

TRUCKEE SANITARY DISTRICT

Financial Statements
Supplementary Information
&
Independent Auditor's Report

For the Fiscal Years Ended June 30, 2016 and 2015

A PUBLIC AGENCY

Truckee Sanitary District

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June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Truckee Sanitary District
Truckee, California

We have audited the accompanying financial statements of the business-type activities of Truckee Sanitary District as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Truckee Sanitary District as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principle

As described in Note 1U and 14 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 72 - *Fair Value Measurement and Application* for the year ended June 30, 2016, and GASB No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinion is not modified with respect to these matters.

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 6 through 14 and the required supplementary information related to the pension and post-employment healthcare plans on pages 49 through 51 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Truckee Sanitary District's basic financial statements. The supplementary information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule is the responsibility

of management, was derived from, and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Damore, Hamric & Schneider Inc

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

March 7, 2017

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

The management of Truckee Sanitary District (District) presents this discussion in compliance with the requirements of Governmental Accounting Standards Board Statement 34 (GASB 34). The intent of this document is to provide an easy-to-read summary of the District's finances to supplement the information presented in the District's financial statements for the period July 1, 2015 through June 30, 2016 (FY 2015-16). Questions regarding this document or the financial statements should be directed to Blake R. Tresan, General Manager, at:

Mail: 12304 Joerger Drive, Truckee, CA 96161
Phone: 530-587-3804
Fax: 530-587-1340
Email: btresan@truckeesan.org

ORGANIZATION AND BUSINESS

The District was formed in 1906, making it one of the oldest special districts in California. Initial wastewater collection and treatment facilities serving portions of Truckee were constructed in 1908. Collection and treatment facilities expanded over time to keep up with the growth in the Truckee area and the need to replace failing on-site treatment systems. In 1978, the Tahoe-Truckee Sanitation Agency (T-TSA) completed construction of a regional wastewater reclamation plant, enabling the decommissioning of the District's pond treatment system. Today, the District's wastewater continues to be conveyed to the T-TSA plant for treatment and reclamation. The District's sole business function is the collection and conveyance of wastewater generated within the service area to the regional treatment facility.

The District's boundaries encompass an area of approximately 39 square miles. The District serves about 11,100 residential units and approximately 550 commercial accounts. Service is provided through approximately 208 miles of gravity mains, 15 miles of force mains, 181 miles of laterals and 42 lift stations.

The District is governed by a five-member Board of Directors elected at-large for staggered four-year terms. The Board of Directors set policy and procedures, which are then administered by the General Manager. The District as of June 30, 2016 has 34 full-time employees.

The Board of Directors sets all financial policies for the District. This includes establishing the annual budget for revenues and expenses, setting rates and charges, and directing the investment of District funds. The Board's Finance Committee reviews all payables and makes recommendations to the full Board for approval of payables.

The General Manager serves as District Treasurer.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

FINANCIAL HIGHLIGHTS

District Operating Revenue (comprised primarily of Service Charges) increased by 3% (\$0.07 million) when compared to FY 2014-15.

District Non-Operating Revenue (comprised primarily of Property Taxes) increased by 8% (\$0.4 million) when compared to FY 2014-15.

District Operating Expenses increased by 14% (\$0.8 million) when compared to FY 2014-15.

The District's Total Net Position increased by 1% (\$0.4 million) from the prior fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

The District's annual report includes the Independent Auditor's Report, this Management's Discussion and Analysis (MD&A) section, and the audited financial statements (statements). The statements contain short-term and long-term financial information about the District and are followed by notes that explain many of the District's accounting policies and other disclosures as a supplement to the statements. The independent auditors assisted the District with preparation of the statements and footnotes.

The remaining pages of this MD&A summarize the District's Statements of Net Position, Revenues, Expenses, Changes in Net Position, and Cash Flows for FY 2015-16. An overview of the District's capital and operating activity follows the summary statements. These sections provide relevant details regarding significant or notable events. The last section of the MD&A discusses economic factors which provide context for the reader's consideration in evaluating the District's financial condition.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENTS

Net Position:

The District's Total Net Position (see page 9, Table 1, Net Position section) is the sum of: 1) Net Investment in Capital Assets, 2) Restricted Assets, and 3) Unrestricted Assets. The total Net Position at fiscal year end 2015-16 is \$60.9 million.

The District's Capital Assets include gravity pipelines, pump stations and force mains, operations and maintenance facilities, administrative facilities, equipment, and rolling stock. Net Capital Assets of \$51.54 million represents the net book value (cost less accumulated depreciation) of assets having an initial cost of \$5,000 or more, and an estimated useful life in excess of one year.

The portion of Net Position subject to legal restrictions is shown as Restricted Assets. Restricted Assets include maintenance and reconstruction of the Martis Valley Interceptor pipeline and capacity expansion (funded by connection fees). The total Restricted Net Position at fiscal year end 2015-16 is \$2.8 million.

Unrestricted Assets are not legally restricted for specific uses. The Board has, by policy, designated uses of these assets as discussed in Note 1(P) of the financial statements. Unrestricted Assets include major improvements, cash flow reserves, and contingency reserves for emergencies. The total Unrestricted Net Position at fiscal year end 2015-16 is \$6.5 million.

The following Condensed Statement of Net Position shows the District's current financial position and compares resources and obligations at year-end for the District on June 30, 2016 and 2015.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENTS (Continued)

TABLE 1

Condensed Statement of Net Position as of June 30, 2016 and 2015

	Fiscal Year 2016	Fiscal Year 2015	Difference \$	Difference %
Current Assets	\$ 12,508,330	\$ 11,845,037	\$ 663,293	6%
Restricted Assets	3,269,361	3,314,665	(45,304)	-1%
Net Capital Assets	51,540,734	51,499,852	40,882	0%
Deferred Pension Outflows (Note 5)	417,363	484,647	(67,284)	-14%
Total Assets and Deferred Outflows of Resources	\$ 67,735,788	\$ 67,144,201	\$ 591,587	1%
Current Liabilities (payable from Current Assets)	\$ 1,322,838	\$ 1,352,242	(\$ 29,404)	-2%
Current Liabilities (payable from Restricted Assets)		68,702	(68,702)	-100%
Long-Term Liabilities	5,008,252	4,037,864	970,388	24%
Deferred Pension Inflows (Note 5)	553,033	1,188,644	(635,611)	-53%
Total Liabilities and Deferred Inflows of Resources	\$ 6,884,123	\$ 6,647,452	\$ 236,671	4%
Net Position:				
Net Investment in Capital Assets	\$ 51,540,734	\$ 51,499,852	\$ 40,882	0%
Restricted	2,780,324	2,724,904	55,420	2%
Unrestricted	6,530,607	6,271,993	258,614	4%
Total Net Position	\$ 60,851,665	\$ 60,496,749	\$ 354,916	1%

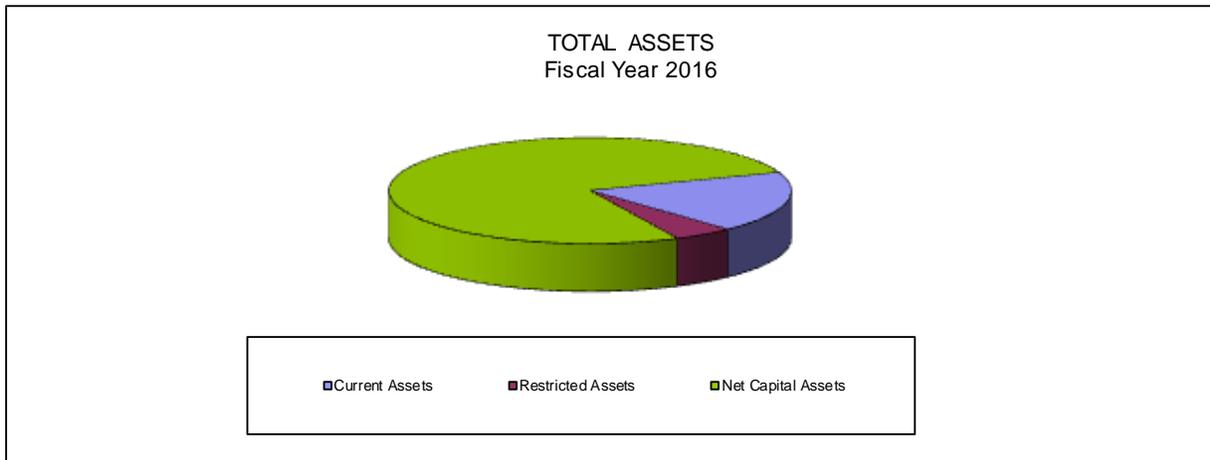


Table 1 shows the District’s Total Net Position was approximately \$60.9 million as of June 30, 2016. This represents a 1% increase (\$0.4 million) from the close of the previous fiscal year. The majority of this net increase is attributed to property tax revenues, reduced by increased long-term liabilities as a result of compliance with GASB pronouncements 68 & 71. As a result of the adoption of GASB 68 reporting requirements, long-term liabilities now includes a net pension liability of \$4.5 million. In addition, Deferred Pension Inflows of \$0.6 million was recorded for FYE 2016.

Note 1(U), Note 5 and Note 14 of the financial statements provide additional information regarding these requirements.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENTS (Continued)

Revenues, Expenses and Changes in Net Position:

The Condensed Statement of Revenues, Expenses, and Change in Net Position (Table 2) shows the change in Net Position between FY 2015-16 and FY 2014-15.

TABLE 2

Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2016 and 2015

	2016	2015	Difference	
			\$	%
Operating Revenues	\$ 2,766,374	\$ 2,695,736	\$ 70,638	3%
Non-Operating Revenues	<u>5,009,489</u>	<u>4,628,384</u>	<u>381,105</u>	8%
Total Revenues	\$ <u>7,775,863</u>	\$ <u>7,324,120</u>	\$ <u>451,743</u>	6%
Operating Expenses	\$ <u>6,995,895</u>	\$ <u>6,160,440</u>	\$ <u>835,455</u>	14%
Operating Income Before Depreciation	\$ <u>779,968</u>	\$ <u>1,163,680</u>	(\$ <u>383,712</u>)	-33%
Depreciation Expense	\$ <u>2,027,566</u>	\$ <u>2,160,932</u>	(\$ <u>133,366</u>)	-6%
Net Loss Before Capital Contributions	(\$ <u>1,247,598</u>)	(\$ <u>997,252</u>)	(\$ <u>250,346</u>)	25%
Capital Contributions	<u>1,602,514</u>	<u>957,048</u>	<u>645,466</u>	67%
Change in Net Position	\$ <u>354,916</u>	(\$ <u>40,204</u>)	\$ <u>395,120</u>	-983%
Net Position, Beginning of Year, before Restatement	\$ 60,496,749	\$ 64,848,949	\$ (4,352,200)	-7%
Prior Period Adjustment per Implementation of GASB 68 (Note 14)		<u>4,311,996</u>	(<u>4,311,996</u>)	-100%
Net Position, Beginning of Year, after Restatement	\$ <u>60,496,749</u>	\$ <u>60,536,953</u>	(\$ <u>40,204</u>)	0%
Ending Net Position	\$ <u>60,851,665</u>	\$ <u>60,496,749</u>	<u>354,916</u>	1%

District revenues are broken down into two categories. Operating Revenues include service charges, inspection fees, and revenue from other services. Non-Operating Revenues include property taxes, interest, rents and leases, disposal of capital assets, and other revenue.

Service charges account for most (96%) of the District's Operating Revenues. In FY 2015-16, the District received \$2.7 million in service charge revenue, up 1.7% from FY 2014-15. The change in service charge revenue is attributed solely to additional connections being served. The District has not increased the service charge rate since 1986.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENTS (Continued)

Similarly, property taxes account for most (97%) of the District's Non-Operating Revenue. In FY 2015-16, the District received \$4.9 million in property tax revenue, up 7% from the previous fiscal year. The increased revenue is primarily attributed to the recovery of local real estate values and sales transaction volume returning to normal levels.

Total Expenses in FY 2015-16 were \$9 million, increasing 8% from prior year. Approximately 22% (\$2 million) of the Operating Expenses can be attributed to the depreciation of capital assets (a non-cash expense).

Statement of Cash Flows:

The Condensed Statement of Cash Flows for the fiscal year ended June 30, 2016 (Table 3) describes cash flow activities from operations, capital and non-capital purchases, and investments.

TABLE 3

Condensed Statement of Cash Flows for the Years Ended June 30, 2016 and 2015

	2016	2015	Difference	Difference
			\$	%
Net Cash Used by Operating Activities	(\$ 3,731,836)	(\$ 3,576,082)	(\$ 155,755)	4%
Net Cash Provided by Non-Capital Financing Activities	4,792,122	4,718,987	73,134	2%
Net Cash Provided/Used by Capital & Related Activities	(519,136)	85,144	(604,280)	-710%
Net Cash Provided by Investing Activities	<u>50,271</u>	<u>31,260</u>	<u>19,011</u>	61%
Net Increase in Cash and Cash Equivalents	\$ 591,420	\$ 1,259,310	(\$ 667,890)	-53%
Cash and Cash Equivalents, Beginning of Year	<u>14,624,492</u>	<u>13,365,182</u>	<u>1,259,310</u>	9%
Cash and Cash Equivalents, End of Year	<u>\$ 15,215,912</u>	<u>\$ 14,624,492</u>	<u>\$ 591,420</u>	4%

Table 3 shows the District's cash position improved 4% (\$0.6 million) from the beginning of the year to the end of the year of FY 2015-16. The increase in Cash and Cash Equivalents in FY 2015-16 from FY 2014-15 levels is principally due to increased receipts from property tax revenue during FY 2015-16.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENTS (Continued)

The District continues to fund the annual required contributions to the retirement health trust, as discussed in Note 6 of the financial statements. In FY 2015-16 the District paid \$0.3 million to the California Employers' Retiree Benefit Trust.

The cash flows from Non-Capital Financing Activities increased by 1.5% during FY 2015-16 from FY 2014-15. As mentioned previously, this is attributed to improved property tax revenue.

During FY 2015-16 cash used for capital acquisitions included the following: pipeline rehabilitation, collection system improvements, operating vehicles, and equipment. Uses of cash for rehabilitation work budgeted for FY 2014-15 was rescheduled to FY 2015-16.

Cash provided from investments came from returns on District funds held by the Local Agency Investment Fund (LAIF). The District keeps a significant portion of its cash on deposit with LAIF, which is managed by the California State Treasurer's Office. Net cash from investing activities improved slightly in FY 2015-16 from FY 2014-15, primarily due to additional cash provided by increased property tax revenue and slightly higher returns from LAIF.

The District ended the fiscal year with \$15.2 million in Cash and Cash Equivalents.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As discussed in Note 4 of the financial statements, the District's investment in capital assets at June 30, 2016 totaled \$51.5 million of non-depreciable and depreciable assets.

Non-depreciable assets of \$0.6 million:

Land, easements, and construction in progress.

Depreciable assets of \$89.6 million:

Sewage collection and administrative facilities, general and administrative equipment.

Total accumulated depreciation of \$38.6 million resulted in a Net Capital Asset value of \$51.54 million as of June 30, 2016 compared to \$51.5 million at fiscal year ending June 30, 2015, an increase of \$0.04 million. The District continues to be debt-free, thus no debt-related activities are reported in the financial statements.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

BUDGET ANALYSIS

The District prepares an annual budget for operating and capital activities each year. The final budget is typically approved by the Board of Directors in June.

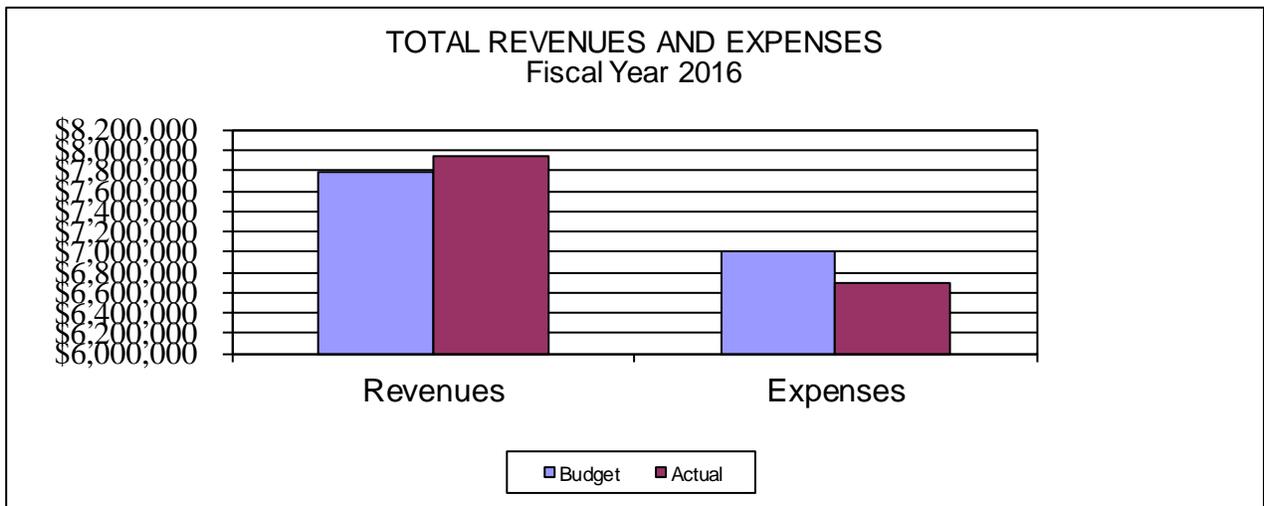
Table 4 summarizes the budget and actual revenues and expenses for FY 2015-16:

TABLE 4
Summary of Fiscal Year 2016 Budget

	FY 16	FY 16	Budget to Actual	
	Budget	Actual	\$	%
Revenues	\$ 7,790,400	\$ 7,948,230	\$ 157,830	2%
Expenses	\$ 7,007,500	\$ 6,995,895	\$ 11,605	0%
Excess Revenue Over Expenses	\$ 782,900	\$ 952,335	\$ 169,435	22%

It can be seen in Table 4 that the District received \$0.2 million more in revenue than was anticipated in the final FY 2015-16 budget. The main sources of additional revenue came from higher than anticipated tax distribution from Nevada and Placer Counties.

Total actual expenses were within budget for FY 2015-16.



Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District's overall financial outlook continues to be positive. The District's service area continues to be an attractive place for primary and second-home construction and purchases providing both increased user fees and property taxes, the two main sources of District revenue. Consistent with County and Town planning, and barring another real-estate downturn, staff expects continued residential and commercial growth within the District into the near future.

From an expense perspective, no significant capital projects are required in the immediate future that would strain District reserves. However, staff is assessing the long-term financial needs of asset replacement in an ongoing rate study. The District's operating expenses are primarily labor and labor-related. These expenses are anticipated to rise in the future, but with the turnover in staff from Classic to PEPRA employees, the rate of increase is anticipated to slow.

Truckee Sanitary District
 STATEMENTS OF NET POSITION
 June 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

<u>Current Assets:</u>	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 11,951,608	\$ 11,312,319
Accrued Interest Receivable	16,945	8,361
Accounts Receivable	159,302	149,574
Taxes Receivable	240,443	206,809
Parts and Supplies Inventory	127,203	138,055
Prepaid Expense	<u>12,829</u>	<u>29,920</u>
Total Current Assets	<u>\$ 12,508,330</u>	<u>\$ 11,845,037</u>
 <u>Restricted Assets:</u>		
Cash and Cash Equivalents	\$ 3,264,304	\$ 3,312,173
Accrued Interest Receivable	4,384	2,342
Accounts Receivable	<u>673</u>	<u>150</u>
Total Restricted Assets	<u>\$ 3,269,361</u>	<u>\$ 3,314,665</u>
Net Capital Assets	<u>\$ 51,540,734</u>	<u>\$ 51,499,852</u>
 <u>Deferred Outflows of Resources:</u>		
Deferred Pension Outflows (Note 5)	<u>\$ 417,363</u>	<u>\$ 484,647</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 67,735,788</u></u>	<u><u>\$ 67,144,201</u></u>

The accompanying notes are an integral part of the financial statements.

Truckee Sanitary District
STATEMENTS OF NET POSITION

June 30, 2016 and 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

<u>Current Liabilities (Payable from Current Assets):</u>	2016	2015
Accounts Payable	\$ 64,000	\$ 57,330
Accrued Payroll Deductions	240,160	198,821
Compensated Absences Payable	691,826	693,925
Customer Deposits	326,852	402,166
Total Current Liabilities (Payable from Current Assets)	\$ 1,322,838	\$ 1,352,242
<u>Current Liabilities (Payable from Restricted Assets):</u>		
Accounts Payable	\$	\$ 68,702
Total Current Liabilities (Payable from Restricted Assets)	\$	\$ 68,702
Total Current Liabilities	\$ 1,322,838	\$ 1,420,944
<u>Long-Term Liabilities:</u>		
Trust Fund Payable - Sewer Assessment Districts Maintenance Fund	\$ 489,037	\$ 521,059
Net Pension Liability (Note 5)	4,519,215	3,516,805
Total Long-Term Liabilities	\$ 5,008,252	\$ 4,037,864
<u>Deferred Inflows of Resources:</u>		
Deferred Pension Inflows (Note 5)	\$ 553,033	\$ 1,188,644
Total Liabilities and Deferred Inflows of Resources	\$ 6,884,123	\$ 6,647,452
<u>Net Position:</u>		
Net Investment in Capital Assets	\$ 51,540,734	\$ 51,499,852
Restricted for Martis Valley Interceptor Maintenance	129,543	152,432
Restricted for Capital Expense	2,650,781	2,572,472
Unrestricted	6,530,607	6,271,993
Total Net Position	\$ 60,851,665	\$ 60,496,749
Total Liabilities, Deferred inflows of Resources and Net Position	\$ 67,735,788	\$ 67,144,201

The accompanying notes are an integral part of the financial statements.

Truckee Sanitary District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Fiscal Years Ended June 30, 2016 and 2015

<u>Operating Revenues:</u>	<u>2016</u>	<u>2015</u>
Service Charges	\$ 2,663,787	\$ 2,617,993
Inspection and Cancellation Fees	57,105	57,603
Other Services	<u>45,482</u>	<u>20,140</u>
Total Operating Revenue	<u>\$ 2,766,374</u>	<u>\$ 2,695,736</u>
<u>Operating Expenses:</u>		
Operations and Maintenance	\$ 4,319,876	\$ 3,998,157
Administrative and General	2,676,019	2,162,283
Depreciation	<u>2,027,566</u>	<u>2,160,932</u>
Total Operating Expenses	<u>\$ 9,023,461</u>	<u>\$ 8,321,372</u>
Operating Loss	(<u>\$ 6,257,087</u>)	(<u>\$ 5,625,636</u>)
<u>Non-Operating Revenues:</u>		
Tax Revenue	\$ 4,866,948	\$ 4,550,079
Interest Earned	60,897	34,030
Rents and Leases	5,222	10,594
Gain on Sale of Assets	15,500	
Other Revenue	<u>60,922</u>	<u>33,681</u>
Total Non-Operating Revenue	<u>\$ 5,009,489</u>	<u>\$ 4,628,384</u>
Net Loss before Contributions	(<u>\$ 1,247,598</u>)	(<u>\$ 997,252</u>)
<u>Capital Contributions:</u>		
Dedicated Land and Improvements	\$ 1,430,147	\$ 784,492
Connection Fees	<u>172,367</u>	<u>172,556</u>
	<u>\$ 1,602,514</u>	<u>\$ 957,048</u>
Change in Net Position	<u>\$ 354,916</u>	(<u>\$ 40,204</u>)
Net Position, Beginning of Year, before Restatement	\$ 60,496,749	\$ 64,848,949
Prior Period Adjustment per Implementation of GASB 68 (Note 14)		<u>4,311,996</u>
Net Position, Beginning of Year, after Restatement	<u>\$ 60,496,749</u>	<u>\$ 60,536,953</u>
Net Position, End of Year	<u>\$ 60,851,665</u>	<u>\$ 60,496,749</u>

The accompanying notes are an integral part of the financial statements.

Truckee Sanitary District

STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended June 30, 2016 and 2015

<u>Cash Flows From Operating Activities:</u>	<u>2016</u>	<u>2015</u>
Receipts from Customers	\$ 2,756,123	\$ 2,741,290
Payments to Suppliers	(3,437,409)	(3,300,258)
Payments to Employees	(3,023,210)	(2,996,884)
Other Payments	(27,340)	(20,230)
Net Cash Used by Operating Activities	(<u>\$ 3,731,836</u>)	(<u>\$ 3,576,082</u>)
<u>Cash Flows From Non-Capital Financing Activities:</u>		
Taxes Collected	\$ 4,833,314	\$ 4,554,412
Customer Deposits	(75,314)	156,300
Other Non-Operating Revenues	66,144	44,275
Decrease in Trust Funds Payable	(32,022)	(36,000)
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 4,792,122</u>	<u>\$ 4,718,987</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Capital Contributions	\$ 172,367	\$ 172,556
Acquisition of Capital Assets	(707,003)	(87,412)
Proceeds from Sale of Capital Assets	15,500	
Net Cash Provided/(Used) by Capital and Related Financing Activities	(<u>\$ 519,136</u>)	<u>\$ 85,144</u>
<u>Cash Flows From Investing Activities:</u>		
Interest Received on Investments	<u>\$ 50,271</u>	<u>\$ 31,260</u>
Net Cash Provided by Investing Activities	<u>\$ 50,271</u>	<u>\$ 31,260</u>
Net Increase in Cash and Cash Equivalents	\$ 591,420	\$ 1,259,310
Cash and Cash Equivalents, Beginning of Year	<u>14,624,492</u>	<u>13,365,182</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 15,215,912</u></u>	<u><u>\$ 14,624,492</u></u>
<u>Cash and Cash Equivalents Classified in the Balance Sheet:</u>		
Cash and Cash Equivalents:		
Unrestricted	\$ 11,951,608	\$ 11,312,319
Restricted	<u>3,264,304</u>	<u>3,312,173</u>
	<u><u>\$ 15,215,912</u></u>	<u><u>\$ 14,624,492</u></u>

The accompanying notes are an integral part of the financial statements.

Truckee Sanitary District

STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended June 30, 2016 and 2015

<u>Reconciliation of Operating Loss</u> to Net Cash Used by Operating Activities:	<u>2016</u>	<u>2015</u>
Operating Loss	(\$ 6,257,087)	(\$ 5,625,636)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation	2,027,566	2,160,932
Changes in Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources (Increase) Decrease in:		
Accounts Receivable	(10,251)	45,552
Inventories	10,852	10,667
Changes in Deferred Outflows of Resources	434,083	(91,194)
Prepaid Expenses	17,091	(14,042)
Increase (Decrease) in:		
Accounts Payable	6,670	(24,482)
Accrued Compensated Absences	(2,099)	(37,940)
Accrued Payroll Deductions	41,339	61
Total Adjustments	<u>\$ 2,525,251</u>	<u>\$ 2,049,554</u>
Net Cash Used by Operating Activities	<u>(\$ 3,731,836)</u>	<u>(\$ 3,576,082)</u>
<u>Noncash Transactions:</u>		
Increase in Net Pension Liability	\$ 1,002,410	\$ 3,516,805
Increase/(Decrease) in Deferred Pension Inflows	(635,611)	1,188,644
(Increase)/Decrease in Deferred Pension Outflows	67,284	(484,647)
Pension Expense	(434,083)	91,194
Prior Period Adjustment (Note 14)	<u>\$ 0</u>	<u>\$ 4,311,996</u>
<u>Capital Contributed by Developers, Customers, Town of Truckee, and the State of California:</u>		
Contributions of Capital to the District	\$ 1,602,514	\$ 957,048
Less - Contributions of Land and Improvements	(1,430,147)	(784,492)
Cash Provided by Contributions	<u>\$ 172,367</u>	<u>\$ 172,556</u>
<u>Capital Asset Acquisition:</u>		
Acquisition of Capital Assets	(\$ 638,301)	(\$ 155,033)
Increase/(Decrease) in Payables	(68,702)	67,621
Cash Used for Capital Asset Acquisitions	<u>(\$ 707,003)</u>	<u>(\$ 87,412)</u>

The accompanying notes are an integral part of the financial statements.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Truckee Sanitary District conform to generally accepted accounting principles as applied to governmental units. The following is a summary of significant policies:

A. Organization and Description of the District:

The Truckee Sanitary District (District) was formed in 1906, and has provided sanitary services to the community of Truckee since 1908. The District operates under the Sanitary District Act of 1923, and is governed by rules and laws set forth in the Health and Safety Code of the State of California.

B. Description of the Reporting Entity:

A five-member elected Board of Directors governs the District. The Board is responsible for setting policy and general administrative procedures for the District. The General Manager of the District administers the policies and procedures set by the Board.

C. Accounting Policies:

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The Enterprise fund applies all (GASB) pronouncements that apply to the District.

New Accounting Pronouncements – See Note 1. U. for new accounting pronouncements that have been implemented in the current financial statements.

Future Accounting Pronouncements – See Note 1. V. for future accounting pronouncements to be implemented in future financial statements.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

D. Financial Statement Presentation - Governmental Accounting Standards Board Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*" established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in Capital Assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investments in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. The District had no related debt of as of June 30, 2016 and 2015.
- *Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of equity that does not meet the definition of "restricted" or "net investment in capital assets."

E. Budgetary Control:

The Board adopts an operating budget at the beginning of each year.

F. Use of Estimates:

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. Use of Estimates (Continued):

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Cash, Certificates of Deposit and Savings:

Deposits of the District are located at various financial institutions within the state and are recorded at cost. (See Note 2A for additional disclosure of District deposits.)

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

H. Fair Value Measurement:

As of July 1, 2015, the District retrospectively applied Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. (See Note 2B for additional disclosure of District investments.)

I. Accounts Receivable:

The accounts receivable consist of charges for service and connection fees. User fees and delinquent connection fees are sent to the respective counties annually to be placed on the tax rolls for collection. Therefore, no allowance for uncollectible fees is provided.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

J. Inventories:

Inventories are stated at the lower of cost (using the first-in first-out basis) or market value. Market value is determined by comparison with recent purchases or realizable value.

K. Capital Assets:

Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more with an estimated useful life in excess of one year.

Capital assets are stated at cost, less accumulated depreciation and amortization computed by the straight-line method. Estimated useful lives are as follows:

Land and Easements	N/A
Construction in Progress	N/A
General and Administrative:	
Office Equipment, Furnishings	3 - 10
Office Building	30
Sewage Collection Facilities:	
Automotive	5 - 10
Instruments	5 - 10
Other Equipment	3 - 10
Trunk Lines, Manholes, Meters	50
Outfall Lines	75
Structures	40
Pump Stations	20
Lift Stations	30
Maintenance Building	50

Depreciation on the cost or value of contributed assets is included in operating expenses in arriving at net income.

Repairs and Maintenance - Repairs and maintenance expenditures are charged to expense as incurred and major renewals and betterments are capitalized.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

L. Compensated Absences:

The District accrues a liability for unpaid vacation, compensatory time and sick pay. Accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is eligible for payment at termination or retirement. As of June 30, 2016 and 2015, accrued vacation and vested sick leave benefits totaled \$691,826 and \$693,925, respectively.

M. Revenue Recognition - Property Taxes:

Property taxes are attached as an enforceable lien on property as of March 1. Taxes are levied on November 1 and February 1 and are due and payable at that time.

N. Operating/Non-Operating Revenue and Expenses:

Enterprise funds distinguish operating revenues and expenses from non-operating 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. 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 non-operating revenues and expenses.

O. Restricted Assets:

Legally segregated assets are recorded as restricted. The District has the following restricted assets:

Sewer Assessment District (SAD) 5 Fund - This fund is required to segregate the assessments collected for retirement of Sewer Assessment District 5 bonds. These funds were transferred from Nevada County to the District in 1990 to be used for maintenance of the original improvements within SAD 5. As trust funds, they are carried as a noncurrent liability.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

O. Restricted Assets (Continued):

Capital Expense - This reserve consists of connection fees and the earnings thereon and is restricted for the acquisition and/or construction of sewer infrastructure necessary to increase capacity for service.

Martis Valley Interceptor Fund - This reserve ensures that Martis Valley Interceptor fees collected are used to provide adequate maintenance and reconstruction of the section of pipeline called Martis Valley Interceptor.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply to restricted net assets first.

P. Board Designated Net Position:

The District has designated a portion of the unrestricted net position for the following:

Major Improvements - This reserve was established to segregate excess administrative, maintenance, and operation funds to be used for the construction and acquisition of capital assets. The balance of the reserve as of June 30, 2016 and 2015 was \$4,622,361 and \$4,514,858, respectively.

Cash Flow Reserves - This reserve provides a cash flow safeguard and is required to support an unanticipated loss or delay of revenues from the counties, significant one-time expenditures or decreases in revenues, unfunded mandates, and unforeseen increases in expenses. The reserve can be used at any time to meet the cash flow requirements of the District's operations. Authority to use these funds will be consistent with the District's Purchasing Policy. During the annual budgeting process the District will ensure that a minimum balance of seven months of average budgeted operating expenses is available on July 1 of each year to cover expenses paid from the general operating fund.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

P. Board Designated Net Position (Continued):

Contingency Reserve Fund - This fund is to maintain a minimum emergency reserve balance to support unforeseen or emergency events.

This reserve will ensure the District's ability to provide for unbudgeted emergency situations independent of revenue cash flows and insurance proceeds. Use of these funds requires direction and approval by the Board of Directors.

Typically, General Fund reserves would be used initially with subsequent reimbursements from this fund as directed by the Board of Directors. The Board of Directors had established a target contingency reserve balance of \$3,000,000.

Q. Pension Plan:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For information about the pension plan, see Note 5.

R. Other Post-Employment Benefits Plan:

The District sponsors a prefunding benefits plan for other post-employment benefits (OPEB). The plan covers all eligible full-time and part-time employees. For information about the benefits plan, see Note 6.

S. Medical Benefits:

The District is contracted with CalPERS for medical and prescription coverage to provide active and retiree health benefit services. The plan rules are in accordance with the Board of Directors' resolutions and subject to the Public Employees' Medical and Hospital Care Act (PEMHCA).

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

T. Reclassifications:

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

U. Accounting Pronouncements that have been Implemented in the Current Financial Statements -

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District implemented this Statement in fiscal year ended June 30, 2016.

V. Newly Issued Accounting Pronouncements, But Not Yet Effective - The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that have effective dates that may impact future financial presentations. The pronouncement identified as most significant to the District is as follows:

Governmental Accounting Standards Board Statement No. 75 - In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District during the year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB) by establishing standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It will require the District to report a net OPEB liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement is required to be implemented retroactively and will require a restatement of beginning net position.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

W. Deferred Outflow/Deferred Inflow of Resources

In addition to assets, the financial statements report separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Additional factors involved in the calculation of the District's pension expense and net pension liability include the differences between expected and actual experience, changes of assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the District's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 5 for further details related to these pension deferred outflows and inflows.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS:

A. Deposits and Custodial Credit Risk:

At June 30, 2016 and 2015, the carrying amounts of the District's deposits were \$179,709 and \$292,775, respectively. The bank balances were \$230,021 and \$316,804, respectively. At June 30, 2016, all deposits were covered by federal depository insurance (FDIC). At June 30, 2015, \$250,000 was covered by the FDIC. The remaining balance of \$66,760 was exposed to custodian credit risk with deposits uninsured and collateralized with securities held by the pledging financial institution or its agent but not in the District's name.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires California banks and savings and

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued):

A. Deposits and Custodial Credit Risk (Continued):

loans to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the District's carrying value of the deposits (demand deposits and certificates of deposit).

B. Investments:

Investment Policy - Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities within the State, State Treasury, bankers' acceptances, and commercial paper of the highest ranking provided by Moody's Investors Service, Inc., or Standard & Poor's Corporation, repurchase or reverse repurchase agreements, and the State's Local Agency Investment Fund (LAIF).

The investment policy set by the directors of the District is more conservative than that set by state statute. The policy allows the District's treasurer to invest in U.S. Treasury Securities and the LAIF. These investments are included in cash as cash equivalents and are stated at fair value.

Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, the District had the following investments:

	2016		2015	
	Carrying Amount	Market Value	Carrying Amount	Market Value
LAIF	<u>\$ 15,035,653</u>	<u>\$ 15,044,993</u>	<u>\$ 14,331,167</u>	<u>\$ 14,336,555</u>

Structured notes and asset-backed securities comprised 2.81% and 2.08% of LAIF's total portfolio for all investors as of June 30, 2016 and 2015, respectively. Fair value of a pool share was 1.000621222 and 1.000375979 for those same periods. The cost value of a pool share was constant at \$1.00.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued):

B. Investments (Continued):

Fair Value of Investments - The District's LAIF investment is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The District is a voluntary participant in the investment pool. Deposits and withdrawals in governmental investment pools, such as LAIF are made on the basis of \$1 and not fair value. Accordingly, the District's proportionate share in these types of investments is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input. The District does not have any investments that are subject to the fair value hierarchy at June 30, 2016 or 2015.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment.

Credit Risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in LAIF has not been rated by a nationally recognized statistical organization.

C. Classification:

<u>Summary of Cash and Investments:</u>	<u>2016</u>	<u>2015</u>
Cash on Hand	\$ 550	\$ 550
Cash Deposits	179,709	292,775
Investments	15,035,653	14,331,167
	<u>\$ 15,215,912</u>	<u>\$ 14,624,492</u>

Balance Sheet Classification:

Cash and Cash Equivalents:		
Unrestricted (1)	\$ 11,951,608	\$ 11,312,319
Restricted	3,264,304	3,312,173
	<u>\$ 15,215,912</u>	<u>\$ 14,624,492</u>

(1) The Designated portion of unrestricted cash (see Note 1P) for major improvements and contingency reserve is \$7,616,891 and \$7,514,858 for 2016 and 2015, respectively.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 3 RESTRICTED ASSETS:

Restricted and designated assets and related current liabilities as of June 30, 2016 are identified by use as follows:

<u>Restricted Assets:</u>	Sewer Assessment District 5 Maintenance Fund	Capital Expenses	Martis Valley Interceptor	Total
Cash and Cash Equivalents	\$ 488,374	\$ 2,646,565	\$ 129,365	3,264,304
Accrued Interest Receivable	663	3,543	178	4,384
Accounts Receivable	<u> </u>	<u>673</u>	<u> </u>	<u>673</u>
Total Restricted Assets	<u>\$ 489,037</u>	<u>\$ 2,650,781</u>	<u>\$ 129,543</u>	<u>\$ 3,269,361</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>				
Accounts Payable	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Restricted and designated assets and related current liabilities as of June 30, 2015 are identified by use as follows:

<u>Restricted Assets:</u>	Sewer Assessment District 5 Maintenance Fund	Capital Expenses	Martis Valley Interceptor	Total
Cash and Cash Equivalents	\$ 520,687	\$ 2,639,164	\$ 152,322	\$ 3,312,173
Accrued Interest Receivable	372	1,860	110	2,342
Accounts Receivable	<u> </u>	<u>150</u>	<u> </u>	<u>150</u>
Total Restricted Assets	<u>\$ 521,059</u>	<u>\$ 2,641,174</u>	<u>\$ 152,432</u>	<u>\$ 3,314,665</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>				
Accounts Payable	<u>\$ </u>	<u>\$ 68,702</u>	<u>\$ </u>	<u>\$ 68,702</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 0</u>	<u>\$ 68,702</u>	<u>\$ 0</u>	<u>\$ 68,702</u>

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 4 CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets not being Depreciated:</u>				
Land and Easements	\$ 578,599	\$	\$	\$ 578,599
Construction In Progress	7,268		3,012	4,256
Total Capital Assets not being Depreciated	\$ 585,867	\$	\$ 3,012	\$ 582,855
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 74,591,168	\$ 1,668,929	\$	\$ 76,260,097
Administrative Facilities	8,077,298			8,077,298
General Plant and Administrative Equipment	4,960,016	402,531	136,436	5,226,111
Total Capital Assets being Depreciated	\$ 87,628,482	\$ 2,071,460	\$ 136,436	\$ 89,563,506
Less Accumulated Depreciation for:				
Sewage Collection Facilities	\$ 29,383,170	\$ 1,481,388	\$	\$ 30,864,558
Administrative Facilities	3,812,445	266,813		4,079,258
General Plant and Administrative Equipment	3,518,882	279,365	136,436	3,661,811
Total Depreciation	\$ 36,714,497	\$ 2,027,566	\$ 136,436	\$ 38,605,627
Net Capital Assets	\$ 51,499,852	\$ 43,894	\$ 3,012	\$ 51,540,734

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets not being Depreciated:</u>				
Land and Easements	\$ 578,599	\$	\$	\$ 578,599
Construction In Progress	303,567	92,745	389,044	7,268
Total Capital Assets not being Depreciated	\$ 882,166	\$ 92,745	\$ 389,044	\$ 585,867
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 73,713,927	\$ 877,241	\$	\$ 74,591,168
Administrative Facilities	8,031,935	45,363		8,077,298
General Plant and Administrative Equipment	4,646,796	313,220		4,960,016
Total Capital Assets being Depreciated	\$ 86,392,658	\$ 1,235,824	\$ 0	\$ 87,628,482
Less Accumulated Depreciation for:				
Sewage Collection Facilities	\$ 27,861,237	\$ 1,521,933	\$	\$ 29,383,170
Administrative Facilities	3,540,145	272,300		3,812,445
General Plant and Administrative Equipment	3,152,183	366,699		3,518,882
Total Depreciation	\$ 34,553,565	\$ 2,160,932	\$ 0	\$ 36,714,497
Net Capital Assets	\$ 52,721,259	(\$ 832,363)	\$ 389,044	\$ 51,499,852

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN:

General Information about the Pension Plan:

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

The Plan consists of a miscellaneous pool and a safety pool (referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the District. The District's employer rate plans in the miscellaneous risk pool include the Miscellaneous plan (Miscellaneous) and the PEPRA Miscellaneous plan (PEPRA Miscellaneous). The District does not have any rate plans in the safety risk pool.

Benefits Provided - The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members and PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	10.298%	6.237%

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN (Continued):

General Information about the Pension Plan (Continued):

Contribution Description - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on the July 1 following notice of a change in the rate. Contribution rates for the employer rate plans are determined through the CalPERS' annual actuarial valuation process. Each employer rate plan's actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan's allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for Plan were as follows:

	<u>Miscellaneous</u>	
	<u>2016</u>	<u>2015</u>
Contributions - employer	\$ 294,606	\$ 464,042
Contributions - employee (paid by employer)	<u>234,766</u>	<u>238,125</u>
Total employer paid contributions	<u>\$ 529,372</u>	<u>\$ 702,167</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

As of June 30, 2016 and 2015, the District reported net pension liability of \$4,519,215 and \$3,516,805, respectively, for its proportionate share of the net pension liability. The District's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN (Continued):

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

The District's proportionate share of the net pension liability as of June 30, 2014, the valuation date, was calculated as follows:

In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation date, June 30, 2014. Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The District's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the District's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

The District's proportionate share of the net pension liability as of June 30, 2015, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement date, June 30, 2015, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2015, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

The individual employer rate plan's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2015, was calculated by applying the District's proportionate share percentages as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2015, to obtain each employer rate plan's total pension liability and fiduciary net position as of June 30, 2015. Each employer rate plan's fiduciary net position was then subtracted from its total pension liability to obtain the net pension liability as of the measurement date.

Truckee Sanitary District
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN (Continued):

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

The District's proportionate share of the net pension liability for the plan as of the measurement date June 30, 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014 (Valuation Date)	0.165015%
Proportion - June 30, 2015 (Measurement Date)	0.164726%
Change - Increase (Decrease)	(<u>0.000289%</u>)

The District's proportionate share of the net pension liability for the plan as of the measurement date June 30, 2014 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2013 (Valuation Date)	0.06050%
Proportion - June 30, 2014 (Measurement Date)	0.05652%
Change - Increase (Decrease)	(<u>0.398000%</u>)

The District recognized pension expense of \$801,528 and \$493,224 at June 30, 2016 and 2015, respectively.

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 29,806	\$
Changes of assumptions		(281,990)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(107,481)
Net differences between projected and actual earnings on plan investments		(163,562)
Adjustment due to Differences in Proportions	387,557	
Total	\$ 417,363	(\$ 553,033)

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN (Continued):

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

It should be noted that a deferred outflow of \$294,606 was recognized as pension expense related to contributions subsequent to the measurement date, but because the entire amount was recognized as of June 30, 2016, this amount is not shown above. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflow/(Inflows) of Resources
2017	(\$ 106,455)
2018	(105,522)
2019	(104,391)
2020	180,698
2021	
Thereafter	
Total	<u><u>(\$ 135,670)</u></u>

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 484,647	\$
Differences between actual and expected experience		
Changes of assumptions		
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		
Net differences between projected and actual earnings on plan investments		(1,181,810)
Adjustment due to Differences in Proportions		(6,834)
Total	<u><u>\$ 484,647</u></u>	<u><u>(\$ 1,188,644)</u></u>

As of June 30, 2015, employer pension contributions of \$484,647, reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016.

Truckee Sanitary District
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN (Continued):

Actuarial Assumptions – The total pension liability in the June 30, 2015 and 2013 actuarial valuations was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date (VD)	June 30, 2014 and 2013
Measurement Date (MD)	June 30, 2015 and 2014
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65% Excluded Administrative Expenses as of June 30, 2015 Valuation Report and 7.5% Net of Administrative Expenses as of June 30, 2013 Valuation Report
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% ⁽²⁾
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

⁽²⁾ Net of pension plan investment expenses, including inflation

Discount Rate - The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2015 based on June 30, 2016 Valuations*, that can be obtained from the CalPERS website.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN (Continued):

Discount Rate (Continued):

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.65% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the year ended 2017-18. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Truckee Sanitary District
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 5 DEFINED BENEFIT PENSION PLAN (Continued):

Discount Rate (Continued):

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	(0.55%)	(1.05%)
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the District's proportionate share of the net pension liability of each risk pool as of the measurement date, calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

At June 30, 2016, the discount rate comparison was the following:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 7,515,076	\$ 4,519,215	\$ 2,045,782

At June 30, 2015, the discount rate comparison was the following:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Plan's Net Pension Liability/(Asset)	\$ 6,265,859	\$ 3,516,805	\$ 1,235,351

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 6 OTHER POST-EMPLOYMENT BENEFITS PLAN:

Plan Description:

The District elected to prefund its other post-employment benefits by adopting a defined benefit postemployment healthcare plan (Plan). The District contracted with the California Employers' Retiree Benefit Trust (CERBT) during the year ended June 30, 2009, to hold in trust and invest its OPEB contributions. The CERBT is part of the Public District portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administrated by CalPERS, which acts as a common investment and administrative agent for participating public employees within the State of California. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 Q Street - Sacramento, CA 95811.

Plan Benefits:

The Plan provides other post-employment benefits (medical and prescription coverage) to qualified employees, elected officials, and their eligible dependents. The District contracts with CalPERS for the medical and prescription coverage (see Note 1 S.)

The District provides for a vesting requirement in accordance with Government Code 22893 to receive retiree health benefits. Employees retiring with at least 10 years of CalPERS service and five years of service with the District receive 50% up to a maximum of the Out of State PERS Choice premium rate for active employees and eligible dependents. The amount increases for retirees by 5% per year of service so that a retiree with 20 years of service credit and five years of service with the District would receive 100% of the medical premium paid by the District up to a maximum of the Out of State PERS Choice premium. The District also provides for the health benefits to be continued under the CalPERS health plan to eligible family members upon the death of an employee prior to retirement. The cost for this coverage may be paid by the District or by the family members as established by District policy.

The District provides for health and welfare benefits for elected officials, their survivors, and eligible dependents. Active elected officials, officials retiring with at least 12 years of service on the District Board, and their eligible dependents receive 100% of the medical premium paid by the District up to a maximum of the Out of State PERS Choice premium rate and dental benefits. District policy also provides for vision coverage benefits. In addition, contributions of \$20 per month are deposited on behalf of its elected officials into the District sponsored 457 plan as is required to satisfy the non-PERS employer definition of a contracting District under Government Code Section 22920(b).

Truckee Sanitary District
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 6 OTHER POST-EMPLOYMENT BENEFITS PLAN (Continued):

Plan Benefits (Continued):

The District has 16 retirees and 39 active participants receiving benefits. The Board of Directors has the authority to establish and amend benefit provisions of the Plan.

Annual OPEB Cost and Net OPEB Obligation:

The District is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for the years ended June 30, 2016 and 2015 was \$266,703 and \$254,061, respectively, and included \$125,181 and \$101,035 to fund the amortization of the actuarial accrued liability as determined by the June 30, 2015 and June 30, 2013 actuarial valuations, respectively.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2016 and 2015 were as follows:

June 30, 2016

Annual Required Contribution	\$	266,703
Interest on OPEB Obligation		
Adjustment to Annual Required Contribution		
Annual OPEB Cost	\$	266,703
Contributions Made	(458,666)
Change in Net OPEB Obligation (Asset)	(\$	191,963)
Net OPEB Obligation (Asset), Beginning of Year	(424,540)
Net OPEB Obligation (Asset), End of Year	(\$	616,503)

Truckee Sanitary District
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

NOTE 6 OTHER POST-EMPLOYMENT BENEFITS PLAN (Continued):

Annual OPEB Cost and Net OPEB Obligation (Continued):

June 30, 2015

Annual Required Contribution	\$	254,061
Interest on OPEB Obligation		
Adjustment to Annual Required Contribution		
Annual OPEB Cost	\$	254,061
Contributions Made	(391,110)
Change in Net OPEB Obligation (Asset)	(\$	137,049)
Net OPEB Obligation (Asset), Beginning of Year	(287,491)
Net OPEB Obligation (Asset), End of Year	(\$	424,540)

Trend Information:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB (Asset)</u>
June 30, 2014	\$ 247,261	\$ 346,030	139.95%	(\$ 287,491)
June 30, 2015	\$ 254,061	\$ 391,110	153.94%	(\$ 424,540)
June 30, 2016	\$ 266,703	\$ 458,666	171.98%	(\$ 616,503)

In addition to the contribution to the CERBT, the District paid retiree premiums directly to providers and was not reimbursed by the CERBT in the amount of \$191,963 and \$137,049 for the years ended June 30, 2016 and 2015, respectively.

Funding Status and Funding Progress:

As of June 30, 2015, the most recent actuarial valuation date, the plan was 62.8% funded. The actuarial accrued liability was \$4,781,888 and the actuarial value of assets was \$3,003,322 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,050,524. The annual covered payroll was \$3,066,460 and the ratio of the UAAL to the annual covered payroll was 66.9%. Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 6 OTHER POST-EMPLOYMENT BENEFITS PLAN (Continued):

Funding Status and Funding Progress (Continued):

determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

As of June 30, 2016, 14 retired District employees are receiving health benefits under the current CalPERS health program. Eligible retired elected officials, retired employees, and their spouses covered under the previous plan receive 100% of the Medicare supplemental policy premiums paid by the District. As of June 30, 2016, there are 16 retirees, two under a prior plan and 14 under CalPERS. There are 39 total actives and of that total, four are board members.

Actuarial Methods and Assumptions:

Calculations of benefits for financial reporting purposes were based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used were designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal actuarial cost method was used in the June 30, 2015 valuation. The individual components of the ARC were calculated as a level dollar amount. The actuarial assumptions included a 7.00% investment rate of return. The annual healthcare cost trend rate of 4.0% was the ultimate rate. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 2.75%. The annual payroll cost adjustment was 2.75%. The actuarial valuation of CERBT assets used a 5-year smoothing formula with a 20% corridor around market value.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 7 VOTER LEGISLATION:

Proposition 218 was approved by the voters in November 1996, and regulates the District's ability to impose, increase and extend assessments and fees. Any new, increased, or extended assessments and fees subject to the provisions of Proposition 218 requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these assessments and fees are subject to the voter initiative process and may be rescinded in the future by the voters.

NOTE 8 COMMITMENTS AND CONTINGENCIES:

The District did not enter into any construction commitments for the fiscal years ended June 30, 2016 and June 30, 2015. The amount earned on the contracts was \$202,846 with remaining balance of \$0.

NOTE 9 RELATED PARTY TRANSACTIONS:

The District is a member of the California Sanitation Risk Management District (CSRMA), a Joint Powers Authority formed under the laws of the California Government Code to participate in a Workers' Compensation Insurance Program. During the years ended June 30, 2016 and 2015, the District paid \$57,911 and \$41,753, respectively, for insurance coverage under this agreement. There was a refund of \$1,542 from previous year was applied to the payments for the fiscal year ended 2016.

NOTE 10 RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters.

The District purchases commercial property insurance for real and personal property damage owned by the District with coverage up to a maximum of \$19.4 million. The limit for both loss of income and extra expense coverage is the actual loss sustained within 12 consecutive months after the date of loss. There are various policy sub-limits based upon the value of individual properties. In addition, the District purchases commercial property insurance for earthquake related property damage with coverage up to a maximum of \$5.0 million, subject to a 5% deductible per building. The District also purchases property insurance covering \$97,000 for unscheduled contractor's equipment, \$157,000 for scheduled equipment, and \$100,000 for rented equipment (Inland Marine Coverage).

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 10 RISK MANAGEMENT (Continued):

The District purchases general liability and management liability insurance coverage up to policy term aggregate limits of \$3.0 million each subject to various sub-policy limits, generally \$1.0 million for various activities such as personal and advertising injury or fire damage. The District also maintains insurance coverage related to employee dishonesty and crime. Finally, the District maintains commercial automobile insurance for vehicle related property damage with coverage up to a maximum of \$1.0 million and commercial umbrella insurance or excess liability coverage up to a maximum of \$5.0 million.

NOTE 11 PROPERTY TAXES:

The District has a gross assessed valuation of \$5.384 billion and \$5.044 billion for the fiscal years ended June 30, 2016 and 2015, respectively. The tax rate for the administrative expenses of the District was computed by the counties under Proposition 13. The tax rates assessed were within legal limits as allowed by law.

NOTE 12 LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS:

The District is responsible for a closed solid waste disposal site that exists on land owned by the District.

In accordance with the Operations, Maintenance and Monitoring Plan, the District has an obligation for the protection and maintenance of the site, and must provide inspections of the site that are required to be filed with the Department of Toxic Substances Control (DTSC). The annual costs for the District's consultant and the DTSC fees are estimated at \$5,000. No additional maintenance of the site is anticipated. The District funds these costs through its operations and maintenance budget.

At June 30, 2016, the District incurred \$5,623 in costs associated with the post closure care. At June 30, 2015, the remaining estimated cost of post closure care was \$9,400.

NOTE 13 SUBSEQUENT EVENTS REVIEW:

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 14 CHANGES IN ACCOUNTING PRINCIPLES:

During the year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement 68*. These Statements required the District to recognize in its accrual basis financial statements the net pension liability, deferred outflows of resources and deferred inflows of resources for the District's pension plan. These Statements also required contributions made after the June 30, 2014 measurement date used in the actuarial valuation for the pension plan to be reported as deferred outflows of resources. Due to the implementation of these statements, total net position as of July 1, 2014 was restated compared to the amounts reported in the June 30, 2014 financial statements, resulting in a decrease in net position of \$4,311,996.

REQUIRED SUPPLEMENTARY INFORMATION

Truckee Sanitary District

SCHEDULE OF FUNDING PROGRESS (UNAUDITED) - OTHER POST-EMPLOYMENT BENEFITS

June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
6/30/2011	\$ 1,241,549	\$ 2,899,206	\$ 1,657,657	42.8%	\$ 3,171,366	52.3%
6/30/2013	\$ 2,098,945	\$ 3,463,526	\$ 1,364,581	60.6%	\$ 3,159,942	43.2%
6/30/2015	\$ 3,003,322	\$ 4,781,888	\$ 2,050,524	62.8%	\$ 3,066,460	66.9%

Note:

This information is intended to help users assess the OPEB funding status on a going concern basis, assess progress made in accumulating assets to pay benefits and make comparisons with other public employers.

Truckee Sanitary District

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

As of June 30, 2016

LAST TEN YEARS*

	Measurement Date June 30, 2015	Measurement Date June 30, 2014
District's Proportion of the Net Pension Liability	0.16473%	0.05652%
District's Proportionate Share of the Net Pension Liability	\$ 4,519,215	\$ 3,516,805
District's Covered-Employee Payroll	\$ 3,144,917	\$ 3,117,553
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	150.11%	112.81%
District's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	181.30%	83.03%
District's Proportionate Share of Aggregate Employer Contributions	\$ 604,612	\$ 465,260

Notes to Schedule:

Change of benefit terms - In 2016 and 2015, there were no changes to the benefit terms.

Changes in assumptions - In 2016, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 measurement date to correct adjustments which previously reduced the discount rate for administrative expenses. There were no changes in assumptions during the measurement period ended June 30, 2014.

*Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Truckee Sanitary District

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

June 30, 2016

LAST TEN YEARS*

	Fiscal Year 2016	Fiscal Year 2015
Contractually required contribution (actuarially determined)	\$ 464,144	\$ 493,224
Contributions in relation to the actuarially determined contributions	(464,144)	(493,224)
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	\$ 3,144,917	\$ 3,117,553
Contributions as a percentage of covered-employee payroll	14.76%	15.82%

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2016

<u>Revenues:</u>	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts</u>	<u>Positive (Negative) Variance With Budget</u>
Service Charges	\$ 2,640,700	\$ 2,663,787	\$ 23,087
Taxes	4,840,000	4,866,948	26,948
Connection Fees	150,800	172,367	21,567
Inspection Fees	45,000	57,105	12,105
Work Order Revenue	35,000	45,482	10,482
Interest Earned	22,400	60,897	38,497
Rent and Leases	3,500	5,222	1,722
Gain on Sale of Assets		15,500	15,500
Other	53,000	60,922	7,922
	<u>7,790,400</u>	<u>7,948,230*</u>	<u>157,830</u>
Total Revenue	\$ 7,790,400	\$ 7,948,230*	\$ 157,830
 <u>Expenses:</u>			
Administrative and General:			
Salaries and Wages	\$ 929,900	\$ 890,606	\$ 39,294
Payroll Burden	73,800	64,408	9,392
Benefits	758,200	677,084	81,116
Directors Fees	28,300	27,340	960
Transportation, Gas and Oil	7,000	3,124	3,876
Insurance	155,000	132,164	22,836
Dues and Subscriptions	23,000	22,787	213
Office Expense	24,000	24,926	(926)
Operating Supplies	8,000	1,984	6,016
Safety Supplies	3,000	1,974	1,026
Professional Services	84,800	158,556	(73,756)
Legal	50,000	35,839	14,161
Printing and Publications	10,000	20,456	(10,456)
Repairs and Maintenance-Vehicles and Equipment	8,000	9,654	(1,654)
Travel and Meetings	33,000	47,145	(14,145)
Utilities and Telephone	14,500	14,229	271
Billing/Collection Expense	95,000	95,007	(7)
Other	34,000	14,653	19,347
	<u>2,339,500</u>	<u>2,241,936</u>	<u>97,564</u>
Total Budgeted Administrative and General	\$ 2,339,500	\$ 2,241,936	\$ 97,564

* Actual does not include the non-budgeted items of contributed capital from dedications.

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2016

Operation and Maintenance:	Budgeted Amounts Original and Final	Actual Amounts	Positive (Negative) Variance With Budget
Salaries and Wages	\$ 2,284,900	\$ 2,171,844	\$ 113,056
Payroll Burden	240,400	219,417	20,983
Benefits	1,235,400	1,307,809	(72,409)
Transportation, Gas and Oil	75,000	47,443	27,557
Computer Hardware & Software	130,400	91,964	38,436
Operating Supplies	22,500	16,890	5,610
Safety Supplies	17,000	17,435	(435)
Professional Services	227,800	110,966	116,834
Environmental Permits and Fees	16,000	15,453	547
Repairs and Maintenance	170,000	134,798	35,202
Vehicle Maintenance	60,000	55,108	4,892
Travel and Meetings	33,300	16,784	16,516
Utilities and Telephone	120,500	111,700	8,800
Other	34,800	2,265	32,535
	<u>\$ 4,668,000</u>	<u>\$ 4,319,876</u>	<u>\$ 348,124</u>
Total Operations and Maintenance			
	<u>\$ 7,007,500</u>	<u>\$ 6,561,812</u>	<u>\$ 445,688</u>
Total Expenses			
Excess Revenues Over Expenses	<u>\$ 782,900</u>	<u>\$ 1,386,418</u>	<u>\$ 603,518</u>

Administrative and General Expenses as Shown in the Statement of Revenues, Expenses, and Changes in Net Position:

	<u>Actual Amounts</u>
Total Budgeted Administrative and General (See Previous Page)	\$ 2,241,936
Non-Budgeted Administrative and General Expenses:	
Pension Expense Adjustment Due to GASB 68 Implementation	<u>434,083</u>
Total Administrative and General Expenses	<u>\$ 2,676,019</u>