

Homestead Valley Sanitary District
Financial Statements
June 30, 2017

HOMESTEAD VALLEY SANITARY DISTRICT
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June 30, 2017

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Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Homestead Valley Sanitary District
Mill Valley, California

Report on the Financial Statements

I have audited the accompanying financial statements of the Homestead Valley Sanitary District, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Homestead Valley Sanitary District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with audited standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Homestead Valley Sanitary District as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report, September 30, 2017, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Homestead Valley Sanitary District's internal control over financial reporting and compliance.



Terry E. Krieg
Certified Public Accountant
Santa Rosa, California
September 30, 2017

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, 2017. 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 \$562,800 in fiscal 2017 compared to an increase of \$490,300 in fiscal year 2016. This increase in net position was caused mostly by higher revenues from customer charges for services.
- Total operating expenses in fiscal 2017 increased by \$74,500 net compared to fiscal 2016 expenses. Most of the fiscal 2017 cost increase relates to higher treatment costs and higher personnel costs.
- In fiscal 2017, overall District revenues increased by about 13 percent or \$139,100
- There was a net decrease of \$80,300 in the District's capital assets in fiscal 2017 caused by the year's depreciation charges.
- The District's cash and investment holdings increase by about \$645,000 at the end of fiscal 2017. The District at the end of fiscal 2017 had no long-term debt outstanding. In fiscal 2017, the District entered into a financing agreement with the Sewerage Agency of Southern Marin for the purpose of providing financial support for the Agency's \$38 million revenue bond issue.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

FIGURE A-1

Basic Financial Statement Features	Basic Financial Statements
Scope	Activities the District operates similar to a private business; the wastewater collection and treatment systems
Required Financial Statements	Statement of net position; statement of revenues, expenses, and changes in net position, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basic Financial Statements

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

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

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

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

- *Business-type activities* – The District charges fees to help it cover the costs of certain services it provides. All of the 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 Position. The District's' *combined* net position increased by \$562,800 in fiscal year 2017 (See Table A-1.)

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

	Business-Type Activities		Percentage Change
	2017	2016	2016-2017
Cash and investments	\$1,343,200	\$ 698,600	92%
Other assets	7,100	6,800	4%
Capital assets, net	2,854,900	2,935,200	-3%
Total assets	4,205,200	3,640,600	16%
Long-term debt	-	-	0%
Other liabilities	10,300	8,500	21%
Total liabilities	10,300	8,500	21%
Net position:			
Net investment in capital assets	2,854,900	2,935,200	-3%
Unrestricted	1,340,000	696,900	92%
Total net position	\$4,194,900	\$3,632,100	16%

The 92 percent increase in cash and investments was a result of the District's rate increase in fiscal 2017 of \$100 per assessed unit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The primary reason for the increase in the District's net position in fiscal 2017 compared to fiscal 2016, was that in fiscal 2017 in District operating revenues increased by about \$139,600 while expenses increase by about \$74,500.

Change in net position.

The District's total revenues increased by about \$139,100 compared to fiscal 2017 that was caused by more charges for services, permit and other fees. There was about a \$ 74,500 net increase in expenses for fiscal year 2017 mainly from treatment and personnel cost increases.

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

	Years Ended June 30		Total Percentage Change
	2017	2016	2016-2017
Changes in Net Position			
Revenues:			
Program revenues:			
Charges for sewer service	\$ 912,600	\$ 807,600	13%
Other operating charges	57,900	47,100	23%
Property taxes	235,900	215,200	10%
Franchise fees	21,600	21,400	1%
Investment income	4,600	2,200	109%
Total revenues	1,232,600	1,093,500	13%
Expenses:			
Salaries and benefits	129,800	98,000	33%
Intergovernmental treatment cost	385,100	310,300	24%
Line inspections, cleaning, repairs	52,200	96,000	-46%
Insurance and claims	8,000	2,700	196%
Professional services	6,000	6,000	0%
Mapping and other	16,300	21,200	-23%
Depreciation	80,300	69,000	16%
Total expenses	677,700	603,200	12%
Income (loss) before contributions	554,900	490,300	13%
Capital contributions	8,000	-	-100%%
Change in net position	562,900	490,300	15%
Net position, beginning	3,632,000	3,141,700	
Net position ending	\$4,194,900	\$3,632,000	16%

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Investment revenues in fiscal 2017 were double the earnings in 2016.

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 2017 about a \$74,500 net increase in total expenses compared to fiscal 2016 total expenses which represents about a 12 percent increase compared to fiscal 2016 expenses.

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

On a cash flow basis, there was a net \$645,000 net increase in the District's cash and investment holdings at the end of fiscal 2017 compared to the end of fiscal 2016. This means that the District was financially able to fund its 2017 operating costs without the need to obtain short external financing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2017, the District's investment in capital assets decreased by about \$80,000 as a result of depreciation charges and no capital asset additions in fiscal 2017. The construction in progress of \$568,100 was closed out in fiscal 2017.

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

	Business-Type Activities		Total Percentage
	2017	2016	Change
			2015-2016
Original sewer lines	\$ 181,500	\$ 181,500	0%
Line replacements and extensions	3,383,100	2,814,900	20%
Contributed lines	134,100	134,100	0%
Less accumulated Depreciation	(843,800)	(763,400)	11%
Construction in progress	-	568,100	-100%
Total	\$ 2,854,900	\$ 2,935,200	-3%

MANAGEMENT'S DISCUSSION AND ANALYSIS

- . More information about capital assets can be found starting on page 15 of the notes to the financial statements.

Long-Term Debt

There was no new long-term debt issued by the District in fiscal 2017. The District has no Long-Term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATING PLAN AND RATES

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

In the capital area, the District has determined that it is in need of significant capital projects and programs. These will in large part deal with aging infrastructure of the District which is now reaching the end of its useful life due to improvement needs in the District collection system. The District will be undertaking a comprehensive evaluation of the collection system that may result in increased needs for financial commitment to this area of operations.

Customer rates increases previously approved by the District will increase per customer unit charges by \$100 per Equivalent Dwelling Unit (EDU) in fiscal 2018.

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 Position
June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,343,203
Receivables :	
Franchise fees	5,411
Prepayments	1,642
	1,350,256
Total current assets	1,350,256

Capital assets being depreciated:

Collection system:	
Original sewer lines	181,500
Contributed lines	134,140
Line extensions and replacements	3,383,085
Less accumulated depreciation	(843,797)
	2,854,928

Total capital assets being depreciated	2,854,928
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Total capital assets	2,854,928
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Total assets	\$ 4,205,184
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LIABILITIES

Current liabilities:

Accounts payable	\$ 4,507
Accrued liabilities	5,772
	10,279

Total current liabilities	10,279
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NET POSITION

Net investment in capital assets	2,854,928
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Unrestricted	1,339,977
	1,339,977

Total net position	\$ 4,194,905
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See accompanying notes to the basic financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For The Fiscal Year Ended June 30, 2017

OPERATING REVENUES	
Sewer service fees	\$ 912,625
Franchise fees	21,622
Permit fees for additional fixtures	28,300
Other operating revenues	<u>29,575</u>
Total operating revenues	<u>992,122</u>
OPERATING EXPENSES	
Salaries and benefits	129,820
Intergovernmental treatment costs	385,072
Line cleaning, inspection and repairs	52,217
Liability and property insurance	2,995
Contract and professional services	6,000
Other operating	21,347
Depreciation	<u>80,304</u>
Total operating expenses	<u>677,755</u>
Operating income	<u>314,367</u>
NON-OPERATING REVENUES(EXPENSES)	
Property taxes	235,860
Investment income	<u>4,623</u>
Net non-operating revenues (expenses)	<u>240,483</u>
CAPITAL CONTRIBUTIONS	
Connection fees	<u>8,000</u>
Change in net position	562,850
Total net position, beginning	<u>3,632,055</u>
Total net position, ending	<u><u>\$ 4,194,905</u></u>

See accompanying notes to the basic financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Statement of Cash Flows
For The Fiscal Year Ending June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 912,625
Other operating receipts	79,456
Payments to suppliers for goods and services	(467,968)
Payments to employees for services and benefits	<u>(128,033)</u>
Net cash used for operating activities	<u>396,080</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property tax collections	<u>235,860</u>
Net cash provided by noncapital financing activities	<u>235,860</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital connection fees	<u>8,000</u>
Net cash used for capital and related financing activities	<u>8,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest receipts	<u>4,623</u>
Net cash provided by investing activities	<u>4,623</u>
Net increase (decrease) in cash and cash equivalents	644,563
Balances-beginning of the year	<u>698,640</u>
Balances-end of the year	<u><u>\$ 1,343,203</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating income (loss)	\$ 314,367
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:	
Depreciation expense	80,304
Change in assets and liabilities:	
Decrease (increase) in other receivables	(41)
Decrease (increase) in prepayments	(288)
Increase (decrease) in accrued liabilities	1,787
Increase (decrease) in accounts payable	<u>(49)</u>
Net cash used for operating activities	<u><u>\$ 396,080</u></u>

Noncash capital financing activities:

None

See accompanying notes to the basic financial statements

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2017

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 position and the statement of changes in net position) 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 position, a statement of revenues, expenses, and changes in net position, a statement of cash flows, and these notes to the basic financial statements.

The District applies all applicable Financial Accounting Standards Board (FASB) Pronouncements issued before November 30, 1989 in accounting for its proprietary operations, and the provisions of GASB Statement Number 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

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, 2017

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The District's investment policy has been to invest all cash in the Marin County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the District's investment in the County Pool are the same as the fair value of the County Pool shares.

2. Receivables, Property Taxes and Sewer Service Revenues

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

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

3. 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.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2017

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. 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:

<u>Assets</u>	<u>Year</u>
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 \$25,000.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2017

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 at June 30:

Marin County Treasurer's Investment Pool:	
District operating	\$ 1,328,526
Payroll checking account	14,677
	1,343,203
Total cash equivalents and investments	\$ 1,343,203

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 \$14,677 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.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2017

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 franchise fees.

C. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	568,144	-	(568,144)	-
Total capital assets, not being depreciated	568,144	-	(568,144)	-
Capital assets, being depreciated:				
Original sewer lines	181,500	-	-	181,500
Contributed lines	134,140	-	-	134,140
Line extensions and replacements	2,814,941	568,144	-	3,383,085
Total capital assets, being depreciated	3,130,581	568,144	-	3,698,725
Less accumulated depreciation for:				
Original lines	(181,500)	-	-	(181,500)
Contributed lines	(76,355)	(2,684)	-	(79,039)
Line extensions and replacements	(505,638)	(77,620)	-	(583,258)
Total accumulated depreciation	(763,493)	(80,304)	-	(843,797)
Total capital assets, being depreciated, net	2,367,088	487,840	-	2,854,928
Business-type activities capital assets, net	<u>\$ 2,935,232</u>	<u>\$ 487,840</u>	<u>\$ (568,144)</u>	<u>\$ 2,854,928</u>

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2017

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-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.

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 \$25,000 and a \$25,000 sewer backup deductible limit. The Authority provides coverage for the next \$15 million in claims by purchasing commercial insurance coverages. The Authority provided \$28,660,786 in insurance coverage for the buildings and plant of all SASM members 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 had no uninsured losses in fiscal 2016 or 2015.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2017

3. Other Information (Continued)

B. Risk Management (Continued)

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The District had no significant uninsured claim liabilities at June 30, 2016 and paid \$5,000 for a claim settlement in fiscal 2017.

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.