Homestead Valley Sanitary District
Basic Financial Statements
June 30, 2012

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Table of Contents

Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Homestead Valley Sanitary District
Mill Valley, California

I have audited the accompanying basic financial statement of the Homestead Valley Sanitary District, California, (the District) as of and for the year ended June 30, 2012, as listed in the Table of Contents. These financial statements are the responsibility of the Homestead Valley Sanitary District management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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, California, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management Discussion and Analysis on pages 2 through 6 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 or provide any assurance.

In accordance with Government Auditing Standards, I have also issued my report dated December 15, 2012 on my consideration of the 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 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 and should be considered in assessing the results of my audit.

As discussed in note 3D to these financial statements, the District may be required to dissolve or reorganize itself as a financial reporting entity, or consolidate itself into an entirely new financial reporting entity.

Terry E. Krieg
Certified Public Accountant
December 15, 2012

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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, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The net assets of the District's business-type activities increased by $269,100 in fiscal 2012 compared to an increase of $149,100 in fiscal year 2011.
- Total operating expenses in fiscal 2012 decreased by $40,600 or 7 percent less than in fiscal 2011. Most of the fiscal 2012 cost decreases relate to lower line inspection, maintenance and cleaning costs.
- In fiscal 2012, there was about a 15 percent rate increase in the annual sewer service charges for District customers and total revenues increased about $83,300 compared to fiscal 2011.
- There was a net increase of $71,200 in the District's capital assets in fiscal 2012 relating to line rehabilitation projects.
- The District's cash and investment holdings increased by about $164,100 at the end of fiscal 2012 as a result of increased revenues in fiscal 2012. The District at the end of fiscal 2012 had no long-term debt financing arrangements 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 Districts 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

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

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 assets 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 assets regardless of when cash is received or paid.

The basic financial statements report the Districts *net assets* and how they have changed. Net assets – 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 assets 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 Districts 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 Assets. The District's' *combined* net assets increased by $269,100 in fiscal year 2012 (See Table A-1.)

TABLE A-1 NET ASSETS OF THE DISTRICT (In Rounded Dollars)

	Business-Type Activities		Percentage Change
	2012	2011	2011-2012
Cash and investments	$ 388,200	$ 224,100	73.2%
Other assets	14,100	13,800	2.2%
Capital assets, net	2,024,600	1,953,400	3.6%
Total assets	**2,426,900**	**2,191,300**	**9.7%**
Long-term debt	-	-	0.0%
Other liabilities	8,500	42,000	-79.8%
Total liabilities	**8,500**	**42,000**	**-79.8%**
Net assets:			
Invested in capital assets net of related debt	2,024,600	1,953,400	3.6%
Unrestricted	393,800	195,900	101.0%
Total net assets	**$ 2,418,400**	**$ 2,149,300**	**12.5%**

The unusually large decrease in other liabilities at the end of fiscal 2012 was caused by the accrual of vendor billings payable at June 30, 2011 which payables were liquidated in fiscal 2012.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The primary reason for the higher profitability in fiscal 2012 was that in fiscal 2012 District operating costs decreased while District revenues increased because of customer rate increases. About 91 % of the District's net assets are represented by the District's net investment in its capital assets. The remaining 9% of net assets is represented primarily by cash and investments.

Changes in net assets.

The District's total revenues (exclusive of capital contributions) increased about 11.6 percent in fiscal 2012 compared to fiscal 2011 revenues. The increase in revenues was a result mainly of lower investment income revenues, higher tax revenues, and higher charges for sewer service in fiscal 2012.

In fiscal 2010, the District lost $9,500 in cash property tax revenues from the State Take Away under Proposition 1A. The State took these monies under an arrangement whereby the District will be repaid within 3 years. The District has recorded a long-term receivable in its statement of net assets for these property taxes.

There was about a $ 40,600 net decrease, or 7 percent, in expenses for fiscal year 2012.

TABLE A-2 District's Revenues, Expenses and Changes in Net Assets (In Rounded Dollars)

	Years Ended June 30		Total Percentage Change
	2012	2011	2011-2012
Revenues			
Program revenues:			
Charges for sewer service	$ 587,700	$ 509,100	15.4%
Other operating charges	16,100	14,000	15.0%
Property taxes	180,700	178,500	1.2%
Franchise fees	18,500	16,700	10.8%
Investment income	500	1,900	-73.7%
Total revenues	803,500	720,200	11.6%
Expenses			
Salaries and benefits	34,600	31,400	10.2%
Intergovernmental treatment costs	243,600	217,600	11.9%
Line inspections , cleaning , repairs	162,500	264,000	-38.4%
Insurance	25,000	4,800	420.8%
Contracts and professional services	6,000	4,500	33.3%
Mapping and Other	15,900	13,000	22.3%
Depreciation	51,500	44,400	16.0%
Total expenses	539,100	579,700	-7.0%
Income (Loss) before contributions	264,400	140,500	88.8%
Capital contributions	4,700	8,600	-45.3%
Change in net assets	269,100	149,100	80.5%
Net assets, beginning	2,149,300	2,000,200	-
Net assets, ending	$ 2,418,400	$ 2,149,300	12.5%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Investment revenues in fiscal 2012 continued to decline as a result of the overall economic down turn. The impact on the District in fiscal 2012 was about a 75 percent decline in investment revenue.

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 2012 about a $40,600 decrease in total expenses compared to fiscal 2011 total expenses which represents about a 7 percent decrease compared to fiscal 2011 expenses. The main reasons for the cost decreases were the impact of the lower costs for expanded line televising program, cleaning and repairs during fiscal 2012.

The District paid for these costs by using all of the direct charges collected from its customers, other operating revenues, property taxes, and investment income.

The District's total fiscal 2012 operating revenues and property tax revenues were more than the District's cash flow expenses and payments for capital additions. On a cash flow basis, there was a net $164,000 increase in the District's cash and investment holdings at the end of fiscal 2012 compared to the end of fiscal 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2012, the District's investment in capital assets increased by about $122,000 excluding the impact of reductions for depreciation charges in fiscal 2012. Even with depreciation changes factored in, there was an overall 3.6 percent increase in the District's net capital assets at the end of 2012 compared to the end of fiscal 2011.

TABLE A-3 District Investment In Capital Assets, Net of Accumulated Depreciation (In Rounded Dollars)

	Business-Type Activities		Total Percentage Change
	2012	2011	2011-2012
Original sewer lines	$ 330,000	$ 330,000	0.0%
Line replacements and extensions	2,231,800	2,017,300	10.6%
Contributed lines	134,100	134,100	0.0%
Less accumulated Depreciation	(671,300)	(619,800)	8.3%
Construction in progress	-	91,800	-100.0%%
Total	$ 2,024,600	$ 1,953,400	3.6%

The major capital assets activity in fiscal 2012 included:

- Spending at least $122,000 for the rehabilitation of sewer lines in fiscal 2012
- . More information about capital assets can be found starting on page 14 of the notes to the financial statements.

Long-Term Debt

There was no new long-term debt issued by the District in fiscal 2012. 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. One significant change deals with the subvention by the State of California that reduced District property tax revenues by about 8 % or a revenue loss in the range of about $9,500. It is anticipated that this change could be only a temporary loss for a period of two to three years depending upon the final resolution of the State Legislatures decisions to balance the State budget. The District has not made financing arrangements to alleviate the impact of this by participating in the Proposition 1A Securitization Program. Instead, the District elected to be repaid by the State at the end of the 3-year loan period.

The State has also been promoting the philosophy that special districts reduce their reliance on property taxes and revert to a user based revenue philosophy. This change is consistent with legislative findings at the time of adoption of Proposition 13 in 1979. The District will be required in the next fiscal year to determine how to deal with this potential revenue reduction issue should it become a reality. The State may again be facing fiscal funding issues in fiscal 2011 that may ultimately impact the District.

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 will be undertaking a comprehensive evaluation of the collection system that may result in increased needs for financial commitment to this area of operations.

One additional initiative may have a dramatic impact upon the operations of the District. This deals with Assembly Bill 1232 signed by the governor that essentially gives the Marin County Local Agency Formation Commission (LAFCO) the authority to, when specific conditions are met, require the dissolution of the District and other SASM member entities in order to provide for a reorganization or formation of one-single purpose entity to provide such wastewater collection and treatment services. The provisions of AB 1232 take effect January 1, 2011. The District opposes the mandated consolidation provisions of this Bill, but has been working with the Marin County LAFCO to find a mutually agreeable solution to all of the concerns expressed in the Bill.

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, PO- Box 149, Mill Valley, California, 94942.

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Net Assets
June 30, 2012

ASSETS	
Current assets:	
Cash and cash equivalents	$ 388,179
Receivables :	
Franchise fees	4,600
Total current assets	392,779
Noncurrent assets:	
Receivable from other governments - Proposition 1A	9,502
Total receivable from other governments	9,502
Capital assets being depreciated:	
Collection system:	
Original sewer lines	330,000
Contributed lines	134,140
Line extensions and replacements	2,231,783
Less accumulated depreciation	(671,330)
Total capital assets being depreciated	2,024,593
Total noncurrent assets	2,034,095
Total assets	$ 2,426,874
LIABILITIES	
Current liabilities:	
Accounts payable	$ 8,524
Total current liabilities	8,524
NET ASSETS	
Invested in capital assets, net of related debt	2,024,593
Unrestricted	393,757
Total net assets	$ 2,418,350

See accompanying notes to the basic financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
For The Fiscal Year Ended June 30, 2012

OPERATING REVENUES	
Sewer service fees	$ 587,660
Franchise fees	18,489
Other operating revenues	16,100
Total operating revenues	622,249
OPERATING EXPENSES	
Salaries and benefits	34,552
Intergovernmental treatment costs	243,553
Line cleaning, inspection and repairs	162,502
Liability and property insurance	25,000
Contract and professional services	6,000
Other operating	15,948
Depreciation	51,521
Total operating expenses	539,076
Operating loss	83,173
NON-OPERATING REVENUES(EXPENSES)	
Property taxes	180,736
Investment income	459
Net non-operating revenues (expenses)	181,195
Change in net assets before capital contributions	264,368
Capital contributions	
Capital contributions	4,700
Total contributions	4,700
Change in net assets	269,068
Total net assets, beginning	2,149,282
Total net assets, ending	$ 2,418,350

See accompanying notes to the basic financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Cash Flows
For The Fiscal Year Ending June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 587,660
Other operating receipts	34,289
Payments to suppliers for goods and services	(486,457)
Payments to employees for services and benefits	(34,552)
Net cash used for operating activities	100,940
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property tax collections	180,736
Net cash provided by noncapital financing activities	180,736
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	4,700
Payments for capital asset improvements	(122,711)
Net cash used for capital and related financing activities	(118,011)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest receipts	459
Net cash provided by investing activities	459
Net increase (decrease) in cash and cash equivalents	164,124
Balances-beginning of the year	224,055
Balances-end of the year	$ 388,179
Reconciliation of operating loss to net cash used for operating activities:	
Operating income (loss)	$ 83,173
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Depreciation expense	51,521
Change in assets and liabilities:	
Decrease (increase) in other receivables	(300)
Increase (decrease) in accounts payable	(33,454)
Net cash used for operating activities	$ 100,940

Noncash capital financing activities:
None

See accompanying notes to the basic financial statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Homestead Valley District was organized in 1950 as a special district under Provisions of the Sanitary District Act of 1923, and it 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 accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. 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 assets and the statement of changes in net assets) report information on all of 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 assets, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, and these notes to the basic financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund-type financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

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/deposits.

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. Inventories and Prepaid Items

All inventories are valued at cost based upon physical determinations made at the end of each year.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed net of construction period interest revenues earned during such periods.

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

Assets	Year
Subsurface lines	50
Facilities and structures	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 $10,000.The District carries no workers compensation insurance.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets

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 assets. The District has no outstanding long-term debt obligations.

8. *Net Assets*

In the financial statements, fund net assets are reported in two categories as follows:

- Invested in capital assets, net of related debt - This category of net assets 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 assets 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 at June 30:

Marin County Treasurer's Investment Pool:		
District operating	$	383,681
Payroll checking account		4,498
Total cash equivalents and investments	$	388,179

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 $4,498 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 unrated.

2. Detailed Notes (Continued)

B. Receivables:

Proposition 1A Borrowing by the State of California:

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property taxes apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a 10 year period. The amount of the borrowing pertaining to the District was $9,502

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. In the statement of net assets, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

C. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress	91,819	122,711	(214,530)	-
Total capital assets, not being depreciated	91,819	122,711	(214,530)	-
Capital assets, being depreciated:				
Original sewer lines	330,000			330,000
Contributed lines	134,140			134,140
Line extensions and replacements	2,017,253	214,530		2,231,783
Total capital assets, being depreciated	2,481,393	214,530		2,695,923
Less accumulated depreciation for:				
Original lines	(330,000)			(330,000)
Contributed lines	(62,937)	(2,683)		(65,620)
Line extensions and replacements	(226,872)	(48,838)		(275,710)
Total accumulated depreciation	(619,809)	(51,521)		(671,330)
Total capital assets, being depreciated, net	1,861,584	163,009		1,810,063
Business-type activities capital assets, net	$ 1,953,403	$ 285,720	$ (214,530)	$ 2,024,593

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 powers 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-along 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.

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.

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 $5,000 to $10,000. 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 in fiscal 2011. 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 $10,000 in uninsured losses in the 2010 fiscal year, none in the 2011 fiscal year, and $25,000 in fiscal 2012.

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 at June 30, 2010. 2011, and 2012.

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.

3. Other Information (Continued)

D. Potential Dissolution or Reorganization of the District

AB 1232 takes effect on January 1, 2011. This bill gives the Marin County Local Agency Formation Commission (LAFCO) the authority, when specific conditions are met, to require the dissolution or reorganization of the District, SASM and other SASM member agencies in order to provide for the formation of one single-purpose entity to provide for the wastewater collection and treatment services currently being provided by SASM and by the other member agencies. The District is cooperating with the LAFCO in order to find a mutually agreeable solution to all concerns expressed in the Bill. However, the ultimate outcome of this matter is presently not determinable and the District may be ordered, without having a right of protest, to dissolve or otherwise reorganize itself as a financial reporting entity including a potential consolidation into an entirely newly formed financial reporting entity.