

Homestead Valley Sanitary District  
Financial Statements  
June 30, 2021

**HOMESTEAD VALLEY SANITARY DISTRICT**  
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**June 30, 2021**

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**TEK Terry E Krieg CPA**  
**Certified Public Accountant**

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**Independent Auditor's Report**

Board of Directors

Homestead Valley Sanitary District  
Mill Valley, California

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Homestead Valley Sanitary District, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Homestead Valley 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.

**Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with audited 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 I 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 District'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 District's internal control. Accordingly, I 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,

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Homestead Valley Sanitary District as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Emphasis of Matter**

As discussed in Note 3E to the financial statements, the District in fiscal 2021 changed its method of accounting for force account construction management costs.

## **Other Matters**

### *Required Supplementary Information*

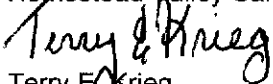
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements.

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.

I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued my report dated , October 1, 2021, on my consideration of the District's internal control over financial reporting and on my 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 my 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 Homestead Valley Sanitary District's internal control over financial reporting and compliance.



Terry E. Krieg  
Certified Public Accountant  
Santa Rosa, California  
October 1, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Homestead Valley Sanitary District's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the district's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The net position of the district's business-type activities increased by about \$449,100 in fiscal 2021 compared to an increase of \$287,000 in fiscal year 2020 mainly because of the receipt of \$90,000 for damages to district lines.
- Total operating expenses in fiscal 2021 decreased by \$80,200 net compared to fiscal 2020 expenses. Of the \$80,200 decrease in expenses, most was caused by higher line maintenance and construction management expenses in fiscal 2020.
- In fiscal 2021, overall District revenues (after excluding the settlement revenues) decrease by about one percent mainly related to the decreases in investment income from the County pool.
- There was almost about a 4 percent increase in the district's capital assets in fiscal 2021 caused by line improvement projects.
- The district's cash and investment holdings increased by about \$262,200 at the end of fiscal 2021 for a total of about \$1.3 million. The district at the end of fiscal 2021 had no long-term debt outstanding.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements including related disclosures*. The basic financial statements include one kind of statement that present both a short-term and long-term view of the district:

- *Proprietary* enterprise fund-type statements offer *short-* and *long-term* financial information about the activities that the district operates *like businesses*, such as the district's wastewater collection and treatment system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Figure A-1 summarizes the major features of the district's financial statements, including the portion of the district they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**FIGURE A-1**

<b>Basic Financial Statement Features</b>	<b>Basic Financial Statements</b>
<b>Scope</b>	Activities the District operates similar to a private business; the wastewater collection and treatment systems
<b>Required Financial Statements</b>	Statement of net position; statement of revenues, expenses, and changes in net position, and the statement of cash flows
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic measurement focus
<b>Type of Asset and Liability Information</b>	All assets and liabilities, both financial and capital and short term and long-term focus
<b>Type of Inflow and Outflow Information</b>	All revenues and expenses during the year regardless of when the cash is received

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Basic Financial Statements

The basic financial statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* the district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position regardless of when cash is received or paid.

The basic financial statements report the districts *net position* and how it has changed. Net position – the difference between the district's assets and liabilities – is one way to measure the district's financial health, or *position*.

- Over time, increases or decreases in the districts net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The basic financial statements of the district consist of one category:

- *Business-type activities* – The District charges fees to help it cover the costs of certain services it provides. All of the District's operations are accounted for in this category. *The district uses proprietary enterprise fund type accounting principles to account for all operations.* Proprietary accounting provides both long-and short-term financial information.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Position.** The district's *combined* net position increased by about \$449,100 in fiscal year 2021 (See Table A-1.)

Table A-1  
DISTRICT'S NET POSITION  
(In Nearest Hundred Dollars)

	June 30		Percentage Change
	2021	2020	
Cash and investments	\$1,272,900	\$1,010,700	26%
Other assets	11,400	9,500	20%
Capital assets, net	4,847,300	4,676,200	4%
<b>Total assets</b>	<b>6,131,600</b>	<b>5,696,400</b>	<b>10%</b>
Long-term debt	-	-	0%
Other liabilities	123,800	137,700	-10%
<b>Total liabilities</b>	<b>123,800</b>	<b>137,700</b>	<b>-10%</b>
Net position:			
Net investment in capital assets	4,743,600	4,676,200	1%
Unrestricted	1,264,200	882,500	43%
<b>Total net position</b>	<b>\$6,007,800</b>	<b>\$5,558,700</b>	<b>8%</b>

The 26 percent increase in cash and investments was a result of the net cash flows from all district's financial activities in fiscal 2021.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

The district's change in net position in fiscal 2021 was about \$162,100 more than the increase in fiscal 2020.

**Change in net position.**

The district's total revenue increase of about a net \$81,900 in fiscal 2021 compared to fiscal 2020 was caused by the \$90,000 in settlement revenue, net of about a \$24,100 decrease investment income partially offset by about a \$12,400 increase in property tax revenues. The net \$80,200 decrease in expenses for fiscal year 2021 was a result of mainly lower treatment line repair costs and lower salaries and benefit costs.

TABLE A-2  
District Revenues, Expenses and Changes in Net Position  
(Rounded to Nearest Hundred Dollars)

	<u>Fiscal Year Ended June 30</u>		Percentage Change
	2021	2020	
<b>Revenues:</b>			
Program revenues:			
Charges for sewer service	\$1,042,300	\$1,038,300	0%
Other operating charges	47,000	48,400	-3%
Property taxes	288,200	275,800	5%
Franchise fees	25,000	24,000	4%
Investment income	7,000	31,100	-78%
Settlements	90,000	-	100%
<b>Total revenues</b>	<u>1,499,500</u>	<u>1,417,600</u>	<u>6%</u>
<b>Expenses:</b>			
Salaries and benefits	153,600	176,000	-13%
Intergovernmental treatment cost	638,900	598,300	7%
Line inspections, cleaning, repairs	74,200	207,000	-64%
Insurance and claims	14,100	21,900	36%
Professional services	9,000	6,000	50%
Mapping and other	27,600	17,900	54%
Depreciation	133,000	103,500	29%
<b>Total expenses</b>	<u>1,050,400</u>	<u>1,130,600</u>	<u>-7%</u>
<b>Change in net position</b>	449,100	287,000	57%
Net position, beginning	5,558,700	5,271,700	5%
<b>Net position ending</b>	<u>\$6,007,800</u>	<u>\$5,558,700</u>	<u>8%</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

Investment revenues in fiscal 2021 declined significantly because of the lower rate of return being experienced by Marin County's investment pool.

Table A-2 presents the cost of each of the district's largest functions from an expense perspective – operating expenses and depreciation on capital assets.

- ✓ There was in fiscal 2021 about a 7 percent net decrease in total expenses compared to fiscal 2020 total expenses.

The district paid for these costs by using all of the direct charges collected from its customers and franchise fees.

On a cash flow basis, there was a net \$262,300 net increase in the district's cash and investment holdings at the end of fiscal 2021 compared to the end of fiscal 2020. This means that the district was financially able to fund its 2020 operating costs without the need to obtain short external financing.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2021, the district's investment in capital assets increased by about a net \$171,000 as a result of depreciation charge of about \$133,000 offsetting the capital improvements to lines of about \$304,000. Additional information about the district's capital assets can be found on page 15 of these financial statements.

TABLE A-3  
DISTRICT INVESTMENT IN CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION  
(Rounded to Nearest Hundred Dollars)

	June 30		Percentage Change
	2021	2020	
Original sewer lines	\$181,500	\$181,500	0%
Line replacements and extensions	5,794,100	5,490,100	6%
Contributed lines	134,100	134,100	0%
<b>Totals</b>	6,109,700	5,805,700	5%
Less accumulated depreciation	(1,262,500)	(1,129,500)	12%
<b>Net capital assets</b>	\$4,847,200	\$4,676,200	4%



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Long-Term Debt**

There was no new long-term debt issued by the district in fiscal 2021. The district has no Long-Term debt outstanding.

### **ECONOMIC FACTORS AND NEXT YEAR'S OPERATING PLAN AND RATES**

Several major changes in the district's financial capabilities and operations are anticipated in the future.

In the capital area, the district has determined that it is in need of significant capital projects and programs. These will in large part deal with aging infrastructure of the district which is now reaching the end of its useful life due to improvement needs in the district collection system. The district has undertaken a comprehensive evaluation of the collection system and developed a long-range capital improvement plan. In order to finance future improvements to the district's collection system and provide for normal anticipated cost increases, the district in fiscal 2021 held hearings and approved increases in the annual sewer service charges for the next four fiscal years. The base charge for a single-family residential dwelling unit increases from \$975 in fiscal 2021 to \$1,175 in fiscal 2022 and is scheduled to increase by \$100 per residential unit in each of the next three fiscal years.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager, Homestead Valley Sanitary District, P.O. Box 149, Mill Valley, California, 94942.

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Statement of Net Position**  
**June 30, 2021**

**ASSETS**

Current assets:

Cash and investments	\$ 1,272,944
Receivables :	
Franchise fees	6,349
Accounts	2,095
Prepayments	2,954
	1,284,342
Total current assets	1,284,342

Capital assets being depreciated:

Collection system:

Original sewer lines	181,500
Contributed lines	134,140
Line extensions and replacements	5,794,083
Less accumulated depreciation	(1,262,468)
	4,847,255

Total capital assets being depreciated	4,847,255
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Total capital assets	4,847,255
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Total assets	\$ 6,131,597
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**LIABILITIES**

Current liabilities:

Accounts payable	\$ 5,141
Accrued liabilities	15,000
Contract retentions payable	103,622
	123,763

Total current liabilities	123,763
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**NET POSITION**

Net investment in capital assets	4,743,633
Unrestricted	1,264,201
	6,007,834
Total net position	\$ 6,007,834

The accompanying notes are an integral part of the financial statements

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For The Fiscal Year Ended June 30, 2021**

<b>OPERATING REVENUES</b>	
Sewer service fees	\$ 1,042,275
Franchise fees	25,000
Permit fees for additional fixtures	15,600
Other operating revenues	<u>31,395</u>
Total operating revenues	<u>1,114,270</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	153,587
Intergovernmental treatment costs	638,858
Line cleaning, inspection and repairs	74,187
Liability and property insurance	14,130
Contract and professional services	8,950
Other operating	27,608
Depreciation	<u>132,979</u>
Total operating expenses	<u>1,050,299</u>
Operating income	<u>63,971</u>
<b>NON-OPERATING REVENUES</b>	
Property taxes	288,184
Damage settlement	90,000
Investment income	<u>7,022</u>
Total non-operating revenues	<u>385,206</u>
Change in net position	449,177
Total net position, beginning	<u>5,558,657</u>
Total net position, ending	<u><u>\$ 6,007,834</u></u>

The accompanying notes are an integral part of the financial statements

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Statement of Cash Flows**  
**For The Fiscal Year Ending June 30, 2021**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,042,275
Other operating receipts	73,026
Payments to suppliers for goods and services	(777,997)
Payments to employees for services and benefits	<u>(159,584)</u>
Net cash provided by operating activities	<u>177,720</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Property tax collections	<u>288,184</u>
Net cash provided by noncapital financing activities	<u>288,184</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Settlement Loring Avenue line damages	90,000
Collection system improvements	<u>(300,641)</u>
Net cash used for capital and related financing activities	<u>(210,641)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest receipts	<u>7,022</u>
Net cash provided by investing activities	<u>7,022</u>
Net decrease in cash and cash equivalents	262,285
Balances-beginning of the year	<u>1,010,659</u>
Balances-end of the year	<u><u>\$ 1,272,944</u></u>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>	
Operating income (loss)	\$ 63,971
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Depreciation expense	132,979
Change in assets and liabilities:	
Decrease (increase) in other receivables	1,031
Decrease (increase) in prepayments	(2,954)
Increase (decrease) in accrued liabilities	(5,997)
Increase (decrease) in accounts payable	<u>(11,310)</u>
Net cash provided by operating activities	<u><u>\$ 177,720</u></u>
<b>Noncash capital financing activities:</b>	
None	

The accompanying notes are an integral part of the financial statements

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Homestead Valley Sanitary District was formed in 1931 under the Sanitary District Act of 1923. The District is governed by five elected Directors. The district's service area includes about 480 acres of watershed adjacent to the Southwestern boundaries of the City of Mill Valley in the County of Marin, California. The district provides sewerage collection and disposal services and contract administration for the collection of municipal solid waste and recycling services. The district has no component units. The district does not own or operate its own wastewater treatment plant. As a member of the Sewerage Agency of Southern Marin (A joint powers agency), the district is charged an annual fee for the treatment of its wastewater.

**B. Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the nonfiduciary activities of the district. For the most part, the effect of interfund activity has been removed from these statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes, service fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The district is engaged in only business-type activities and the district's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and these notes to the basic financial statements.

Proprietary enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the district are charges to the customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Position**

**1. Deposits and Investments**

The district's 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. The district's investment policy has been to invest all cash in the Marin County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the district's investment in the County Pool are the same as the fair value of the County Pool shares.

**2. Receivables, Property Taxes and Sewer Service Revenues**

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Marin collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1 and become delinquent on December 10 and April 10. The district receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan." Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the district. The district recognizes property tax revenues in the fiscal year in which they are due to the district and accrues as receivable such taxes. Accordingly, the District provides for no allowance for doubtful accounts.

Sewer service fees (used to supplement tax revenues) are set by the district based upon rates applied to the number of equivalent dwelling units (EDUs) for nonvacant properties and adjusted flows applicable to commercial properties. The sewer service fees are incorporated into the property tax billings, and such fees are due in two equal installments on December 10 and April 10 following the assessment date. The district recognizes these fees as revenues in the year earned, which is also the year in which the service is provided to properties within the district. Under an arrangement with the County known as the Teeter Plan, the County advances substantially all of the sewer fees to the district each year, and the County bears the burden of any uncollectible accounts. Therefore, the District does not provide for an allowance for uncollectible accounts or bad debts.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**4. Designated Cash Equivalents and Investments**

Cash equivalents and investments restricted for use in only capital projects are reported as noncurrent assets. The district follows the practice of reporting in this category the funds (if any such funds are held), which by Resolution of the Board of Directors, can only be used for the purpose of financing the design, construction, replacement, and improvement of related District facilities.

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Position**

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing wastewater system) are reported in the financial statements. Capital assets are defined by the district as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the district is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Year</u>
Subsurface lines	40-50

**6. Compensated Absences, Sick Leave, Other Post-Employment Benefits and Claims**

The district's policy is to provide employees with no vacation or sick pay benefits. Accordingly, the District reports no liability for compensated absences\unpaid vacation or sick leave in these financial statements.

The district does not provide any other post employment retirement benefits (OPEB) such as retiree medical benefits, and accordingly the district reports no liability for such OPEB plans in these financial statements.

The district does not participate in the Public Employees Retirement System (PERS) and provides employees with no pension benefits; accordingly, the district reports no information about pension plans or contributions in these financial statements.

The district obtains insurance coverage for property and equipment, fidelity bonds, automobile liability and general liability, through its membership with the Sewerage Agency of Southern Marin (SASM). The district pays a prorate share of the premiums charged to SASM for coverage under a master policy. The risk of loss is transferred from the District to the SASM's insurance provider in exchange for the district's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance. The district has a self-insured retention limit, similar to a deductible, of \$25,000.

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities and Net Position**

**7. Long-term Obligations**

In enterprise fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. The district has no outstanding long-term debt obligations.

**8. Net Position**

In the financial statements, fund net position is reported in two categories as follows:

- Net investment in capital assets - This category of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets.
- Unrestricted - Unrestricted net position represented all other assets net of related liabilities available for use by the district.

**2. Detailed Notes**

**A. Cash Equivalents and Investments**

Cash equivalents and Investments consisted of the following on June 30:

Marin County Treasurer's Investment Pool:	
District operating	\$ 1,256,183
Payroll checking account	<u>16,761</u>
 Total cash equivalents and investments	 <u>\$ 1,272,944</u>

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. The district's policy for deposits is that they will all be deposited with the County of Marin Treasurer's Investment Fund. The district maintains no separate bank checking, savings, money market, or time deposit accounts other than a payroll clearing account. The district had no custodial credit risk as to deposits because the \$16,761 commercial account was fully insured by the FDIC.

*Custodial Credit Risk - Investments.* Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the District's investments were invested in specific securities. All of the District's monies in the Marin County Treasurer's Investment Pool are not evidenced by specific securities; and therefore, are not subject to custodial credit risk.

*Credit Risk- Investments.* State law limits investments in various securities to certain levels of risk ratings issued by nationally recognized statistical rating organizations. It is the County of Marin's Treasurer's Investment Pool policy to comply with those requirements. The Marin County Treasurer's Investment Pool is rated AAAF/'S1' by Fitch Ratings.



**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

**2. Detailed Notes (Continued)**

**A. Cash Equivalents and Investments (Continued)**

*Fair Value Measurements – Investments.* The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. The district has no separately held investments and its funds are held primarily by the Marin County Investment Pool which pool values its investments monthly using real-time pricing viewed as Level 1 inputs.

**B. Receivables:**

Receivables at year end consisted of \$8,444 in franchise fees and customer accounts.

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	303,990	(303,990)	-
Total capital assets, not being depreciated	-	303,990	(303,990)	-
Capital assets, being depreciated:				
Original sewer lines	181,500	-	-	181,500
Contributed lines	134,140	-	-	134,140
Line extensions and replacements	5,490,093	303,990	-	5,794,083
Total capital assets, being depreciated	5,805,733	303,990	-	6,109,723
Less accumulated depreciation for:				
Original lines	(181,500)	-	-	(181,500)
Contributed lines	(87,085)	(2,683)	-	(89,768)
Line extensions and replacements	(860,904)	(130,296)	-	(991,200)
Total accumulated depreciation	(1,129,489)	(132,979)	-	(1,262,468)
Total capital assets, being depreciated, net	4,676,244	171,011	-	4,847,255
Business-type activities capital assets, net	<u>\$ 4,676,244</u>	<u>\$ 475,001</u>	<u>\$ (303,990)</u>	<u>\$ 4,847,255</u>

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

**3. Other Information**

**A. Jointly Governed Organizations**

The Homestead Valley District is a member of the Sewerage Agency of Southern Marin (SASM). The SASM was formed in 1979 as a joint power's agency with six members: The City of Mill Valley, the Richardson Bay, Almonte, Alto and Homestead Sanitary Districts and the Tamalpais Community Services District. The SASM is a stand-alone governmental entity, and it is not financially accountable for any other governmental entity, and it has no component units. SASM's primary function is the maintenance and operation of its owned wastewater treatment plant and related lines and facilities. Member agencies pay annual assessments to SASM, based upon the concept of their respective number of equivalent dwelling units (EDUs), in exchange for the treatment and disposal of wastewater collected through their respective collection systems and conveyed to SASM's treatment plant and facilities. Member agency assessments are expected to increase in future years as SASM undertakes plant modernization and improvement projects.

In August of 2016, the District entered into a financing agreement with the SASM wherein the district agreed to maintain its net system revenues at a level equal to at least 120 percent of its obligation to SASM to support the SASM Bonds. The SASM issued \$38,000,000 in revenue bonds to provide financing for improvements to its wastewater treatment plant and refund other debt obligations. The district's annual financial obligations under the JPA Agreement and the Financing Agreement are passed through to the district each year in the form of a billing for an annual assessment payable in two equal semi-annual installments. These annual assessments are reported by the district as intergovernmental treatment costs in the statement of revenues, expenses, and changes in net position and amounted to \$638,858 in fiscal 2021.

Under the Joint Powers Agreement, all excess administration, operations, and maintenance funds, from any source, are the property of SASM and not its members. If excess monies are available, the SASM may, but is not required to, reduce member assessments for the subsequent year. There are no provisions for sharing among the members the net earnings of SASM. Accordingly, the Homestead Valley Sanitary District is deemed to have no equity interest in SASM. Separate financial statements of the SASM are available at the City of Mill Valley's Department of Finance.

**B. Risk Management**

The district obtains general liability, property, and automobile insurance through its membership in the SASM. Each member agency is assessed a premium based on ratable exposure. The SASM purchases insurance coverage from the California Sanitation Risk Management Authority (CSRMA) for SASM and the member Districts.

The risk of loss is transferred from the Districts to the Authority under the arrangement to the extent that the insurance coverage pertains to the district's membership in SASM. Subject insurance coverage does not extend to claims arising from the sole acts of the district independent of its SASM membership. The Authority provides coverage for the first \$750,000 in general liability and auto claims with the district being responsible for the first \$25,000 and a \$25,000 sewer backup deductible limit. The Authority provides coverage for the next \$15 million in claims by purchasing commercial insurance coverages. The Authority provided \$28,660,786 in insurance coverage for the buildings and plant of all SASM members. Flood insurance is also provided with a \$2 million coverage limit which limit is shared with other member agencies and has a \$500,000 deductible in zones A and V and a \$100,000 deductible in other zones. The district had no uninsured losses in fiscal 2020 or 2021 except for \$17,720 in fiscal 2020 and \$7,280 in fiscal 2021 for a cumulative loss of \$25,000.

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2021**

**3. Other Information (Continued)**

**B. Risk Management (Continued)**

Liabilities of the District are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The district had no significant uninsured claim liabilities on June 30, 2020, and 2021.

**C. Contingencies and Commitments**

*Litigation.* In the opinion of the district's general counsel, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements.

**D. Damage Settlement**

The district recognized \$90,000 in damage settlement revenue in fiscal 2021 attributable to the recovery of the costs of damages to District lines by the construction activity of a third party.

**E. Change in Accounting Principle**

The District in fiscal 2021 changed its method of accounting for force account construction managements costs. In prior years, additional compensation paid to District employees for extra work performed while performing functions typically associated with construction management of capital projects was charged off as an operating expenses and not capitalized as part of capital assets. In fiscal 2021, the district capitalized \$15,000 in such additional compensation as part of its capital assets.