ROSS VALLEY PUBLIC FINANCING AUTHORITY
(SANITARY DISTRICT NO 1 OF MARIN COUNTY)

ANNUAL FINANCIAL REPORT
JUNE 30, 2017 AND 2016

*   *   *

CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
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ROSS VALLEY PUBLIC FINANCING AUTHORITY
(Sanitary District No. 1 of Marin County)
Table of Contents
June 30, 2017 and 2016

FINANCIAL SECTION

Independent Auditor's Report .... 1 - 2

Basic Financial Statements:
- Statement of Net Position 4
- Statement of Revenues, Expenses and Changes in Net Position 5
- Statement of Cash Flows 6

Notes to Financial Statements .... 7 - 17

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* .... 19 - 20

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ross Valley Public Financing Authority
San Rafael, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Ross Valley Public Financing Authority (the "Authority"), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's 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 Authority'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 Authority'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Ross Valley Financing Authority, as of June 30, 2017 and 2016, 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018 on our consideration of the Authority'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 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 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 the Authority's internal control over financial reporting and compliance.

C & A LLP

October 10, 2018
San Jose, California

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BASIC FINANCIAL STATEMENTS

ROSS VALLEY PUBLIC FINANCING AUTHORITY
(Sanitary District No. 1 of Marin County)
Statement of Net Position
June 30, 2017 and 2016

	2017		2016	
Assets				
Restricted cash and investments	$	16,682,441	$	20,321,566
Debt service installment receivable		31,412,110		28,762,351
Total Assets	$	48,094,551	$	49,083,917
Liabilities				
Interest payable	$	751,669	$	770,069
Noncurrent Liabilities:				
Current portion of long-term obligations		1,175,179		1,130,179
Long-term obligations, net of current portion		45,827,967		47,003,146
Total Liabilities	$	47,754,815	$	48,903,394
Net Position				
Restricted net position	$	339,736	$	180,523
Total Net Position	$	339,736	$	180,523

The notes to basic financial statements are an integral part of this statement

ROSS VALLEY PUBLIC FINANCING AUTHORITY
(Sanitary District No. 1 of Marin County)
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Nonoperating Revenues:		
Interest income	$ 104,034	$ 88,826
Debt service contributions	1,936,921	1,973,669
Total nonoperating revenues	2,040,955	2,062,495
Nonoperating Expenses:		
Interest expense	1,936,921	1,973,669
Amortization of premiums	(55,179)	(55,179)
Total nonoperating expenses	1,881,742	1,918,490
Change in net position	159,213	144,005
Beginning net position	180,523	36,518
Ending net position	$ 339,736	$ 180,523

The notes to basic financial statements are an integral part of this statement

ROSS VALLEY PUBLIC FINANCING AUTHORITY
(Sanitary District No. 1 of Marin County)
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Capital and Related Financing Activities:		
Principal payments on long-term debt	$ (1,075,000)	$ (895,000)
Interest paid	(1,955,321)	(2,140,329)
Debt service payments received from the District	3,030,321	3,035,329
Advances to the District for capital asset construction	(5,276,528)	(10,413,675)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,276,528)	(10,413,675)
Cash Flows from Investing Activities:		
Interest income	104,034	88,826
Investments purchased	(4,505,465)	6,067,935
Investments sold and matured	6,038,834	(6,166,829)
Net Cash Provided (Used) by Investing Activities	1,637,403	(10,068)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,639,125)	(10,423,743)
Cash and Cash Equivalents Beginning	20,321,566	30,745,309
Cash and Cash Equivalents Ending	$ 16,682,441	$ 20,321,566
Noncash Activities:		
Amortization of premiums	$ 55,179	$ 55,179

The notes to basic financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION

The Ross Valley Public Financing Authority (the "Authority") is a blended component unit of Sanitary District No. 1 of Marin County, also known as the Ross Valley Sanitary District (the “District”). The purpose of the Authority is to provide financing and contracting for capital improvements of the District. The District’s Board of Directors is designated to serve in the same capacity for the Authority. The District provides sewage collection services for Ross Valley which includes the towns of Fairfax, San Anselmo, Ross, Larkspur and adjacent unincorporated areas of Marin County within the Ross Valley.

The District utilizes an enterprise fund, a type of proprietary fund, which is a fund established by governmental agencies to account for goods and services provided to the general public that are financed primarily through user charges. As a component unit of the District, the Authority also utilizes an enterprise fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

As a component unit of the District, the Authority’s activities are accounted for in a single enterprise fund. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portion of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The Authority applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Statement of Net Position

The statement of net position is designed to display the financial position of the Authority. GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. The Authority's net position is classified as restricted. This component of net position consists of constraints placed on an asset's use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with original maturities of three months or less.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for deposits and investment risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments are reported in the statement of net position at fair value. Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. All investment income and changes in fair value are recognized in the statements of revenues, expenses, and changes in net position.

The Authority participates in an investment pool managed by the State of California and regulated by California government code Section 16429 known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Debt Service Installment Receivable

The District and the Authority have Installment Purchase Contracts whereby the District is obligated to pay to the Authority installment payments equal to the debt service requirements of the Authority's long-term debt. The debt service installment receivable represents the amount due from the District to meet the Authority's debt service requirements, which includes principal and accrued interest.

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium and discounts are reported as noncurrent assets along with any insurance payments made during issuance of the bond. Bond issuance costs, other than prepaid insurance, are expensed in the period incurred.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. All revenues and expenses of the Authority are reported as non-operating revenues and expenses.

Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered cash equivalents.

Comparative Data

Comparative total data for the prior fiscal year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the Authority's financial position, operations, and cash flows.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include estimates of the allowance for uncollectible receivables, the estimated useful lives of depreciable capital assets, estimates used in connection with analyses designed to identify the existence of capital asset impairment, and assumptions and actuarial amounts used in conjunction with the determination of pension plan obligations and other postemployment benefits. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Implemented New Accounting Pronouncements

GASB Statement No. 86, Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. This statement did not have an impact on the Authority's financial statements.

Upcoming Accounting and Reporting Changes

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

NOTE 3 - CASH AND INVESTMENTS

Restricted cash and cash equivalents include residual amounts collected as a special assessment collection related to the payment of limited obligation bond debt service and related administrative costs. These funds are to be used solely for the purpose of paying principal and interest on the bonds and other recovery costs.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The Authority had the following recurring fair value measurements as of June 30, 2017 and 2016:

Restricted Cash and Investments	2017	2016	Fair Value Measurement Level	Investment Rating	Maturities
Held by bond trustee:					
Local Agency Investment Fund (LAIF)	$ 15,753,621	$ 18,422,216	Level 2	Unrated	< 1 year
Money market funds	928,820	1,899,350	Level 2	Unrated	< 1 year
Total	$ 16,682,441	$ 20,321,566			

California Local Agency Investment Fund

The Authority participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities, defined as follows:

- Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

LAIF allows agencies such as the Authority to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2017, was approximately $77.6 billion. Of that amount, 99.12% is invested in non-derivative financial products and 0.88% in structured notes and asset-backed securities. The balance in LAIF is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

The total amount invested by all public agencies in LAIF, as of June 30, 2016, was approximately $75.4 billion. Of that amount, 99.25% is invested in non-derivative financial products and .75% in structured notes and asset-backed securities.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. The following identifies the investment types that are authorized for investments held by trustee, and also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	$50 million
U.S. Treasury Obligations	3 years	None	None
U.S. Government Agency Issues	3 years	None	None
Reverse Repurchase Agreements	None	None	None
Repurchase Agreements	None	None	None
Commercial Paper	270 days	None	None
Money Market Funds	N/A	None	None
State of California and Local Agency Obligations	None	None	None
Investment Agreements	None	None	None

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *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 the changes in market interest rates. The Authority manages its exposure to interest rate risk by investing in liquid pools such as LAIF and money market accounts as necessary to provide the cash flow and liquidity needed for operations.

- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service. The Authority's minimum legal rating is not applicable to the LAIF investment pool and money market funds.

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial credit risk over 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 fair 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 public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. In the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. Neither the California Government Code nor the Authority's investment policy contains legal or policy requirements that would limit the exposure to custodial risk.

None of the Authority's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the Authority's accounts met the collateral and categorization requirements.

- *Concentration of Credit Risk* - The Authority held 94% and 91% of its total investments in LAIF as of June 30, 2017 and 2016, respectively. There were no other investments in any one issuer that represent five percent or more of the total investments.

NOTE 4 - DEBT SERVICE INSTALLMENT RECEIVABLE

Changes in the installment receivable for the years ended June 30, 2017 and 2016, were as follows:

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
Debt Service Installment Receivable	$ 27,992,282	$ 2,668,159	$ -	$ 30,660,441
Accrued Interest	770,069	751,669	(770,069)	751,669
Total	$ 28,762,351	$ 3,419,828	$ (770,069)	$ 31,412,110

	Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016
Debt Service Installment Receivable	$ 18,374,712	$ 9,617,570	$ -	$ 27,992,282
Accrued Interest	936,729	770,069	(936,729)	770,069
Total	$ 19,311,441	$ 10,387,639	$ (936,729)	$ 28,762,351

NOTE 5 - LONG-TERM OBLIGATIONS

The Authority's long-term obligations consisted of the following as of June 30, 2017 and June 30, 2016:

	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
2013 Revenue Bonds	$ 17,255,000	$ -	$ 310,000	$ 16,945,000	$ 325,000
2013 Revenue Bonds - Premium	120,844	-	4,435	116,409	4,435
2014 Revenue Bonds	29,565,000	-	765,000	28,800,000	795,000
2014 Revenue Bonds - Premium	1,192,481	-	50,744	1,141,737	50,744
Total Long-term Obligations	$ 48,133,325	$ -	$ 1,130,179	$ 47,003,146	$ 1,175,179

	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
2013 Revenue Bonds	$ 17,560,000	$ -	$ 305,000	$ 17,255,000	$ 310,000
2013 Revenue Bonds - Premium	125,278	-	4,434	120,844	4,435
2014 Revenue Bonds	30,155,000	-	590,000	29,565,000	765,000
2014 Revenue Bonds - Premium	1,243,225	-	50,744	1,192,481	50,744
Total Long-term Obligations	$ 49,083,503	$ -	$ 950,178	$ 48,133,325	$ 1,130,179

2013 Revenue Bonds

On August 29, 2013, the Authority issued $17,780,000 of Revenue Bonds bearing interest of 3.0% to 5.0% and payable semiannually on October 1 and April 1, maturing on October 1, 2043. The proceeds of the Bonds were used to (i) finance the acquisition and construction of public capital improvements consisting primarily of pipe and equipment replacements and refurbishments for the District's wastewater collection system; (ii) prepay the District's outstanding obligations under an existing real estate loan and an existing installment sale agreement; and (iii) pay the costs of issuing the Bonds. A premium on the 2013 Revenue Bonds was received as additional proceeds by the Authority, in the amount of $133,039. Gross revenues, which are defined as all gross charges received for, and all other gross income and receipts derived by the District from the ownership and operation of the wastewater enterprise, are pledged as part of the issuance of the 2013 Revenue Bonds.

2014 Revenue Bonds

On November 1, 2014, the Authority issued $30,155,000 of Revenue Bonds bearing interest of 3.5% to 5.0% and payable semiannually on July 1 and January 1, maturing on January 1, 2040. The proceeds of the Bonds will be used to (i) finance the acquisition and construction of public capital improvements consisting primarily of pipe and equipment repair and replacements for the District's wastewater collection system; (ii) provide a debt service reserve for the Bonds through the purchase of a reserve surety; and (iii) pay the costs of issuing the Bonds. A premium on the 2014 Revenue Bonds was received as additional proceeds by the Authority, in the amount of $1,243,225. Gross revenues, which are defined as all gross charges received for, and all other gross income and receipts derived by the District from the ownership and operation of the wastewater enterprise, are pledged as part of the issuance of the 2014 Revenue Bonds.

The Authority's Revenue Bonds debt service requirements are as follows as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	$ 1,120,000	$ 1,910,488	$ 3,030,488
2019	1,165,000	1,865,894	3,030,894
2020	1,210,000	1,817,244	3,027,244
2021	1,265,000	1,764,844	3,029,844
2022	1,315,000	1,712,094	3,027,094
2023 - 2027	7,580,000	7,543,219	15,123,219
2028 - 2032	9,150,000	5,961,394	15,111,394
2033 - 2037	11,045,000	4,047,650	15,092,650
2038 - 2042	9,755,000	1,546,150	11,301,150
2043 - 2044	2,140,000	108,250	2,248,250
Total Debt Service	$ 45,745,000	$ 28,277,227	$ 74,022,227

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. As of June 30, 2017 and 2016, the Authority has no arbitrage liability.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Outstanding Litigation

The Authority is subject to various lawsuits and claims involving public liability and other actions incidental to the ordinary course of Authority operations. To the extent the outcome of such litigation may be determined to result in financial loss to the Authority, in the opinion of Authority management, any potential liability for these actions is adequately provided for in the basic financial statements. The timing of potential payment of such losses cannot presently be determined.

OTHER INDEPENDENT AUDITOR'S REPORTS

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
Ross Valley Public Financing Authority

We have audited, 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, the financial statements of the Ross Valley Public Financing Authority (the "Authority") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 10,2018.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Authority'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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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

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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.

C & A LLP

October 10, 2018
San Jose, California

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