	**$ 49,989**	**$ 45,132**	**$ 40,983**	**$ 38,430**	**$ 37,867**	**$ 36,918**

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

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

Las Gallinas Valley Sanitary District

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

(in thousands)

	Fiscal Years Ended June 30,									
	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
OPERATING REVENUES:		**As Restated**								
Sewer use charges	$ 11,647	$ 10,311	$ 10,157	$ 10,069	$ 9,233	$ 8,835	$ 7,604	$ 5,010	$ 4,735	$ 3,938
Recycled water fees	50	120	75	37	-	-	-	-	-	-
Miscellaneous	46	22	46	34	54	32	41	60	61	40
TOTAL OPERATING REVENUES	**11,743**	**10,453**	**10,278**	**10,140**	**9,287**	**8,867**	**7,645**	**5,070**	**4,796**	**3,978**
OPERATING EXPENSES:										
Sewage collection and pump stations[1]	945	1,156	1,089	951	937	854	1,009	882	783	-
Sewage collection[1]	-	-	-	-	-	-	-	-	-	531
Sewage treatment	1,547	1,425	1,519	1,312	1,295	1,138	1,088	1,142	1,000	1,119
Sewage and solid waste disposal	83	127	340	267	147	143	85	205	146	121
Laboratory[1]	295	352	402	377	387	353	313	255	241	-
Laboratory and pump stations[1]	-	-	-	-	-	-	-	-	-	414
Engineering[1]	448	435	325	296						
Recycled water	98	109	90	60	-	-	-	-	-	-
General and administrative	1,635	1,467	1,692	2,093	1,726	1,756	1,564	1,237	1,163	993
Depreciation and amortization	2,429	2,413	2,432	2,311	1,842	1,860	1,828	1,721	1,695	1,516
TOTAL OPERATING EXPENSES	**7,480**	**7,484**	**7,889**	**7,667**	**6,334**	**6,104**	**5,887**	**5,442**	**5,028**	**4,694**
INCOME (LOSS) FROM OPERATIONS	4,263	2,969	2,389	2,473	2,953	2,763	1,758	(372)	(232)	(716)
NONOPERATING REVENUES:										
Property taxes	1,125	1,087	1,118	983	1,005	1,009	1,054	1,031	1,176	951
Federal and state grants	-	-	19	-	-	-	-	-	-	-
Franchise fees	25	25	25	25	25	25	25	25	31	-
Intergovernmental fees	4	4	5	5	5	5	5	5	5	2
Gain on disposal, net	-	1	-	-	-	6	7	70	-	-
Interest income	79	51	47	46	65	93	76	153	280	361
TOTAL NONOPERATING REVENUES	**1,233**	**1,168**	**1,214**	**1,059**	**1,100**	**1,138**	**1,167**	**1,284**	**1,492**	**1,314**

Las Gallinas Valley Sanitary District

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

	Fiscal Years Ended June 30,									
	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
NONOPERATING EXPENSES:		As Restated								
Loss on disposals	$ -	$ -	$ 2	$ 48	$ -	$ -	$ -	$ -	$ 13	$ -
Interest expense	402	553	624	652	331	357	364	386	392	407
TOTAL NONOPERATING EXPENSES	**402**	**553**	**626**	**700**	**331**	**357**	**364**	**386**	**405**	**407**
INCOME BEFORE CAPITAL CONTRIBUTIONS	5,094	3,584	2,977	2,832	3,722	3,544	2,561	526	855	191
CAPITAL CONTRIBUTIONS -										
Connection fees	34	74	44	15	28	530	(8)	37	44	13
Federal and state grants	798	35	-	386	1,107	75	-	-	-	-
Property	-	-	-	-	-	-	-	-	**50**	-
INCREASE (DECREASE) IN NET POSITION	5,926	3,693	3,021	3,233	4,857	4,149	2,553	563	949	204
NET POSITION - BEGINNING OF YEAR	57,957	54,264	51,243	49,989	45,132	40,983	38,430	37,867	36,918	36,714
NET POSITION - END OF YEAR	**$ 63,883**	**$ 57,957**	**$ 54,264**	**$ 53,222**	**$ 49,989**	**$ 45,132**	**$ 40,983**	**$ 38,430**	**$ 37,867**	**$ 36,918**

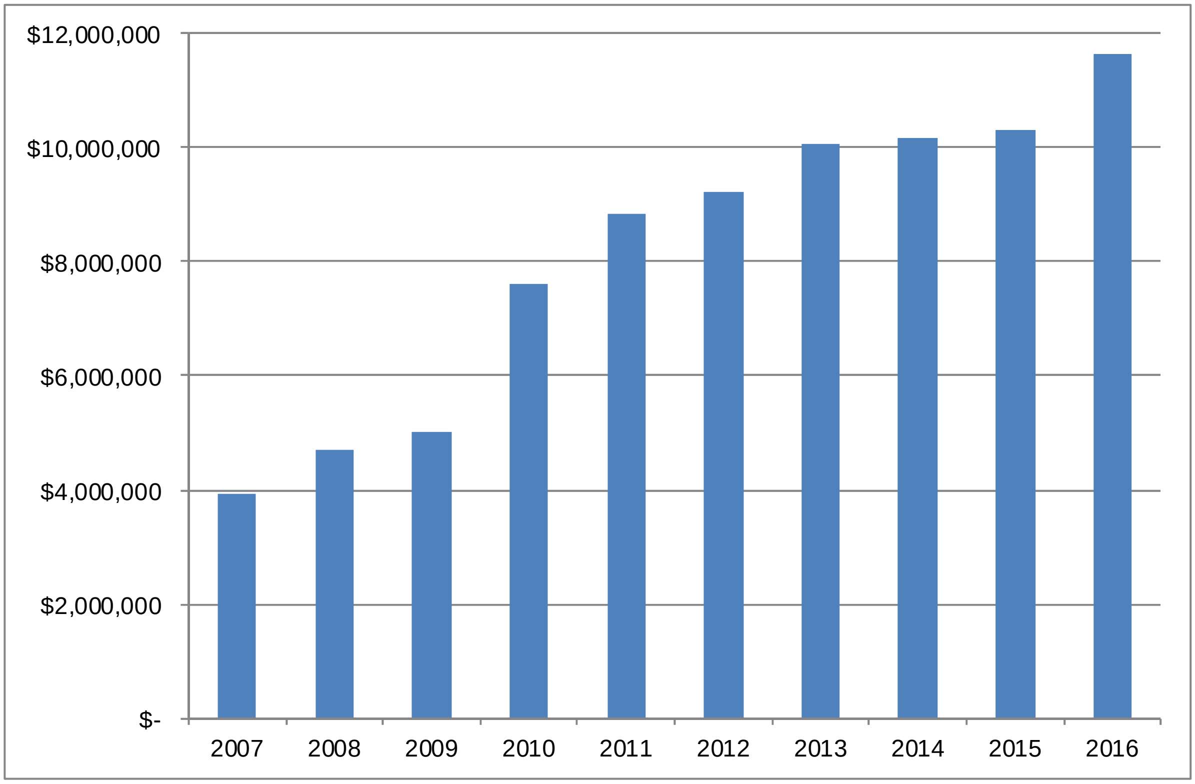
[1] In prior years, these line items were classified with different departments.

Source: Las Gallinas Valley Sanitary District Basic Financial Statements.

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

Las Gallinas Valley Sanitary District

Sewer Service Charge Revenue
for the Past Ten Fiscal Years



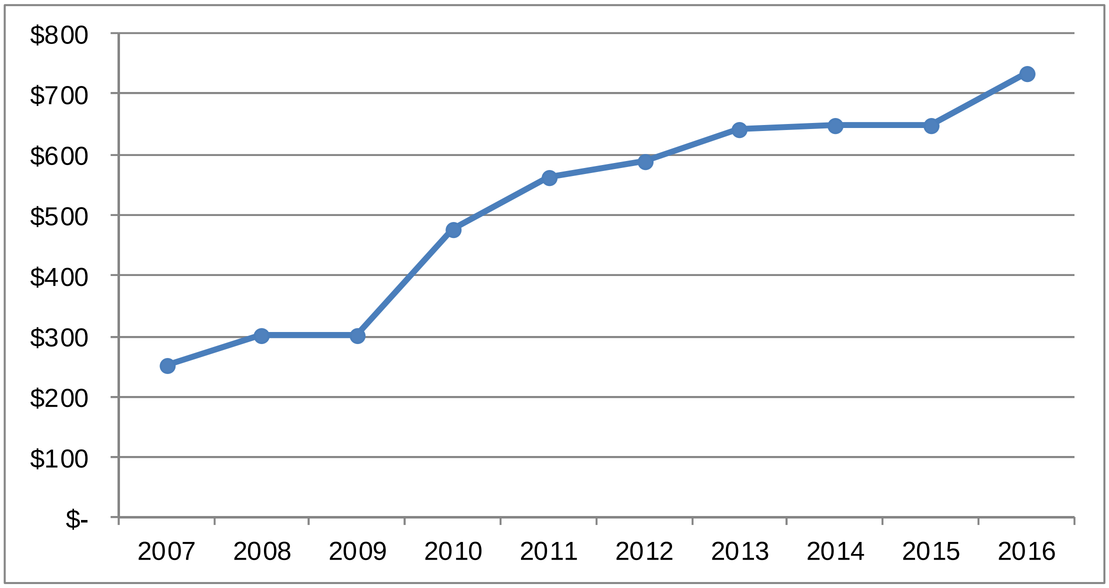
Historic Sewer Service Revenue

Fiscal Year Ended June 30,	Sewer Service	Percentage Change
2007	$ 3,937,800	21.64%
2008	$ 4,684,972	18.97%
2009	$ 5,006,202	6.86%
2010	$ 7,592,325	51.66%
2011	$ 8,834,558	16.36%
2012	$ 9,233,000	4.51%
2013	$ 10,069,600	9.06%
2014	$ 10,157,200	0.87%
2015	$ 10,311,200	1.52%
2016	$ 11,647,257	12.96%

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

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



Historic Sewer Service Rates

Fiscal Year Ended June 30,	Sewer Service Rates	Percentage Change
2007	$ 253	19.9%
2008	$ 303	19.8%
2009	$ 303	0.0%
2010	$ 476	57.1%
2011	$ 563	18.3%
2012	$ 590	4.8%
2013	$ 642	8.8%
2014	$ 647	0.8%
2015	$ 647	0.0%
2016	$ 734	13.4%

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

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

FY 2015/16

Payer	Total Paid	Percentage of Revenue Collected
Contempo Marin	$ 303,949	2.61%
County of Marin	293,867	2.52%
Marin Valley Mobile Home Park	231,210	1.99%
Embassy Suites	223,723	1.92%
Northgate Mall	207,649	1.78%
Bay Apartment Communities	168,820	1.45%
BRE Properties	113,697	0.98%
Kaiser Permanente	109,366	0.94%
San Rafael Manor	106,430	0.91%
St. Vincents/Catholic Youth Organization	105,623	0.91%
Total	**$ 1,864,334**	**16.01%**

FY 2006/07

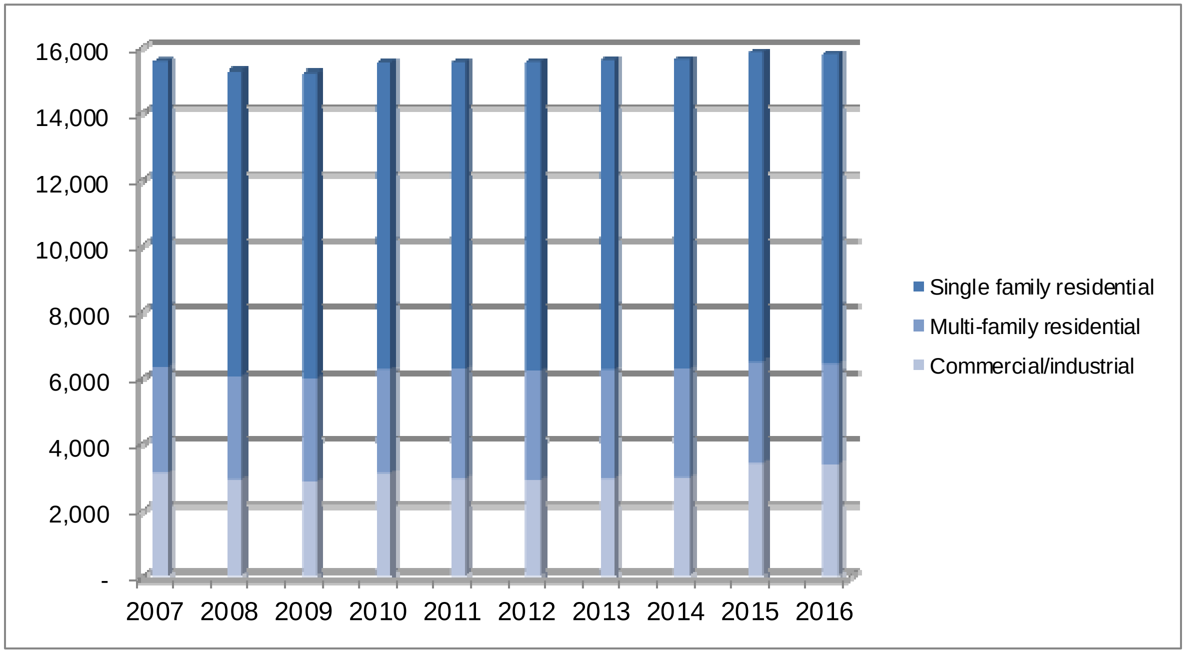
Payer	Total Paid	Percentage of Revenue Collected
Contempo Marin	$ 101,200	2.57%
Marin Valley Mobile Home Park	79,695	2.02%
County of Marin	73,117	1.86%
Northgate Mall	69,069	1.75%
Bay Apartment Communities	65,021	1.65%
Deer Valley Apartments	43,516	1.11%
San Rafael Manor	40,480	1.03%
Kaiser Permanente	39,721	1.01%
Embassy Suites	37,950	0.96%
Sheraton Four Points	37,950	0.96%
Northbay Properties II	37,950	0.96%
La Toscana Restaurant	35,420	0.90%
Total	**$ 661,089**	**16.79%**

Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

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

	June 30,									
Class	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Single family residential	9,209	9,223	9,228	9,237	9,240	9,325	9,325	9,329	9,337	9,332
Multi-family residential	3,209	3,123	3,134	3,142	3,323	3,302	3,298	3,300	3,060	3,053
Commercial/industrial	3,146	2,931	2,861	3,133	2,965	2,923	2,967	2,986	3,450	3,401
Total	**15,564**	**15,277**	**15,223**	**15,512**	**15,528**	**15,550**	**15,590**	**15,615**	**15,847**	**15,786**



Source: Las Gallinas Valley Sanitary District records

Las Gallinas Valley Sanitary District

Debt Service Coverage
for the Past Ten Fiscal Years

Fiscal Year Ended June 30,	Gross Revenues[1]	Operating Expense[2]	Net Revenues	Debt Service[3]	Debt Coverage Ratio
2007	$ 5,305,000	$ 3,178,000	$ 2,127,000	$ 749,625	2.84
2008	$ 6,332,000	$ 3,333,000	$ 2,999,000	$ 745,625	4.02
2009	$ 6,391,000	$ 3,721,000	$ 2,670,000	$ 746,125	3.58
2010	$ 8,804,000	$ 4,059,000	$ 4,745,000	$ 741,125	6.40
2011	$ 10,535,000	$ 4,244,000	$ 6,291,000	$ 740,625	8.49
2012	$ 10,415,000	$ 4,492,000	$ 5,923,000	$ 1,354,241	4.37
2013	$ 11,214,000	$ 5,355,000	$ 5,859,000	$ 1,566,788	3.74
2014	$ 11,515,500	$ 5,457,000	$ 6,058,500	$ 1,583,274	3.83
2015	$ 11,695,700	$ 5,070,700	$ 6,625,000	$ 1,540,129	4.30
2016	$ 13,010,500	$ 5,050,800	$ 7,959,700	$ 1,539,538	5.17

Source: Las Gallinas Valley Sanitary District records

Notes:

The Debt Service Coverage requirement requires the District to maintain a Net Revenues to Debt Service ratio of at least 1.20 to 1.0.

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 was due June 1, 2013.

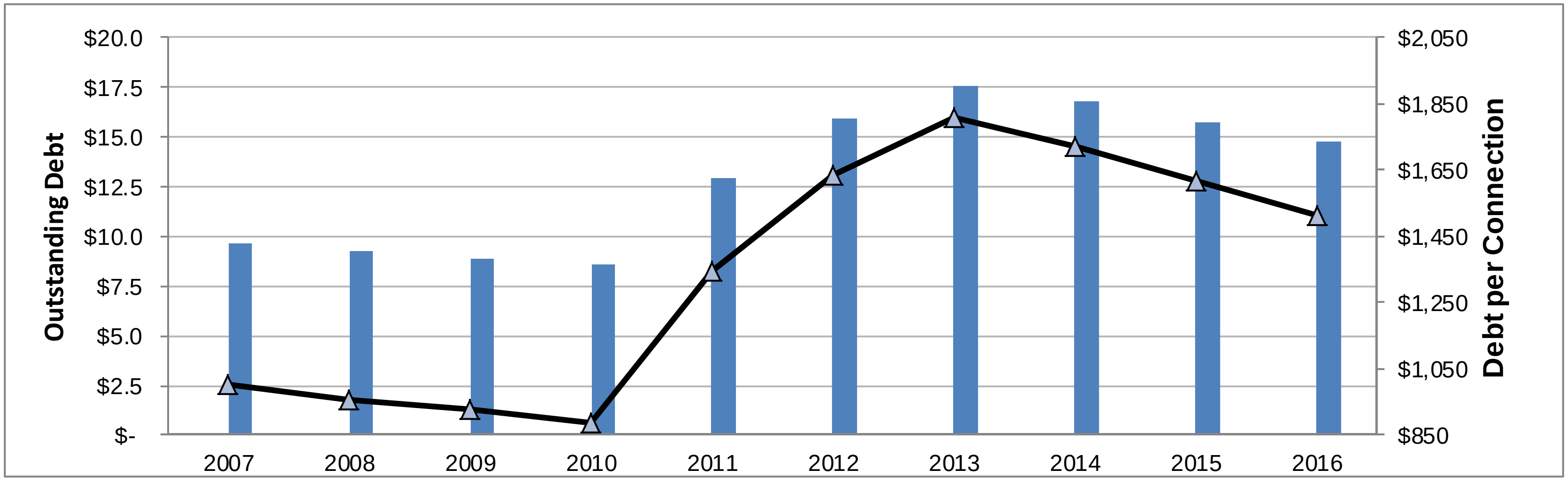
[1] Gross Revenues includes all operating and nonoperating revenues, except grants, and includes connection fees.

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

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

Las Gallinas Valley Sanitary District

Outstanding Debt Per Connection for the Past Ten Fiscal Years



	Type of Debt						
Fiscal Year Ended June 30,	COP As Restated	Notes Payable	State Revolving Fund	Total Outstanding Debt	Debt per Capita[1,2]	Total Connections	Debt per Connection
2007	$ 9,587,746	$ -	$ -	$ 9,587,746	$ 338	9,636	$ 995
2008	$ 9,238,398	$ -	$ -	$ 9,238,398	$ 325	9,693	$ 953
2009	$ 8,870,050	$ -	$ -	$ 8,870,050	$ 312	9,645	$ 920
2010	$ 8,493,705	$ -	$ -	$ 8,493,705	$ 292	9,650	$ 880
2011	$ 8,102,354	$ 4,600,000	$ 220,649	$ 12,923,003	$ 445	9,655	$ 1,338
2012	$ 7,696,005	$ 4,446,012	$ 3,720,274	$ 15,862,291	$ 546	9,735	$ 1,629
2013	$ 7,274,657	$ 6,144,972	$ 4,199,671	$ 17,619,300	$ 607	9,738	$ 1,809
2014	$ -	$ 12,749,974	$ 4,027,598	$ 16,777,572	$ 578	9,742	$ 1,722
2015	$ -	$ 11,928,573	$ 3,850,878	$ 15,779,451	$ 543	9,742	$ 1,620
2016	$ -	$ 11,079,644	$ 3,669,387	$ 14,749,031	$ 508	9,742	$ 1,514

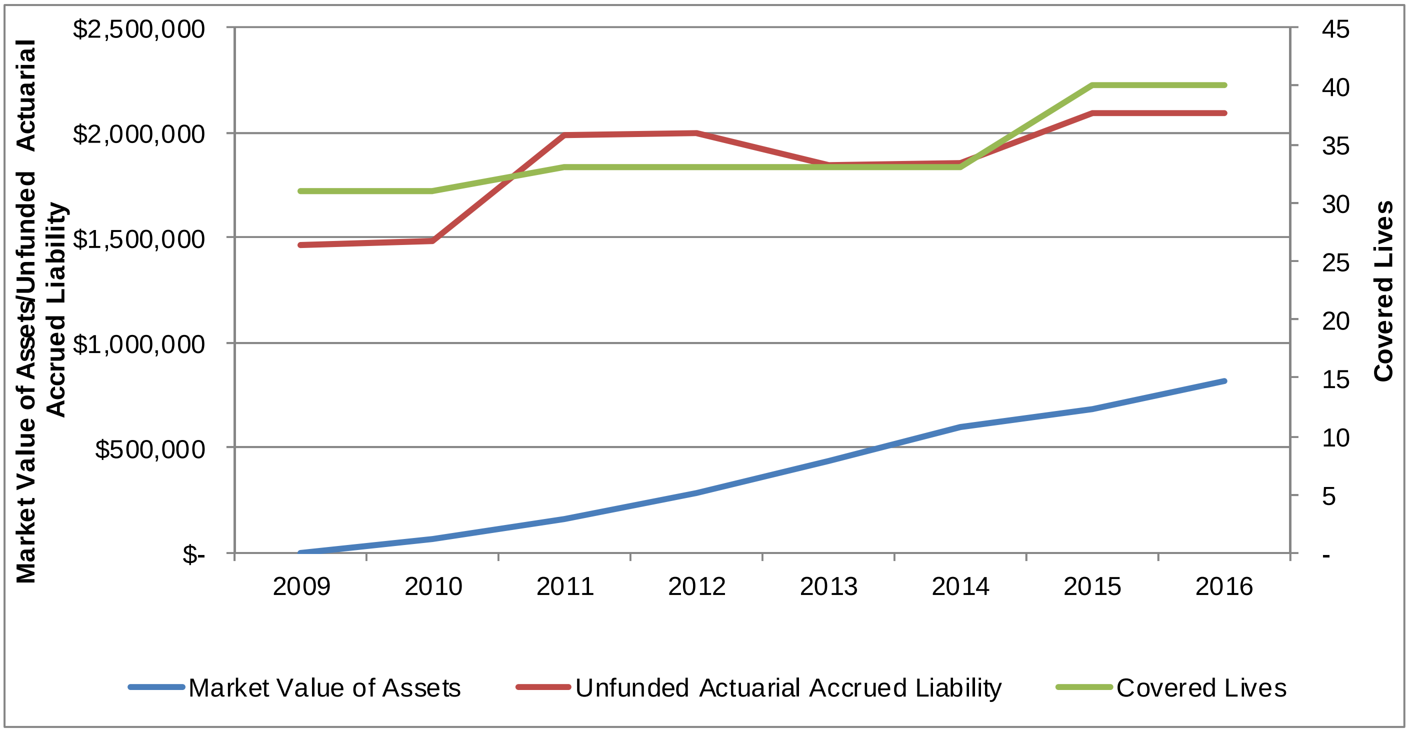
Source: Las Gallinas Valley Sanitary District records

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

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

Las Gallinas Valley Sanitary District

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



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

Source: Las Gallinas Valley Sanitary District records

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

Las Gallinas Valley Sanitary District

Demographic and Economic Statistics
for the Past Ten Fiscal Years

Fiscal Year Ended June 30,	Population [1]	Personal Income ($000)[2]	Per Capita Personal Income ($000)[2]	School Enrollment[3]	Unemployment Rate[3]
2006	244,336	$ 21,265,962	$ 89,197	28,764	3.8%
2007	246,100	$ 22,590,008	$ 91,729	29,081	3.7%
2008	248,345	$ 23,135,609	$ 93,263	29,100	4.7%
2009	250,750	$ 22,351,575	$ 89,139	29,615	8.1%
2010	252,789	$ 20,965,394	$ 82,936	30,140	8.2%
2011	255,031	$ 21,871,623	$ 85,761	30,574	8.1%
2012	254,882	$ 23,918,732	$ 93,407	31,868	7.0%
2013	258,365	$ 25,093,401	$ 97,124	32,793	5.1%
2014	260,750	$ 25,716,754	$ 98,626	33,207	4.2%
2015	unavailable	unavailable	unavailable	unavailable	3.4%

Source: County of Marin Comprehensive Annual Financial Report for 2014/15

Notes:

[1] US Department of Commerce, Bureau of Economic Analysis - www.bea.gov, the most recently available data is for 2014.

[2] California Department of Education, Educational Demographics Office - www.ed-data.k12.ca.us, the most recently available data is for 2014.

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

Las Gallinas Valley Sanitary District

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

2014			2005		
Employer	**Employees**	**Percentage of Total County Employment**	**Employer**	**Employees**	**Percentage of Total County Employment**
County of Marin	2,125	1.55%	County of Marin	2,036	1.64%
San Quentin State Prison	1,705	1.24%	Fireman's Fund	1,793	1.45%
Kaiser Permanente Medical Center	1,575	1.15%	San Quentin Prison	1,638	1.32%
Marin General Hospital	1,378	1.01%	Kaiser Permanente	1,295	1.05%
BioMarin Pharmaceutical	850	0.62%	Lucasfilm Ltd.	1,209	0.98%
Novato Unified School District	834	0.61%	Marin General Hospital	876	0.71%
Autodesk, Inc.	763	0.56%	Autodesk, Inc.	840	0.68%
Fireman's Fund Insurance Co.	721	0.53%	Novato Unified School District	825	0.67%
San Rafael City Schools	610	0.45%	Golden Gate Transit	593	0.48%
Dominican University	422	0.31%	Safeway, Inc.	579	0.47%
Total	**10,983**	**8.02%**	**Total**	**11,684**	**9.44%**
Total County Employment	**137,000**		**Total County Employment**	**123,800**	

Sources:

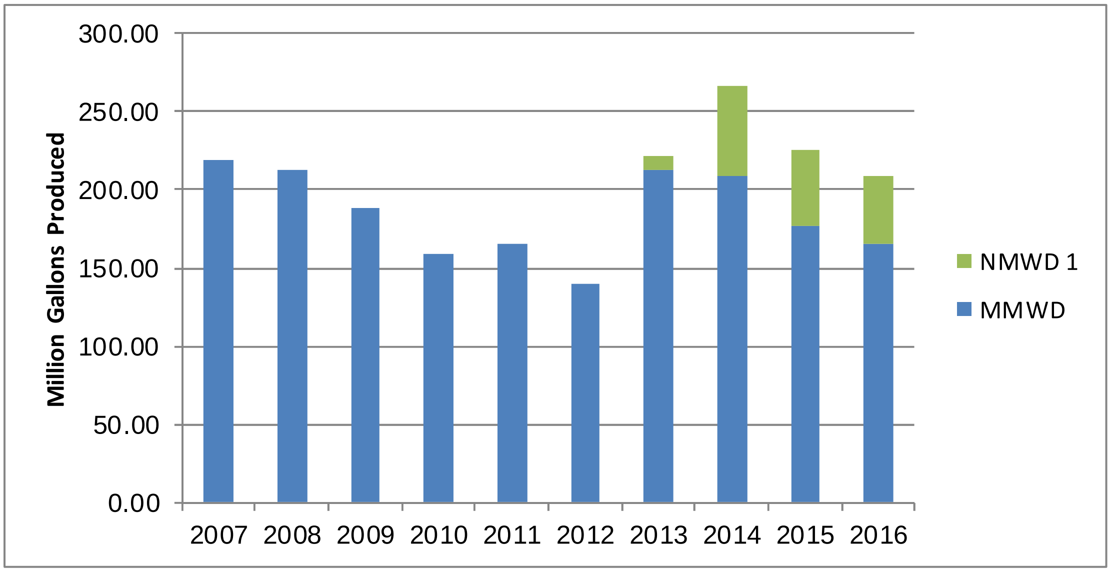
Most recent available data from the County of Marin Comprehensive Annual Financial Report for 2014/15

Community Profile, County of Marin

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

Las Gallinas Valley Sanitary District

Recycled Water Production
for the Past Ten Fiscal Years



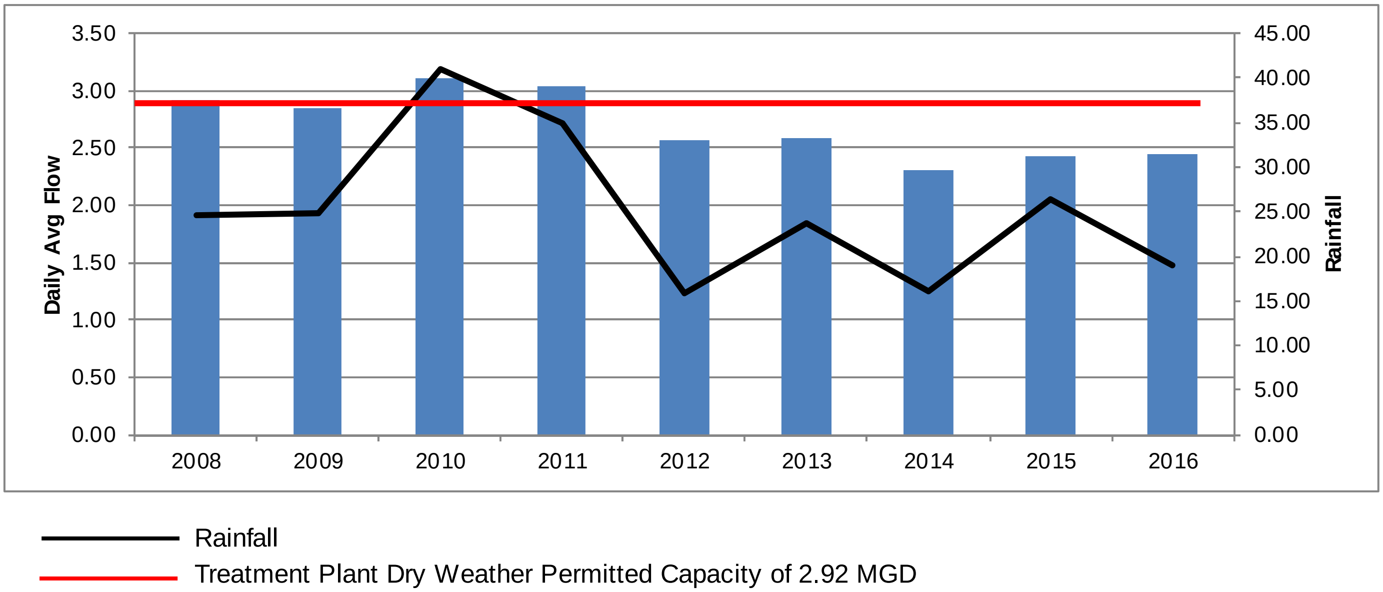
Fiscal Year Ended June 30,	Million Gallons Produced		Increase (Decrease)
	MMWD	NMWD [1]	
2007	219.26	-	21.64%
2008	213.15	-	-2.79%
2009	188.60	-	-11.52%
2010	159.48	-	-15.44%
2011	165.39	-	3.71%
2012	139.35	-	-15.74%
2013	212.03	9.52	58.99%
2014	209.28	56.44	19.94%
2015	176.91	48.96	-15.00%
2016	164.98	43.97	-7.49%

Source: Las Gallinas Valley Sanitary District records

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

Las Gallinas Valley Sanitary District

Daily Average Influent Flow
for the Past Ten Fiscal Years



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

Sources:

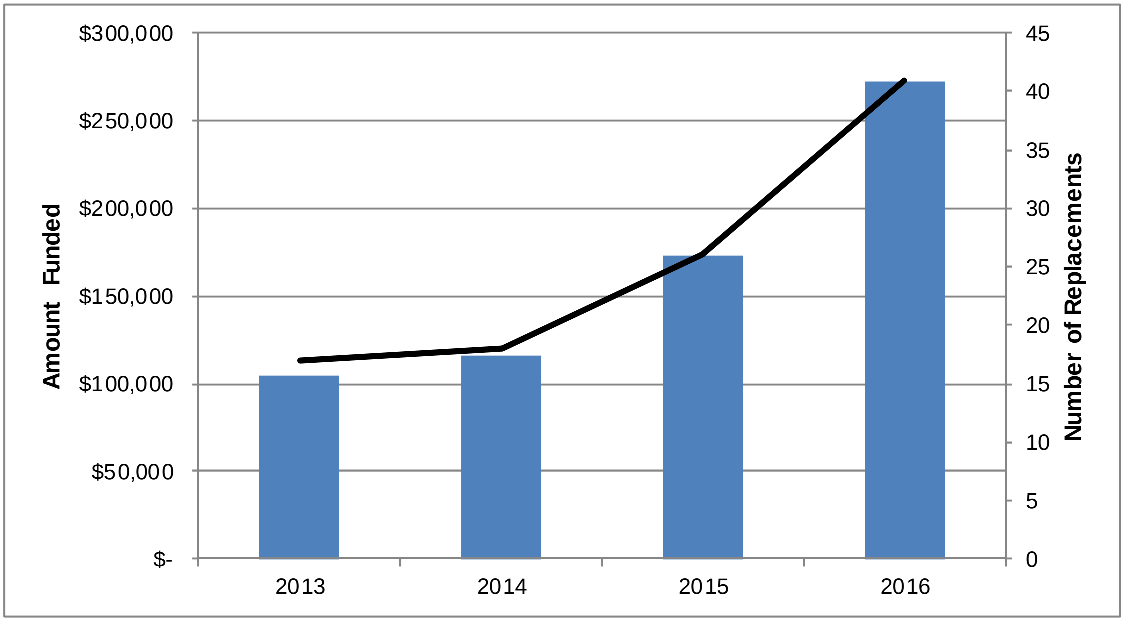
[1] Las Gallinas Valley Sanitary District records

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

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

Las Gallinas Valley Sanitary District

Private Sewer Lateral Assistance Program for the Past Three Fiscal Years



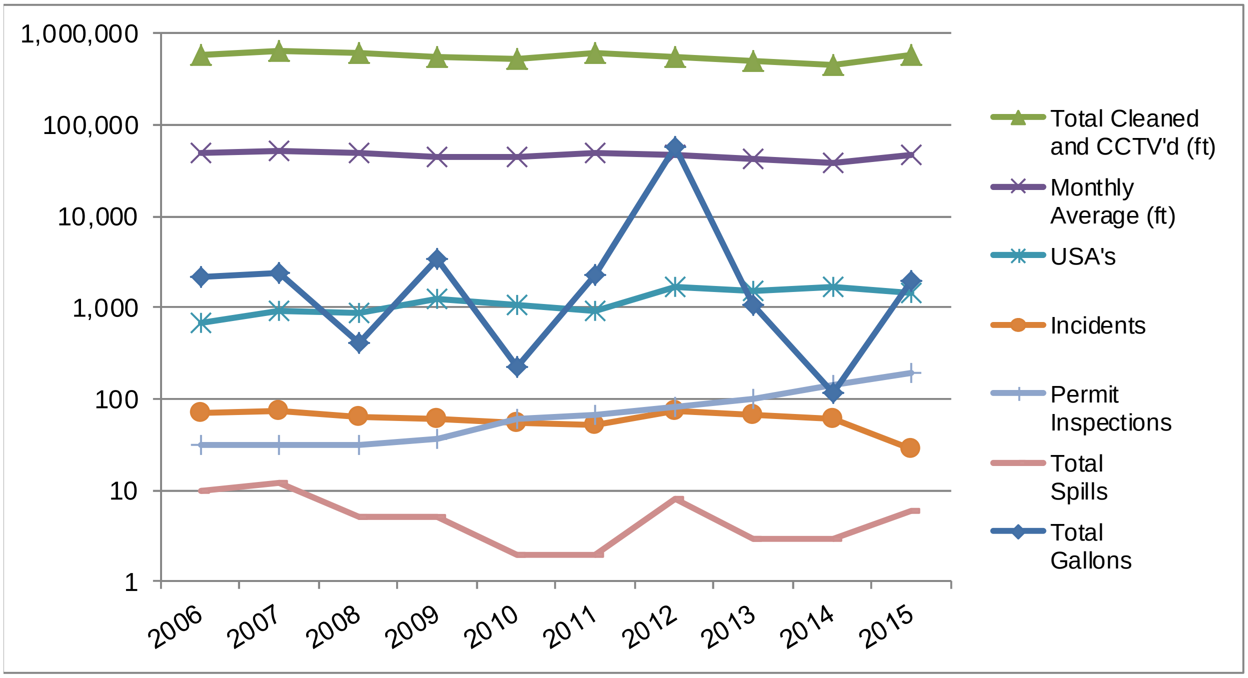
Fiscal Year Ended June 30,	Total Amount Funded	Increase (Decrease)	Number of Funded Replacements	Increase (Decrease)
2013	$ 104,831	-	17	4.62%
2014	$ 115,717	10.38%	18	5.88%
2015	$ 172,788	49.32%	26	44.44%
2016	$ 272,322	57.60%	41	57.69%

Source: Las Gallinas Valley Sanitary District records

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

Las Gallinas Valley Sanitary District

Collection System Services
Past Ten Calendar Years



Calendar Year	Total Cleaned and CCTV'd (ft)	Monthly Average (ft)	USA's	Incidents	Permit Inspections	Total Spills	Total Gallons
2006	587,142	48,929	693	71	32	10	2,155
2007	631,927	52,661	905	74	32	12	2,337
2008	597,230	49,769	875	65	31	5	409
2009	538,127	44,844	1,272	59	36	5	3,455
2010	535,844	44,654	1,053	54	60	2	225
2011	596,551	49,713	927	52	68	2	2,220
2012	561,940	46,828	1,645	74	81	8	56,190
2013	505,587	42,132	1,521	68	100	3	1,073
2014	452,649	37,721	1,721	62	141	3	114
2015	573,209	47,767	1,467	29	190	6	1,964

Source: Las Gallinas Valley Sanitary District records

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

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

Las Gallinas Valley Sanitary District

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

Fiscal Year Ended June 30,	Operations	Engineering	Laboratory[1]	Collection System	Administration	Board	Total
2007	5	-	1.5	5	4	5	20.5
2008	5	-	1.5	5	4	5	20.5
2009	5	-	2	5	4	5	21
2010	5	1	2	5	4	5	22
2011	6	2	2	5	4	5	24
2012	6	2	2	5	4	5	24
2013	6	2	2	5	4	5	24
2014	6	2	2	5	4	5	24
2015	6	3	2	5	4	5	25
2016	7	3	2	5	4	5	26

Source: Las Gallinas Valley Sanitary District records

Notes:
[1] 2006-2008 counts associated with paid interns

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$38,365,000
MARIN PUBLIC FINANCING AUTHORITY
(LAS GALLINAS VALLEY SANITARY DISTRICT)
2017 REVENUE BONDS

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the Las Gallinas Valley Sanitary District (the "District") in connection with the issuance by the Marin Public Financing Authority (the "Authority") of the bonds captioned above (the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of April 1, 2017 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee.

The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District on behalf of itself and the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Annual Report Date" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

"Dissemination Agent" means U.S. Bank National Association or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Official Statement" means the final official statement dated April 11, 2017, executed by the Authority and the District in connection with the issuance of the Bonds.

"Participating Underwriter" means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2018, with the report for the fiscal year ending June 30, 2017, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, on a timely basis, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

(a) The District's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the corresponding statements and tables in the Official Statement:

(i) Principal amount of Bonds outstanding.

(ii) The information for the most recently completed fiscal year in the form of the following tables in the Official Statement (in each case based on actual results for the most recently-completed fiscal year only; no projections for future years is required):

(A) Table 1, Number of Wastewater EDUs by Customer Class.

(B) Table 7, Projected Revenues, Expenditures, Debt Service Coverage and Fund Balances.

(iii) A summary of any changes in the District's wastewater rates and charges since the date of the previous Annual Report.

(iv) A description of any Parity Debt issued during the most recently completed fiscal year.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults, if material.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(vii) Modifications to rights of security holders, if material.

(viii) Bond calls, if material, and tender offers.

(ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities, if material.

(xi) Rating changes.

(xii) Bankruptcy, insolvency, receivership or similar event of the District.

(xiii) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The District acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), and (a)(xiv) of this Section 5 contain the qualifier "if material." The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event's occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of said party.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association Any Dissemination Agent may resign by providing 30 days' written notice to the District.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District hereunder, and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond holders or any other party. The Dissemination Agent shall have the same rights, protections and immunities hereunder as provided to the Trustee under the Indenture. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no power to enforce compliance by the District with the provisions of this Disclosure Certificate.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Section 15. Governing Law. This Disclosure Certificate is to be construed in accordance with and governed by the laws of the State of California.

Date: ___________, 2017

Las Gallinas Valley Sanitary District

By : ____

AGREED AND ACCEPTED:

U.S. Bank National Association,
as Dissemination Agent

By : _________________________________
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Marin Public Financing Authority (the "Authority")

Name of Issue: Marin Public Financing Authority (Las Gallinas Valley Sanitary District) 2017 Revenue Bonds

Date of Issuance: April 28, 2017

NOTICE IS HEREBY GIVEN that the Las Gallinas Valley Sanitary District (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated ___________, 2017. The District anticipates that the Annual Report will be filed by ____________________________.

Dated: ______________________

DISSEMINATION AGENT:

By: _________________________________
Its: _________________________________

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APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF SAN RAFAEL AND THE COUNTY OF MARIN

The following information concerning the City of San Rafael and the County of Marin is included only for the purpose of supplying general information regarding these areas.

General Information

City of San Rafael. In 1874, the City of San Rafael became the first incorporated city in the County of Marin, and became a charter city in 1913 by vote of its residents. The City of San Rafael is located 17 miles north of the City and County of San Francisco in Marin County, and is the County seat. The City is governed by a City Council comprised of five members, four of which are elected at-large to four-year terms while the mayor is elected separately to a four-year term. The City's land area is 22 square miles, including 17 square miles of land and 5 square miles of water and tidelands. The City of San Rafael provides a wide range of municipal services required by statute or charter, namely police and fire protection, construction and maintenance of streets, parks, storm drains and other infrastructure, recreation, childcare, permits, planning, code enforcement, and a library system.

County of Marin. Marin County was one of the original counties of California, created in 1850 at the time of statehood. The County has a total area of 828 sq. miles and, as of January 1, 2016, a population of approximately 262,300. Geographically, the county forms a large, southward-facing peninsula, with the Pacific Ocean to the west, San Pablo Bay and San Francisco Bay to the east, and – across the Golden Gate – the City and County of San Francisco to the south. Marin County's northern border is with Sonoma County. Most of the county's population resides on the eastern side, with a string of communities running along the Bay, from Sausalito to Tiburon to San Rafael to Corte Madera. The interior contains large areas of agricultural and open space; West Marin, through which California State Route 1 runs alongside the California coast, contains many small unincorporated communities dependent on agriculture and tourism for their economies.

Population

The following table shows population estimates for the City of San Rafael, the County of Marin and the State of California for the past five years as of January 1.

CITY OF SAN RAFAEL, COUNTY OF MARIN AND STATE OF CALIFORNIA
Population Estimates
As of January 1

Area	2012	2013	2014	2015	2016
City of San Rafael	58,759	59,430	60,162	60,507	60,582
County of Marin	255,812	257,228	260,294	261,798	262,274
State of California	37,881,357	38,239,207	38,567,459	38,907,642	39,255,883

Source: State of California, Department of Finance, E-5 Population and Housing Estimates for Cities, Counties and the State – January 1, 2011- 2016. Sacramento, California, May 2016.

Industry

The table below lists employment by industry group for the County of Marin for the years 2011 through 2015.

COUNTY OF MARIN
Annual Average Labor Force
Employment by Industry Group

	2011	2012	2013	2014	2015[1]
Civilian Labor Force	134,600	137,100	138,700	139,600	141,100
Civilian Employment	124,800	128,500	131,500	133,700	136,100
Civilian Unemployment	9,800	8,600	7,200	5,900	5,000
Civilian Unemployment Rate	7.3%	6.3%	5.2%	4.3%	3.5%
Total Farm	400	400	400	400	300
Total Nonfarm	102,600	105,800	109,600	110,900	113,000
Total Wage and Salary	103,100	106,200	110,000	111,300	113,300
Total Private	86,700	90,300	94,200	95,500	97,300
Goods Producing	7,100	7,700	8,600	9,600	10,400
Service Providing	95,500	98,000	101,000	101,300	102,500
Private Service Providing	79,500	82,600	85,600	85,900	86,900
Mining and Logging	100	100	0	0	0
Nat. Resources, Mining & Construction	5,000	5,300	5,700	6,100	6,500
Construction	4,900	5,200	5,700	6,100	6,500
Manufacturing	2,200	2,400	2,900	3,500	4,000
Trade, Transportation & Utilities	16,900	17,300	17,800	18,300	18,400
Wholesale Trade	2,400	2,600	2,700	2,800	3,000
Retail Trade	13,400	13,600	13,900	14,300	14,300
Transportation, Warehousing & Utilities	1,100	1,100	1,200	1,300	1,200
Information	2,600	2,800	2,800	2,600	2,600
Financial Activities	7,000	7,200	7,300	6,800	6,400
Professional & Business Services	17,800	18,600	18,700	18,200	18,700
Educational & Health Services	17,800	18,500	19,400	19,700	20,200
Leisure & Hospitality	12,700	13,200	14,400	15,100	15,400
Other Services	4,800	5,000	5,200	5,200	5,300
Government	16,000	15,500	15,400	15,400	15,700
Federal Government	800	800	800	700	700
Federal Government Ex. Dept. of Defense	700	700	700	700	700
Department of Defense	100	100	100	0	0
State Government	2,100	2,000	1,900	1,800	1,900
State Government Education	0	0	0	0	0
State Government Excluding Education	2,100	2,000	1,900	1,800	1,900
Local Government	13,100	12,700	12,700	12,900	13,000
Local Government Education	6,100	5,600	5,600	5,700	5,700
Local Government Excluding Education	7,000	7,100	7,200	7,300	7,300
Special Districts plus Indian Tribes	3,000	3,100	3,200	3,200	3,200
County	2,500	2,500	2,500	2,600	2,600
City	1,500	1,500	1,500	1,500	1,500
State and Local Government	15,200	14,700	14,600	14,700	15,000

(1) Most recent annual data available. Information is based on a 2015 benchmark and is not seasonally adjusted.
Source: State of California Employment Development Department.

The table below lists, in alphabetical order, the major employers in the County of Marin.

COUNTY OF MARIN
Major Employers

Employer Name	Location	Industry
Autodesk Inc	San Rafael	Computer Programming Services
Bio Marin Pharmaceutical Inc	San Rafael	Laboratories-Research & Development
Cagwin & Dorward Landscape	Novato	Landscape Contractors
California Alpine Club	Mill Valley	Clubs
College of Marin	Kentfield	Schools-Universities & Colleges Academic
Community Action Marin	San Rafael	Non-Profit Organizations
Corrections Dept	San Quentin	Government Offices-State
Dominican University of Ca	San Rafael	Schools-Universities & Colleges Academic
Extreme Pizza	San Rafael	Restaurant Management
Kaiser Permanente San Rafael	San Rafael	Hospitals
Kreines & Kreines Inc	Belvedere Tibrn	Environmental & Ecological Services
Lucas Licensing	Nicasio	Video Production & Taping Service
Macy's	Corte Madera	Department Stores
Managed Health Network Inc	San Rafael	Mental Health Services
Marin Community College	Kentfield	Schools-Universities & Colleges Academic
Marin County Sheriff's Dept	San Rafael	Government Offices-County
Marin General Hospital	Greenbrae	Hospitals
Marin Independent Journal	San Rafael	Newspapers (publishers/Mfrs)
Nordstrom	Corte Madera	Department Stores
Restoration Hardware Holdings	Corte Madera	Furniture-Dealers-Retail
San Rafael Human Resources	San Rafael	Government Offices-City, Village & Twp
Sonnen Motorcars	San Rafael	Automobile Dealers-New Cars
Sutter Health Facility	Novato	Hospitals
Township Building Svc Inc	Novato	Janitor Service
Westamerica Bancorporation	San Rafael	Holding Companies (bank)

Source: State of California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2017 1st Edition.

Commercial Activity

A summary of historical taxable sales within the City of San Rafael during the past five years in which annual data is available is shown in the following table.

CITY OF SAN RAFAEL
Taxable Transactions
(dollars in thousands)

Year	Retail Stores Taxable Transactions	Total Outlets Taxable Transactions
2010	$1,049,919	$1,344,554
2011	1,151,941	1,431,727
2012	1,234,514	1,532,832
2013	1,336,922	1,660,492
2014[1]	1,407,601	1,751,753

(1) Most recent annual data available.
Source: State of California, Board of Equalization.

A summary of historical taxable sales within the County of Marin during the past five years in which annual data is available is shown in the following table.

COUNTY OF MARIN
Taxable Transactions
(dollars in thousands)

Year	Retail Stores Taxable Transactions	Total Outlets Taxable Transactions
2010	$2,915,477	$3,834,169
2011	3,134,270	4,049,869
2012	3,357,884	4,333,600
2013	3,605,108	4,664,920
2014[1]	3,745,315	4,861,801

(1) Most recent annual data available.
Source: State of California, Board of Equalization.

Construction Trends

Provided below are the building permits and valuations for the City of San Rafael and the County of Marin for calendar years 2012 through 2016.

CITY OF SAN RAFAEL
Building Permit Valuations

	2012	2013	2014	2015	2016
Permit Valuation					
New Single-family	$195,000	$2,640,735	$767,160	$20,904,620	$12,729,540
New Multi-family	0	0	3,612,825	0	$0
Res. Alterations/Additions	12,469,738	23,587,514	34,216,402	30,875,922	26,166,973
Total Residential	$12,664,738	$26,228,249	$38,596,387	$51,780,542	$38,896,513
New Industrial	–	–	–	–	–
New Commercial	$25,200,000	$250,000	$53,946,458	–	–
New Other	32,000	611,244	81,667	$783,520	$783,520
Com. Alterations/Additions	11,762,194	32,361,142	39,257,087	51,772,386	51,772,386
Total Nonresidential	$36,994,194	$33,222,386	$93,285,212	$52,555,906	$52,555,906
New Dwelling Units					
Single Family	4	2	1	38	24
Multiple Family	0	0	45	0	0
TOTAL	4	2	46	38	24

Source: Construction Industry Research Board, Building Permit Summary

COUNTY OF MARIN
Building Permit Valuations

	2012	2013	2014	2015	2016
Permit Valuation					
New Single-family	$36,152,737	$59,423,221	$71,460,064	$75,834,521	$68,694,882
New Multi-family	4,927,531	33,397,438	14,069,125	2,426,350	1,979,034
Res. Alterations/Additions	132,762,349	152,065,067	203,375,333	203,754,731	194,742,961
Total Residential	$173,842,617	$244,885,726	$288,904,522	$282,015,602	$265,416,877
New Industrial	$2,124,000	$154,864	0	0	0
New Commercial	37,684,000	10,326,462	$62,586,873	$16,620,000	$6,650,000
New Other	11,857,073	18,432,504	37,721,866	36,433,735	48,953,397
Com. Alterations/Additions	66,406,432	93,745,764	85,972,938	497,343,601	69,437,760
Total Nonresidential	$118,071,505	$122,659,594	$186,281,677	$550,397,336	$125,041,157
New Dwelling Units					
Single Family	67	90	112	121	104
Multiple Family	50	212	76	20	2
TOTAL	117	302	188	141	106

Source: Construction Industry Research Board, Building Permit Summary

Income

According to the United States Census Bureau, the median household income in the City of San Rafael from 2011-2015 is $77,294, and the median household income in the County of Marin for the same period is $93,257. The median household income in California and in the United States from 2011-2015 was $61,818 and $53,889, respectively.

Transportation

The County's transportation facilities are excellent, with U.S. Highway 101 and U.S. Interstate Highway 580 providing easy access to the rest of California. Buses provide commuter service to San Francisco and other Bay Area cities, and commuter ferries embark for San Francisco from the communities of Sausalito, Tiburon, and Larkspur. The San Francisco International Airport, located 30 miles from the Town, provides air passenger service to points worldwide.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Marin Public Financing Authority
San Rafael, California

Re: Marin Public Financing Authority (Las Gallinas Valley Sanitary District) 2017 Revenue Bonds (Marin County, California)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Marin Public Financing Authority (Las Gallinas Valley Sanitary District) (the "Authority") of its $38,365,000 2017 Revenue Bonds (Marin County, California) (the "Bonds"). The Bonds are being issued pursuant to the laws of the State of California, including Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 (the "Law"), a resolution duly adopted by Las Gallinas Valley Sanitary District (the "District") and the Authority on March 23, 2017 (together, the "Resolutions"), an Installment Sale Agreement, dated as of April 1, 2017 (the "Installment Sale Agreement"), between the Authority, as seller, and District, as purchaser, and an Indenture of Trust, dated as of April 1, 2017 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

In our capacity as Bond Counsel we have reviewed the Law, the Resolutions, the Installment Sale Agreement, the Indenture, certificates of the Authority, the Trustee and others, an opinion of Byers/Richardson, as counsel to the Authority ("Authority Counsel"), an opinion of Byers/Richardson, as counsel to the District ("District Counsel") and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings assigned thereto in the Indenture.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof.

We call attention to the fact that the rights and obligations under the Indenture and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Authority and are payable solely from Revenues and certain other amounts held under the Indenture.

2. The Indenture has been duly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the Authority. The Indenture creates a valid lien on the Revenues and certain other amounts held by the Trustee under the Indenture, as and to the extent set forth in the Indenture and subject to

the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Installment Sale Agreement has been duly authorized, executed and delivered by, and constitutes a valid and binding obligation of, the Authority and the District. The Installment Sale Agreement creates a valid lien on the Net Revenues and certain other amounts pledged by the Installment Sale Agreement for the security of the Installment Payments.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

The Code establishes certain requirements which must be met subsequent to the issuance of the Bonds in order that the interest on the Bonds be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Bonds, restrictions on the investment of proceeds of the Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause the interest on the Bonds to become subject to federal income taxation retroactive to its their date of issuance, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of issuance of the Bonds, the Authority and the District will execute a Tax Certificate relating to the Bonds containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Authority and the District represent that they will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that the interest on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph 4, we have relied upon and assumed (i) the material accuracy of the Authority's and the District's representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of the interest on the Bonds, and (ii) compliance by the Authority and the District with procedures and covenants set forth in the Tax Certificate as to such matters.

5. Under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 4 and 5 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under State and local tax law.

We render our opinion under existing statutes and court decisions as of the date of issuance of the Bonds, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

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APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a

Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference*.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of

redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.