

HOMESTEAD VALLEY SANITARY DISTRICT  
Report to Those Charged with Governance  
June 30, 2025

January 28, 2026

Honorable President and Members of  
Board of Directors  
Homestead Valley Sanitary District  
Mill Valley, California

I have audited the basic financial statements of the business-type activities of the Homestead Valley Sanitary District for the year ended June 30, 2025, and have issued my report thereon dated January 28, 2026. Professional standards require that I provide you with the following information related to my audit.

1. My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

As part of my audit, I considered the internal control of the Homestead Valley Sanitary District. Such considerations were solely for the purpose of determining my audit procedures and not to provide assurance concerning such internal control. My responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. I am responsible for communicating significant matters related to the audit that are, in my professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, I am not required to design procedures specifically to identify such matters.

2. Other Information in Documents Containing Audited Financial Statements and Electronic Dissemination of Audited Financial Statements

My responsibility for other information in documents containing the Homestead Valley Sanitary District financial statements and my auditor's report, such as an official statement for a bond or debt offering, does not extend beyond the financial information identified in the report. I do not have an obligation to perform any procedures to corroborate other information contained in such other documents. To my knowledge, the Homestead Valley Sanitary District's audited financial statements were not incorporated into other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, I am not required to read the information in any such sites or to consider the consistency of other information in the electronic site with the original documents.

3. Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to the District Manager in the audit engagement letter and discussed with the District Manager. My understanding is that the District Manager has the responsibility for coordinating the audit process with my firm and for communicating to you significant audit matters.

#### 4. Significant Audit Findings

##### *A. Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Homestead Valley Sanitary District are described in Note one to the financial statements.

##### *B. Changes in Accounting Policies*

No new accounting policies were adopted, and the application of existing policies was not significantly changed in the 2025 fiscal year.

##### *C. Significant and Unusual Transactions*

There were no significant and unusual transactions reported in fiscal 2025 in the district's statement of net position or cash flows for business-type activities other than:

1. Reporting a \$893,907 increase in the district's net position.
2. Reporting about \$617,472 as additions to the district's pipeline system in fiscal 2025.

##### *D. Transactions Having a Lack of Authoritative Guidance*

No significant dollar value transactions came to my attention where there was a lack of authoritative guidance regarding the application of accounting principles to the transactions.

##### *E. Accounting Estimates*

Accounting estimates are an integral part of financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate affecting the financial statements was management's estimate of depreciation expense which estimates were based upon subsidiary schedules of capital assets and depreciation calculations using the straight-line method of depreciation. I evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relationship to the financial statements taken as a whole.

##### *F. Sensitive Financial Statement Disclosures*

The disclosures in the financial statements are to be neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were, in my judgment, information about the district's investments in the County pool and wastewater line project costs.

#### 5. Difficulties Encountered in Performing the Audit

I experienced no significant difficulties in dealing with management in performing and completing my audit.

#### 6. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements.

There were five proposed adjusting/reclassification entries relating to prepayments, accounts payable, accrued liabilities.

#### 7. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report.

I am pleased to report that no such disagreements arose during the course of the audit.

#### 8. Management Representations

I have requested certain representations from management that are included in the management representation letter.

#### 9. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves the application of an accounting principle to the district's financial statements or a determination of the type of auditor's opinion that may be expressed on those financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

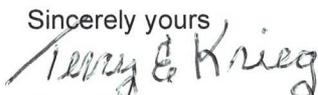
To my knowledge, there were no such consultations with other accountants.

#### 10. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the district's auditors or prior to commencement of the financial statement audit. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention as the district's independent auditor.

This information is intended solely for the use of the Board of Director of the Homestead Valley Sanitary District and management of the district and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely yours,



Terry E. Krieg  
Santa Rosa, California  
January 28, 2026

# *HOMESTEAD VALLEY SANITATION DISTRICT*

Report on Internal Control over Financial Reporting,  
Compliance and Other Matters

June 30, 2025

**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**

**Independent Auditor's Report**

President and Members  
Of the Board of Directors  
Homestead Valley Sanitation District  
Mill Valley, California

I 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 Homestead Valley Sanitation District, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Homestead Valley Sanitation District's basic financial statements, and have issued my report thereon dated January 28, 2026.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Homestead Valley Sanitation 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Homestead Valley Sanitation District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Homestead Valley Sanitation 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

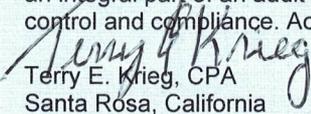
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Homestead Valley Sanitation District's financial statements are free from material misstatement. I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose,

  
Terry E. Krieg, CPA  
Santa Rosa, California  
January 28, 2026

**HOMESTEAD VALLEY SANITARY DISTRICT  
MANAGEMENT LETTER  
JUNE 30,2025**

Board of Directors  
Homestead Valley Sanitary District  
Mill Valley, California

I have audited the basic financial statements of the Homestead Valley Sanitary District as of and for the fiscal year ended June 30, 2025, and have issued my report thereon dated January 28, 2026. In planning and performing my audit, of the basic financial statements of the District, I considered internal control in order to determine my auditing procedures for the purpose of expressing my opinions on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. I have not considered internal control since the date of my report.

During my audit I noted certain matters involving internal control and other operational matters that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate levels of management, are intended to improve internal control or result in other operating efficiencies and are summarized in this letter.

The "Informational Only" section follows the observation and recommendations section. This Informational only section summarizes new and recently issued Statements of the Governmental Accounting Standards Board (GASB) that have recently been enacted or will be effective in future years. Summaries of the GASB statements are included to assist management in evaluating the applicability to the district of emerging and new financial accounting principles.

### **1. Follow up On Prior Year Recommendation**

#### Subsidiary Deprecation Schedule

The subsidiary depreciation schedule was updated for additions and current year depreciation. However, there were a few minor errors in the amounts of accumulated depreciation as a result of the accumulated amounts not being updated for each year's additions and deletions and then being compared to the general ledger totals to determine that the subsidiary and general ledger amounts were in agreement.

I recommend that the district update the schedule each year for the accumulated amounts and determine that the amounts in the subsidiary agree with amounts in the general ledger. To resolve any existing differences, I suggest that the district either (1) adjust the general ledger control account to the subsidiary schedule by making a prior period adjustment to fund equity or (2) adjust the subsidiary depreciation schedule to agree to the general ledger thereby eliminating the need to restate the district's annual audited financial statements

### **2. Current Year Observation**

#### **A. Old and Outstanding Contract Retentions Payable.**

The district has about \$98,375 in construction contract retentions payable some of which dates back to fiscal years 2023 and 2024 which is more than one fiscal year old. Outstanding retentions should be timely resolved and liquidated unless there is some sort of ongoing dispute.

I recommend that the district review all its retentions payable and establish an internal procedure to resolve old outstanding balances.

B. Construction Change Order Documentation

The Agreement provided for the Bayside Trenchless work had an initial estimate of \$220,425, but the district subsequently paid \$994,095 and I was not provided with an executed change order approving the additional work. Generally accepted governmental accounting procedures generally required written approvals for significant changes in the scope of construction work.

I recommend the formal written change orders be approved in writing by both the district and contractor in order to document the changes in the scope of work.

**2. INFORMATIONAL ONLY – NEW STATEMENTS ON AUDITING STANDARDS (SAS)**

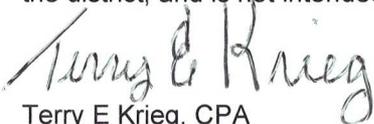
GASB Statement 103 – Financial Reporting Model Improvements

This new standard changes the format and content of governmental financial statements including the management and discussion section. The changes are required to be implemented no later than the fiscal year ending June 30, 2026.

My audit procedures are designed primarily to enable me to form opinions on the financial statements, and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. My aim, however, is to use my knowledge of the district gained during the audit to make comments and suggestions that I hope will be useful to you.

I would be available to discuss these comments and recommendations with you either by cell phone, email, or zoom conferencing if so desired.

This report is intended solely for the information of the Board of Directors, Management, and others within the district, and is not intended to be and should not be used by anyone other than these specified parties.



Terry E Krieg, CPA  
Santa Rosa, California  
January 28, 2026

**HOMESTEAD VALLEY SANITARY DISTRICT  
APPROPRIATIONS LIMIT  
JUNE 30, 2025**

**Independent Accountants' Report on Applying Agreed-Upon Procedures**

Board of Directors  
Homestead Valley Sanitary District  
Mill Valley, California

I have performed the procedures enumerated below, to the accompanying Appropriations Limit worksheet of the Homestead Valley Sanitary District for the year ended June 30, 2025. The management of the Homestead Valley Sanitary District is responsible for the calculation of the Appropriations Limit worksheet.

The Homestead Valley Sanitary District has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of meeting Section 1.5 of Article XIII B of the California Constitution for the year ended June 30, 2025. These procedures, which were suggested by the League of California Cities and presented in the publication entitled *Agreed-Upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*, were performed solely to assist you in meeting the requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1. I obtained the completed appropriation limit worksheets and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the Board of Directors. I also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the Board of Directors.

Finding: No exceptions were noted as a result of my procedures.

2. For the accompanying Appropriations Limit worksheet, I added last year's limit and total adjustments and compared the resulting amount to this year's limit.

Finding: No exceptions were noted as a result of my procedures.

3. I compared the current year's information presented in the accompanying Appropriations Limit worksheet to the other worksheets described in No. 1 above.

Finding: No exceptions were noted as a result of my procedures.

4. I compared the prior year appropriations limit presented in the accompanying Appropriations Limit worksheet to the prior year appropriations limit adopted by the Board of Directors for the prior year.

Finding: No exceptions were noted as a result of my procedures.

I was engaged by the Homestead Valley Sanitary District to perform this agreed-upon procedures engagement and conducted my engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to and did not conduct an examination or review engagement, the objective which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit Calculation for the year ended June 30, 2025. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

I am required to be independent of the Homestead Valley Sanitary District and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to my agreed-upon procedures engagement.

This report is intended solely for the information and use of the Board of Directors and management of the Homestead Valley Sanitary District and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited,

A handwritten signature in cursive script that reads "Terry B. Krieg". The signature is written in black ink and is positioned above the printed name and title.

Certified Public Accountant  
Santa Rosa, California  
January 28, 2026

**Article XIII B Appropriation Limit Calculation**

Prior Year Limit		\$ 517,164
Multiply by:		
Change in per capita income	1.0362	
Change in population	0.9955	<u>1.0315371</u>
Total Appropriation Limit Fiscal Year 2024-2025		<u>\$ 533,474</u>

Homestead Valley Sanitary District  
Financial Statements  
June 30, 2025

**HOMESTEAD VALLEY SANITARY DISTRICT**  
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**June 30, 2025**

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Board of Directors  
Homestead Valley Sanitary District  
Mill Valley, California

**Independent Auditor's Report**

**Report on the Audit of the Financial Statements**

**Opinion**

I have audited the financial statements of the Homestead Valley Sanitary District as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Homestead Valley Sanitary District's basic financial statements as listed the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Homestead Valley Sanitary District as of June 30, 2025, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I am required to be independent of the Homestead Valley Sanitary District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt the Homestead Valley Sanitary District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibility for the Audit of Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, I

- exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform auditing procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Homestead Valley Sanitary District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Homestead Valley Sanitary District's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters I identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government 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 supplemental 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 representations 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 January 28, 2026 on my consideration of Homestead Valley Sanitary 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 solely 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 the effectiveness of Homestead 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 the Homestead Valley Sanitary District's internal control over financial reporting and compliance.



Terry E, Krieg, CPA  
Santa Rosa, California  
January 28, 2026

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2025. 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 \$893,900 in fiscal 2025 compared to an increase of \$702,300 in fiscal year 2024 mainly because of higher revenues and decreasing expenses.
- Total operating expenses in fiscal 2025 decreased by a net \$16,600 compared to fiscal 2024 expenses. Most of the decrease was a result of lower line cleaning and inspection costs.
- In fiscal 2025, overall District revenues increased by about a net nine percent mainly related to the increases in service fees, interest income, and property tax revenues.
- There was about a seven percent net increase in the district's capital assets in fiscal 2025 caused by line improvement projects.
- The district's cash and investment holdings increased by about \$506,900 at the end of fiscal 2025 for a total of about \$2.4 million. The district at the end of fiscal 2025 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 presents 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 on the district's *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 district's 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 \$893,800 in fiscal year 2025 (See Table A-1.)

Table A-1  
DISTRICT'S NET POSITION  
(In Nearest Hundred Dollars)  
June 30

	2025	2024	Percentage Change
Cash and investments	\$2,425,000	\$1,918,100	26%
Other assets	19,100	17,300	10%
Capital assets, net	6,486,000	6,050,100	7%
<b>Total assets</b>	<b>8,930,000</b>	<b>7,985,500</b>	<b>12%</b>
Long-term debt	-	-	0%
Other liabilities	143,200	92,500	55%
<b>Total liabilities</b>	<b>143,200</b>	<b>92,500</b>	<b>55%</b>
Net position:			
Net investment in capital assets	6,387,700	6,050,100	6%
Unrestricted	2,399,100	1,842,900	30%
<b>Total net position</b>	<b>\$8,786,800</b>	<b>\$7,893,000</b>	<b>11%</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 2025 being greater than operating and capital outflows. The 55% increase in liabilities was caused by an increase in retentions and accounts payable.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The district's change in net position in fiscal 2025 was about 27 percent more than the increase in fiscal 2024.

**Change in net position.**

The district's total revenue increase of \$175,000 in fiscal 2025 was a net change consisting of about \$112,600 more from the rate increase, \$16,500 more in investment income, and \$45,900 more in property taxes and other fee revenues.

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

	<u>Fiscal Year Ended June 30</u>		<u>Percentage Change</u>
	<u>2025</u>	<u>2024</u>	
<b>Revenues:</b>			
Program revenues:			
Charges for sewer service	\$1,614,100	\$1,501,500	8%
Other operating charges	65,400	47,000	39%
Property taxes	354,900	332,900	7%
Franchise fees	28,500	27,000	6%
Investment income	98,500	82,000	20%
Capital contributions and grants	4,000		100%
<b>Total revenues</b>	<u>2,165,400</u>	<u>1,990,400</u>	<u>9%</u>
<b>Expenses:</b>			
Salaries and benefits	235,600	230,500	2%
Intergovernmental treatment cost	776,700	748,800	4%
Line inspections, cleaning, repairs	31,600	93,500	-66%
Insurance and claims	12,100	10,700	13%
Professional services	9,200	8,200	12%
Mapping and other	24,700	27,200	-9%
Depreciation	181,600	169,200	7%
<b>Total expenses</b>	<u>1,271,500</u>	<u>1,288,100</u>	<u>-1%</u>
<b>Change in net position</b>	893,900	702,300	27%
Net position, beginning	<u>7,893,000</u>	<u>7,190,700</u>	
<b>Net position ending</b>	<u>\$8,786,900</u>	<u>\$7,893,000</u>	<u>11%</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 2025 increased 20 percent because of the higher rates of return being experienced by Marin County's investment pool and increases in the overall fair value of the pool because of favorable market conditions and changes.

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 2025 about a one percent net decrease in total expenses compared to fiscal 2024 total expenses resulting mainly from lower line cleaning and inspections costs.

The district paid for these costs by using about 80 percent of the direct charges collected from its customers and franchise fees.

On a cash flow basis, there was a \$506,900 net increase in the district's cash and investment holdings at the end of fiscal 2025 compared to the end of fiscal 2024. The district was financially able to fund its 2025 operating and capital cost without the need to obtain external financing.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2025, the district's investment in capital assets increased by a net \$435,900 as a result of depreciation charge of about \$182,000 offsetting the capital improvements to lines of about \$617,500. Additional information about the district's capital assets can be found on page 16 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
	2025	2024	
Original sewer lines	\$181,500	\$181,500	0%
Line replacements and extensions	8,069,500	7,452,000	8%
Contributed lines	134,100	134,100	0%
<b>Totals</b>	<b>8,385,100</b>	<b>7,767,600</b>	<b>8%</b>
Less accumulated depreciation	(1,899,100)	(1,717,500)	11%
<b>Net capital assets</b>	<b>\$6,486,000</b>	<b>\$6,050,100</b>	<b>7%</b>

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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 2025. 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's aging infrastructure was reaching the end of its useful life. The district responded by undertaking a comprehensive evaluation of the collection system and developed a long-range capital improvement plan. The district in fiscal 2026 will be nearing completion of its line modernization and replacement program and will focus on maintenance and operations of the entire system in fiscal 2026 and thereafter.

### **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, 2025**

**ASSETS**

Current assets:

Cash and investments	\$ 2,424,961
Receivables :	
Franchise fees	7,275
Accounts	4,781
Prepayments	7,042
Total current assets	2,444,059

Capital assets being depreciated:

Collection system:

Original sewer lines	181,500
Contributed lines	134,140
Line extensions and replacements	8,069,501
Less accumulated depreciation	(1,899,101)

Total capital assets being depreciated	6,486,040
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Total capital assets	6,486,040
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Total assets	8,930,099
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**LIABILITIES**

Current liabilities:

Accounts payable	6,442
Accrued liabilities	9,050

Total current liabilities	15,492
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Noncurrent liabilities

Contract retentions payable	127,725
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Total liabilities	143,217
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**NET POSITION**

Net investment in capital assets	6,387,665
Unrestricted	2,399,217

Total net position	\$ 8,786,882
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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, 2025**

<b>OPERATING REVENUES</b>	
Sewer service fees	\$ 1,614,093
Franchise fees	28,483
Other operating revenues	65,414
Total operating revenues	<u>1,707,990</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	235,579
Intergovernmental treatment costs	776,718
Line cleaning, inspection and repairs	31,643
Liability and property insurance	12,128
Contract and professional services	9,200
Other operating	24,730
Depreciation	181,554
Total operating expenses	<u>1,271,552</u>
Operating income	<u>436,438</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Property taxes	354,926
Investment income (loss)	98,543
Total non-operating revenues	<u>453,469</u>
<b>CAPITAL CONTRIBUTIONS</b>	
Capital connection fees	4,000
Change in net position	893,907
Total net position, beginning	<u>7,892,975</u>
Total net position, ending	<u><u>\$ 8,786,882</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, 2025**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,614,093
Other operating receipts	92,881
Payments to suppliers for goods and services	(823,052)
Payments to employees for services and benefits	<u>(235,583)</u>
Net cash provided by operating activities	<u>648,339</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Property tax collections	<u>354,926</u>
Net cash provided by noncapital financing activities	<u>354,926</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital connections	4,000
Collection system improvements	<u>(598,951)</u>
Net cash used for capital and related financing activities	<u>(594,951)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest receipts	<u>98,542</u>
Net cash provided by investing activities	<u>98,542</u>
Net decrease in cash and cash equivalents	506,856
Balances-beginning of the year	<u>1,918,105</u>
Balances-end of the year	<u><u>\$ 2,424,961</u></u>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>	
Operating income (loss)	\$ 436,438
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Depreciation expense	181,554
Change in assets and liabilities:	
Decrease (increase) in other receivables	(1,015)
Decrease (increase) in prepayments	(838)
Increase (decrease) in accrued liabilities	(5)
Increase (decrease) in accounts payable	<u>32,205</u>
Net cash provided by operating activities	<u><u>\$ 648,339</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, 2025**

**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, 2025**

**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 is 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, 2025**

**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, 2025**

**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	\$ 2,372,154
Payroll checking account	<u>52,807</u>
 Total cash equivalents and investments	 <u>\$ 2,424,961</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 \$52,807 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, 2025**

**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 \$12.056 in franchise fees and customer accounts.

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2025, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$	\$	\$	\$
Construction in progress	-	617,472	(617,472)	-
Total capital assets, not being depreciated	-	617,472	(617,472)	-
Capital assets, being depreciated:				
Original sewer lines	181,500	-	-	181,500
Contributed lines	134,140	-	-	134,140
Line extensions and replacements	7,452,029	617,472	-	8,069,501
Total capital assets, being depreciated	7,767,669	617,472	-	8,385,141
Less accumulated depreciation for:				
Original lines	(181,500)	-	-	(181,500)
Contributed lines	(97,817)	(2,683)	-	(100,500)
Line extensions and replacements	(1,438,230)	(178,871)	-	(1,617,101)
Total accumulated depreciation	(1,717,547)	(181,554)	-	(1,899,101)
Total capital assets, being depreciated, net	6,050,122	435,918	-	6,486,040
Business-type activities capital assets, net	<u>\$ 6,050,122</u>	<u>\$1,053,390</u>	<u>\$ (617,472)</u>	<u>\$ 6,486,040</u>

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2025**

**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 \$776,718 in fiscal 2025.

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 \$500,000 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 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 paid \$6,987 in fiscal 2023 related to a residential sewer line backup. No significant amounts were paid in fiscal 2024 and 2025.

**HOMESTEAD VALLEY SANITARY DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2025**

**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 evaluated 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, 2025, 2024, and 2023.

**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.

On July 1, 2025, the district entered into an agreement with a contractor for professional services in an initial amount of \$220,425 which was subsequently increased to \$1,046,447.