



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

DISTRICT BOARD
Megan Clark
Rabi Elias
Craig K. Murray
Judy Schriebman
Crystal J. Yezman

DISTRICT ADMINISTRATION
Mike Prinz,
General Manager
Michael Cortez,
District Engineer
Mel Liebmann,
Plant Manager
Greg Pease,
Collection System/Safety Manager
Dale McDonald,
Administrative Services Manager

SPECIAL BOARD MEETING AGENDA

January 14, 2021

In accordance with Government Code Section 54956

Crystal J. Yezman, Board President, has called for a Special Meeting

On March 12, 2020, Governor Newsom issued Executive Order N-25-20, which enhances State and Local Governments' ability to respond to COVID-19 Pandemic based on Guidance for Gatherings issued by the California Department of Public Health. The Executive Order specifically allows local legislative bodies to hold meetings via teleconference and to make meetings accessible electronically, in order to protect public health. In light of this, the January 14, 2021 meeting of the LGVSD Board will be held via Zoom electronic meeting. There will be NO physical location of the meeting. Due to the current circumstances, there may be limited opportunity to provide verbal comments during the meeting. Persons who wish to address the Board for public comment or on an item on the agenda are encouraged to submit comments in writing to the Board Secretary (tlerch@lgsd.org) by 6 am Thursday, January 14, 2021. In addition, Persons wishing to address the Board verbally must contact the Board Secretary, by email (tlerch@lgsd.org) and provide their Name; Address; Tel. No.; and the Item they wish to address by the same date and time deadline for submission of written comments, as indicated above. Please keep in mind that any public comments must be limited to 3 minutes due to time constraints. Any written comments will be distributed to the LGVSD Board before the meeting.*

**Prior to the meeting, participants should download the Zoom app at: <https://zoom.us/download> A link to simplified instructions for use of the Zoom app is: <https://blog.zoom.us/wordpress/2018/07/03/video-communications-best-practice-guide/>*

REMOTE CONFERENCING ONLY

Join Zoom Meeting online at:

<https://us02web.zoom.us/j/81209193986> OR

By teleconference at: +16699009128 Meeting ID: 812 0919 3986

**MATERIALS RELATED TO ITEMS ON THIS AGENDA ARE AVAILABLE FOR
PUBLIC INSPECTION ON THE DISTRICT WEBSITE WWW.LGVSD.ORG
NOTE: Final board action may be taken on any matter appearing on the Agenda**

Estimated
Time

OPEN SESSION:

3:00 PM

1. PUBLIC COMMENT

This portion of the meeting is reserved for persons desiring to address the Board on matters not on the agenda and within the jurisdiction of the Las Gallinas Valley Sanitary District. Presentations are generally limited to three minutes. All matters requiring a response will be referred to staff for reply in writing and/or placed on a future meeting agenda. Please contact the General Manager before the meeting.

3:05 PM

2. IDENTIFY LABOR NEGOTIATORS OF THE DISTRICT

Board to appoint Gregory Ramirez from IEDA as the Agency Designated Representative.

CLOSED SESSION:

3:15 PM

3. CONFERENCE WITH LABOR NEGOTIATOR - – Agency designated representative : Gregory Ramirez, IEDA; pursuant to Government Code Section 54957.6

OPEN SESSION:

3:45 PM

4. PRESENTATION AND RECEIPT OF THE ANNUAL FINANCIAL STATEMENT AND AUDITORS' REPORT FOR THE YEAR ENDED JUNE 30, 2020

John Cropper of Cropper Accountancy Corporation will present the results of the Annual Financial Audit for the year ended June 30, 2020.

5:30 PM

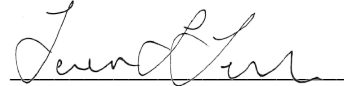
ADJOURNMENT

FUTURE BOARD MEETING DATES: JANUARY 21st , JANUARY 29th AND FEBRUARY 4th, 2021

AGENDA APPROVED:	Rabi Elias, Board Director	Patrick Richardson, Legal Counsel
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CERTIFICATION: I, Teresa Lerch, District Secretary of the Las Gallinas Valley Sanitary District, hereby declare under penalty of perjury that on or before January 13, 2021 3:00 pm I posted the Agenda for the Board Meeting of said Board to be held January 14, 2021 , at the District Office, located at 101 Lucas Valley Road, Suite 300, San Rafael, CA.

DATED: January 8, 2021




Teresa L. Lerch
District Secretary

The Board of the Las Gallinas Valley Sanitary District meets regularly on the First and Third Thursday of each month. The District may also schedule additional special meetings for the purpose of completing unfinished business and/or study session. Regular meetings are held at the District Office, 101 Lucas Valley Road, Suite 300, San Rafael, CA. 94903

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District at (415) 472-1734 at least 24 hours prior to the meeting. Notification prior to the meeting will enable the District to make reasonable accommodation to help ensure accessibility to this meeting.



Agenda Summary Report

To: Mike Prinz, General Manager 

From: Teri Lerch, District Secretary
(415) 526-1510; tlerch@lgvsd.org

Mtg. Date: January 14, 2021

Re: Identify Labor Negotiators of the District

Item Type: Consent _____ Action X Information _____ Other _____

Standard Contract: Yes _____ No _____ (See attached) Not Applicable X .

STAFF RECOMMENDATION

Board to appoint Gregory Ramirez from IEDA as the Agency Designated Representatives for Labor Relations consulting.

BACKGROUND

The District Board is required by the Brown Act to meet in open session and identify its labor negotiators prior to meeting in closed session under the Labor Negotiations Exception.

IEDA is under contract with the District to represent the interests of the District with regards to labor management. Gregory Ramirez has replaced our District's previous IEDA representative, Glenn Berkheimer.

Dale McDonald, as Administrative Services Manager of the District, is responsible for management of Human Resources and is Co-Chair of the Labor Management Committee.

ENVIRONMENTAL REVIEW

N/A

FISCAL IMPACT

IEDA has previously been awarded the contract to represent the interests of the District with regards to Labor Relations Management. Consulting services for fiscal year 2020-2021 have been approved in the budget.



AGENDA ITEM 3

01/14/2021

CLOSED SESSION

- Separate Item to be distributed at Board Meeting
- Separate Item to be distributed prior to Board Meeting
- Verbal Reports

Agenda Summary Report

To: Mike Prinz, General Manager 
From: Dale McDonald, Administrative Services Manager 
(415) 526-1519 dmcDonald@lgvSD.org
Meeting Date: January 14, 2021
Re: Receive Annual Audit Report for Fiscal Year 2019-20
Item Type: Consent Action Information Other
Standard Contract: Yes No (See attached) Not Applicable

STAFF RECOMMENDATION

Board to receive the Financial Report as presented by Cropper Accountancy.

BACKGROUND

We are pleased to present the 2019-20 Financial Audit and Auditor's Report. This year's audit was delayed from being presented earlier in part because of the effect the COVID-19 pandemic had on Cropper Accountancy completing the audit in a timely manner. Remote work restrictions made gathering required supporting documents more difficult than in prior years. Regional Governmental Services assisted the District in providing necessary accounting information to Cropper Accountancy.

Due to time constraints necessary to complete the audit for timely filing with financial institutions and the State of California the audit report is being presented without the embellishments required in a Comprehensive Annual Financial Report (CAFR). The District's CAFR will be prepared and presented to the Board and public in February. Staff plans to apply for the optional Certificate of Achievement (COA) for Excellence in Financial Reporting award given by the General Finance Officers Association (GFOA) once the CAFR is complete. The CAFR and GFOA COA award is not required by financial institutions.

The Annual Financial Statements and Auditor's Report prepared by Cropper Accountancy dated January 6, 2021 is being presented to the Board. Cropper Accountancy will provide the *Auditor's Communication with Those Charged with Governance* (SAS 114) letter and the *Communicating Internal Control Related Matters Identified In an Audit* (SAS 115) letter to the Board when the presentation of the audit is made.

PREVIOUS BOARD ACTION

None

ENVIRONMENTAL REVIEW

N/A

FISCAL IMPACT

None



Financial Statements

With Auditors' Report Thereon

Fiscal Years Ended June 30, 2020 and 2019



Las Gallinas Valley Sanitary District

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Wildlife in the reclamation area

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Las Gallinas Valley Sanitary District, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Sanitary 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Sanitary District, as of June 30, 2020 and 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Proportionate Share of Net Pension Liability, Schedule of District Pension Plan Contributions, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of OPEB Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Las Gallinas Valley Sanitary District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2021 on our consideration of Las Gallinas Valley Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Las Gallinas Valley Sanitary District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Las Gallinas Valley Sanitary District's internal control over financial reporting and compliance.


CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
January 6, 2021

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

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, 2020 and 2019. Please read it in conjunction with the District financial statements and accompanying notes, which follow this section.

HIGHLIGHTS

Financial Highlights

- Restricted bond proceeds were reduced from \$36,628,065 in 2019 to \$8,632,794 in 2020 as the cash on hand was used to pay for ongoing capital construction costs associated with the large multi-year Secondary Treatment Plant Upgrade and Recycled Water Expansion (STPURWE) Project.
- Capital assets, net of accumulated depreciation, increased from \$69,350,571 to \$95,864,951 in part due to the completion of large portions of the STPURWE project.
- Operating revenues increased \$629,439 over the previous year. This increase was primarily due to a 4.3% increase in the sewer service revenue. Recycled water revenue increased 6% in 2020. The primary reason for increase was that an Ultraviolet Disinfection System that failed in late fiscal year 2018-2019 was returned to service which restored LGVSD recycled water supply to North Marin Water District.
- Statement of Net Position identifies \$27,462,161 as unrestricted as of June 30, 2020. Included in this total is \$7,079,424 designated as operating reserves, capital reserves, and the additional allocation of \$1,000,000 in equipment reserves established in June 2019 with the adoption of the fiscal year 2019-2020 budget.
- Operating expenses increased from \$8,692,030 in 2019 to \$13,038,339 in 2020. The increase is primarily attributable to the following factors:
 - Sewage Treatment Cost Center
 - Major operating expense adjustment for prior-year sewage treatment activity; \$1,755,183
 - Increase in depreciation; \$242,310
 - Repair and maintenance due to increase in maintenance effort; \$98,866
 - Utility power cost related Biogas Energy Recovery System (BERS) being offline for the majority of the fiscal year; \$66,577
 - Outside technical support for regulatory permits and other environmental consulting; \$78,412
 - First year of Integrated Wastewater Master Plan consultant related expenses; \$190,376
 - SCADA System support; \$66,509
 - Sharp Solar Panel Capital Replacement project; \$23,656

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

- First year of Flow System Equalization program; \$47,984
- General and Administration Cost Center
 - GASB 68 pension adjustment of \$580,425 was applied this fiscal year.
 - Salary expenses increased \$137,041 or 24.2% which consisted of temporary hires \$60,371, regular salary increase \$42,329 or 7.9%, and severance payout of \$39,834. Overtime was down \$5,493.
 - Outside and consulting services increased \$107,805.
 - Office rent at newly leased administration building increased \$80,506 over the prior year when no space was leased.
- Nonoperating expenses are composed primarily of interest expense in the amount of \$1,453,877. Interest income is projected to decrease in fiscal year 2020-21 as the bond fund is depleted.

District Highlights

- The District treated 888.3 million gallons of wastewater during 2020. Marin Municipal Water District (MMWD) cannot currently accept recycled water from the District due to the demolition of the MMWD recycled water plant undertaken as part of the STPURWE project. It is anticipated that MMWD will be able to acquire recycled water from the District again in 2021 once the recycled water phase of the STPURWE project is complete. In 2020 the North Marin Water District (NMWD) purchased 46.98 million gallons of recycled water for distribution, up from 28.87 million gallons of water in 2019.
- The District has two photovoltaic solar cell systems which power the reclamation pump station and the treatment plant. These systems generate power to offset the District's demand for energy. In prior years, the District had been a net power generator and received credits or refunds for power exported to the power grid until December 2015 when the power monitor for the main plant switchgear failed which was only restored late in 2020 as a part of the STPURWE project. With it restored utility power costs are expected to be reduced. A new solar power data acquisition system was installed in 2020.
- The District was awarded a federal grant from the United States Bureau of Reclamation (USBR) under its Title XVI program to expand the recycled water treatment facility. USBR did not fund the full application amount of \$847,000 so all partner projects that were submitted received a reduced award amount. On top of that, for each award, USBR takes a percentage of money for their administrative costs. The amount that USBR awarded the STPURWE project was \$818,950. From that amount, the allocated \$13,400 towards USBR administration costs. The resulting final award reimbursement to LGVSD was therefore \$805,550. Federal and State grants are invoiced as construction proceeds on the funded projects. A total of \$364,321 of the Title XVI Water Reclamation and Reuse grant passed

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

through the Sonoma County Water Agency and was reimbursed in 2020. The balance of \$441,229 was invoiced in 2019 but reimbursed in July 2020.

- 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 and/or lower laterals. The loans are repaid through special assessments through the property tax rolls over ten years. During 2020, the District advanced a total of \$73,397 to ten property owners to repair or replace their laterals.

USING THIS ANNUAL REPORT

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

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE DISTRICT

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

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

Changes in Net Position

The District's net position increased by \$3,531,039 in 2020 and \$7,393,747 in 2019. The following Condensed Statements of Net Position shows these changes.

CONDENSED STATEMENTS OF NET POSITION
Fiscal years ended June 30, 2020, 2019 and 2018

ASSETS	2020	2019	2018
Current assets	\$ 43,569,861	\$ 68,828,159	\$ 66,984,372
Capital assets	95,864,951	69,350,571	\$ 63,944,200
Other noncurrent assets	1,290,103	1,305,176	1,337,789
Total Assets	140,724,915	139,483,906	132,266,361
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on debt refunding	52,862	62,329	71,796
Pension plan	955,903	946,585	1,147,743
Other post employment benefits	801,963	371,208	350,729
Total deferred outflows of resources	1,810,728	1,380,122	1,570,268
LIABILITIES			
Current liabilities	5,870,657	5,758,439	3,412,401
Noncurrent liabilities	51,143,570	53,242,942	55,938,170
Total Liabilities	57,014,227	59,001,381	59,350,571
DEFERRED INFLOWS OF RESOURCES			
Pension plan	219,367	180,601	133,599
Other post-employment benefits	419,220	330,256	394,417
Total deferred inflows of resources	638,587	510,857	528,016
NET POSITION			
Net investment in capital assets	47,892,850	18,764,185	11,152,704
Restricted	9,527,818	37,516,009	40,971,524
Unrestricted	27,462,161	25,071,596	21,833,815
Total net position	\$ 84,882,829	\$ 81,351,790	\$ 73,958,043

Analysis of Changes in Statements of Net Position

- Current assets decreased by \$25,258,298 in 2020 as restricted bond funds were used to pay for the large STPURWE project in. Interest-bearing bank accounts had higher cash balances at the beginning of the year which resulted in additional interest income of \$602,152 over the prior fiscal year. The restricted bond funds were invested in the California State Treasurer's Local Agency Investment Fund (LAIF). The balance of LAIF investments as of June 30, 2020 was \$27,069,352. It is planned that current assets will continue to decrease as the bond funding is used for capital improvements.

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

- Capital assets, net of accumulated depreciation, increased by \$26,514,380 in 2020 and \$5,406,371 in 2019 primarily due to the treatment plant upgrade and expansion project.
- Deferred outflows of resources increased by \$430,606 in 2020 and decreased by \$190,146 in 2019 due to the changes in the pension and other postemployment retirement benefits related items in accordance Government Accounting Standards Board No. 68, *Financial Reporting for Pension Plans* (GASB No. 68) and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75).
- Current liabilities in 2020 increased by \$112,218 and by \$2,346,038 in 2019 related to major construction expenditures for plant improvements.
- Noncurrent liabilities had decreased by \$2,099,372 in 2020 primarily due to scheduled long-term debt repayments. In 2019 payables decreased by \$ 2,695,228 primarily due to scheduled long-term debt repayments.
- Deferred inflows of resources increased \$127,730 in 2020 and decreased \$17,159 in 2019 due to scheduled amortization and changes in the actuarial assumptions related to GASBS No. 68 and 75.

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

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, 2020, 2019 and 2018

REVENUE	2020	2019	2018
Operating Revenue			
Sewer use charges	\$ 14,831,995	\$ 14,228,877	\$ 13,634,548
Recycled water fees	67,288	63,463	61,081
Miscellaneous	65,401	42,905	41,198
Nonoperating Revenue			
Tax revenues	1,524,094	1,353,767	1,290,285
Interest income and other	650,436	616,625	310,651
Total Revenue	17,139,214	16,305,637	15,337,763
EXPENSES			
Operating expenses	13,038,339	8,692,030	9,142,555
Nonoperating expenses	1,453,877	856,897	1,289,398
Total Expenses	14,492,216	9,548,927	10,431,953
Change in net position	2,646,998	6,756,710	4,905,810
CAPITAL CONTRIBUTIONS			
Connection fees	-	-	239,138
Intergovernmental	514,720	463,143	455,057
State grants	369,321	173,894	362,033
Total Capital Contribution	884,041	637,037	1,056,228
Net position - beginning of year	81,351,790	73,958,043	67,996,005
Net position - end of year	\$ 84,882,829	\$ 81,351,790	\$ 73,958,043

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

- Operating Revenue of the District increased in 2020 due primarily to a 3.2% increase in the sewer use charge. This increase builds upon the increase of 3.6% implemented in 2019. Recycled water fees are based on production to meet demand and costs incurred by the District. Deliveries to North Marin Water District increased after operational issues in 2019 were addressed. Revenue was up by 6.03% from 2019. Interest income was higher due to unspent bond reserves being held in LAIF investment account.

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

- Operating expenses increased by \$4,346,308 in 2020, substantially higher than the decrease of \$450,525 reported in 2019. This is attributable to an increase in expenses at the sewage treatment cost center and general administration cost center as described in the Financial Highlights section at the beginning of the Management's Discussion and Analysis report.
- Nonoperating revenues increased by 10.36% or \$204,138 in 2020 due to several factors. Property taxes paid by the County increased by \$170,327 while franchise fees for refuse collections increased by \$55,202. Interest Income decreased by 4.38% as interest rates on LAIF funds fell and money was withdrawn for use on the STPURWE project.
- Nonoperating expenses increased by \$596,980 in 2020 compared to decrease of \$432,501 in 2019. For assets that are financed with tax-exempt debt (2017 Bond and IBank Loan), the interest income earned on unexpended funds is offset against the interest expenditures in determining the amount of interest to be capitalized (GASB No.89). Loan principal and interest payments to IBank began in 2019.
- Capital Contributions from Connection Fees are primarily dependent on the level of densification of existing development with the District. In recent years, the development has consisted of the decentralized development rather than new greenfield development. Connection fees charged to developers to reserve system capacity are recorded as liabilities (unearned connection fees) until connections are actually made. Once connections are made, the fees are recognized as increases to capital contributions. There was no recognized increase to capital contributions in the fiscal year ending June 30, 2020. The intergovernmental contributions are from MMWD for its allocation of capacity in the existing recycled water treatment facility and its proportionate share of the expanded facility which is undergoing construction. State grants are invoiced as construction proceeds on the funded projects.

DESIGNATED RESERVES

The District's current reserve policy, as put forth in the Board Policies and Procedures in 2009 and updated in 2017, established a goal (target) of increasing the reserves. The original target, established in 2002, is also shown for reference.

The Rate Stabilization reserve was created to fund unexpected cost increases and spread them over more than one year. It was originally established when the sewer rate setting process occurred every 4 or 5 years and functions similar to an operating contingency reserve.

The Board established a Vehicle and Equipment Replacement Fund (VERF) and reserved \$1,000,000 in the LAIF investment account when the 2019-2020 budget was adopted. The Reserve Funding Progress chart displays both the Board's intent to transfer \$1,000,000 from the Working Cash Flow reserve at the end of fiscal year 2019 and the balance of the unspent reserve at the end of fiscal year 2020.

No appropriation of reserves was authorized by the Board in fiscal year 2019-2020. Unrestricted net position was designated for the following at June 30, 2020:

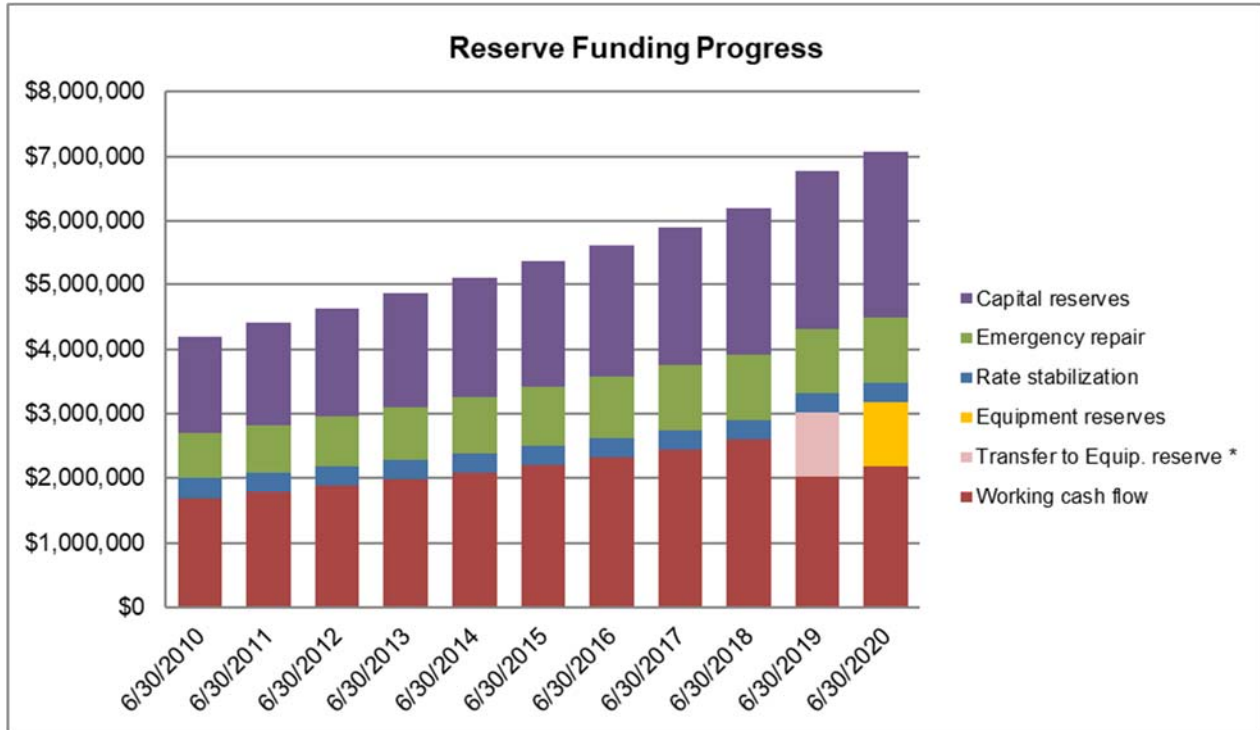
Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

	Actual June 30, 2020	Current Target	Original Target
Operating reserves:			
Working cash flow	\$ 2,185,612	\$ 5,930,000	\$ 1,500,000
Rate stabilization	300,000	300,000	300,000
Emergency repair	1,000,000	1,000,000	700,000
Total operating reserves	3,485,612	7,230,000	2,500,000
Capital reserves	2,593,812	4,000,000	1,500,000
Equipment reserves	1,000,000	1,000,000	-
Total reserves	\$ 7,079,424	\$ 12,230,000	\$ 4,000,000

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



* Initial \$1,000,000 established as Equipment Reserves in June 2019.

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the District had \$95,864,951 invested in capital assets. The District's cost basis of capital assets increased by \$29,411,306, from \$125,951,302 at the beginning of the year to \$155,362,608 at the end of the year, due to construction related to the following major capital activities:

- 2018 miscellaneous plant improvement project
- Portions of the STPURWE project
- Co-gen Biogas upgrade
- Sewer System Rehabilitation Project No. 3
- Hwy 101 sewer crossing in Terra Linda
- Reclamation center pivot project

The following summarizes the District's capital assets for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Disposals/ Charge off	Transfers/ Reclass	Balance June 30, 2020
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	18,472,286	29,589,452	(1,792,586)	(6,913,056)	39,356,096
Subsurface lines	33,550,719	322,640	-	1,639,646	35,513,005
Facilities and equipment	71,060,726	1,291,800	-	5,273,410	77,625,936
	125,951,302	31,203,892	(1,792,586)	-	155,362,608
Less: Accumulated depreciation	(56,600,731)	(2,896,926)	-	-	(59,497,657)
Capital assets, net of accumulated depreciation	<u>\$ 69,350,571</u>	<u>\$ 28,306,966</u>	<u>(1,792,586)</u>	<u>\$ -</u>	<u>\$ 95,864,951</u>

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

Long-Term Obligations

As of June 30, 2020, the District has total long-term obligations of \$53,892,206 related to compensated absences for staff, the actuarially determined net pension liability, net other postemployment benefits, and debt issued for the purchase and construction of capital assets.

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

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

Long-Term Obligations

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020
Personnel Related Obligations				
Compensated Absences	\$ 447,583	\$ 377,597	\$ (325,599)	\$ 499,581
Net Pension Liability	3,111,237	307,994	-	3,419,231
Net Other Post Employment Benefits	1,672,079	276,352	-	1,948,431
	<u>5,230,899</u>	<u>961,943</u>	<u>(325,599)</u>	<u>5,867,243</u>
Notes Payable				
Bank of Marin	3,884,149	-	(426,365)	3,457,784
Municipal Finance Corporation	4,443,800	-	(555,000)	3,888,800
State Revolving Fund	3,094,980	-	(201,900)	2,893,080
California Infrastructure and Economic Development Bank (iBANK)	-	-	(329,134)	(329,134)
2017 Revenue Bonds	36,465,000	-	(990,000)	35,475,000
Premium on 2017 Revenue Bonds	2,760,786	-	(121,353)	2,639,433
	<u>50,648,715</u>	<u>-</u>	<u>(2,623,752)</u>	<u>48,024,963</u>
Total Long-Term Obligations	<u>\$ 55,879,614</u>	<u>\$ 961,943</u>	<u>\$ (2,949,351)</u>	<u>\$ 53,892,206</u>

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

ECONOMIC FACTORS, RATES AND BUDGETARY CONTROL

The District is a California Special District maintained as an enterprise fund. As a special district, charges to customers are made only to those who receive services. The District is not typically subject to general economic conditions such as increases or decreases in property tax values or other types of revenues that vary with economic conditions such as sales taxes. However, it does receive approximately 10% of its budget from property taxes which are dependent upon property tax valuations. The COVID-19 pandemic could have an impact on property values, but delinquent property tax payments will not materially impact the District as it participates in an optional alternative method for allocating delinquent property tax revenues. Using the accrual method of accounting under the Teeter Plan, Marin County allocates property tax revenues based on the total amount of property taxes billed, but not yet collected. The Teeter Plan allows counties to finance property tax receipts for local agencies, such as the District, by borrowing money to advance cash to each taxing jurisdiction in an amount equal to the current year's delinquent property taxes. There is always the possibility the State legislature changes the law in how future property tax revenue is allocated to special districts but the risk to the District remains small as just over 10% of its revenue comes from property taxes. Sewer Service Charges imposed by the District are placed on the property tax roll as a special assessment and, like property taxes under the Teeter Plan, delinquent tax payments by property owners will not materially impact the District. Accordingly, the District sets its user rates and capacity

Las Gallinas Valley Sanitary District

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

charges to cover the costs of operation, maintenance and recurring capital replacement and debt financed capital improvements, plus increments for known or anticipated changes in program costs.

The District, as a wastewater collection and treatment plant operator, is subject to increasing regulatory compliance regulations. These regulations require upgrades to plant and equipment, as well as increased staff to effectively operate the system. The District reviewed its operating and capital needs during 2015 in order to establish sewer service rates for the years beginning July 1, 2015 through June 30, 2020. The rates for July 1, 2020 through June 30, 2021 were established in anticipation of the completion of a three-year rate study that will incorporate this rate into future rates. Most of the rate increase is for planned capital improvements, the largest of which is the upgrade to the treatment plant to improve wastewater processes to meet regulatory requirements. The District issued a 2017 Revenue Bond to partially finance the STPURWE project and obtained a loan from IBank to fully address the remaining funding need of the project.

The expected revenue from sanitary service charges is as follows:

<u>Fiscal Year</u>	<u>Price per Sanitary Unit</u>	<u>Expected Total Revenue</u>	<u>Status</u>
2017-18	\$ 867	\$ 13,438,500	Approved June 2017
2018-19	\$ 898	\$ 13,919,000	Approved June 2018
2019-20	\$ 927	\$ 14,368,500	Approved June 2019
2020-21	\$ 968	\$ 15,289,361	Approved June 2020

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

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

Las Gallinas Valley Sanitary District
Management's Discussion and Analysis

Fiscal Years Ended June 30, 2020 and 2019

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 Administrative Services Manager at 101 Lucas Valley Rd., Suite 300, San Rafael, CA 94903.

BASIC FINANCIAL STATEMENTS



Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2020 and 2019

	2020	2019
CURRENT ASSETS:		
Cash and cash equivalents:		
Unrestricted	\$ 34,272,931	\$ 31,148,209
Restricted - bond proceeds	8,632,794	36,628,065
Receivables:		
Connection fees	20,156	27,515
User charges	7,078	10,917
Interest	149,915	407,524
Private sewer lateral assistance program	-	-
Grant reimbursement	-	-
Other	68,460	124,107
Current portion of Private Sewer Lateral Assistance program receivable	79,204	76,540
Inventory of supplies	283,477	317,723
Prepaid expenses	55,846	87,559
TOTAL CURRENT ASSETS	43,569,861	68,828,159
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Property, plant and equipment, net of accumulated depreciation	95,864,951	69,350,571
OTHER NONCURRENT ASSETS:		
Cash - restricted for debt service	895,024	887,944
Receivables		
Private Sewer Lateral Assistance Program	395,079	417,232
TOTAL NONCURRENT ASSETS	97,155,054	70,655,747
TOTAL ASSETS	140,724,915	139,483,906
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	52,862	62,329
Pension plan	955,903	946,585
Other postemployment benefits plan	801,963	371,208
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,810,728	1,380,122
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 142,535,643	\$ 140,864,028

The accompanying notes are an integral part of these financial statements

Las Gallinas Valley Sanitary District

Statements of Net Position

June 30, 2020 and 2019

	2020	2019
CURRENT LIABILITIES:		
Accounts payable	\$ 2,434,064	\$ 2,505,760
Accrued payroll	105,068	110,946
Accrued compensated absences	149,874	134,275
Accrued interest	525,121	447,293
Current portion of long-term debt	2,598,762	2,502,397
Unearned connection fees	57,768	57,768
TOTAL CURRENT LIABILITIES	5,870,657	5,758,439
NONCURRENT LIABILITIES:		
Accrued compensated absences	349,707	313,308
Notes payable, long-term	45,426,201	48,146,318
Collective net pension liability	3,419,231	3,111,237
Net other postemployment benefits liability	1,948,431	1,672,079
TOTAL NONCURRENT LIABILITIES	51,143,570	53,242,942
TOTAL LIABILITIES	57,014,227	59,001,381
DEFERRED INFLOWS OF RESOURCES		
Pension adjustments	219,367	180,601
Other post-employment benefits	419,220	330,256
TOTAL DEFERRED INFLOWS OF RESOURCES	638,587	510,857
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	57,652,814	59,512,238
NET POSITION		
Net investment in capital assets	47,892,850	18,764,185
Restricted for construction of capital assets	8,632,794	36,628,065
Restricted for debt service	895,024	887,944
Unrestricted	27,462,161	25,071,596
NET POSITION	\$ 84,882,829	\$ 81,351,790

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, 2020 and 2019

	2020	2019
OPERATING REVENUES:		
Sewer use charges	\$ 14,831,995	\$ 14,228,877
Recycled water fees	67,288	63,463
Miscellaneous	65,401	42,905
TOTAL OPERATING REVENUES	14,964,684	14,335,245
OPERATING EXPENSES:		
Sewage collection and pump stations	1,272,839	1,162,234
Sewage treatment	4,269,850	1,934,173
Sewage and solid waste disposal	616,172	197,680
Laboratory	359,635	318,732
Engineering	616,435	469,826
Recycled water	115,532	181,058
General and administrative	2,890,950	1,773,711
Depreciation and amortization	2,896,926	2,654,616
TOTAL OPERATING EXPENSES	13,038,339	8,692,030
INCOME FROM OPERATIONS	1,926,345	5,643,215
NONOPERATING REVENUES:		
Property taxes	1,524,094	1,353,767
Franchise fees	124,693	69,491
Intergovernmental fees	3,679	4,321
Interest income	519,027	542,813
Other nonoperating revenues	3,037	-
TOTAL NONOPERATING REVENUES	2,174,530	1,970,392
NONOPERATING EXPENSES:		
Loss (Gain) on disposal, net	-	(61)
Interest expense	1,453,877	856,958
TOTAL NONOPERATING EXPENSES	1,453,877	856,897
INCOME BEFORE CONTRIBUTIONS	2,646,998	6,756,710
CAPITAL CONTRIBUTIONS:		
Connection fees	-	-
State grants	369,321	173,894
Intergovernmental	514,720	463,143
TOTAL CAPITAL CONTRIBUTIONS	884,041	637,037
CHANGE IN NET POSITION	3,531,039	7,393,747
NET POSITION - BEGINNING OF YEAR,	81,351,790	73,958,043
NET POSITION - END OF YEAR	\$ 84,882,829	\$ 81,351,790

The accompanying notes are an integral part of the financial statements

Las Gallinas Valley Sanitary District

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 14,958,769	\$ 14,388,910
Cash payments to employers	(4,183,933)	(3,795,552)
Cash payments to suppliers	(5,635,627)	(2,049,704)
Other cash receipts	65,401	42,905
Net cash provided by operating activities	5,204,610	8,586,559
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental fees	3,679	4,321
Franchise fees	124,693	69,491
Advances for the Private Sewer Later Assistance Program	(52,406)	(67,345)
Repayment from the Private Sewer Later Assistance Program	71,895	87,057
Revenue Bond buy-in	-	(103,274)
Insurance proceeds	3,037	-
Property taxes received	1,524,094	1,337,360
Net cash provided by noncapital financing activities	1,674,992	1,327,610
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from grants	369,321	173,894
Connection fees collected	7,359	(20,128)
Intergovernmental contributions	514,720	463,143
Proceeds from sale of capital assets	-	61
Acquisition and construction of capital assets	(29,411,306)	(5,912,914)
Principal payments on long-term debt	(2,502,399)	(2,093,224)
Net cash used in capital and related financing activities	(31,022,305)	(7,389,168)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	776,636	420,064
Interest expense	(1,497,402)	(925,739)
Net cash used in investing activities	(720,766)	(505,675)
Net increase in cash and cash equivalents	(24,863,469)	2,019,326
Cash and cash equivalents, July 1	68,664,218	66,644,892
Cash and Cash equivalents, June 30	\$ 43,800,749	\$ 68,664,218

The accompanying notes are an integral part of the financial statements

Las Gallinas Valley Sanitary District
Statements of Cash Flows (continued)

Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities		
Operating income	1,926,345	5,643,215
Adjustments to reconcile operating income to net cash provided		
by operating activities:		
Depreciation expense	2,896,926	2,654,616
Changes in assets and liabilities		
User charges receivable	3,839	72,096
Other receivables	55,647	24,474
Inventory of supplies	34,246	(9,950)
Prepaid expenses	31,713	3,969
Deferred outflows of resources	(430,606)	180,680
Accounts payable	(71,696)	89,551
Accrued payroll	(5,878)	4,079
Accrued compensation	51,998	43,653
Deferred inflows of resources	127,730	(17,159)
Collective Net Pension Liability	307,994	(57,763)
Net OPEB Obligation	276,352	(44,902)
Net cash provided by operating activities	\$ 5,204,610	\$ 8,586,559

The accompanying notes are an integral part of the financial statements

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

1. Reporting Entity

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

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

2. Summary of Significant Accounting Principles

Financial Reporting Entity, Measurement Focus, and Financial Statement Presentation

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

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

Net Position

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

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

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

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

Budgetary Accounting

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (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 4 for additional information on investment policies and practices for both the State of California and the District.

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

Inventory of Supplies

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

Capital Assets

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

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

Estimated useful lives are as follows:

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

Intangible Assets

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

Compensated Absences

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

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

Balance at June 30, 2019		\$ 447,583
Accrued compensated absences earned	377,597	
Accrued compensated absences used	<u>(325,599)</u>	
Net change in accrued compensated absences		<u>51,998</u>
Balance at June 30, 2020		\$ 499,581
Balance at June 30, 2018		\$ 403,930
Accrued compensated absences earned	516,088	
Accrued compensated absences used	<u>(472,435)</u>	
Net change in accrued compensated absences		<u>43,653</u>
Balance at June 30, 2019		\$ 447,583

The current portion of the noncurrent liability to be used within the next year is estimated by management to be approximately \$149,874, or 30%.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

3. Summary of Significant Accounting Principles (continued)

Deferred Outflows and Inflows of Resources

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

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

Pension plan – The accounting valuation for the pension plan results in deferred outflows and deferred inflows of resources from several sources. In performing the actuarial valuation for the deferred compensation plan, changes in projected and actual earning on pension plan investments and adjustments due to differences in proportions for members of cost-sharing multiple-employer plans are calculated. The difference in proportions results from the California Public Employees Retirement System (CalPERS) allocation methodology. Rather than a single proportionate share applied to all components of pension expense, the CalPERS method applies employer proportions to various pension-related items such as assets, liabilities and service cost. This adjustment reconciles the difference in proportions for these various items with the employer's change in net pension liability during the plan measurement period. The amounts will be recognized over future periods equal to the expected average remaining service lifetime of the pool or 3.8 years for the June 30, 2019 measurement date (2.8 years for June 30, 2018). 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, 2019 with the results reported in the District's June 30, 2020 financial statements) contributions by the employer for 2020 and 2019 are deferred outflows at June 30, 2020 and 2019, respectively. These amounts will be recognized in the years subsequent to payment.

Other Postemployment Benefits (OPEB) plan – The accounting valuation for the OPEB plan results in deferred outflows and deferred inflows of resources from several sources. In performing the valuation for the postemployment benefit plan, changes in projected and actual earnings on plan investments, changes in projected and actual healthcare costs, changes in participant plan utilization and participant mortality are calculated. The amounts will be recognized over future periods. In addition, since the measurement date of the OPEB plan is one year in advance of the financial statement reporting period (i.e. valuation of the OPEB plan assets has a measurement date of June 30, 2019 with the results reported in the District's June 30, 2020 financial statements) contributions by the employer for 2020 deferred outflows at June 30, 2020. These amounts will be recognized in the years subsequent to payment.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

Restricted Assets and Liabilities

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

Property Taxes

The County of Marin levies taxes and places liens on real property as of January 1st on behalf of the District. Property taxes are due on the following November 1st and March 1st and become delinquent December 10th and April 10th for the first and second installments, respectively. All taxes collected for debt service are maintained in separate funds designated for payment of the debt (see Note 9). The District receives property taxes and Education Revenue Augmentation Funds (ERAF) from the County of Marin. The ERAF allows the state legislature to reallocate property tax amounts to local governments. For the years ended June 30, 2020 and 2019, the District received \$1,081,890 and \$966,845, respectively, in property taxes and \$442,204 and \$386,922, respectively, in ERAF.

Grants

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

Connection Fees

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

4. Summary of Significant Accounting Principles (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.

Other Postemployment Benefits (OPEB)

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

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

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

Interest

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

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.

Implemented New Accounting Pronouncements

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

Upcoming New Accounting Pronouncements

In January 2017 GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement were originally effective for the financial statements for periods beginning after December 15, 2018 (fiscal 2020). Implementation was postponed by the provisions of Statement No. 95. The District does not believe this statement will have a significant impact on the financial statements.

In June 2017, GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2019 (fiscal 2021). Implementation was postponed by the provisions of Statement No. 95. The District anticipates that the implementation of this pronouncement will have a material effect on the financial statements.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

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

The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2018. Implementation was postponed by the provisions of Statement No. 95. The District does not believe that there will be any financial statement effect related to GASB No. 90.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2020 (fiscal 2022). Implementation was postponed by the provisions of Statement No. 95. The District does not believe this statement will have a significant impact on the financial statements.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

In January 2020 GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports

- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements 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*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this Statement were originally effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

Implementation was postponed by the provisions of Statement No. 95, however earlier application is encouraged and is permitted by topic.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates* - The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offer Rate (IBOR). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of *reference rate*, as it is used in Statement 53, as amended.

The removal of London IBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021 (fiscal year 2022-23). All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020 (fiscal year 2020-21). The District does not believe that the implementation of this Pronouncement will have an impact on the financial statements.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* - The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement will improve financial reporting by establishing the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPP.

PPPs should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or if applicable to earlier periods, the beginning of the earliest period restated).

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (fiscal year 2022-23), and all reporting periods thereafter. The District has not yet determined whether the implementation of this Pronouncement will have a material impact on the financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

2. Summary of Significant Accounting Principles (continued)

The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 (fiscal year 2022-23), and all reporting periods thereafter. The District has not yet determined whether the implementation of this Pronouncement will have a material impact on the financial statements.

In June 2020, GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* - The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021 (fiscal year 2021-22). For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021 (fiscal year 2021-22).

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

3. Cash and Cash Equivalents

At June 30, 2020 and 2019, the District maintained the majority of its cash in the Bank of Marin and the State of California LAIF pooled investment funds. Balances in the Bank of Marin are insured by the Federal Deposit Insurance Corporation up to \$250,000, are collateralized by securities at 110% of the balance, and consist of checking and savings accounts.

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

Restricted Cash

Restricted cash consists of unexpended proceeds from issuing the 2017 Revenue Bonds in April 2017 and the debt service reserve funds. The majority of the unexpended Revenue Bond funds are invested at LAIF; however at June 30, 2020 and 2019 \$111 and \$10 was on deposit at U.S. Bank, the Trustee for the issue, in the Cost of Issuance fund. See Note 9 for additional information regarding the bonds. The debt service reserve funds are invested in certificates of deposit with Bank of Marin and have maturity dates in 2020.

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. Cash and cash equivalents consist of the following:

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

3. Cash and Cash Equivalents (continued)

	June 30, 2020	
	Reported/Fair Value	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	\$ 6,387,696	\$ -
Petty cash	928	-
Total cash in bank and on hand	6,388,624	-
Investments:		
Certificates of Deposit	-	895,024
Local Agency Investment Fund	27,884,307	8,632,794
Total investments	27,884,307	9,527,818
Total cash and cash equivalents as of June 30, 2020	\$ 34,272,931	\$ 9,527,818
	June 30, 2019	
	Reported/Fair Value	
	Unrestricted	Restricted
Cash in bank and on hand:		
Bank of Marin	\$ 4,077,240	\$ -
Petty cash	1,617	-
Total cash in bank and on hand	4,078,857	-
Investments:		
Certificates of Deposit	-	887,944
Local Agency Investment Fund	27,884,307	36,628,065
Total investments	27,069,352	37,516,009
Total cash and cash equivalents as of June 30, 2019	\$ 31,148,209	\$ 37,516,009

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

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.

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

Debt Proceeds

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

3. Cash and Cash Equivalents (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of year-end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 6 months.

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, 2020 and 2019:

	2020	Maturity Date
Certificates of Deposit	\$ 895,024	31 days average
LAIF	36,516,990	191 days average
	<u>\$ 37,412,014</u>	
	2019	
Certificates of Deposit	\$ 887,944	762 days average
LAIF	63,697,417	193 days average
	<u>\$ 64,585,361</u>	

Credit Risk

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

3. Cash and Cash Equivalents (continued)

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.

Certificates of Deposit

The District is required to maintain cash in debt reserve funds, equal to one year's debt service for the State Revolving Fund and for the loans from Bank of Marin. At June 30, 2020 and 2019, this equaled \$895,024 and \$887,944, respectively. 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 0.494% and mature in July and August 2020, respectively. Upon maturation in 2020, the CDs were rolled over and have new maturity dates of July and August 2025, respectively.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

3. Cash and Cash Equivalents (continued)

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 \$36,696,390 and \$63,806,454 as of June 30, 2020 and 2019, respectively. There are no derivatives included in the portfolio. Included in LAIF's investment portfolio are asset-backed securities totaling \$1,675 million and \$997 million as of June 30, 2020 and 2019, respectively. Structured notes comprised \$1,725 million and \$900 million of the portfolio as of June 30, 2020 and 2019. 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, 2020 and 2019, collections made by the County of Marin, but remitted to the District subsequently, were \$0 and \$0, respectively.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

5. Private Sewer Lateral Assistance Program (continued)

The activity in the program for 2020 and 2019 is as follows:

Balance at June 30, 2018	\$ 528,444
Payments received	(96,388)
Advances made	<u>61,716</u>
Balance at June 30, 2019	493,772
Payments received	(103,566)
Advances made	<u>73,397</u>
Balance at June 30, 2020	<u><u>\$ 472,777</u></u>

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

Fiscal year ending June 30,	
2021	\$ 82,449
2022	84,620
2023	81,868
2024	74,250
2025	62,031
Thereafter	<u>87,559</u>
	<u><u>\$ 472,777</u></u>

In addition to regularly schedule repayments collected through the tax roll, property owners may prepay the amounts outstanding under the lateral assistance program if they sell or refinance the property. Included in payments received are prepayments of \$23,086 and \$20,661 in 2020 and 2019, respectively.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

6. Capital Assets

A summary of property, plant and equipment transactions for the year ended June 30, 2020 is as follows:

	Ending Balance at June 30, 2019	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2020
Capital assets not being depreciated:					
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	18,472,286	29,589,452	(1,792,586)	(6,913,056)	39,356,096
Total capital assets not being depreciated	<u>21,339,857</u>	<u>29,589,452</u>	<u>(1,792,586)</u>	<u>(6,913,056)</u>	<u>42,223,667</u>
Capital assets being depreciated:					
Subsurface lines and manholes	33,550,719	322,640	-	1,639,646	35,513,005
Facilities and equipment					
Sewage collection	2,727,090	-	-	-	2,727,090
Sewage treatment	34,537,775	1,185,328	-	5,138,501	40,861,604
Sewage disposal	8,200,137	-	-	-	8,200,137
Reclamation	1,336,016	106,472	-	17,026	1,459,514
Recycled water production	9,501,549	-	-	-	9,501,549
Pump stations	13,071,985	-	-	117,883	13,189,868
Administration	1,123,173	-	-	-	1,123,173
Laboratory	563,001	-	-	-	563,001
Total capital assets being depreciated	<u>104,611,445</u>	<u>1,614,440</u>	<u>-</u>	<u>6,913,056</u>	<u>113,138,941</u>
Less accumulated depreciation for:					
Subsurface lines	(16,033,158)	(614,029)	-	-	(16,647,187)
Facilities and equipment					
Sewage collection	(1,968,815)	(85,426)	-	-	(2,054,241)
Sewage treatment	(18,844,779)	(1,205,036)	-	-	(20,049,815)
Sewage disposal	(6,791,389)	(149,464)	-	-	(6,940,853)
Reclamation	(911,486)	(34,228)	-	-	(945,714)
Recycled water production	(2,563,882)	(384,198)	-	-	(2,948,080)
Pump stations	(8,554,988)	(355,022)	-	-	(8,910,010)
Administration	(636,572)	(55,160)	-	-	(691,732)
Laboratory	(295,662)	(14,363)	-	-	(310,025)
Accumulated depreciation	<u>(56,600,731)</u>	<u>(2,896,926)</u>	<u>-</u>	<u>-</u>	<u>(59,497,657)</u>
Total capital assets being depreciated, net	<u>48,010,714</u>	<u>(1,282,486)</u>	<u>-</u>	<u>6,913,056</u>	<u>53,641,284</u>
Capital assets, net	<u>\$ 69,350,571</u>	<u>\$28,306,966</u>	<u>\$(1,792,586)</u>	<u>\$ -</u>	<u>\$ 95,864,951</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

6. Capital Assets (continued)

A summary of property, plant and equipment transactions for the year ended June 30, 2019 is as follows:

	Ending Balance at June 30, 2018	Increases	Decreases	Transfers/ Reclass	Ending Balance at June 30, 2019
Capital assets not being depreciated:					
Land	\$ 2,867,571	\$ -	\$ -	\$ -	\$ 2,867,571
Construction-in-progress	10,820,367	7,651,919	-	-	18,472,286
Total capital assets not being depreciated	13,687,938	7,651,919	-	-	21,339,857
Capital assets being depreciated:					
Subsurface lines and manholes	33,550,719	-	-	-	33,550,719
Facilities and equipment					
Sewage collection	2,534,312	192,778	-	-	2,727,090
Sewage treatment	34,537,775	-	-	-	34,537,775
Sewage disposal	8,200,137	-	-	-	8,200,137
Reclamation	1,336,016	-	-	-	1,336,016
Recycled water production	9,501,549	-	-	-	9,501,549
Pump stations	13,071,985	-	-	-	13,071,985
Administration	914,208	216,290	(7,325)	-	1,123,173
Laboratory	563,001	-	-	-	563,001
Total capital assets being depreciated	104,209,702	409,068	(7,325)	-	104,611,445
Less accumulated depreciation for:					
Subsurface lines	(15,435,410)	(597,748)	-	-	(16,033,158)
Facilities and equipment					
Sewage collection	(1,873,417)	(95,398)	-	-	(1,968,815)
Sewage treatment	(17,886,129)	(958,650)	-	-	(18,844,779)
Sewage disposal	(6,641,760)	(149,629)	-	-	(6,791,389)
Reclamation	(877,001)	(34,485)	-	-	(911,486)
Recycled water production	(2,179,684)	(384,198)	-	-	(2,563,882)
Pump stations	(8,186,526)	(368,462)	-	-	(8,554,988)
Administration	(596,667)	(47,230)	7,325	-	(636,572)
Laboratory	(276,846)	(18,816)	-	-	(295,662)
Accumulated depreciation	(53,953,440)	(2,654,616)	7,325	-	(56,600,731)
Total capital assets being depreciated, net	50,256,262	(2,245,549)	-	-	48,010,713
Capital assets, net	\$ 63,944,200	\$ 5,406,371	\$ -	\$ -	\$ 69,350,571

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

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 2018, has been extended until December 31, 2021.

In 2017, the District entered into a purchase and sale of recycled water agreement with MMWD. The District will provide MMWD with 2.5 million gallons per day of plant capacity to produce a minimum of 600 acre fee per year, for 30 years. As part of the agreement, MMWD made an initial payment towards the cost of the existing facility of \$333,563 and will make quarterly payments of \$51,637 through October 1, 2022 and after that \$26,890 per quarter through July 1, 2031. In addition, the District has designed an expansion of the existing facility in order to serve MMWD. Funding for the expansion is from part of the proceeds of the 2017 Revenue Bonds and a WaterSmart Grant awarded in 2015. The project was awarded to Myers & Sons Construction LLC on November 15, 2018 by the Board and the estimated construction cost is \$48,622,939. On December 17, 2018 the General Manager signed the contract. The cost of the portion of the expansion ascribed to MMWD is \$4.6 million with payments due semi-annually on April 1st and October 1st through April 1, 2042. MMWD paid \$514,720 in 2020 and \$463,143 in 2019 per the agreement. See Note 9E for further information regarding the bonds.

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

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

<u>Fiscal year ending June 30.</u>	<u>Total</u>
2021	463,395
2022	463,269
2023	413,480
2024	364,049
2025 to 2029	1821,082
2030 to 2034	1,553,465
Thereafter	2,043,780
	<u>\$ 7,122,519</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

7. Water Disposal and Recycled Water (continued)

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

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

8. Long-Term Obligations

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

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

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

The discount of \$42,442 and the call premium of \$68,800 are recorded as a Deferred Outflow of Resources – Deferred amount on debt refunding and are being amortized over the life of the loan. The accumulated amortization is \$58,382 at June 30, 2020 and \$48,915 at June 30, 2019; the amount charged to interest expense was \$9,467 for both June 30, 2020 and 2019.

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

8. Long-Term Obligations (continued)

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2021	\$ 580,000	\$ 118,760	\$ 698,760
2022	610,000	99,125	709,125
2023	630,000	78,665	708,665
2024	660,000	57,380	717,380
2025	690,000	35,105	725,105
2026	<u>718,800</u>	<u>11,860</u>	<u>730,660</u>
Total	<u>\$ 3,888,800</u>	<u>\$ 400,895</u>	<u>\$ 4,289,695</u>

B. Note Payable – Bank of Marin

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

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2021	\$ 219,917	\$ 112,764	\$ 332,681
2022	228,726	103,955	332,681
2023	237,888	94,794	332,681
2024	247,186	85,495	332,681
2025	257,318	75,363	332,681
2026 – 2030	1,449,583	213,824	1,663,407
2031 – 2032	<u>325,689</u>	<u>6,992</u>	<u>332,681</u>
Total	<u>\$ 2,966,307</u>	<u>\$ 693,187</u>	<u>\$ 3,659,494</u>

C. Note Payable – Bank of Marin

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

8. Long-Term Obligations (continued)

Future minimum payments are as follows:

	Principal	Interest	Total
Fiscal year ending June 30, 2021	\$ 222,485	\$ 12,861	\$ 235,346
2022	229,928	5,418	235,346
2023	<u>39,065</u>	<u>160</u>	<u>39,225</u>
Total	<u>\$ 491,478</u>	<u>\$ 18,439</u>	<u>\$ 509,917</u>

D. State Revolving Fund Loan

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

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

Future minimum payments are as follows:

	Principal	Interest	Total
Fiscal year ending June 30, 2021	\$ 207,351	\$ 78,113	\$ 285,464
2022	212,950	72,514	285,464
2023	218,699	66,765	285,464
2024	224,604	60,860	285,464
2025	230,669	54,795	285,464
2026 – 2030	1,250,196	177,126	1,427,322
2031 – 2032	<u>548,612</u>	<u>22,317</u>	<u>570,929</u>
Total	<u>\$ 2,893,081</u>	<u>\$ 532,490</u>	<u>\$ 3,425,571</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

8. Long-Term Obligations (continued)

E. 2017 Revenue Bonds

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

Sources of Funds:

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

Uses of Funds:

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

Deposit to project fund \$ 41,039,514

The bonds are generally callable in whole or in part on or after April 1, 2027. This special call provision relates to the expansion of the recycled water treatment facility to serve MMWD (see Note 8). Should MMWD decide not to proceed with the project, the District may exercise the early call provision.

Issuance costs, the surety bond premium and underwriter's discount are expensed in the year of issuance. The original issue premium will be amortized over the maturity period of the bonds and included in interest expense. As of June 30, 2020 and 2019 the accumulated amortization is \$384,285 and \$262,932, respectively.

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

8. Long-Term Obligations (continued)

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2021	\$ 1,030,000	\$ 1,419,000	\$ 2,449,000
2022	1,070,000	1,377,800	2,447,800
2023	1,110,000	1,335,000	2,445,000
2024	1,155,000	1,290,600	2,445,600
2025	1,205,000	1,244,400	2,449,400
2026 – 2030	6,775,000	5,460,400	12,235,400
2031 – 2035	8,510,000	3,981,800	12,491,800
Thereafter	<u>14,260,000</u>	<u>2,431,200</u>	<u>17,051,200</u>
Total	<u>\$ 35,475,000</u>	<u>\$ 18,540,200</u>	<u>\$ 54,015,200</u>

F. California Infrastructure and Economic Development Bank

The District entered into an agreement with California Infrastructure and Economic Development Bank (iBank) in May 2019 for a loan of \$12,000,000. The loan has maturity dates ranging from August 1, 2019 through August 1, 2043; interest is due each February and August with the first payment due August 1, 2019. Payments of principal and interest are due whether or not any of the funds have been disbursed. The interest rate on the loan is 3.00% per annum.

Future minimum payments are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2021	\$ 339,008	\$ 345,041	\$ 684,049
2022	349,179	334,718	683,897
2023	359,654	324,086	683,740
2024	370,444	313,134	683,578
2025	381,557	301,854	683,411
2026 – 2030	2,086,510	1,327,864	3,414,374
2031 – 2035	2,418,837	990,552	3,409,389
Thereafter	<u>5,365,676</u>	<u>756,050</u>	<u>6,121,726</u>
Total	<u>\$ 11,670,865</u>	<u>\$ 4,693,299</u>	<u>\$ 16,364,164</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

8. Long-Term Obligations (continued)

	Principal	Interest	Total
<u>Fiscal year ending June 30,</u>			
2020	329,134	258,063	587,197
2021	339,008	345,041	684,049
2022	349,179	334,718	683,897
2023	359,654	324,086	683,740
2024	370,444	313,134	683,578
2025 to 2029	2,025,738	1,389,548	3,415,286
2030 to 2034	2,348,386	1,062,061	3,410,447
Thereafter	5,878,457	924,711	6,803,168
	<u>\$ 12,000,000</u>	<u>\$ 4,951,362</u>	<u>\$ 16,951,362</u>

The \$12,000,00 liability is not shown on the Statement of Net Position because none of the funds have been disbursed to the District. However, the District has accrued \$329,134 toward the principal due August 1, 2019, resulting in a decrease to long-term debt and an increase in short-term debt.

The following is a summary of the long-term obligations activity for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
Personnel Related Obligations					
Compensated absences	\$ 447,583	\$ 377,597	\$ (325,599)	\$ 499,581	\$ 149,874
Net Pension Liability	3,111,237	307,994	-	3,419,231	-
Net OPEB Liability	1,672,079	276,352	-	1,948,431	-
	5,230,899	961,943	(325,599)	5,867,243	149,874
Notes Payable					
Bank of Marin	3,884,149	-	(426,365)	3,457,784	442,402
Municipal Finance Corporation	4,443,800	-	(555,000)	3,888,800	580,000
State Revolving Fund	3,094,980	-	(201,900)	2,893,080	207,351
California Infrastructure and Economic Development Bank (iBank)	-	-	(329,134)	(329,134)	339,008
2017 Revenue Bonds	36,465,000	-	(990,000)	35,475,000	1,030,000
Premium on 2017 Revenue Bonds	2,760,786	-	(121,353)	2,639,433	-
	50,648,715	-	(2,623,752)	48,024,963	2,598,761
Total long-term obligations	<u>\$ 55,879,614</u>	<u>\$ 961,943</u>	<u>\$ (2,949,351)</u>	<u>\$ 53,892,206</u>	<u>\$ 2,748,635</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

8. Long-Term Obligations (continued)

The following is a summary of the debt activity for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Personnel Related Obligations					
Compensated absences	\$ 403,930	\$516,087	\$ (472,435)	\$ 447,582	\$ 134,275
Net Pension Liability	3,169,000	-	(57,763)	3,111,237	-
Net OPEB Liability	1,716,981	277,562	(322,464)	1,672,079	-
	<u>5,289,911</u>	<u>793,649</u>	<u>(852,662)</u>	<u>5,230,898</u>	<u>134,275</u>
Notes Payable					
Bank of Marin	4,295,781	-	(411,632)	3,884,149	426,363
Municipal Finance Corporation	4,978,800	-	(535,000)	4,443,800	555,000
State Revolving Fund	3,291,572	-	(196,592)	3,094,980	201,900
California Infrastructure and Economic Development Bank (iBank)	-	-	-	-	329,134
2017 Revenue Bonds	37,415,000	-	(950,000)	36,465,000	990,000
Premium on 2017 Revenue Bonds	2,882,139	-	(121,353)	2,760,786	-
	<u>52,863,292</u>	<u>-</u>	<u>(2,214,577)</u>	<u>50,648,715</u>	<u>2,502,397</u>
Total long-term obligations	<u>\$ 58,153,203</u>	<u>\$793,649</u>	<u>\$(3,067,239)</u>	<u>\$ 55,879,613</u>	<u>\$2,636,672</u>

During the years ended June 30, 2020 and 2019, the District incurred interest on long-term debt of \$1,453,877 (\$2,081,321 paid less \$627,444 earned on restricted bond investments) and \$856,958 (\$1,828,561 paid less \$971,603 earned on restricted bond investments), respectively.

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 2020 and 2019, employees contributed \$107,686 and \$164,056, respectively. Generally, deferred compensation is payable upon retirement, termination of employment, disability or death. Deferred amounts are held in a 457 plan trust established by the District for the exclusive benefit of the participants and their beneficiaries. Contributions are made to the Supplemental Income Plan (SIP) administered by the CalPERS for the benefit of each individual participant. The SIP is an entity separate from the District and, accordingly, the trust assets are not considered to be assets of the District itself. Additional information about the trust may be obtained from the CalPERS Supplemental Income Plan, which has a mailing address of 400 Q Street, Room E2812, Sacramento, CA 95814.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

10. Commitments

The District was contractually committed to contractors and vendors for various projects totaling \$30,323,655 and \$17,997,651 as of June 30, 2020 and 2019, respectively.

11. Defined Benefit Pension Plan

Plan Description and Benefits Provided

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

11. Defined Benefit Pension Plan (continued)

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

	Miscellaneous	
	Hired Prior to January 1, 2013	Hired On or After January 1, 2013
Benefit formula	2.7% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 – 55	52 – 67
Monthly benefits and a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required contribution rate as a percentage of reportable payroll		
Employees	8.000%	6.250%
Employer		
2020	13.182%	6.985%
2019	12.212%	6.842%
Required contribution rate for prior year unfunded liability		
2020	\$ 209,390	\$ 1,063
2019	\$ 172,087	\$ 483

Contributions

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

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

11. Defined Benefit Pension Plan (continued)

For the years ended June 30, 2020 and 2019, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Contributions – employer	\$ 446,449	\$ 374,938

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

The District's proportionate share of the net pension liability is \$3,419,231 and \$3,111,237 as of June 30, 2020 and 2019, respectively.

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

Fiscal Year	June 30, 2020	June 30, 2019
Valuation Date	June 30, 2018	June 30, 2017
Measurement Date	June 30, 2019	June 30, 2018
Measurement Period	July 1, 2018 - June 30, 2019	July 1, 2017 - June 30, 2018

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.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

11. Defined Benefit Pension Plan (continued)

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

	Financial Statement Report as of June 30, 2020	
	Dollars	Percentage
Proportion – June 30, 2018	\$ 3,111,237	0.03229%
Proportion – June 30, 2019	<u>3,419,231</u>	<u>0.03337%</u>
Change – Increase (Decrease)	<u>\$ 307,994</u>	<u>0.01080%</u>

	Financial Statement Report as of June 30, 2019	
Proportion – June 30, 2018	\$ 3,169,000	0.03195%
Proportion – June 30, 2019	<u>3,111,237</u>	<u>0.03229%</u>
Change – Increase (Decrease)	<u>(57,763)</u>	<u>-0.00034%</u>

For the years ended June 30, 2020 and 2019, the District recognized actuarial pension expense of \$783,891 and \$565,334, respectively.

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

Deferred Outflows of Resources and Deferred Inflows of Resources relating to Differences Between Expected and Actual Experience and Change in Assumptions are amortized over the Expected Average Remaining Service Lifetime of members provided pensions through the Plan determined as of the beginning of the related measurement period for all PERFC participants. As of the June 30, 2019 measurement date it is 3.8 years.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

11. Defined Benefit Pension Plan (continued)

At June 30, 2020, 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	\$ 237,480	\$ (18,400)
Changes of assumptions	163,045	(57,798)
Net differences between projected and actual earnings on plan investments	-	(59,779)
Change in employer's proportion	108,929	-
Differences between the employer's contributions and the employers' proportionate share of contributions	-	(83,390)
Pension contributions subsequent to the measurement date	446,449	-
Total	\$ 955,903	\$ (219,367)

The \$466,449 is reported as deferred outflows of resources related to contributions made during the District's year ended June 30, 2020 which is subsequent to the pension plan measurement date of June 30, 2019 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Deferred outflows of resources to be amortized over the remaining average service life of 3.8 years and recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/Inflows Of Resources
2021	271,558
2022	(25,699)
2023	32,148
2024	12,080
2025	-
Thereafter	-

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

11. Defined Benefit Pension Plan (continued)

Actuarial Methods and Assumptions

The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018 (last available)
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019
Actuarial Cost Method	Entry Age Normal Cost Method

Actuarial Assumptions:

Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service.
Mortality	Derived using CalPERS' Membership Data for all Funds. The mortality rates include 15 years of projected ongoing mortality improvement using 90% of Scale MP 2016 published by the Society of Actuaries.
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

11. Defined Benefit Pension Plan (continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which ranges of expected future real rates of return (expected returns, net of pension plan investment expenses 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+ 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 adjusted to account for assumed administrative expenses.

The table below 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.

<u>Allocation by Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	—	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	—	-0.92%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.00% was used for this period.

(b) An expected inflation of 2.92% was used for this period.

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

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% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
\$ 5,341,069	\$ 3,419,231	\$1,832,889

Pension Plan Fiduciary Net Position

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

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

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

Public Employees' Pension Reform Act of 2013 (PEPRA)

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

11. Defined Benefit Pension Plan (continued)

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

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

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

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

12. Other Postemployment Benefits

Plan Description

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

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

12. Other Postemployment Benefits (continued)

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 \$875 as of January 1, 2020, \$826 as of January 1, 2019, and \$779 as of January 1, 2018.

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 \$767 as of January 1, 2020, \$734 as of January 1, 2019, and \$725 as of January 1, 2018. 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 \$139 as of January 1, 2020, \$136 as of January 1, 2019, and \$133 as of January 1, 2018.

Employees Covered

As of the June 30, 2019 actuarial valuation date, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	20
Inactive employees of beneficiaries currently receiving benefits	22
Inactive employees entitled to, but not yet receiving benefits	-
Total participants	<u>42</u>

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

12. Other Postemployment Benefits (continued)

Contributions

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

The annual contribution is based on the actuarially determined contribution which consists of the cost to fund the benefits for current and retired OPEB Plan participants and the implicit rate subsidy. The implicit rate subsidy results when the healthcare rate charged to retired employees is the group premium charged to active employees. This practice creates an OPEB liability based on the theory that retirees have higher utilization of health care benefits than active employees. Unless the premium rate for retirees is set to fully recover their healthcare costs, the premium for active employees is implicitly overstated to subsidize utilization by retirees. Similarly, unless the premium rate for retirees is set to fully recover their health costs, the premium for retirees is understated. This difference creates an implicit rate subsidy. This rate subsidy is considered a benefit that should be included in OPEB valuations. The OPEB obligation normally includes the cost of the implicit rate subsidy for the years in which the retiree is paying the active employee insurance costs for continued coverage. When the retiree is eligible for Medicare, the actual cost of coverage is much closer to the premium cost. Therefore, there is no OPEB liability assumed for Medicare-eligible retirees paying 100 percent of the premium. For the year ended June 30, 2020 the actuarially determined cash contribution was \$228,225 and the implicit rate subsidy contribution was \$22,680.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2018 that was rolled forward to determine the June 30, 2019 total OPEB liability, based on the following actuarial methods and assumptions:

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

12. Other Postemployment Benefits (continued)

The actuary used the following actuarial method and assumptions:

Actuarial Assumptions:

Discount Rate	6.73%, based on the CERBT Strategy 2 investment policy
Net Investment Return	6.73%, based on the CERBT Strategy 2 investment policy
Inflation	2.26% per year.
Payroll increases	3.25% per year
Administrative expenses	\$270 for the measurement period ended June 30, 2019
Pre-Excise Tax Health Care Trend	Pre-65: 6.90% in 2021, decreasing to 5.00% in 2029 and later Post-65: 5.00% per year
Plan Distribution for Calculating Baseline Cost	Pre-Medicare: 0% - 71% depending on provider Post-Medicare: 0% - 50% depending on provider
Average per capita claims cost	Pre-Medicare: \$9,523 per year Post-Medicare: \$4,073 per year
Medicare coverage	All retirees when they reach age 65
Morbidity factors	CalPERS 2017 study
Population for curving	CalPERS 2017 study
Age-Weighted claims costs	Ranging from \$3,644 to \$14,261 depending on age (in 5 year increments from 50 – 85)
Mortality	Those used in the 2017 CalPERS experience study
Disability	Not valued
Percent married	75% of future retirees will cover a spouse in retirement; male spouses were on average 3 years older than female spouses
Participation	100% of retirees
Retirement	Those from the Public Agency Miscellaneous retirement rates that were produced from the 2017 experience study performed by CalPERS. 2.7% @ 55 for actives hired before January 1, 2013, and 2% @ 62 for actives hired on or after January 1, 2013.

As of June 30, 2019, the long-term expected rates of return for each major investment class in the Plan's portfolio are as follows:

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

12. Other Postemployment Benefits (continued)

Investment Class	Target Allocation	Long-Term Expected Real Rate of Return ¹
Equity	43.00%	5.45%
Fixed Income	49.00%	1.87%
REITs	8.00%	5.06%
Cash	0.00%	0.00%

¹JPMorgan arithmetic Long Term Capital Market assumptions and expected inflation of 2.26%.

Discount Rate

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

Above are the arithmetic long-term expected real rates of return by asset class for the next 10 years as provided in a report by JP Morgan. For years thereafter, returns were based on historical average index real returns over the last 30 years assuming a similar equity/fixed investment mix and a 2.26% inflation rate. Investment expenses were assumed to be 10 basis points per year. These returns were matched with cash flows for benefits covered by plan assets and the Bond Buyer 20-Bond General Obligation index was matched with cash flows not covered by plan assets to measure the reasonableness of the choice in discount rate.

	June 30, 2019	June 30, 2018
Discount Rate	6.73%	6.73%
Bond Buyer 20-Bond GO Index	3.50%	3.87%

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Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

12. Other Postemployment Benefits (continued)

Changes in the OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Measurement as of June 30, 2018:	\$2,863,797	\$1,191,718	\$1,672,079
Recognized Changes Resulting from:			
▪ Service cost	96,178	-	96,178
▪ Interest	195,332	-	195,332
▪ Diff. between expected and actual experience	514,719	-	514,719
▪ Changes of assumptions	(181,852)	-	(181,852)
▪ Net investment income	-	91,660	(91,660)
▪ Benefit payments	(117,075)	(117,075)	-
▪ Contributions – employer	-	256,635	(256,635)
▪ Contributions – employee	-	-	-
▪ Administrative expense	-	(270)	270
▪ Change of benefit terms	-	-	-
Net Changes	\$507,302	\$230,950	\$276,352
Measurement as of June 30, 2019:	\$3,371,099	\$1,422,668	\$1,948,431

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

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2019:

Discount Rate – 1% (5.73%)	Current Discount Rate (6.73%)	Discount Rate +1% (7.73%)
\$ 2,414,744	\$ 1,948,431	\$ 1,565,402

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

Trend Rate – 1%	Current Trend Rate	Trend Rate +1%
\$ 1,566,119	\$ 1,948,431	\$ 2,388,306

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

12. Other Postemployment Benefits (continued)

OPEB Plan Fiduciary Net Position

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

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$207,522. As of June 30, 2020, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Unrecognized Deferred Resources due to:		
▪ Differences between expected and actual experience	\$529,020	\$6,371
▪ Changes in assumptions	0	411,002
▪ Net difference between projected and actual earnings	0	1,847
Contribution to OPEB plan after measurement date ¹	<u>272,943</u>	<u>0</u>
Total	\$801,963	\$419,220

Of the \$801,963 reported as deferred outflows, \$272,943 related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30	Recognized Deferred Outflows/(Inflows) of Resources
2021	\$556
2022	555
2023	1,592
2024	10,263
2025	45,979
Thereafter	<u>50,855</u>
Total Deferred Resources:	\$109,800

Las Gallinas Valley Sanitary District

Notes to Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

14. Risk Management

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

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

	Years Ended June 30,	
	2019 ¹	2018
Total assets	\$ 26,991,334	\$ 25,703,113
Total liabilities	20,588,497	17,997,369
Net Position	<u>\$ 6,402,837</u>	<u>\$ 7,705,744</u>
Total revenues	\$ 13,274,331	\$10,453,268
Total expenditures	14,577,244	13,926,118
Net income (loss)	<u>\$ (1,302,913)</u>	<u>\$ (3,472,920)</u>

¹ most recent available

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REQUIRED SUPPLEMENTARY INFORMATION



Las Gallinas Valley Sanitary District
Required Supplementary Information

June 30, 2020

Schedule of Proportionate Share of Net Pension Liability
Last 10 Years*

	Fiscal Year End June 30,					
	2020	2019	2018	2017	2016	2015
Measurement date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of net pension liability	0.03337%	0.03229%	0.03195%	0.34162%	0.03057%	0.27220%
Proportionate share of the net pension liability	\$ 3,419,231	\$3,111,237	\$3,169,000	\$2,722,446	\$2,098,373	\$1,693,868
Covered employee payroll	\$ 2,427,993	\$2,263,451	\$2,234,070	\$2,065,897	\$2,002,442	\$1,801,016
Proportionate share of the net pension liability as a percentage of covered-employee payroll	140.83%	137.46%	141.85%	131.78%	104.79%	94.05%
Proportionate share of fiduciary net position	\$ 10,869,207	\$9,997,987	\$9,397,583	\$8,814,153	\$8,719,117	\$8,648,606
Plan's fiduciary net position as a percentage of the Plan's total pension liability	75.26%	75.26%	73.31%	74.06%	78.40%	79.82%

Schedule of District's Pension Plan Contributions
Last 10 Years*

	2020	2019	2018	2017	2016	2015
Contractually required contributions (actuarially determined)	\$ 446,449	\$ 374,938	\$ 332,915	\$ 331,323	\$ 295,148	\$ 330,377
Contributions in relation to actuarially determined contributions	(446,449)	(374,938)	(332,915)	(331,323)	(295,148)	(330,377)
Contribution deficiency (excess)	-	-	-	-	-	-
Covered-employee payroll	\$ 2,523,986	\$2,427,993	\$2,263,451	\$2,234,070	\$2,065,897	\$2,002,442
Contributions as a percentage of covered-employee payroll	17.69%	15.44%	14.71%	14.83%	14.29%	16.50%

Notes to Schedule:

Valuation Date: June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of pay, direct rate smoothing
Remaining amortization periods	Differs by employer rate plan, but not more than 30 years
Asset valuation method	Market value of assets
Inflation	2.625%
Salary increases	Varies by entry age and service
Discount rate	7.25% (net of administrative expense)
Mortality Rate Table	Derived using CalPERS Membership Data for all Funds. The post-retirement mortality rates include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

* Fiscal year ending June 30, 2015, was the first year of implementation; additional years will be added until 10 years of data is presented

Las Gallinas Valley Sanitary District
Schedule of Changes in the Net OPEB Liability and Related Ratios
for the Measurement Periods Ended June 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 96,178	\$ 91,597	\$ 77,776
Interest on the OPEB liability	195,332	185,403	196,002
Differences between expected and actual experience	514,719	(9,045)	156,326
Change of assumptions	(181,852)	-	(457,988)
Benefits paid to retirees	<u>(117,075)</u>	<u>(132,720)</u>	<u>(153,771)</u>
Net change in total OPEB liability	507,302	135,235	(181,655)
Total OPEB Liability - beginning	<u>2,863,797</u>	<u>2,728,562</u>	<u>2,910,217</u>
Total OPEB Liability - ending	(a) \$ 3,371,099	\$ 2,863,797	\$ 2,728,562
Plan Fiduciary Net Position			
Employer contributions	\$ 256,635	\$ 250,954	\$ 287,951
Net investment income	91,660	62,465	64,362
Benefits paid to retirees	(117,075)	(132,720)	(153,771)
Administrative expense	<u>(270)</u>	<u>(562)</u>	<u>(463)</u>
Net change in plan fiduciary position	230,950	180,137	198,079
Plan fiduciary net position- beginning	<u>1,191,718</u>	<u>1,011,581</u>	<u>813,502</u>
Plan fiduciary net position- ending	(b) \$ 1,422,668	\$ 1,191,718	\$ 1,011,581
Net OPEB liability- ending	(a) - (b) \$ 1,948,431	\$ 1,672,079	\$ 1,716,981
Plan fiduciary net position as a percentage of the total OPEB liability	42.20%	41.61%	37.07%
Covered-employee payroll	\$ 2,676,304	\$ 3,687,903	\$ 2,252,470
Net OPEB liability as a percentage of covered-employee payroll	72.80%	45.34%	76.23%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB No. 75 is applicable. Future years' information will be displayed, up to 10 years, as information becomes available

The term Covered-employee payroll is used because there are employees receiving benefits not based on wages.

Las Gallinas Valley Sanitary District
Schedule of OPEB Contributions

Last Ten Fiscal Years*

Fiscal Year Ended June 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contributions (ADC)	\$ 228,225	\$ 213,168	\$ 219,673
Contributions in relation to the ADC	<u>(256,635)</u>	<u>(250,954)</u>	<u>(287,951)</u>
Contribution deficiency (excess)	<u>\$ (28,410)</u>	<u>\$ (37,786)</u>	<u>\$ (68,278)</u>
Covered-employee payroll	2,676,304	3,687,903	2,252,470
Contributions as a percentage of covered-employee payroll	9.59%	6.80%	12.78%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2020 were selected by the District after consultation with the actuary.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Las Gallinas Valley Sanitary District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Las Gallinas Valley Sanitary District's basic financial statements, and have issued our report thereon dated January 6, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Las Gallinas Valley Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Las Gallinas Valley Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of Las Gallinas Valley Sanitary District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Las Gallinas Valley Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cropper Accountancy Corporation
CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
January 6, 2021

SINGLE AUDIT REPORT





Miller Creek

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Las Gallinas Valley Sanitary District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Sanitary District's major federal programs for the year ended June 30, 2020. The Sanitary District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Sanitary District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sanitary District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Sanitary District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Sanitary District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


CROPPER ACCOUNTANCY CORPORATION
Walnut Creek, California
January 6, 2021

**Las Gallinas Valley Sanitary District
Schedule of Expenditures of Federal Awards By Grant
June 30, 2020**

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Grantor and Number</i>	<i>Federal Expenditures(\$)</i>
<i>Other Programs</i>			
Department of the Interior, Bureau of Reclamation Title XVI Water Reclamation and Reuse			
Title XVI Water Reclamation and Reuse	15.504	Sonoma County Water Agency	805,550
Total Title XVI Water Reclamation and Reuse Funds			805,550
<i>Total Department of the Interior</i>			805,550
<i>Total Other Programs</i>			805,550
<i>Total Expenditures of Federal Awards</i>			\$ 805,550

The accompanying notes are an integral part of this schedule

Las Gallinas Valley Sanitary District
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2020

1. The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Las Gallinas Valley Sanitary District (the "District"). The District's reporting entity is defined in Note 1 to the financial statements.
2. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.
3. The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. This is the same method of accounting as was used in the preparation of the District's basic financial statements.
4. The District did not pass-through any federal awards to subrecipients during the fiscal year ended June 30, 2020.
5. The total amount expended for this project through June 30, 2020 was \$3,222,200. The District funded 75%, or \$2,416,650, of the project with their own funds, and the remaining \$805,550 was paid for using Federal funds.

**Las Gallinas Valley Sanitary District
Status of Prior Audit Findings
June 30, 2020**

The previous audit report for the year ended June 30, 2019 contained no audit findings

**Las Gallinas Valley Sanitary District
Schedule of Findings and Questioned Costs
June 30, 2020**

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified not considered material weaknesses?	None reported
Noncompliance material to financial statements?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered material weaknesses?	None reported

Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reporting in accordance with 2 CFR Section 200.516?	No

Identification of major programs:	
Other Programs:	
Title XVI Water Reclamation and Reuse	15.504
Dollar threshold to distinguish between Type A and Type B programs	\$ 750,000
Auditee qualified as low risk auditee?	No

Section II - Financial Statement Findings	N/A
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Section III - Federal Award Findings	N/A
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