



TRUCKEE SANITARY DISTRICT

Financial Statements
Supplementary Information
&
Independent Auditor's Report

For the Fiscal Years Ended June 30, 2012 and 2011

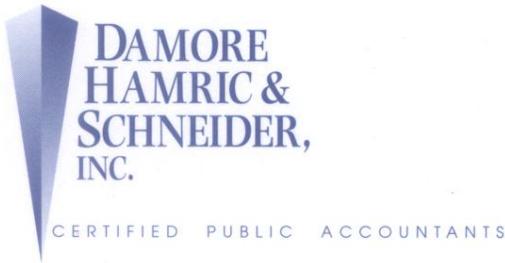
A PUBLIC AGENCY

Truckee Sanitary District

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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, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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, 2012 and 2011, and the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress on pages 5 through 13 and 40 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 audit 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.

Damore, Hamric + Schneider Inc

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

January 10, 2013

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2012

The management of the 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 easy-to-read information about the District's finances and to supplement the information presented in the District's financial statements for the period July 1, 2011 through June 30, 2012 (FY 2011-12). Questions regarding this document or the Financial Statements should be directed to Thomas S. Selfridge, General Manager, at:

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

ORGANIZATION AND BUSINESS

The District was formed in 1906, making it one of the oldest special districts in California. Initial waste collection and treatment facilities serving portions of the Truckee area were constructed in 1908. Collection and treatment facilities expanded over time to keep up with the growth in the Truckee area. In 1978, the Tahoe-Truckee Sanitation Agency (T-TSA) completed construction of the first regional wastewater treatment plant, enabling the decommissioning of the District's pond treatment system. Today, Truckee's wastewater is treated at the T-TSA plant. 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 38 square miles. The District serves about 10,600 equivalent family units and approximately 600 commercial accounts. Service is provided through about 200 miles of gravity mains, 15 miles of force mains, 57 miles of laterals and 41 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, 2012 has 37 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 reserve 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, 2012

FINANCIAL HIGHLIGHTS

The District's Total Net Assets decreased by 2% (\$1.1 million) from the prior fiscal year.

The District's Restricted and Unrestricted Net Assets increased by 4% (\$0.4 million) from FY 2010-11 to FY 2011-12.

District Operating Revenue (comprised primarily of Service Charges) decreased by 5% (\$0.2 million) when compared to FY 2010-11.

District Non-Operating Revenue (comprised primarily of Property Taxes) decreased by 6% (\$0.3 million) when compared to FY 2010-11.

District Operating Expenses decreased 12% (\$1.2 million) when compared to FY 2010-11.

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 Assets, Revenues, Expenses; Changes in Net Assets; and Cash Flows for FY 2011-12. 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.

FINANCIAL STATEMENTS

Statements of Net Assets:

The District's Total Net Assets are categorized in three ways: 1) Net Capital Assets, 2) Restricted Assets, and 3) Unrestricted Assets. Net Capital Assets represent 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. Capital Assets include gravity pipelines, pump stations and force mains, operations and maintenance facilities, administrative facilities, equipment, and rolling stock.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2012

FINANCIAL STATEMENTS (Continued):

Statements of Net Assets (Continued):

Net assets subject to legal restrictions are shown as Restricted Net Assets. The following uses of these reserves are: maintenance and reconstruction of the Martis Valley Interceptor pipeline, capacity expansion (funded by connection fees), Sewer Assessment District #5 maintenance, and landfill remediation.

Unrestricted Net Assets are not legally designated for specific uses. The Board has by policy designated uses of these assets as discussed in Note 1P of the financial statements.

The District maintains the Major Improvements Fund for the five-year capital improvement plan. Projects in this plan are not related to capacity expansion. This work is necessary to ensure the District continues to meet its mandate of conveying wastewater to the T-TSA regional treatment facility. Projects typically involve the rehabilitation or replacement of existing facilities. The remaining balance at fiscal year end 2011-12, as discussed in Note 2C(1) of the financial statements, is \$1.7 million.

In FY 2010-11 the Board approved a separate unrestricted fund reserved for unforeseen, emergency events. The Contingency Reserve Fund was established with a balance of \$3 million. This board-designated fund cannot be accessed without Board approval.

The following Condensed Statement of Net Assets shows the District's current financial position and includes information on the nature and amount of resources and obligations at year-end for the District on June 30, 2012 and 2011.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

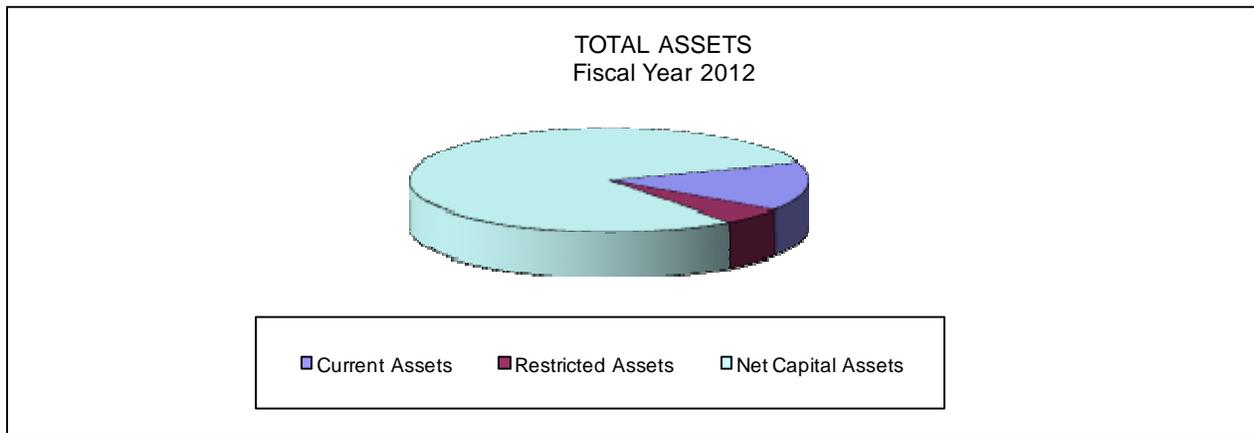
For the Fiscal Year Ended June 30, 2012

FINANCIAL STATEMENTS (Continued):

Statements of Net Assets (Continued):

Condensed Statement of Net Assets as of June 30, 2012 and 2011

	Fiscal Year 2012	Fiscal Year 2011	Difference \$	Difference %
Current Assets	\$ 9,892,183	\$ 9,639,664	\$ 252,519	3%
Restricted Assets	3,350,918	3,181,536	169,382	5%
Other Assets		12,352 (12,352)	-100%
Net Capital Assets	<u>51,572,505</u>	<u>53,032,508</u>	(<u>1,460,003</u>)	-3%
Total Assets	<u>\$ 64,815,606</u>	<u>\$ 65,866,060</u>	<u>(\$ 1,050,454)</u>	-2%
Current Liabilities (payable from Current Assets)	\$ 1,227,826	\$ 1,198,396	\$ 29,430	2%
Current Liabilities (payable from Restricted Assets)	318		318	
Non-Current Liabilities	<u>634,429</u>	<u>632,045</u>	<u>2,384</u>	0%
Total Liabilities	<u>\$ 1,862,573</u>	<u>\$ 1,830,441</u>	<u>\$ 32,132</u>	2%
<u>Net Assets:</u>				
Invested in Capital Assets, net of related debt	\$ 51,572,505	\$ 53,032,508	(\$ 1,460,003)	-3%
Restricted	2,716,173	2,549,491	166,682	7%
Unrestricted	<u>8,664,355</u>	<u>8,453,620</u>	<u>210,735</u>	2%
Total Net Assets	<u>\$ 62,953,033</u>	<u>\$ 64,035,619</u>	<u>(\$ 1,082,586)</u>	-2%



The table shows the District’s Total Net Assets were \$63 million as of June 30, 2012. This represents a 2% decrease of \$1.1 million from the close of the previous fiscal year.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2012

FINANCIAL STATEMENTS (Continued):

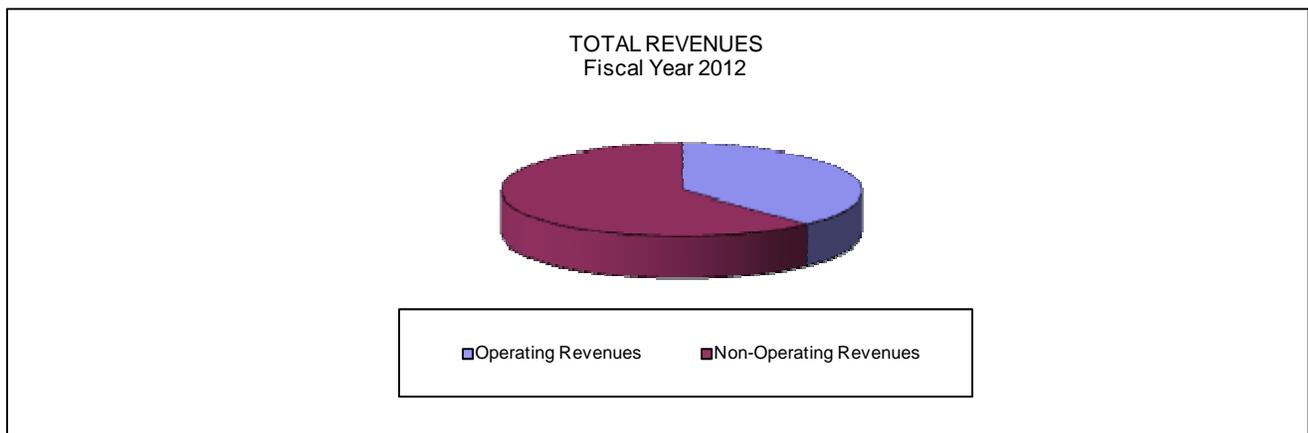
Statements of Revenues, Expenses and Changes in Net Assets:

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

The following Condensed Statement of Revenues, Expenses, and Change in Net Assets shows the change in Net Assets from the beginning to end of FY 2011-12 compared to FY 2010-11.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2012 and 2011

	2012	2011	Difference \$	Difference %
Operating Revenues	\$ 2,567,914	\$ 2,704,110	(\$ 136,196)	-5%
Non-Operating Revenues	4,209,499	4,464,519	(255,020)	-6%
Total Revenues	\$ 6,777,413	\$ 7,168,629	(\$ 391,216)	-5%
Operating Expenses	\$ 8,261,287	\$ 9,433,449	(\$ 1,172,162)	-12%
Total Expenses	\$ 8,261,287	\$ 9,433,449	(\$ 1,172,162)	-12%
Income (Loss) Before Capital Contributions	(\$ 1,483,874)	(\$ 2,264,820)	\$ 780,946	-34%
Capital Contributions	401,288	821,643	(420,355)	-51%
Change in Net Assets	(\$ 1,082,586)	(\$ 1,443,177)	\$ 360,591	-25%



Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2012

FINANCIAL STATEMENTS (Continued):

Statements of Revenues, Expenses and Changes in Net Assets (Continued):

Service charges account for most (98%) of the District's Operating Revenues. In FY 2011-12, the District received \$2.5 million in service charge revenue, up 2% from FY 2010-11. Changes in service charge revenue each year due are attributed solely to additional connections being served. The District has not increased the service charge rate since 1986.

Similarly, property taxes account for most (97%) of the District's Non-Operating Revenue. In FY 2011-12, the District received \$4.1 million in property tax revenue, down 4% from the previous fiscal year.

Operating Expenses were \$8.3 million in FY 2011-12, down 13% (\$1.2 million) from the previous fiscal year. The variance is attributed to a one-time pension liability (\$1.5 million) payoff in FY 2010-11.

Statement of Cash Flows:

The following Condensed Statement of Cash Flows for the fiscal year ended June 30, 2012 reports cash flow activities from operations, capital and non capital purchases, and investments.

Condensed Statement of Cash Flows as of June 30, 2012 and 2011

	2012	2011	Difference \$	Difference %
Net Cash Used by Operating Activities	(\$ 3,513,560)	(\$ 4,202,205)	\$ 688,645	-16%
Net Cash Provided by Non-Capital Financing Activities	4,123,745	4,179,284	(55,539)	-1%
Net Cash Used by Capital & Related Activities	(261,008)	(751,657)	490,649	-65%
Net Cash Provided by Investing Activities	74,478	122,855	(48,377)	-39%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 423,655	(\$ 651,723)	\$ 1,075,378	-165%
Cash and Cash Equivalents, Beginning of Year	12,190,805	12,842,528	(651,723)	-5%
Cash and Cash Equivalents, End of Year	\$ 12,614,460	\$ 12,190,805	\$ 423,655	3%

The table shows the District's cash position improved 3% (\$0.4 million) from the beginning of the year to the end of the year of FY 2011-12.

The net decrease in operating activity cash flows for FY 2011-12 can be attributed directly to current economic conditions, stagnant development activity within the District, and increasing operating costs. These conditions continue from FY 2010-11.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2012

FINANCIAL STATEMENTS (Continued):

Statement of Cash Flows (Continued):

Both fiscal years presented have significant contributions to the retirement health trust fund to remain in compliance with the Governmental Accounting Standards Board Statement No. 45 (GASB 45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). GASB 45 requires recognition, and display of OPEB expense/expenditures and related liabilities (assets) with disclosures noted in the financial statements. In FY 2011-12 the District paid its \$0.3 million Annual Required Contribution to the California Employers' Retiree Benefit Trust.

Cash flows from Non-Capital Financing Activities continue its downward trend in FY 2011-12 from FY 2010-11 levels as property tax revenue and customer deposits continue to decline.

During FY 2011-12 cash was used for the following capital activities: pipeline rehabilitation, customer/accounting information system, sewage facility improvements, Field Operations Building air conditioning system, aggregate bin covers, aerial mapping, and operating equipment.

Cash provided from investments are the returns on funds with 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. Returns on liquid investments continue to decrease in FY 2011-12 from FY 2010-11 due to both low investment yields and declining cash balance held with LAIF.

The District ended the fiscal year with \$12.6 million in cash and cash equivalents.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2012, the District's total investment in capital assets was \$51.6 million including \$0.9 million in non-depreciable assets (land and easements, construction in progress), and \$82 million in depreciable assets (sewage collection and conveyance facilities, administrative facilities, general plant, and administrative equipment). Total depreciation on those assets of \$31 million resulted in net capital assets as of June 30, 2012 of \$51.6 million. As described earlier, the District's net capital assets decreased by \$1.5 million during FY 2011-12. 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, 2012

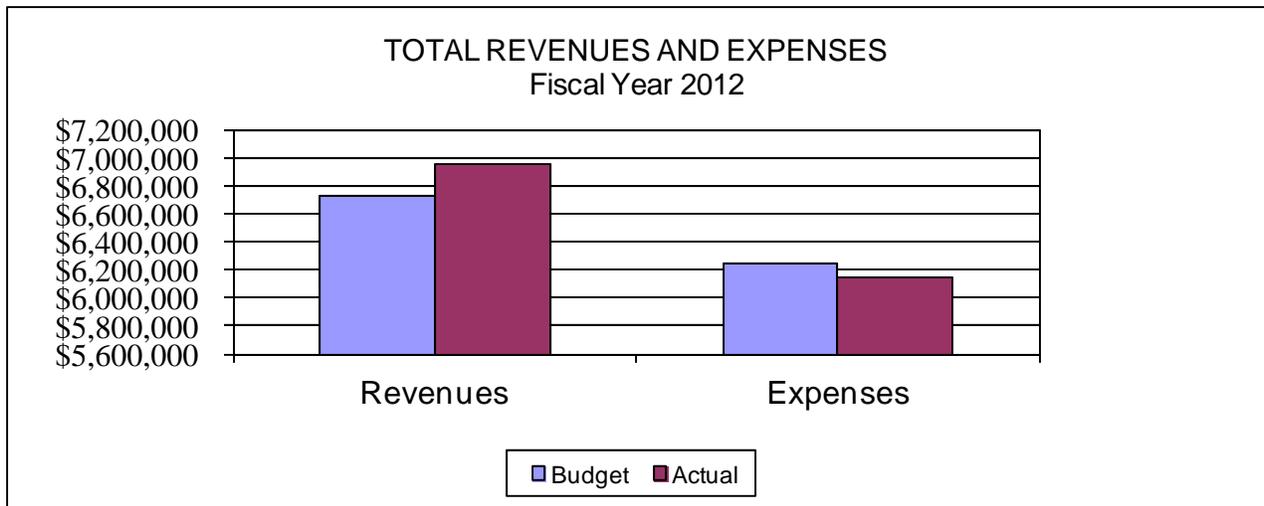
BUDGET ANALYSIS

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

The following table summarizes the budget and actual revenues and expenses for FY 2011-12:

Summary of Fiscal Year 2012 Budget

	FY 12	FY 12	Budget to Actual	
	Budget	Actual	\$	%
Revenues	\$ 6,735,000	\$ 6,963,301	\$ 228,301	103%
Expenses	\$ 6,247,825	\$ 6,145,747	\$ 102,078	98%
Excess Revenue Over Expenses	\$ 487,175	\$ 817,554	\$ 330,379	5%



The table shows the District received \$0.2 million more in revenue than anticipated in the final FY 2011-12 budget. The main sources of additional revenue are more service connections and related service charges than expected and actual property tax revenue was more than budgeted for FY 2011-12.

Total expenses were within 2% of the final budget.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2012

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District's overall financial outlook continues to be positive, but guarded, during a time when the region and the state economies continue to struggle. The District's main cash flows, property tax and user fee revenues, are stable sources of income. Growth within the District generates one-time connection fees and ongoing service charge revenue. The District service area continues to be an attractive place for second-home purchases. There are a few high-end subdivisions still building with a significant number of custom-built vacation homes and estates. The FY 2012-13 budget, adopted by the Board of Directors in June, 2012, anticipates receipt of \$6.6 million in total revenue, a decrease of 2% from FY 2011-12 actual income. The District expects reduced income earnings in FY 2012-13 for activities related to land development services and inspections since building-related activity levels are not expected to improve for a few years. Property tax revenue is expected to continue declining and interest earnings are expected to continue yielding less than 1%.

The FY 2012-13 budget shows \$6.2 million in planned general fund expenditures, an increase of less than 1% (\$0.02 million) from last year's actual expenditures. This variance is attributed to the one-time pension payoff expenditure in FY 2010-11, discussed previously. Although costs have increased for many liability and benefit insurance premiums, budgeted General Fund expenses have decreased slightly from FY 2011-12 to FY 2012-13.

The District continues strategic planning to address future managerial, operations, and fiscal needs in an uncertain economic environment. Key personnel are retiring, pension and other fringe benefit costs are increasing, and sources of revenue are stagnating or declining.

Truckee Sanitary District
STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

ASSETS

<u>Current Assets:</u>	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 9,267,454	\$ 9,012,908
Accrued Interest Receivable	9,417	12,345
Accounts Receivable	171,823	223,404
Taxes Receivable	239,569	181,973
Parts and Supplies Inventory	165,995	170,240
Prepaid Expense	<u>37,925</u>	<u>38,794</u>
Total Current Assets	<u>\$ 9,892,183</u>	<u>\$ 9,639,664</u>
 <u>Restricted Assets:</u>		
Cash and Cash Equivalents	\$ 3,347,006	\$ 3,177,897
Accrued Interest Receivable	2,862	3,639
Accounts Receivable	<u>1,050</u>	<u> </u>
Total Restricted Assets	<u>\$ 3,350,918</u>	<u>\$ 3,181,536</u>
 <u>Other Assets:</u>		
Assessments Receivable - Sierra Meadows	<u> </u>	<u>\$ 12,352</u>
Total Other Assets	<u> </u>	<u>\$ 12,352</u>
Net Capital Assets	<u>\$ 51,572,505</u>	<u>\$ 53,032,508</u>
Total Assets	<u>\$ 64,815,606</u>	<u>\$ 65,866,060</u>

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

Truckee Sanitary District

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

LIABILITIES AND NET ASSETS

<u>Current Liabilities (Payable from Current Assets):</u>	<u>2012</u>	<u>2011</u>
Accounts Payable	\$ 47,616	\$ 101,283
Contract Retentions Payable		19,111
Accrued Payroll Deductions	168,051	151,650
Compensated Absences Payable	718,280	672,704
Customer Deposits	<u>293,879</u>	<u>253,648</u>
Total Current Liabilities (Payable from Current Assets)	<u>\$ 1,227,826</u>	<u>\$ 1,198,396</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>		
Accounts Payable	<u>\$ 318</u>	<u>\$</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 318</u>	<u>\$</u>
Total Current Liabilities	<u>\$ 1,228,144</u>	<u>\$ 1,198,396</u>
<u>Noncurrent Liabilities:</u>		
Trust Fund Payable - Sewer Assessment Districts Maintenance Fund	<u>\$ 634,429</u>	<u>\$ 632,045</u>
Total Liabilities	<u>\$ 1,862,573</u>	<u>\$ 1,830,441</u>
<u>Net Assets:</u>		
Invested in Capital Assets	\$ 51,572,505	\$ 53,032,508
Restricted for Martis Valley Interceptor Maintenance	222,364	221,528
Restricted for Capital Expense	2,407,806	2,213,138
Restricted for Landfill Cleanup	86,003	114,825
Unrestricted	<u>8,664,355</u>	<u>8,453,620</u>
Total Net Assets	<u>\$ 62,953,033</u>	<u>\$ 64,035,619</u>
Total Liabilities and Net Assets	<u>\$ 64,815,606</u>	<u>\$ 65,866,060</u>

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

Truckee Sanitary District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Years Ended June 30, 2012 and 2011

<u>Operating Revenues:</u>	<u>2012</u>	<u>2011</u>
Service Charges	\$ 2,516,994	\$ 2,467,520
Inspection and Cancellation Fees	34,774	52,981
Other Services	<u>16,146</u>	<u>183,609</u>
Total Operating Revenue	<u>\$ 2,567,914</u>	<u>\$ 2,704,110</u>
<u>Operating Expenses:</u>		
Operations and Maintenance	\$ 4,220,257	\$ 5,240,436
Administrative and General	1,925,490	2,250,776
Depreciation	<u>2,115,540</u>	<u>1,942,237</u>
Total Operating Expenses	<u>\$ 8,261,287</u>	<u>\$ 9,433,449</u>
Operating Loss	<u>(\$ 5,693,373)</u>	<u>(\$ 6,729,339)</u>
<u>Non-Operating Revenues:</u>		
Tax Revenue	\$ 4,093,707	\$ 4,240,453
Interest Earned	70,773	120,508
Rents and Leases	8,931	8,879
Gain on Disposal of Capital Assets		3,225
Other Revenue	<u>36,088</u>	<u>91,454</u>
Total Non-Operating Revenue	<u>\$ 4,209,499</u>	<u>\$ 4,464,519</u>
Net Loss before Contributions	<u>(\$ 1,483,874)</u>	<u>(\$ 2,264,820)</u>
<u>Capital Contributions:</u>		
Dedicated Land and Improvements	\$ 215,400	\$ 755,589
Connection Fees	<u>185,888</u>	<u>66,054</u>
	<u>\$ 401,288</u>	<u>\$ 821,643</u>
Change in Net Assets	<u>(\$ 1,082,586)</u>	<u>(\$ 1,443,177)</u>
Net Assets, Beginning of Year	<u>64,035,619</u>	<u>65,478,796</u>
Net Assets, End of Year	<u><u>\$ 62,953,033</u></u>	<u><u>\$ 64,035,619</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, 2012 and 2011

<u>Cash Flows From Operating Activities:</u>	<u>2012</u>	<u>2011</u>
Receipts from Customers	\$ 2,618,445	\$ 2,734,109
Payments to Suppliers	(3,204,198)	(3,763,236)
Payments to Employees	(2,911,247)	(3,166,148)
Other Payments	(16,560)	(6,930)
Net Cash Used by Operating Activities	<u>(\$ 3,513,560)</u>	<u>(\$ 4,202,205)</u>
<u>Cash Flows From Non-Capital Financing Activities:</u>		
Taxes Collected	\$ 4,036,111	\$ 4,248,026
Increase/(Decrease) in Customer Deposits	40,231	(172,150)
Other Non-Operating Revenues	45,019	100,333
Increase in Trust Funds Payable	<u>2,384</u>	<u>3,075</u>
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 4,123,745</u>	<u>\$ 4,179,284</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Capital Contributions	\$ 185,888	\$ 66,054
Acquisition of Capital Assets	(459,248)	(848,571)
Proceeds from Sierra Meadows Assessments	12,352	23,984
Proceeds from Sale of Capital Assets	<u> </u>	<u>6,876</u>
Net Cash Used by Capital and Related Financing Activities	<u>(\$ 261,008)</u>	<u>(\$ 751,657)</u>
<u>Cash Flows From Investing Activities:</u>		
Interest Received on Investments	<u>\$ 74,478</u>	<u>\$ 122,855</u>
Net Cash Provided by Investing Activities	<u>\$ 74,478</u>	<u>\$ 122,855</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 423,655	(\$ 651,723)
Cash and Cash Equivalents, Beginning of Year	<u>12,190,805</u>	<u>12,842,528</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,614,460</u>	<u>\$ 12,190,805</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, 2012 and 2011

<u>Cash and Cash Equivalents Classified in the Balance Sheet:</u>	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents:		
Unrestricted	\$ 9,267,454	\$ 9,012,908
Restricted	<u>3,347,006</u>	<u>3,177,897</u>
	<u>\$ 12,614,460</u>	<u>\$ 12,190,805</u>
<u>Reconciliation of Operating Loss</u>		
<u>to Net Cash Used by Operating Activities:</u>		
Operating Loss	(\$ 5,693,373)	(\$ 6,729,339)
Adjustments to Reconcile Operating Loss		
to Net Cash Used for Operating Activities:		
Depreciation	\$ 2,115,540	\$ 1,942,237
(Increase) Decrease in:		
Accounts Receivable	50,531	29,999
Inventories	4,245	13,737
Prepaid Expenses	869	493,164
Increase (Decrease) in:		
Accounts Payable	(53,349)	(18,663)
Accrued Compensated Absences	45,576	34,119
Accrued Payroll Deductions	<u>16,401</u>	<u>32,541</u>
Total Adjustments	<u>\$ 2,179,813</u>	<u>\$ 2,527,134</u>
Net Cash Used by Operating Activities	<u>(\$ 3,513,560)</u>	<u>(\$ 4,202,205)</u>
<u>Noncash Transactions:</u>		
<u>Capital Contributed by Developers, Customers,</u>		
<u>Town of Truckee, and the State of California:</u>		
Contributions of Capital to the District	\$ 401,288	\$ 821,643
Less - Contributions of Land and Improvements	<u>(215,400)</u>	<u>(755,589)</u>
Cash Provided by Contributions	<u>\$ 185,888</u>	<u>\$ 66,054</u>
<u>Capital Asset Acquisition:</u>		
Acquisition of Capital Assets	(\$ 440,137)	(\$ 867,682)
Increase/(Decrease) in Payables	<u>(19,111)</u>	<u>19,111</u>
Cash Used for Capital Asset Acquisitions	<u>(\$ 459,248)</u>	<u>(\$ 848,571)</u>

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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:

The District is governed locally by a five-member elected Board of Directors. The Board is responsible for setting policy and general administrative procedures for the District. The policies and procedures set by the Board are then administered by the General Manager of the District.

C. Accounting Policies:

The accounting policies of the District conform with 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 Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

D. Financial Statements 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 assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. The District had no related debt of as of June 30, 2012 and 2011 respectively.
- *Restricted* - This component of net assets consists of constraints placed on net asset 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 net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

E. Budgetary Control:

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

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 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 a maturity of three months or less when purchased to be cash equivalents.

H. Investments:

Investments in equity securities with readily determinable fair values, external investment pools, open-end mutual funds, and debt securities are valued at their fair values in the balance sheet. Unrealized gains and losses are included in the statement of revenues, expenses, and changes in net assets. (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.

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.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

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.

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

L. Compensated Absences (Continued):

liability is recognized for that portion of accumulating sick leave benefits that is eligible for payment at termination or retirement. As of June 30, 2012 and 2011, accrued vacation and vested sick leave benefits totaled \$718,280 and \$672,704, 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 Net Assets:

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

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.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

O. Restricted Net Assets (Continued):

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.

Landfill Cleanup Fund - This reserve consists of monies set aside to be used for the post-closure care costs for the Truckee burn dump site. For information about the site, see Note 12.

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

P. Board Designated Net Assets:

The District has designated a portion of the unrestricted net assets 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, 2012 and 2011 was \$1,728,935 and \$2,133,378, respectively.

Effective June 16, 2011, the Board of Directors adopted the following designated reserves:

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, 2012 and 2011

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

P. Board Designated Net Assets (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:

The District sponsors an agent multiple-employer pension plan which covers all eligible full-time and part-time employees. For more 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. 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).

T. 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, 2012 and 2011

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

U. 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.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS:

A. Deposits and Custodial Credit Risk:

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 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).

At June 30, 2012 and 2011, the carrying amounts of the District's deposits were \$64,752 and \$34,117, respectively. The bank balances were \$79,997 and \$42,911, respectively. The District's bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) subject to certain limits. At June 30, 2012, and 2011 the FDIC insurance limit was not exceeded.

B. Investments:

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 District Investment Fund (LAIF).

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

B. Investments (Continued):

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.

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

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:

	2012		2011	
	Carrying Amount	Market Value	Carrying Amount	Market Value
LAIF	<u>\$ 12,549,158</u>	<u>\$ 12,564,463</u>	<u>\$ 12,156,138</u>	<u>\$ 12,175,302</u>

Structured notes and asset-backed securities comprised 3.47% and 5.01% of LAIF's total portfolio for all investors as of June 30, 2012 and 2011, respectively. Fair value of a pool share was 1.001219643 and 1.001576470 for those same periods. The cost value of a pool share was constant at \$1.00.

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.

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.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

C. Classification:

<u>Summary of Cash and Investments:</u>	<u>2012</u>	<u>2011</u>
Cash on Hand	\$ 550	\$ 550
Cash Deposits	64,752	34,117
Investments	<u>12,549,158</u>	<u>12,156,138</u>
	<u>\$ 12,614,460</u>	<u>\$ 12,190,805</u>

Balance Sheet Classification:

Cash and Cash Equivalents:		
Unrestricted (1)	\$ 9,267,454	\$ 9,012,908
Restricted	<u>3,347,006</u>	<u>3,177,897</u>
	<u>\$ 12,614,460</u>	<u>\$ 12,190,805</u>

(1) The Designated portion of unrestricted cash (see Note 1P) for major improvements and contingency reserve is \$4,733,358 and \$5,212,357 for 2012 and 2011, respectively.

NOTE 3 RESTRICTED ASSETS:

Restricted and designated assets and related current liabilities as of June 30, 2012 are identified by use as follows:

	Sewer Assessment District 5 Maintenance Fund	Capital Expenses	Martis Valley Interceptor	Landfill Cleanup	Total
<u>Restricted Assets:</u>					
Cash and Cash Equivalents	\$ 633,869	\$ 2,404,650	\$ 222,167	\$ 86,320	\$ 3,347,006
Accrued Interest Receivable	560	2,106	196		2,862
Accounts Receivable		<u>1,050</u>			<u>1,050</u>
Total Restricted Assets	<u>\$ 634,429</u>	<u>\$ 2,407,806</u>	<u>\$ 222,363</u>	<u>\$ 86,320</u>	<u>\$ 3,350,918</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>					
Accounts Payable	\$	\$	\$	\$ 318	\$ 318
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 318</u>	<u>\$ 318</u>

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 3 RESTRICTED ASSETS (Continued):

Restricted and designated assets and related current liabilities as of June 30, 2011 are identified by use as follows:

	Sewer Assessment District 5 Maintenance Fund	Capital Expenses	Martis Valley Interceptor	Landfill Cleanup	Total
<u>Restricted Assets:</u>					
Cash and Cash Equivalents	\$ 631,292	\$ 2,210,516	\$ 221,264	\$ 114,825	\$ 3,177,897
Accrued Interest Receivable	753	2,622	264		3,639
Total Restricted Assets	<u>\$ 632,045</u>	<u>\$ 2,213,138</u>	<u>\$ 221,528</u>	<u>\$ 114,825</u>	<u>\$ 3,181,536</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>					
Accounts Payable	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 4 CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2012 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	803,069	568,816	1,043,147	328,738
Total Capital Assets not being Depreciated	<u>\$ 1,381,668</u>	<u>\$ 568,816</u>	<u>\$ 1,043,147</u>	<u>\$ 907,337</u>
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 68,254,636	\$ 1,004,121	\$ _____	\$ 69,258,757
Administrative Facilities	7,852,223	116,385		7,968,608
General Plant and Administrative Equipment	4,401,729	9,362	17,102	4,393,989
Total Capital Assets being Depreciated	<u>\$ 80,508,588</u>	<u>\$ 1,129,868</u>	<u>\$ 17,102</u>	<u>\$ 81,621,354</u>
Less Accumulated Depreciation for:				
Sewage Collection Facilities	\$ 23,180,124	\$ 1,608,200	\$ _____	\$ 24,788,324
Administrative Facilities	2,733,042	265,373		2,998,415
General Plant and Administrative Equipment	2,944,582	241,967	17,102	3,169,447
Total Depreciation	<u>\$ 28,857,748</u>	<u>\$ 2,115,540</u>	<u>\$ 17,102</u>	<u>\$ 30,956,186</u>
Net Capital Assets	<u>\$ 53,032,508</u>	<u>(\$ 416,856)</u>	<u>\$ 1,043,147</u>	<u>\$ 51,572,505</u>

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 4 CAPITAL ASSETS (Continued):

Capital asset activity for the year ended June 30, 2011 was as follows:

<u>Capital Assets not being Depreciated:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land and Easements	\$ 578,599	\$	\$	\$ 578,599
Construction In Progress	470,012	800,450	467,393	803,069
Total Capital Assets not being Depreciated	\$ 1,048,611	\$ 800,450	\$ 467,393	\$ 1,381,668
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 67,267,480	\$ 987,156	\$	\$ 68,254,636
Administrative Facilities	7,852,223			7,852,223
General Plant and Administrative Equipment	4,142,983	303,058	44,312	4,401,729
Total Capital Assets being Depreciated	\$ 79,262,686	\$ 1,290,214	\$ 44,312	\$ 80,508,588
Less Accumulated Depreciation for:				
Sewage Collection Facilities	\$ 21,727,185	\$ 1,452,939	\$	\$ 23,180,124
Administrative Facilities	2,467,494	265,548		2,733,042
General Plant and Administrative Equipment	2,761,493	223,751	40,662	2,944,582
Total Depreciation	\$ 26,956,172	\$ 1,942,238	\$ 40,662	\$ 28,857,748
Net Capital Assets	\$ 53,355,125	\$ 148,426	\$ 471,043	\$ 53,032,508

NOTE 5 PENSION PLAN:

Plan Description - The Truckee Sanitary District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The miscellaneous plan (plan) is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Headquarters - 400 Q Street - Sacramento, CA 95811.

Funding Policy - Active members in the plan were required to contribute 8% of their annual covered salary for fiscal years 2012 and 2011. The District pays the members' required contribution. The District is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 5 PENSION PLAN (Continued):

CalPERS Board of Administration. The required employer contribution rate was 14.113% and 17.559% for fiscal years 2012 and 2011, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost - For fiscal years 2012 and 2011, the District's annual pension costs were \$719,969 and \$794,050, respectively and were equal to the District's required and actual contributions.

Three-year Trend Information for Truckee Sanitary District's
Defined Benefit Pension Plan:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2010	\$ 753,309	100%	\$ 0
6/30/2011	\$ 794,060	100%	\$ 0
6/30/2012	\$ 719,969	100%	\$ 0

The required contribution for fiscal year 2012 was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), and (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% depending on age, service and type of employment. Both (a) and (b) include an inflation component of 3.00%, payroll growth of 3.25%, and individual salary growth using a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a 15 year period. The plan's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009 was 19 years.

Side Fund Contribution:

The District had a side fund liability due to a mandated participation in a risk pool (further described below) of \$1,483,058 for the June 30, 2008 valuation date. The Board approved funding of this liability prior to June 30, 2011, which saved the District from paying 7.75% interest per annum on the unfunded liability. The cost was included in the prior year of operations.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 5 PENSION PLAN (Continued):

Funding Status and Funding Progress:

Because the plan had less than 100 active members in at least one valuation since June 30, 2003, the plan is required to participate in a risk pool. The following information pertains to the Miscellaneous 2.7% at 55 Risk Pool.

As of June 30, 2009, the most recent actuarial valuation date, the plan was 57.2% funded. The actuarial accrued liability for benefits was \$2.140 billion and the actuarial value of the assets was \$1.225 billion, resulting in an unfunded actuarial liability (UAAL) of \$915 million. The covered payroll (annual payroll of active employees covered under by the plan) was \$440 million, and the ratio of the UAAL to the covered payroll was 208 %.

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 Agency 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.)

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

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 agency under Government Code Section 22920(b).

The District has six retirees receiving benefits and 42 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, 2012 and 2011 was \$284,996 and \$279,351, respectively. The District's current contribution included \$111,664 to fund the amortization of the actuarial accrued liability as determined by the March 12, 2012 actuarial valuation.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

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, 2012 were as follows:

Annual Required Contribution	\$ 284,996
Interest on OPEB Obligation	
Adjustment to Annual Required Contribution	<u> </u>
Annual OPEB Cost	\$ 284,996
Contributions Made	<u>(333,018)</u>
Change in Net OPEB Obligation (Asset)	(\$ 48,022)
Net OPEB Obligation (Asset), Beginning of Year	<u>(72,381)</u>
Net OPEB Obligation (Asset), End of Year	<u><u>(\$ 120,403)</u></u>

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, 2010	\$ 271,215	\$ 576,712	212.64%	(\$ 33,208)
June 30, 2011	\$ 279,351	\$ 318,524	114.02%	(\$ 72,381)
June 30, 2012	\$ 284,996	\$ 333,018	116.85%	(\$ 120,403)

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 \$28,754 and \$39,173 for the years ended June 30, 2012 and 2011, respectively.

Funding Status and Funding Progress:

As of June 30, 2011, the most recent actuarial valuation date, the plan was 42.8% funded. The actuarial accrued liability was \$2,899,206 and the actuarial value of assets was \$1,241,549 resulting in an unfunded actuarial accrued liability (UAAL)

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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

of \$1,657,657. The annual covered payroll was \$3,171,366 and the ratio of the UAAL to the annual covered payroll was 52.3%.

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 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, 2012, two 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, 2012, four retirees are covered under the previous plan.

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 has entered into construction commitments totaling \$745,434 and \$301,729 for fiscal years ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the amount earned on the contracts was \$567,820 with a remaining balance of \$177,614. As of June 30, 2011, the amount earned on the contracts was \$241,707 with a remaining balance of \$60,022.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 9 RELATED PARTY TRANSACTIONS:

The District is a member of the California Sanitation Risk Management Agency (CSRMA), a Joint Powers Authority formed under the laws of the California Government Code, for the purpose of participating in a Workers' Compensation Insurance Program. During the years ended June 30, 2012 and 2011, the District paid \$60,006 and \$54,580, respectively, for insurance coverage under this agreement. A refund of \$10,884 and \$7,178 from previous years was applied to the payments for the fiscal years ended 2012 and 2011, respectively.

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 \$17.0 million. Limits of \$0.5 million apply to both the loss of income and extra expense coverage for a maximum of \$1.0 million of additional coverage for loss of income and extra expenses. 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 \$0.9 million of specialized contractor's equipment (Inland Marine Coverage).

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.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 11 PROPERTY TAXES:

The District has a gross assessed valuation of \$4.723 billion and \$4.999 billion for the fiscal years ended June 30, 2012 and 2011, 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 was informed by the Nevada County Department of Environmental Health that additional action was required regarding the final cover, final grading, and drainage and erosion control on a closed solid waste disposal site that existed on land owned by the District. The District has completed remediation of the issues identified and has received a certificate of completion from the State.

At June 30, 2012, the remaining estimated costs of closure and postclosure care were \$18,400. This amount was estimated to be the present value of postclosure care costs remaining. No further amounts were expected to be recognized in future periods at this time. The District has set aside cash for the purposes of paying the remaining remediation costs and has reported this amount as a component of Cash and Cash Equivalents – Restricted Assets on the Statement of Net Assets.

NOTE 13 NEW PRONOUNCEMENTS:

GASB Statement No.62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that was included in Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure that were issued on or before November 30, 1989, which did not conflict with or contradict GASB pronouncements. This Statement also eliminates the election for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. Management has evaluated the effects of this statement and has determined that it will not have a material impact on the District's financial statements. This statement will be effective for the fiscal year beginning July 1, 2012.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

NOTE 13 NEW PRONOUNCEMENTS (Continued):

The GASB issued GASB Statement 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, in June of 2011 and March of 2012, respectively. The District is required to implement GASB 63 and GASB 65 during the June 30, 2013 fiscal year-end. GASB 63 renames net assets as net position and provides guidance on the definition and presentation of deferred outflows of resources (a consumption of net assets applicable to a future reporting period) and deferred inflows of resources (an acquisition of net assets applicable to a future reporting period). GASB 65 will impact certain items previously reported as assets and liabilities by (a) reclassifying them as deferred outflows or inflows of resources, or (b) recognizing them as outflows or inflows of resources. Both GASB 63 and 65 are required to be implemented retroactively and will require a restatement of beginning net position. The District is reviewing GASBs 63 and 65, and will determine the effect on the financial statements as of and for the year ending June 30, 2013.

In June of 2012, the GASB issued GASB Statement 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, with required implementation for the District during the June 30, 2015, fiscal year-end. GASB 68 is an amendment of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It will require employers to report a net pension 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. GASB 68 is required to be implemented retroactively and will require a restatement of beginning net assets.

REQUIRED SUPPLEMENTARY INFORMATION

Truckee Sanitary District

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

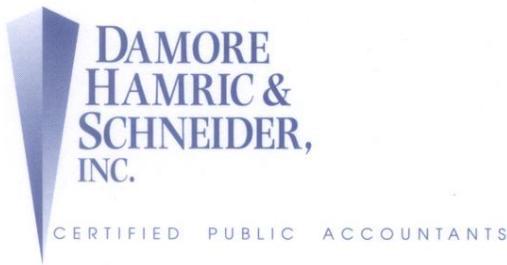
June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL As a % of Payroll
7/1/2007	\$ 0	\$ 1,888,064	\$ 1,888,064	0.0%	\$ 3,136,417	60.2%
7/1/2009	\$ 273,687	\$ 2,338,445	\$ 2,064,758	11.7%	\$ 3,172,066	65.1%
6/30/2011	\$ 1,241,549	\$ 2,899,206	\$ 1,657,657	42.8%	\$ 3,171,366	52.3%

Note to the Required Supplementary Information

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.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Truckee Sanitary District

We have audited the basic financial statements of the Truckee Sanitary District as of and for the year ended June 30, 2012, and have issued our report thereon dated January 10, 2013 which contained an unqualified opinion on those basic financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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

January 10, 2013

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2012

<u>Revenues:</u>	Budgeted Amounts Original and Final	Actual Amounts	Favorable (Unfavorable) Variance With Budget
Service Charges	\$ 2,477,500	\$ 2,516,994	\$ 39,494
Taxes	4,011,900	4,093,707	81,807
Connection Fees	45,000	185,888	140,888
Inspection Fees	30,000	34,774	4,774
Work Order Revenue	35,000	16,146	(18,854)
Interest Earned	91,600	70,773	(20,827)
Rent and Leases	9,800	8,931	(869)
Other	<u>34,200</u>	<u>36,088</u>	<u>1,888</u>
Total Revenue	<u>\$ 6,735,000</u>	<u>\$ 6,963,301*</u>	<u>\$ 228,301</u>
 <u>Expenses:</u>			
Administrative and General:			
Salaries and Wages	\$ 821,500	\$ 793,248	\$ 28,252
Payroll Burden	60,300	58,720	1,580
Benefits	526,550	562,315	(35,765)
Directors Fees	15,500	16,560	(1,060)
Transportation, Gas and Oil	7,000	6,683	317
Insurance	147,000	136,960	10,040
Dues and Subscriptions	25,000	24,066	934
Office Expense	23,000	18,702	4,298
Operating Supplies	9,300	3,085	6,215
Safety Supplies	2,000	3,011	(1,011)
Professional Services	60,000	30,589	29,411
Legal	20,000	60,921	(40,921)
Printing and Publications	5,000	718	4,282
Repairs and Maintenance-Vehicles and Equipment	8,500	10,393	(1,893)
Travel and Meetings	40,400	43,329	(2,929)
Utilities and Telephone	16,000	15,260	740
Billing/Collection Expense	100,500	88,076	12,424
Other	<u>11,000</u>	<u>52,854</u>	<u>(41,854)</u>
Total Administrative and General	<u>\$ 1,898,550</u>	<u>\$ 1,925,490</u>	<u>(\$ 26,940)</u>

* Actual does not include the non-budgeted items of contributed capital from dedications and gain on sale of assets.

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2012

Operation and Maintenance:	Budgeted Amounts Original and Final	Actual Amounts	Favorable (Unfavorable) Variance With Budget
Salaries and Wages	\$ 2,303,500	\$ 2,179,976	\$ 123,524
Payroll Burden	230,050	217,975	12,075
Benefits	1,237,050	1,202,377	34,673
Transportation, Gas and Oil	79,500	72,611	6,889
Operating Supplies	93,475	74,759	18,716
Safety Supplies	11,000	7,269	3,731
Professional Services	31,200	9,830	21,370
Environmental Permits and Fees	9,000	5,515	3,485
Repairs and Maintenance	132,000	107,190	24,810
Vehicle Maintenance	70,000	74,170	(4,170)
Travel and Meetings			
Utilities and Telephone	125,000	119,140	5,860
Other	<u>27,500</u>	<u>149,445</u>	<u>(121,945)</u>
 Total Operations and Maintenance	 <u>\$ 4,349,275</u>	 <u>\$ 4,220,257</u>	 <u>\$ 129,018</u>
 Total Expenses	 <u>\$ 6,247,825</u>	 <u>\$ 6,145,747</u>	 <u>\$ 102,078</u>
 Excess Revenues Over Expenses	 <u>\$ 487,175</u>	 <u>\$ 817,554</u>	 <u>\$ 330,379</u>