

**Homestead Valley Sanitary District
Financial Statements
June 30, 2016**

HOMESTEAD VALLEY SANITARY DISTRICT
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June 30, 2016

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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, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 2A to these financial statements, the District in fiscal 2016 adopted the provisions of Governmental Accounting Standards Board (GASB) statement Number 72, titled Fair Value Measurement and Application. My opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

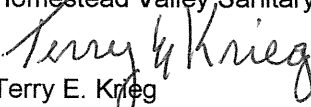
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements.

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, 2016, 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, 2016

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, 2016. 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 \$490,300 in fiscal 2016 compared to an increase of \$319,200 in fiscal year 2015. This increase in net position was caused mostly by higher revenues from customer charges for services.
- Total operating expenses in fiscal 2016 increased by \$55,600 net compared to fiscal 2015 expenses. Most of the fiscal 2016 cost increase relates to higher treatment costs and higher personnel costs.
- In fiscal 2016, overall District revenues increased by about 26.2 percent or \$226,700.
- There was a net increase of \$499,100 in the District's capital assets in fiscal 2016 caused by the wastewater line replacement and rehabilitation program.
- The District's cash and investment holdings decreased slightly by about \$5,000 at the end of fiscal 2016. The District at the end of fiscal 2016 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

Scope

Required Financial Statements

Accounting Basis and Measurement Focus Type of Asset and Liability Information

Type of Inflow and Outflow Information

Basic Financial Statements

Activities the District operates similar to a private business; the wastewater collection and treatment systems

Statement of net position; statement of revenues, expenses, and changes in net position, and the statement of cash flows

Accrual accounting and economic measurement focus
All assets and liabilities, both financial and capital and short term and long-term focus

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 \$490,000 in fiscal year 2016 (See Table A-1.)

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

| | Business-Type Activities | | Percentage Change |
|----------------------------------|--------------------------|--------------------|-------------------|
| | 2016 | 2015 | 2015-2016 |
| Cash and investments | \$ 698,600 | \$ 703,600 | -.7% |
| Other assets | 6,800 | 11,600 | -41.3% |
| Capital assets, net | 2,935,200 | 2,436,100 | 20.5% |
| Total assets | 3,640,600 | 3,151,300 | 15.5% |
| Long-term debt | - | - | 0.0% |
| Other liabilities | 8,500 | 9,600 | -11.5% |
| Total liabilities | 8,500 | 9,600 | -11.5% |
| Net position: | | | |
| Net investment in capital assets | 2,935,200 | 2,436,100 | 20.5% |
| Unrestricted | 696,900 | 705,600 | -1.2% |
| Total net position | \$3,632,100 | \$3,141,700 | 15.6% |

The 20.5 percent increase in capital assets was a result of the District's pipe bursting and replacement program in fiscal 2016. The net cash flows from operations and from property tax receipts covered almost all of cash outflows for construction contract payments in fiscal 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The primary reason for a larger increase in the District's net position in fiscal 2016 compared to the increase for fiscal 2015, was that in fiscal 2016 District the increase in District operating revenues was about four times greater than the increase in fiscal 2016 operating expenses.

Change in net position.

The District's total revenues increased by about \$226,700 compared to fiscal 2015 that was caused by more charges for services, permit and other fees. There was about a \$ 55,600 net increase in expenses for fiscal year 2016 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 |
|-------------------------------------|---------------------|-------------|-------------------------------|
| | 2016 | 2015 | 2015-2016 |
| Changes in Net Position | | | |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for sewer service | \$ 807,600 | \$ 603,700 | 33.8% |
| Other operating charges | 47,100 | 37,100 | 27.0% |
| Property taxes | 215,200 | 205,000 | 5.0% |
| Franchise fees | 21,400 | 19,900 | 7.5% |
| Investment income | 2,200 | 1,100 | 100.0% |
| Total revenues | 1,093,500 | 866,800 | 26.2% |
| Expenses: | | | |
| Salaries and benefits | 98,000 | 70,100 | 39.8% |
| Intergovernmental treatment cost | 310,300 | 295,900 | 4.9% |
| Line inspections, cleaning, repairs | 96,000 | 89,600 | 7.1% |
| Insurance and claims | 2,700 | 2,900 | -6.9% |
| Professional services | 6,000 | 6,000 | 0.0% |
| Mapping and other | 21,200 | 18,700 | 13.4% |
| Depreciation | 69,000 | 64,400 | 7.1% |
| Total expenses | 603,200 | 547,600 | 10.2% |
| Income (loss) before contributions | 490,300 | 319,200 | 53.6% |
| Capital contributions | - | 6,900 | -100.0%% |
| Change in net position | 490,300 | 326,100 | 50.4% |
| Net position, beginning | 3,141,700 | 2,815,600 | |
| Net position ending | \$3,632,000 | \$3,141,700 | 15.6% |

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The primary reason for a larger increase in the District's net position in fiscal 2016 compared to the increase for fiscal 2015, was that in fiscal 2016 District the increase in District operating revenues was about four times greater than the increase in fiscal 2016 operating expenses.

Change in net position.

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| Capital contributions | - | 6,900 | -100.0% |
| Change in net position | 490,300 | 326,100 | 50.4% |
| Net position, beginning | 3,141,700 | 2,815,600 | |
| Net position ending | \$3,632,000 | \$3,141,700 | 15.6% |

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Investment revenues in fiscal 2016 were double the earnings in 2015.

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 2016 about a \$55,600 net increase in total expenses compared to fiscal 2015 total expenses which represents about a 10.2 percent increase compared to fiscal 2015 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 \$5,000 net decrease in the District's cash and investment holdings at the end of fiscal 2016 compared to the end of fiscal 2015. This means that the District was financially able to fund its 2016 operating costs plus its \$568,000 in capital improvements without the need to obtain either short or long-term external financing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2016, the District's investment in capital assets increased by about \$399,100 as a result of depreciation being less than the costs added to replace collection lines within the District. The construction in progress of \$568,100 represents the costs of a major pipe bursting and replacement project.

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

| | Business-Type Activities | | Total Percentage |
|----------------------------------|--------------------------|---------------------|------------------|
| | 2016 | 2015 | Change |
| | | | 2015-2016 |
| Original sewer lines | \$ 181,500 | \$ 330,000 | -45.0% |
| Line replacements and extensions | 2,814,900 | 2,814,900 | 0.0% |
| Contributed lines | 134,100 | 134,100 | 0.0% |
| Less accumulated Depreciation | (763,400) | (842,900) | -9.4% |
| Construction in progress | 568,100 | - | 100.0%% |
| Total | \$ 2,835,200 | \$ 2,436,100 | 16.4% |

The District in fiscal 2016 removed \$148,500 in original sewer line costs and the same amount of accumulated depreciation representing an estimate of the costs of the original lines that have been replaced by the District's pipe bursting and line rehabilitation and replacement programs.

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 2016. 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.

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, 2016

ASSETS

Current assets:

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 698,640 |
| Receivables : | |
| Franchise fees | 5,370 |
| Prepayments | 1,354 |
| | <u>1,354</u> |

| | |
|----------------------|----------------|
| Total current assets | <u>705,364</u> |
|----------------------|----------------|

Capital assets not being depreciated:

| | |
|--------------------------|----------------|
| Construction in progress | 568,144 |
| | <u>568,144</u> |

Capital assets being depreciated:

| | |
|----------------------------------|------------------|
| Collection system: | |
| Original sewer lines | 181,500 |
| Contributed lines | 134,140 |
| Line extensions and replacements | 2,814,941 |
| Less accumulated depreciation | (763,493) |
| | <u>(763,493)</u> |

| | |
|--|------------------|
| Total capital assets being depreciated | <u>2,367,088</u> |
|--|------------------|

| | |
|----------------------|------------------|
| Total capital assets | <u>2,935,232</u> |
|----------------------|------------------|

| | |
|--------------|---------------------|
| Total assets | <u>\$ 3,640,596</u> |
|--------------|---------------------|

LIABILITIES

Current liabilities:

| | |
|---------------------|--------------|
| Accounts payable | \$ 4,556 |
| Accrued liabilities | 3,985 |
| | <u>3,985</u> |

| | |
|---------------------------|--------------|
| Total current liabilities | <u>8,541</u> |
|---------------------------|--------------|

NET POSITION

| | |
|----------------------------------|-----------|
| Net investment in capital assets | 2,935,232 |
|----------------------------------|-----------|

| | |
|--------------|----------------|
| Unrestricted | 696,823 |
| | <u>696,823</u> |

| | |
|--------------------|---------------------|
| Total net position | <u>\$ 3,632,055</u> |
|--------------------|---------------------|

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, 2016

| | |
|---|----------------------------|
| OPERATING REVENUES | |
| Sewer service fees | \$ 807,550 |
| Franchise fees | 21,398 |
| Permit fees for additional fixtures | 13,400 |
| Other operating revenues | <u>33,713</u> |
| Total operating revenues | <u>876,061</u> |
| OPERATING EXPENSES | |
| Salaries and benefits | 98,031 |
| Intergovernmental treatment costs | 310,257 |
| Line cleaning, inspection and repairs | 95,976 |
| Liability and property insurance | 2,663 |
| Contract and professional services | 6,000 |
| Other operating | 21,220 |
| Depreciation | <u>69,014</u> |
| Total operating expenses | <u>603,161</u> |
| Operating income | <u>272,900</u> |
| NON-OPERATING REVENUES(EXPENSES) | |
| Property taxes | 215,209 |
| Investment income | <u>2,208</u> |
| Net non-operating revenues (expenses) | <u>217,417</u> |
| Change in net position | 490,317 |
| Total net position, beginning | <u>3,141,738</u> |
| Total net position, ending | <u><u>\$ 3,632,055</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, 2016

| | |
|---|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 807,550 |
| Other operating receipts | 73,443 |
| Payments to suppliers for goods and services | (438,452) |
| Payments to employees for services and benefits | <u>(96,753)</u> |
| Net cash used for operating activities | <u>345,788</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Property tax collections | <u>215,209</u> |
| Net cash provided by noncapital financing activities | <u>215,209</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Payments for capital asset improvements | <u>(568,144)</u> |
| Net cash used for capital and related financing activities | <u>(568,144)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest receipts | <u>2,208</u> |
| Net cash provided by investing activities | <u>2,208</u> |
| Net increase (decrease) in cash and cash equivalents | (4,939) |
| Balances-beginning of the year | <u>703,579</u> |
| Balances-end of the year | <u><u>\$ 698,640</u></u> |
| Reconciliation of operating loss to net cash used for operating activities: | |
| Operating income (loss) | \$ 272,900 |
| Adjustments to reconcile operating income(loss) to net cash provided by operating activities: | |
| Depreciation expense | 69,014 |
| Change in assets and liabilities: | |
| Decrease (increase) in other receivables | 4,933 |
| Decrease (increase) in prepayments | (45) |
| Increase (decrease) in accrued liabilities | 1,278 |
| Increase (decrease) in accounts payable | <u>(2,292)</u> |
| Net cash used for operating activities | <u><u>\$ 345,788</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, 2016

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, 2016

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/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.

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2016

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 prorated 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, 2016

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 | \$ | 682,099 |
| Payroll checking account | | <u>16,541</u> |
| Total cash equivalents and investments | \$ | <u>698,640</u> |

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for deposits is that they will all be deposited with the County of Marin Treasurer's Investment Fund. The District maintains no separate bank checking, savings, money market, or time deposit accounts other than a payroll clearing account. The District had no custodial credit risk as to deposits because the \$16,541 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, 2016

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, 2016 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 | 330,000 | - | (148,500) | 181,500 |
| Contributed lines | 134,140 | - | - | 134,140 |
| Line extensions and replacements | 2,814,941 | - | - | 2,814,941 |
| Total capital assets, being depreciated | 3,279,081 | - | (148,500) | 3,130,581 |
| Less accumulated depreciation for: | | | | |
| Original lines | (330,000) | - | 148,500 | (181,500) |
| Contributed lines | (73,671) | (2,684) | - | (76,355) |
| Line extensions and replacements | (439,308) | (66,330) | - | (505,638) |
| Total accumulated depreciation | (842,979) | (69,014) | 148,500 | (763,493) |
| Total capital assets, being depreciated, net | 2,436,102 | (69,014) | - | 2,367,088 |
| Business-type activities capital assets, net | <u>\$ 2,436,102</u> | <u>\$ 499,130</u> | <u>\$ -</u> | <u>\$ 2,935,232</u> |

HOMESTEAD VALLEY SANITARY DISTRICT
Notes to the Basic Financial Statements
June 30, 2016

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.

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.

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, 2015 and 2016.

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.