



TRUCKEE SANITARY DISTRICT

Financial Statements
Supplementary Information
&
Independent Auditor's Report

For the Fiscal Years Ended June 30, 2013 and 2012

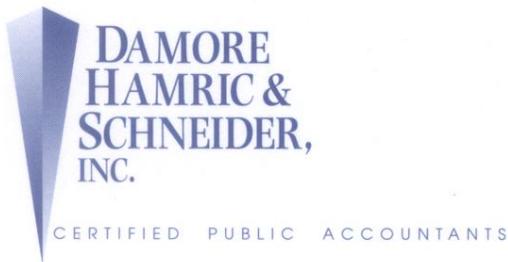
A PUBLIC AGENCY

Truckee Sanitary District

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June 30, 2013 and 2012

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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, 2013 and 2012, 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 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 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 Truckee Sanitary 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, 2013 and 2012, 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.

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 – 14 and the schedule of funding progress for the Truckee Sanitary District's Other Post Employment Benefit (OPEB) plan on page 42 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 and 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.

Implementation of New Accounting Standards

As disclosed in the Note 1. U. to the financial statements, the Truckee Sanitary District implemented Governmental Accounting Standards Board (GASB) Statements No. 62, 63, and 66 and implemented GASB Statement No. 65 in advance during the fiscal year 2013. None of these new statements had a significant impact over the Truckee Sanitary District's financial statements in the current year.

Damore, Hamric + Schneider Inc

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

March 17, 2014

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

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, 2012 through June 30, 2013 (FY 2012-13). 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 10,700 equivalent family units and approximately 550 commercial accounts. Service is provided through about 210 miles of gravity mains, 12 miles of force mains, 100 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, 2013 has 35 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, 2013

FINANCIAL HIGHLIGHTS

******Note: The District references the term Total Net Position (Total Net Assets in prior year statements) within these FY 2012-13 financial statements in compliance with GASB 63. Note 1, Sections (D) & (U), explains this new terminology.***

The District's Total Net Position increased by 4% (\$2.3 million) from the prior fiscal year.

The District's Restricted and Unrestricted Net Position increased by 3% (\$0.2 million) from FY 2011-12 to FY 2012-13.

District Operating Revenue (comprised primarily of Service Charges) increased by 3% (\$0.09 million) when compared to FY 2011-12.

District Non-Operating Revenue (comprised primarily of Property Taxes) increased by 8% (\$0.4 million) when compared to FY 2011-12.

District Operating Expenses remained unchanged when compared to FY 2011-12.

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 2012-13. 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, 2013

FINANCIAL STATEMENTS

Net Position:

The District's Total Net Position (see page 4, Table 1, Net Position section) is the sum of: 1) Net Investment in Capital Assets, 2) Restricted Assets, and 3) Unrestricted Assets. Capital Assets include gravity pipelines, pump stations and force mains, operations and maintenance facilities, administrative facilities, equipment, and rolling stock. 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.

The portion of net position subject to legal restrictions is shown as Restricted Assets. The uses of these assets 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 Assets in Net Position 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.

The District maintains the Major Improvements Fund for capital improvement projects. Each year a 5-year project schedule is developed by staff to plan and budget for both capacity-related work and the rehabilitation or replacement of existing facilities. This schedule is necessary to ensure the District continues to meet its mandate of conveying wastewater to the T-TSA regional treatment facility. The remaining balance at fiscal year end 2012-13, as discussed in Note 1(P) of the financial statements, is \$2.7 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 Position shows the District's current financial position and compares resources and obligations at year-end for the District on June 30, 2013 and 2012.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

FINANCIAL STATEMENTS (Continued)

TABLE 1

Condensed Statement of Net Position as of June 30, 2013 and 2012

	Fiscal Year 2013	Fiscal Year 2012	Difference \$	Difference %
Current Assets	\$ 10,081,945	\$ 9,892,183	\$ 189,762	2%
Restricted Assets	3,349,338	3,350,918	(1,580)	0%
Other Assets	0	0	0	
Net Capital Assets	<u>53,621,643</u>	<u>51,572,505</u>	<u>2,049,138</u>	4%
Total Assets	<u>\$ 67,052,926</u>	<u>\$ 64,815,606</u>	<u>\$ 2,237,320</u>	3%
Current Liabilities (payable from Current Assets)	\$ 1,196,994	\$ 1,227,826	(\$ 30,832)	-3%
Current Liabilities (payable from Restricted Assets)	52,603	318	52,285	
Non-Current Liabilities	<u>591,426</u>	<u>634,429</u>	<u>(43,003)</u>	-7%
Total Liabilities	<u>\$ 1,841,023</u>	<u>\$ 1,862,573</u>	<u>(\$ 21,550)</u>	-1%
<u>Net Position:</u>				
Net Investment in Capital Assets	\$ 53,621,643	\$ 51,572,505	\$ 2,049,138	4%
Restricted Assets	2,705,310	2,716,173	(10,863)	0%
Unrestricted Assets	<u>8,884,950</u>	<u>8,664,355</u>	<u>220,595</u>	3%
Total Net Position	<u>\$ 65,211,903</u>	<u>\$ 62,953,033</u>	<u>\$ 2,258,870</u>	4%

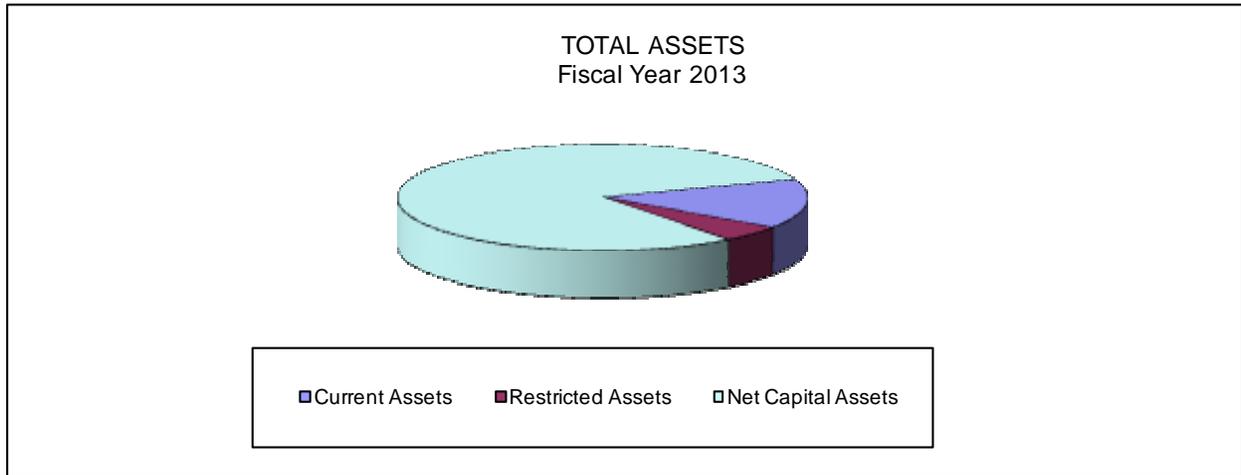


Table 1 shows the District’s Total Net Position was \$65.2 million as of June 30, 2013. This represents a 4% increase (\$2.3 million) from the close of the previous fiscal year. The majority of this increase was from the dedication of new sewer facilities (capital assets).

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

FINANCIAL STATEMENTS (Continued)

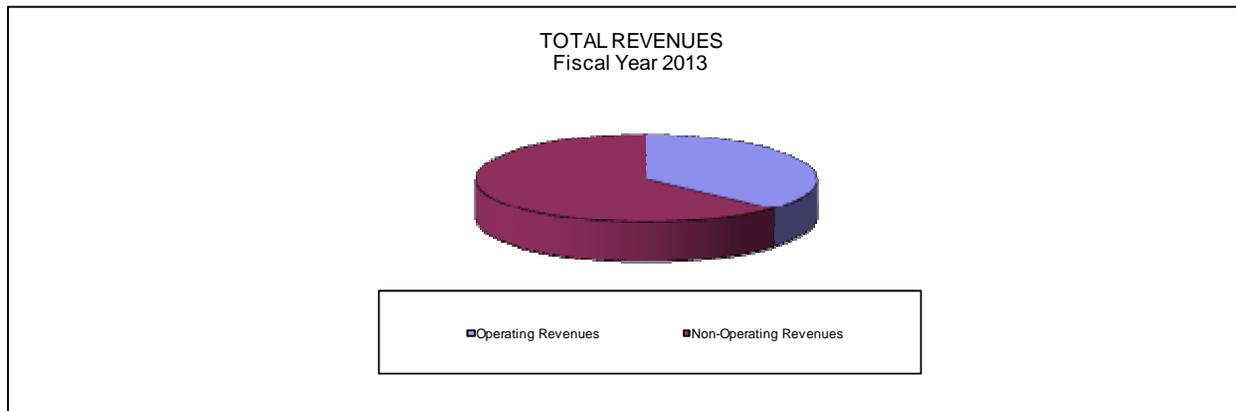
Revenues, Expenses and Changes in Net Position:

The Condensed Statement of Revenues, Expenses, and Change in Net Position (Table 2) shows the change in Net Position from the beginning to end of FY 2012-13 compared to FY 2011-12.

TABLE 2

Condensed Statement of Revenues, Expenses, and Changes in Net Position as of June 30, 2013 and 2012

	2013	2012	Difference	
			\$	%
Operating Revenues	\$ 2,653,348	\$ 2,567,914	\$ 85,434	3%
Non-Operating Revenues	4,562,687	4,209,499	353,188	8%
Total Revenues	<u>\$ 7,216,035</u>	<u>\$ 6,777,413</u>	<u>\$ 438,622</u>	6%
Operating Expenses	\$ 8,270,704	\$ 8,261,287	\$ 9,417	0%
Total Expenses	<u>\$ 8,270,704</u>	<u>\$ 8,261,287</u>	<u>\$ 9,417</u>	0%
Income (Loss) Before Capital Contributions	(\$ 1,054,669)	(\$ 1,483,874)	\$ 429,205	29%
Capital Contributions	<u>3,313,539</u>	<u>401,288</u>	<u>2,912,251</u>	726%
Change in Net Position	<u>\$ 2,258,870</u>	<u>(\$ 1,082,586)</u>	<u>\$ 3,341,456</u>	309%



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.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

FINANCIAL STATEMENTS (Continued)

Service charges account for most (96%) of the District's Operating Revenues. In FY 2012-13, the District received \$2.5 million in service charge revenue, up 1% from FY 2011-12. 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 (98%) of the District's Non-Operating Revenue. In FY 2012-13, the District received \$4.5 million in property tax revenue, up 9% from the previous fiscal year.

Total Expenses in FY 2012-13 were \$8.3 million, increasing less than 1% from prior year. Approximately 25% (\$2.0 million) of the Operating Expenses includes 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, 2013 (Table 3) reports cash flow activities from operations, capital and non-capital purchases, and investments.

TABLE 3

Condensed Statement of Cash Flows as of June 30, 2013 and 2012

	2013	2012	Difference \$	Difference %
Net Cash Used by Operating Activities	(\$ 3,568,838)	(\$ 3,513,560)	(\$ 55,278)	2%
Net Cash Provided by Non-Capital Financing Activities	4,508,906	4,123,745	385,161	9%
Net Cash Used by Capital & Related Activities	(721,758)	(261,008)	(460,750)	177%
Net Cash Provided by Investing Activities	38,731	74,478	(35,747)	-48%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 257,041	\$ 423,655	(\$ 166,614)	-39%
Cash and Cash Equivalents, Beginning of Year	12,614,460	12,190,805	423,655	3%
Cash and Cash Equivalents, End of Year	<u>\$ 12,871,501</u>	<u>\$ 12,614,460</u>	<u>\$ 257,041</u>	2%

Table 3 shows the District's cash position improved 2% (\$0.3 million) from the beginning of the year to the end of the year of FY 2012-13. Increasing property tax revenue in FY 2012-13 from FY 2011-12 levels is the primary contributor of improvement in Cash and Cash Equivalents.

The net increase in operating activity cash flows for FY 2012-13 can be attributed directly to current economic conditions, only a slight increase in development activity within the District, and increasing operating costs.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

FINANCIAL STATEMENTS (Continued)

The District made significant contributions to the retirement health trust fund in both fiscal years presented 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 2012-13 the District paid its \$0.3 million Annual Required Contribution to the California Employers' Retiree Benefit Trust.

Cash flows provided by Non-Capital Financing Activities increased during FY 2012-13 from FY 2011-12 due to a one-time inflow of property tax revenue from the former Truckee Redevelopment Agency and increased normal property tax inflows. Customer deposit receipts decreased in FY 2012-13 from FY 2011-12. Decreased Trust Funds payable was due to the use of cash as a source of cash for Operating Activities.

During FY 2012-13 cash was used for the following capital activities: pipeline rehabilitation, sewage facility improvements, Administration Building roof, Vactor truck, televising van, 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 2012-13 from FY 2011-12 due to low investment yields on cash balance held with LAIF.

The District ended the fiscal year with \$12.9 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, 2013 totaled \$86.2 million of non-depreciable and depreciable assets:

- Non-depreciable assets of \$1.0 million: Land, easements, and construction in progress.
- Depreciable assets of \$85.2 million: Sewage collection and conveyance facilities, administrative facilities, general plant, and administrative equipment.

Total depreciation of \$32.5 million resulted in a Net Capital Asset value of \$53.6 million at June 30, 2013. Net Capital Assets at fiscal year ending June 30, 2013 were \$53.6 million compared to \$51.6 million at fiscal year ending June 30, 2012, an increase of \$2.1 million. Total accumulated depreciation was \$32.5 million at June 30, 2013. 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, 2013

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 June.

Table 4 summarizes the budget and actual revenues and expenses for FY 2012-13:

TABLE 4
Summary of Fiscal Year 2013 Budget

	FY 13	FY 13	Budget to Actual	
	Budget	Actual	\$	%
Revenues	\$ 6,767,000	\$ 7,362,477	\$ 595,477	109%
Expenses	\$ 6,233,200	\$ 6,227,196	\$ 6,004	100%
Excess Revenue Over Expenses	\$ 533,800	\$ 1,135,281	\$ 601,481	5%

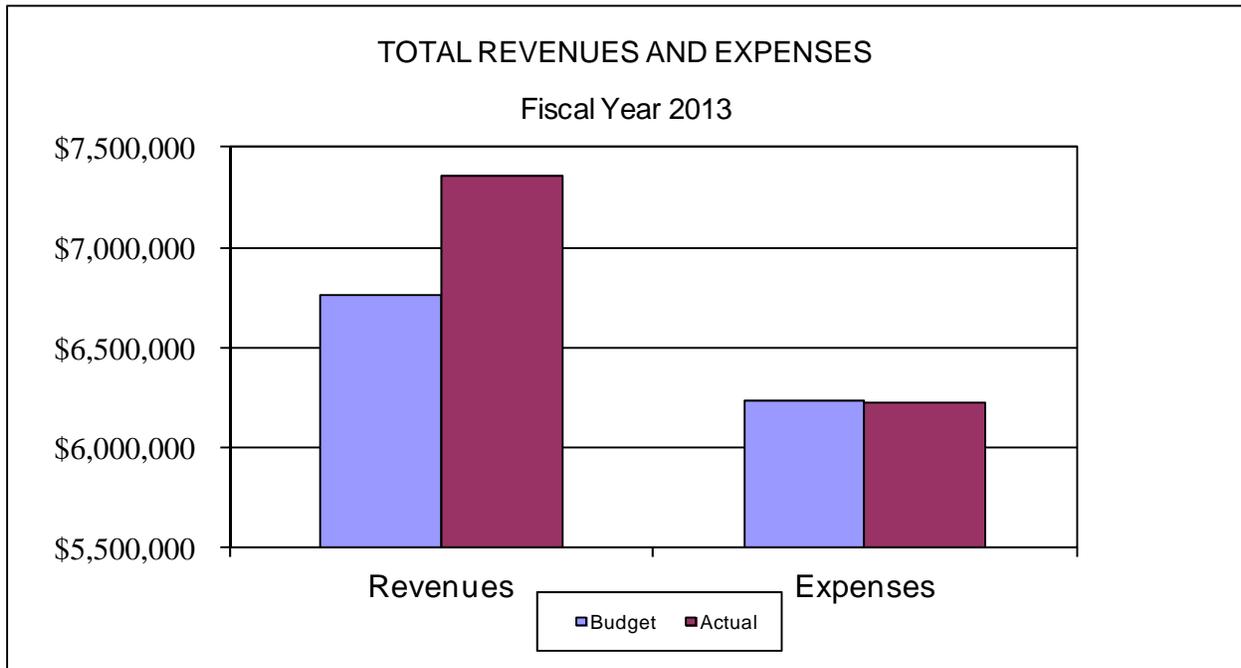


Table 4 shows the District received \$0.6 million more in revenue than anticipated in the final FY 2012-13 budget. The main sources of additional revenue are: an unanticipated increase in one-time property tax revenue distribution from the former Truckee Redevelopment Agency, normal actual property tax revenue was more than budgeted; and more service connections and related service charges than expected.

Total expenses were within 1% of the final budget.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District's overall financial outlook continues to be positive given that the region and the state economies struggle to recover. 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 a significant number of custom-built vacation homes and estates. The FY 2013-14 budget, adopted by the Board of Directors in June, 2013, expects total Revenues of \$6.9 million, a decrease of 6% from FY 2012-13 actual income. As discussed earlier, the District received a one-time distribution of property tax revenue in FY 2012-13. Additionally, increases related to land development services and inspections are not expected. Normal property tax revenue is expected to improve slightly. Interest earnings are expected to continue yielding less than 1%.

The FY 2013-14 budget shows \$6.6 million in planned general fund expenditures, an increase of 6% (\$0.3 million) from last year's actual expenditures. This variance is mainly attributed to both increasing retiree benefits and one-time outside services costs.

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 increasing only slightly.

Truckee Sanitary District

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

ASSETS

<u>Current Assets:</u>	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 9,530,338	\$ 9,267,454
Accrued Interest Receivable	6,658	9,417
Accounts Receivable	167,641	171,823
Taxes Receivable	196,564	239,569
Parts and Supplies Inventory	150,365	165,995
Prepaid Expense	<u>30,379</u>	<u>37,925</u>
Total Current Assets	<u>\$ 10,081,945</u>	<u>\$ 9,892,183</u>
 <u>Restricted Assets:</u>		
Cash and Cash Equivalents	\$ 3,341,163	\$ 3,347,006
Accrued Interest Receivable	1,931	2,862
Accounts Receivable	<u>6,244</u>	<u>1,050</u>
Total Restricted Assets	<u>\$ 3,349,338</u>	<u>\$ 3,350,918</u>
Net Capital Assets	<u>\$ 53,621,643</u>	<u>\$ 51,572,505</u>
Total Assets	<u><u>\$ 67,052,926</u></u>	<u><u>\$ 64,815,606</u></u>

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

Truckee Sanitary District

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

LIABILITIES AND NET POSITION

<u>Current Liabilities (Payable from Current Assets):</u>	<u>2013</u>	<u>2012</u>
Accounts Payable	\$ 48,197	\$ 47,616
Accrued Payroll Deductions	161,166	168,051
Compensated Absences Payable	705,488	718,280
Customer Deposits	<u>282,143</u>	<u>293,879</u>
Total Current Liabilities (Payable from Current Assets)	<u>\$ 1,196,994</u>	<u>\$ 1,227,826</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>		
Accounts Payable	\$ 50,661	\$ 318
Accrued Payroll Deductions	<u>1,942</u>	<u> </u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 52,603</u>	<u>\$ 318</u>
Total Current Liabilities	<u>\$ 1,249,597</u>	<u>\$ 1,228,144</u>
<u>Noncurrent Liabilities:</u>		
Trust Fund Payable - Sewer Assessment Districts Maintenance Fund	<u>\$ 591,426</u>	<u>\$ 634,429</u>
Total Liabilities	<u>\$ 1,841,023</u>	<u>\$ 1,862,573</u>
<u>Net Position:</u>		
Net Investment in Capital Assets	\$ 53,621,643	\$ 51,572,505
Restricted for Martis Valley Interceptor Maintenance	201,800	222,364
Restricted for Capital Expense	2,421,735	2,407,806
Restricted for Landfill Cleanup	81,775	86,003
Unrestricted	<u>8,884,950</u>	<u>8,664,355</u>
Total Net Position	<u>\$ 65,211,903</u>	<u>\$ 62,953,033</u>
Total Liabilities and Net Position	<u>\$ 67,052,926</u>	<u>\$ 64,815,606</u>

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, 2013 and 2012

<u>Operating Revenues:</u>	<u>2013</u>	<u>2012</u>
Service Charges	\$ 2,541,028	\$ 2,516,994
Inspection and Cancellation Fees	68,552	34,774
Other Services	<u>43,768</u>	<u>16,146</u>
Total Operating Revenue	<u>\$ 2,653,348</u>	<u>\$ 2,567,914</u>
<u>Operating Expenses:</u>		
Operations and Maintenance	\$ 4,290,208	\$ 4,220,257
Administrative and General	1,936,988	1,925,490
Depreciation	<u>2,043,508</u>	<u>2,115,540</u>
Total Operating Expenses	<u>\$ 8,270,704</u>	<u>\$ 8,261,287</u>
Operating Loss	<u>(\$ 5,617,356)</u>	<u>(\$ 5,693,373)</u>
<u>Non-Operating Revenues:</u>		
Tax Revenue	\$ 4,478,973	\$ 4,093,707
Interest Earned	35,041	70,773
Rents and Leases	9,417	8,931
Gain on Disposal of Capital Assets	7,006	
Other Revenue	<u>32,250</u>	<u>36,088</u>
Total Non-Operating Revenue	<u>\$ 4,562,687</u>	<u>\$ 4,209,499</u>
Net Loss before Contributions	<u>(\$ 1,054,669)</u>	<u>(\$ 1,483,874)</u>
<u>Capital Contributions:</u>		
Dedicated Land and Improvements	\$ 3,160,091	\$ 215,400
Connection Fees	<u>153,448</u>	<u>185,888</u>
	<u>\$ 3,313,539</u>	<u>\$ 401,288</u>
Change in Net Position	\$ 2,258,870	(\$ 1,082,586)
Net Position, Beginning of Year	<u>62,953,033</u>	<u>64,035,619</u>
Net Position, End of Year	<u><u>\$ 65,211,903</u></u>	<u><u>\$ 62,953,033</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, 2013 and 2012

<u>Cash Flows From Operating Activities:</u>	<u>2013</u>	<u>2012</u>
Receipts from Customers	\$ 2,652,336	\$ 2,618,445
Payments to Suppliers	(3,028,117)	(3,204,198)
Payments to Employees	(3,177,677)	(2,911,247)
Other Payments	(15,380)	(16,560)
Net Cash Used by Operating Activities	<u>(\$ 3,568,838)</u>	<u>(\$ 3,513,560)</u>
 <u>Cash Flows From Non-Capital Financing Activities:</u>		
Taxes Collected	\$ 4,521,978	\$ 4,036,111
Increase/(Decrease) in Customer Deposits	(11,736)	40,231
Other Non-Operating Revenues	41,667	45,019
(Decrease) Increase in Trust Funds Payable	(43,003)	2,384
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 4,508,906</u>	<u>\$ 4,123,745</u>
 <u>Cash Flows From Capital and Related Financing Activities:</u>		
Capital Contributions	\$ 153,448	\$ 185,888
Acquisition of Capital Assets	(882,212)	(459,248)
Proceeds from Sierra Meadows Assessments		12,352
Proceeds from Sale of Capital Assets	<u>7,006</u>	
Net Cash Used by Capital and Related Financing Activities	<u>(\$ 721,758)</u>	<u>(\$ 261,008)</u>
 <u>Cash Flows From Investing Activities:</u>		
Interest Received on Investments	<u>\$ 38,731</u>	<u>\$ 74,478</u>
Net Cash Provided by Investing Activities	<u>\$ 38,731</u>	<u>\$ 74,478</u>
Net Increase in Cash and Cash Equivalents	\$ 257,041	\$ 423,655
Cash and Cash Equivalents, Beginning of Year	<u>12,614,460</u>	<u>12,190,805</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,871,501</u>	<u>\$ 12,614,460</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, 2013 and 2012

<u>Cash and Cash Equivalents Classified in the Balance Sheet:</u>	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents:		
Unrestricted	\$ 9,530,338	\$ 9,267,454
Restricted	<u>3,341,163</u>	<u>3,347,006</u>
	<u>\$ 12,871,501</u>	<u>\$ 12,614,460</u>
<u>Reconciliation of Operating Loss</u>		
<u>to Net Cash Used by Operating Activities:</u>		
Operating Loss	(\$ 5,617,356)	(\$ 5,693,373)
Adjustments to Reconcile Operating Loss		
to Net Cash Used for Operating Activities:		
Depreciation	\$ 2,043,508	\$ 2,115,540
(Increase) Decrease in:		
Accounts Receivable	(1,012)	50,531
Inventories	15,630	4,245
Prepaid Expenses	7,546	869
Increase (Decrease) in:		
Accounts Payable	581	(53,349)
Accrued Compensated Absences	(12,792)	45,576
Accrued Payroll Deductions	<u>(4,943)</u>	<u>16,401</u>
Total Adjustments	<u>\$ 2,048,518</u>	<u>\$ 2,179,813</u>
Net Cash Used by Operating Activities	<u>(\$ 3,568,838)</u>	<u>(\$ 3,513,560)</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	\$ 3,313,539	\$ 401,288
Less - Contributions of Land and Improvements	<u>(3,160,091)</u>	<u>(215,400)</u>
Cash Provided by Contributions	<u>\$ 153,448</u>	<u>\$ 185,888</u>
<u>Capital Asset Acquisition:</u>		
Acquisition of Capital Assets	(\$ 932,555)	(\$ 440,137)
Increase/(Decrease) in Payables	<u>50,343</u>	<u>(19,111)</u>
Cash Used for Capital Asset Acquisitions	<u>(\$ 882,212)</u>	<u>(\$ 459,248)</u>

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 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 Governmental Accounting Standards Board (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 14 for future accounting pronouncements to be implemented in future financial statements.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 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, 2013 and 2012 respectively.
- *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.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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, 2013 and 2012

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, 2013 and 2012

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, 2013 and 2012, accrued vacation and vested sick leave benefits totaled \$705,488 and \$718,280, 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.

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, 2013 and 2012

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

O. Restricted 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 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, 2013 and 2012 was \$2,731,382 and \$1,728,935, 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, 2013 and 2012

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:

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. 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.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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

- U. Current Year GASB Implementation – For the year ended June 30, 2013, the District implemented Government Accounting Standards Board (GASB) Statement 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as of June 30, 2013, GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. The primary objective of GASB 62 is to incorporate applicable guidance from FASB pronouncements into the GASB statements. GASB 62 addresses a number of accounting and financial reporting areas, but the most significant areas that may affect the District relate to capitalization of interest costs. The guidance for the capitalization of interest costs reflects a change from previously issued guidance for governments with enterprise funds. The objective of GASB 63 is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the District’s net position. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The new standards do not have a material impact on the District’s financial statements at this time.
- V. Deferred Outflow/Deferred Inflow of Resources - In addition to assets, the statements will sometimes report a separate section from deferred outflows of resources. This separate financial element, *deferred outflow of resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The District currently does not have any deferred outflows of resources.

In addition to liabilities, the statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized an inflow of resources (revenue) until that time. The District currently does not have any deferred inflows of resources.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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, 2013 and 2012, the carrying amounts of the District's deposits were \$39,764 and \$64,752, respectively. The bank balances were \$60,334 and \$79,997, respectively. The District's bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) subject to certain limits. At June 30, 2013, and 2012 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, 2013 and 2012

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:

	2013		2012	
	Carrying Amount	Market Value	Carrying Amount	Market Value
LAIF	<u>\$ 12,831,187</u>	<u>\$ 12,834,693</u>	<u>\$ 12,549,158</u>	<u>\$ 12,564,463</u>

Structured notes and asset-backed securities comprised 1.96% and 3.47% of LAIF's total portfolio for all investors as of June 30, 2013 and 2012, respectively. Fair value of a pool share was 1.000273207 and 1.001219643 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, 2013 and 2012

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

C. Classification:

<u>Summary of Cash and Investments:</u>	<u>2013</u>	<u>2012</u>
Cash on Hand	\$ 550	\$ 550
Cash Deposits	39,764	64,752
Investments	<u>12,831,187</u>	<u>12,549,158</u>
	<u>\$ 12,871,501</u>	<u>\$ 12,614,460</u>

Balance Sheet Classification:

Cash and Cash Equivalents:		
Unrestricted (1)	\$ 9,530,338	\$ 9,267,454
Restricted	<u>3,341,163</u>	<u>3,347,006</u>
	<u>\$ 12,871,501</u>	<u>\$ 12,614,460</u>

(1) The Designated portion of unrestricted cash (see Note 1P) for major improvements and contingency reserve is \$5,730,338 and \$4,733,358 for 2013 and 2012, respectively.

NOTE 3 RESTRICTED ASSETS:

Restricted and designated assets and related current liabilities as of June 30, 2013 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	\$ 591,069	\$ 2,466,641	\$ 201,678	\$ 81,775	\$ 3,341,163
Accrued Interest Receivable	357	1,452	122		1,931
Accounts Receivable		6,244			6,244
Total Restricted Assets	<u>\$ 591,426</u>	<u>\$ 2,474,337</u>	<u>\$ 201,800</u>	<u>\$ 81,775</u>	<u>\$ 3,349,338</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>					
Accounts Payable	\$	\$ 50,661	\$	\$	\$ 50,661
Accrued Payroll Deductions		1,942			1,942
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 0</u>	<u>\$ 52,603</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 52,603</u>

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 3 RESTRICTED ASSETS (Continued):

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

Restricted Assets:	Sewer Assessment District 5 Maintenance	Capital Expenses	Martis Valley Interceptor	Landfill Cleanup	Total
	Fund				
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		1,050			1,050
Total Restricted Assets	\$ 634,429	\$ 2,407,806	\$ 222,363	\$ 86,320	\$ 3,350,918
<u>Current Liabilities (Payable from Restricted Assets):</u>					
Accounts Payable	\$	\$	\$	\$ 318	\$ 318
Total Current Liabilities (Payable from Restricted Assets)	\$ 0	\$ 0	\$ 0	\$ 318	\$ 318

NOTE 4 CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2013 was as follows:

<u>Capital Assets not being Depreciated:</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land and Easements	\$ 578,599	\$	\$	\$ 578,599
Construction In Progress	328,738	339,805	270,795	397,748
Total Capital Assets not being Depreciated	\$ 907,337	\$ 339,805	\$ 270,795	\$ 976,347
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 69,258,757	\$ 3,401,054	\$	\$ 72,659,811
Administrative Facilities	7,968,608	63,327		8,031,935
General Plant and Administrative Equipment	4,393,989	660,713	590,874	4,463,828
Total Capital Assets being Depreciated	\$ 81,621,354	\$ 4,125,094	\$ 590,874	\$ 85,155,574
<u>Less Accumulated Depreciation for:</u>				
Sewage Collection Facilities	\$ 24,788,324	\$ 1,538,072	\$	\$ 26,326,396
Administrative Facilities	2,998,415	269,967		3,268,382
General Plant and Administrative Equipment	3,169,447	235,469	489,416	2,915,500
Total Depreciation	\$ 30,956,186	\$ 2,043,508	\$ 489,416	\$ 32,510,278
Net Capital Assets	\$ 51,572,505	\$ 2,421,391	\$ 372,253	\$ 53,621,643

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 4 CAPITAL ASSETS (Continued):

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	\$ 1,381,668	\$ 568,816	\$ 1,043,147	\$ 907,337
<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	\$ 80,508,588	\$ 1,129,868	\$ 17,102	\$ 81,621,354
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	\$ 28,857,748	\$ 2,115,540	\$ 17,102	\$ 30,956,186
Net Capital Assets	\$ 53,032,508	(\$ 416,856)	\$ 1,043,147	\$ 51,572,505

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 2013 and 2012. 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, 2013 and 2012

NOTE 5 PENSION PLAN (Continued):

CalPERS Board of Administration. The required employer contribution rate was 14.525% and 14.113% for fiscal years 2013 and 2012, 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 2013 and 2012, the District's annual pension costs were \$708,989 and \$719,969, 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>
6/30/2011	\$ 794,060	100%	\$ 0
6/30/2012	\$ 719,969	100%	\$ 0
6/30/2013	\$ 708,989	100%	\$ 0

The required contribution for fiscal year 2013 was determined as part of the June 30, 2010 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, 2010 was 19 years.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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, 2010, the most recent actuarial valuation date, the plan was 62.6% funded. The actuarial accrued liability for benefits was \$2.298 billion and the actuarial value of the assets was \$1.438 billion, resulting in an unfunded actuarial liability (UAAL) of \$860 million. The covered payroll (annual payroll of active employees covered under by the plan) was \$434 million, and the ratio of the UAAL to the covered payroll was 198%.

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, 2013 and 2012

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 40 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, 2013 and 2012 was \$293,546 and \$284,996, respectively, and included \$115,014 and \$111,664 respectively, to fund the amortization of the actuarial accrued liability as determined by the June 30, 2011 actuarial valuation.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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, 2013 were as follows:

Annual Required Contribution	\$ 293,546
Interest on OPEB Obligation	
Adjustment to Annual Required Contribution	<u> </u>
Annual OPEB Cost	\$ 293,546
Contributions Made	<u>(358,605)</u>
Change in Net OPEB Obligation (Asset)	(\$ 65,059)
Net OPEB Obligation (Asset), Beginning of Year	<u>(123,663)</u>
Net OPEB Obligation (Asset), End of Year	<u><u>(\$ 188,722)</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, 2011	\$ 279,351	\$ 318,524	114.02%	(\$ 72,381)
June 30, 2012	\$ 284,996	\$ 336,278	117.99%	(\$ 123,663)
June 30, 2013	\$ 293,546	\$ 358,605	122.16%	(\$ 188,722)

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 \$65,059 and \$51,282 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012

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

of \$1,657,657. The annual covered payroll was \$3,065,152 and the ratio of the UAAL to the annual covered payroll was 54.08%.

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, 2013, six 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, 2013, three 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 \$178,837 and \$745,434 for fiscal years ended June 30, 2013 and 2012, respectively. As of June 30, 2013, the amount earned on the contracts was \$178,837 with a remaining balance of \$0. As of June 30, 2012, the amount earned on the contracts was \$567,820 with a remaining balance of \$177,614.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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, 2013 and 2012, the District paid \$64,271 and \$60,006, respectively, for insurance coverage under this agreement. A refund of \$8,981 and \$10,884 from previous years was applied to the payments for the fiscal years ended 2013 and 2012, 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, 2013 and 2012

NOTE 11 PROPERTY TAXES:

The District has a gross assessed valuation of \$4.735 billion and \$4.723 billion for the fiscal years ended June 30, 2013 and 2012, 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, 2013, the remaining estimated costs of closure and post closure care were \$4,228. This amount was estimated to be the present value of post closure 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 Position.

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.

NOTE 14 FUTURE ACCOUNTING PRONOUNCEMENTS:

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 14 FUTURE ACCOUNTING PRONOUNCEMENTS (Continued):

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 may require a restatement of beginning net position.

REQUIRED SUPPLEMENTARY INFORMATION

Truckee Sanitary District

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

June 30, 2013

<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>
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

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2013

<u>Revenues:</u>	Budgeted Amounts Original and Final	Actual Amounts	Positive (Negative) Variance With Budget
Service Charges	\$ 2,507,300	\$ 2,541,028	\$ 33,728
Taxes	3,975,400	4,478,973	503,573
Connection Fees	120,000	153,448	33,448
Inspection Fees	30,000	68,552	38,552
Work Order Revenue	35,000	43,768	8,768
Interest Earned	54,500	35,041	(19,459)
Rent and Leases	9,800	9,417	(383)
Other	35,000	32,250	(2,750)
	<u>\$ 6,767,000</u>	<u>\$ 7,362,477*</u>	<u>\$ 595,477</u>
 <u>Expenses:</u>			
Administrative and General:			
Salaries and Wages	\$ 810,300	\$ 804,915	\$ 5,385
Payroll Burden	60,600	60,391	209
Benefits	570,600	599,657	(29,057)
Directors Fees	23,700	15,380	8,320
Transportation, Gas and Oil	7,000	7,105	(105)
Insurance	153,000	153,346	(346)
Dues and Subscriptions	25,000	26,547	(1,547)
Office Expense	23,000	19,919	3,081
Operating Supplies	7,000	5,797	1,203
Safety Supplies	2,600	2,131	469
Professional Services	60,000	35,374	24,626
Legal	50,000	22,889	27,111
Printing and Publications	5,000	2,709	2,291
Repairs and Maintenance-Vehicles and Equipment	7,100	6,427	673
Travel and Meetings	30,500	42,409	(11,909)
Utilities and Telephone	15,300	14,539	761
Billing/Collection Expense	93,800	92,147	1,653
Other	29,000	25,306	3,694
	<u>\$ 1,973,500</u>	<u>\$ 1,936,988</u>	<u>\$ 36,512</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, 2013

Operation and Maintenance:	Budgeted Amounts Original and Final	Actual Amounts	Positive (Negative) Variance With Budget
Salaries and Wages	\$ 2,196,900	\$ 2,355,027	(\$ 158,127)
Payroll Burden	228,300	238,683	(10,383)
Benefits	1,237,700	1,201,750	35,950
Transportation, Gas and Oil	74,000	75,877	(1,877)
Operating Supplies	100,300	91,287	9,013
Safety Supplies	23,100	12,398	10,702
Professional Services	23,000	5,361	17,639
Environmental Permits and Fees	10,000	7,987	2,013
Repairs and Maintenance	135,000	117,263	17,737
Vehicle Maintenance	75,000	58,851	16,149
Travel and Meetings	1,000		1,000
Utilities and Telephone	129,100	115,584	13,516
Other	<u>26,300</u>	<u>10,140</u>	<u>16,160</u>
 Total Operations and Maintenance	 <u>\$ 4,259,700</u>	 <u>\$ 4,290,208</u>	 <u>(\$ 30,508)</u>
 Total Expenses	 <u>\$ 6,233,200</u>	 <u>\$ 6,227,196</u>	 <u>\$ 6,004</u>
 Excess Revenues Over Expenses	 <u>\$ 533,800</u>	 <u>\$ 1,135,281</u>	 <u>\$ 601,481</u>