



TRUCKEE SANITARY DISTRICT

Financial Statements
Supplementary Information
&
Independent Auditor's Report

For the Fiscal Years Ended June 30, 2014 and 2013

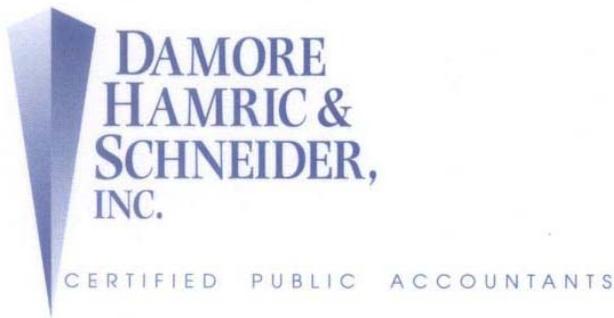
A PUBLIC AGENCY

Truckee Sanitary District

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June 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 41 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.



DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

March 12, 2015

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

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 an easy-to-read summary of the District's finances to supplement the information presented in the District's financial statements for the period July 1, 2013 through June 30, 2014 (FY 2013-14). Questions regarding this document or the financial statements should be directed to Blake R. Tresan, General Manager, at:

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

ORGANIZATION AND BUSINESS

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

The District's boundaries encompass an area of approximately 39 square miles. The District serves about 10,700 residential units and approximately 550 commercial accounts. Service is provided through about 208 miles of gravity mains, 15 miles of force mains, 181 miles of laterals and 42 lift stations.

The District is governed by a five-member Board of Directors elected at-large for staggered four-year terms. The Board of Directors set policy and procedures, which are then administered by the General Manager. The District as of June 30, 2014 has 34 full-time employees.

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

The General Manager serves as District Treasurer.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

FINANCIAL HIGHLIGHTS

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

The District's Restricted and Unrestricted Net Position increased by 5% (\$0.5 million) from FY 2012-13 to FY 2013-14.

District Operating Revenue (comprised primarily of Service Charges) increased by 1% (\$0.01 million) when compared to FY 2012-13.

District Non-Operating Revenue (comprised primarily of Property Taxes) decreased by 2% (\$0.1 million) when compared to FY 2012-13.

District Operating Expenses increased 1% (\$0.1 million) when compared to FY 2012-13.

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 2013-14. 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, 2014

FINANCIAL STATEMENTS

Net Position:

The District's Total Net Position (see page 8, 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 helps ensure the District continues to meet its mandate of conveying wastewater to the T-TSA regional treatment facility. The remaining balance in the Major Improvement Fund at fiscal year end 2013-14, is \$3.3 million.

In FY 2010-11 the Board approved the creation of 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, 2014 and 2013.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENTS (Continued)

TABLE 1

Condensed Statement of Net Position as of June 30, 2014 and 2013

	Fiscal Year 2014	Fiscal Year 2013	Difference \$	Difference %
Current Assets	\$ 10,661,891	\$ 10,081,945	\$ 579,946	6%
Restricted Assets	3,282,242	3,349,338	(67,096)	-2%
Net Capital Assets	<u>52,721,259</u>	<u>53,621,643</u>	<u>(900,384)</u>	-2%
Total Assets	<u>\$ 66,665,392</u>	<u>\$ 67,052,926</u>	<u>(\$ 387,534)</u>	-1%
Current Liabilities (payable from Current Assets)	\$ 1,258,303	\$ 1,196,994	\$ 61,309	5%
Current Liabilities (payable from Restricted Assets)	1,081	52,603	(51,522)	
Non-Current Liabilities	<u>557,059</u>	<u>591,426</u>	<u>(34,367)</u>	-6%
Total Liabilities	<u>\$ 1,816,443</u>	<u>\$ 1,841,023</u>	<u>(\$ 24,580)</u>	-1%
Net Position:				
Net Investment in Capital Assets	\$ 52,721,259	\$ 53,621,643	(\$ 900,384)	-2%
Restricted	2,724,099	2,705,310	18,789	1%
Unrestricted	<u>9,403,591</u>	<u>8,884,950</u>	<u>518,641</u>	6%
Total Net Position	<u>\$ 64,848,949</u>	<u>\$ 65,211,903</u>	<u>(\$ 362,954)</u>	-1%

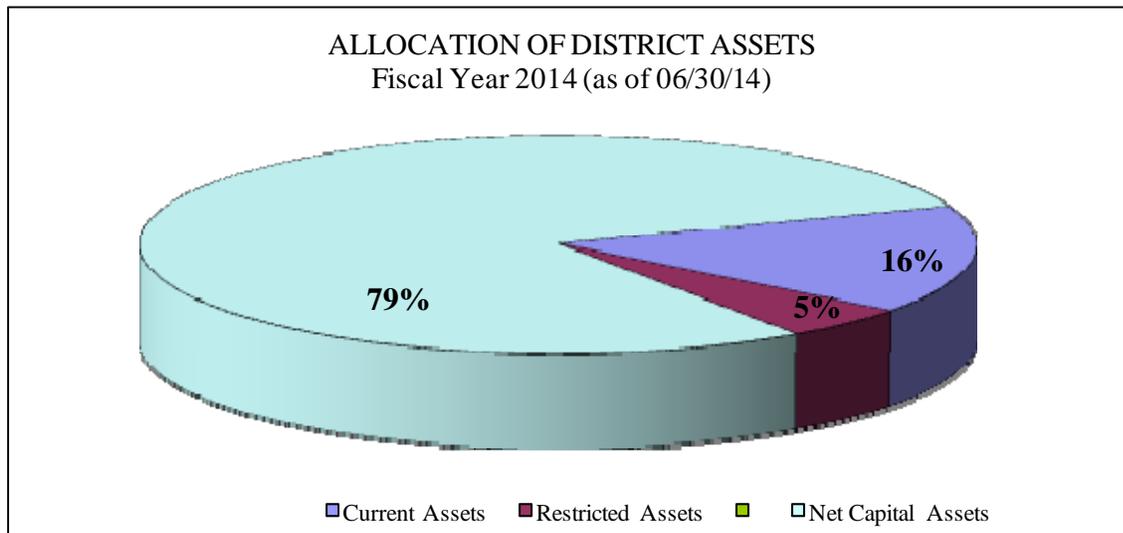


Table 1 shows the District’s Total Net Position was \$64.9 million as of June 30, 2014. This represents a 1% decrease (\$0.4 million) from the close of the previous fiscal year. The majority of this decrease is attributed to the depreciation of capital asset.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENTS (Continued)

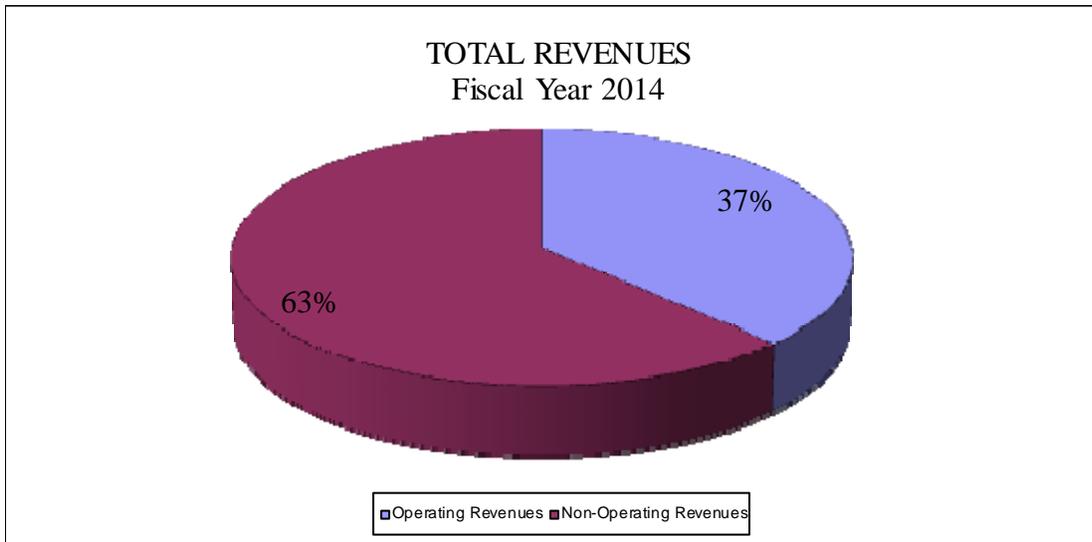
Revenues, Expenses and Changes in Net Position:

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 2013-14 compared to FY 2012-13.

TABLE 2

Condensed Statement of Revenues, Expenses, and Changes in Net Position as of June 30, 2014 and 2013

	2014	2013	Difference \$	Difference %
Operating Revenues	\$ 2,667,331	\$ 2,653,348	\$ 13,983	1%
Non-Operating Revenues	<u>4,459,070</u>	<u>4,562,687</u>	(103,617)	-2%
Total Revenues	\$ 7,126,401	\$ 7,216,035	(\$ 89,634)	-1%
Operating Expenses	<u>\$ 6,330,221</u>	<u>\$ 6,227,196</u>	<u>\$ 103,025</u>	2%
Operating Income Before Depreciation	\$ 796,180	\$ 988,839	(\$ 192,659)	-19%
Depreciation Expense	<u>\$ 2,043,286</u>	<u>\$ 2,043,508</u>	(\$ 222)	0%
Income (Loss) Before Capital Contributions	(\$ 1,247,106)	(\$ 1,054,669)	(\$ 192,437)	18%
Capital Contributions	<u>884,152</u>	<u>3,313,539</u>	(2,429,387)	-73%
Change in Net Position	<u>(\$ 362,954)</u>	<u>\$ 2,258,870</u>	<u>(\$ 2,621,824)</u>	-116%



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, 2014

FINANCIAL STATEMENTS (Continued)

Service charges account for most (96%) of the District's Operating Revenues. In FY 2013-14, the District received \$2.6 million in service charge revenue, up 1% from FY 2012-13. The change in service charge revenue is attributed solely to additional connections being served. The District has not increased the service charge rate since 1986.

Similarly, property taxes account for most (97%) of the District's Non-Operating Revenue. In FY 2013-14, the District received \$4.3 million in property tax revenue, down 3% from the previous fiscal year. The decreased revenue is primarily a result of a one-time payment in FY 2012-13 the District received as part of the dissolution of the Truckee Redevelopment Agency.

Total Expenses in FY 2013-14 were \$8.4 million, increasing 1% from prior year. Approximately 24% (\$2.0 million) of the Operating Expenses can be attributed to the depreciation of capital assets (a non-cash expense).

Statement of Cash Flows:

The Condensed Statement of Cash Flows for the fiscal year ended June 30, 2014 (Table 3) describes cash flow activities from operations, capital and non-capital purchases, and investments.

TABLE 3

Condensed Statement of Cash Flows as of June 30, 2014 and 2013

	2014	2013	Difference \$	Difference %
Net Cash Used by Operating Activities	(\$ 3,572,493)	(\$ 3,568,838)	(\$ 3,655)	0%
Net Cash Provided by Non-Capital Financing Activities	4,344,108	4,508,906	(164,798)	-4%
Net Cash Used by Capital & Related Activities	(308,330)	(721,758)	413,428	-57%
Net Cash Provided by Investing Activities	<u>30,396</u>	<u>38,731</u>	<u>(8,335)</u>	-22%
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 493,681	\$ 257,041	\$ 236,640	92%
Cash and Cash Equivalents, Beginning of Year	<u>12,871,501</u>	<u>12,614,460</u>	<u>257,041</u>	2%
Cash and Cash Equivalents, End of Year	<u>\$ 13,365,182</u>	<u>\$ 12,871,501</u>	<u>\$ 493,681</u>	4%

Table 3 shows the District's cash position improved 4% (\$0.5 million) from the beginning of the year to the end of the year of FY 2013-14. The increase in Cash and Cash Equivalents in FY 2013-14 from FY 2012-13 levels is principally due to reduced capital expenditures in FY 2013-14.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENTS (Continued)

The District made significant contributions to the retirement health trust fund the past two fiscal years 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 2013-14 the District paid its \$0.3 million Annual Required Contribution to the California Employers' Retiree Benefit Trust.

The cash flows from by Non-Capital Financing Activities decreased during FY 2013-14 from FY 2012-13. As mentioned previously, this is attributed to a one-time inflow of property tax revenue associated with the dissolution of the former Truckee Redevelopment Agency.

During FY 2013-14 cash was used for capital acquisitions, including the following: pipeline rehabilitation, collection system improvements, operating vehicles, and equipment.

Cash provided from investments came from returns on District funds held by the Local Agency Investment Fund (LAIF). The District keeps a significant portion of its cash on deposit with LAIF, which is managed by the California State Treasurer's Office. Net cash from investing activities continued to decrease in FY 2013-14 from FY 2012-13 due to LAIF's low interest yields.

The District ended the fiscal year with \$13.4 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, 2014 totaled \$87.3 million of non-depreciable and depreciable assets.

Non-depreciable assets of \$0.9 million:

Land, easements, and construction in progress.

Depreciable assets of \$86.4 million:

Sewage collection and administrative facilities, general and administrative equipment.

Total depreciation of \$34.6 million resulted in a Net Capital Asset value of \$52.7 million as of June 30, 2014 compared to \$53.6 million at fiscal year ending June 30, 2013, a decrease of \$0.9 million. The District continues to be debt-free, thus no debt-related activities are reported in the financial statements.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

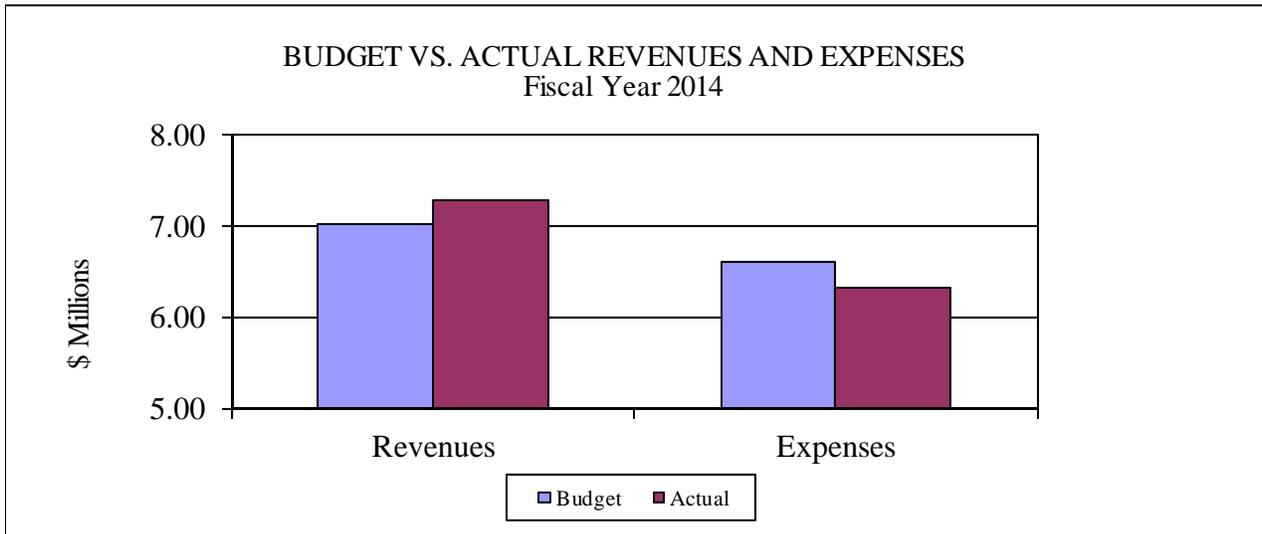
BUDGET ANALYSIS

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

Table 4 summarizes the budget and actual revenues and expenses for FY 2013-14:

TABLE 4
Summary of Fiscal Year 2014 Budget

	FY 14	FY 14	Budget to Actual	
	Budget	Actual	\$	%
Revenues	\$ 7,018,800	\$ 7,287,772	\$ 268,972	104%
Expenses	\$ 6,610,220	\$ 6,330,221	\$ 279,999	96%
Excess Revenue Over Expenses	\$ 408,580	\$ 957,551	\$ 548,971	5%



It can be seen in table 4 that the District received \$0.3 million more in revenue than was anticipated in the final FY 2013-14 budget. The main sources of additional revenue came from higher than anticipated tax distribution from Nevada and Placer County.

Total actual FY 2013-14 expenses were within 4% of the budget.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

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

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

Truckee Sanitary District

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

ASSETS

<u>Current Assets:</u>	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 10,084,826	\$ 9,530,338
Accrued Interest Receivable	6,197	6,658
Accounts Receivable	195,126	167,641
Taxes Receivable	211,142	196,564
Parts and Supplies Inventory	148,722	150,365
Prepaid Expense	<u>15,878</u>	<u>30,379</u>
Total Current Assets	<u>\$ 10,661,891</u>	<u>\$ 10,081,945</u>
 <u>Restricted Assets:</u>		
Cash and Cash Equivalents	\$ 3,280,356	\$ 3,341,163
Accrued Interest Receivable	1,736	1,931
Accounts Receivable	<u>150</u>	<u>6,244</u>
Total Restricted Assets	<u>\$ 3,282,242</u>	<u>\$ 3,349,338</u>
Net Capital Assets	<u>\$ 52,721,259</u>	<u>\$ 53,621,643</u>
Total Assets	<u><u>\$ 66,665,392</u></u>	<u><u>\$ 67,052,926</u></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, 2014 and 2013

<u>Operating Revenues:</u>	<u>2014</u>	<u>2013</u>
Service Charges	\$ 2,571,552	\$ 2,541,028
Inspection and Cancellation Fees	62,923	68,552
Other Services	<u>32,856</u>	<u>43,768</u>
Total Operating Revenue	<u>\$ 2,667,331</u>	<u>\$ 2,653,348</u>
 <u>Operating Expenses:</u>		
Operations and Maintenance	\$ 4,209,800	\$ 4,290,208
Administrative and General	2,120,421	1,936,988
Depreciation	<u>2,043,286</u>	<u>2,043,508</u>
Total Operating Expenses	<u>\$ 8,373,507</u>	<u>\$ 8,270,704</u>
Operating Loss	(<u>5,706,176</u>)	(<u>5,617,356</u>)
 <u>Non-Operating Revenues:</u>		
Tax Revenue	\$ 4,344,098	\$ 4,478,973
Interest Earned	29,740	35,041
Rents and Leases	12,870	9,417
Gain on Disposal of Capital Assets		7,006
Other Revenue	<u>72,362</u>	<u>32,250</u>
Total Non-Operating Revenue	<u>\$ 4,459,070</u>	<u>\$ 4,562,687</u>
Net Loss before Contributions	(<u>1,247,106</u>)	(<u>1,054,669</u>)
 <u>Capital Contributions:</u>		
Dedicated Land and Improvements	\$ 722,781	\$ 3,160,091
Connection Fees	<u>161,371</u>	<u>153,448</u>
	<u>\$ 884,152</u>	<u>\$ 3,313,539</u>
Change in Net Position	(<u>362,954</u>)	\$ 2,258,870
Net Position, Beginning of Year	<u>65,211,903</u>	<u>62,953,033</u>
Net Position, End of Year	<u><u>\$ 64,848,949</u></u>	<u><u>\$ 65,211,903</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, 2014 and 2013

Cash and Cash Equivalents:		
Unrestricted	\$ 10,084,826	\$ 9,530,338
Restricted	<u>3,280,356</u>	<u>3,341,163</u>
	<u>\$ 13,365,182</u>	<u>\$ 12,871,501</u>
<u>Reconciliation of Operating Loss</u>		
<u>to Net Cash Used by Operating Activities:</u>		
Operating Loss	<u>(\$ 5,706,176)</u>	<u>(\$ 5,617,356)</u>
Adjustments to Reconcile Operating Loss		
to Net Cash Used for Operating Activities:		
Depreciation	\$ 2,043,286	\$ 2,043,508
(Increase) Decrease in:		
Accounts Receivable	(21,391)	(1,012)
Inventories	1,643	15,630
Prepaid Expenses	14,501	7,546
Increase (Decrease) in:		
Accounts Payable	33,615	581
Accrued Compensated Absences	26,377	(12,792)
Accrued Payroll Deductions	<u>35,652</u>	<u>(4,943)</u>
Total Adjustments	<u>\$ 2,133,683</u>	<u>\$ 2,048,518</u>
Net Cash Used by Operating Activities	<u>(\$ 3,572,493)</u>	<u>(\$ 3,568,838)</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	\$ 884,152	\$ 3,313,539
Less - Contributions of Land and Improvements	<u>(722,781)</u>	<u>(3,160,091)</u>
Cash Provided by Contributions	<u>\$ 161,371</u>	<u>\$ 153,448</u>
<u>Capital Asset Acquisition:</u>		
Acquisition of Capital Assets	(\$ 420,121)	(\$ 932,555)
Increase/(Decrease) in Payables	<u>(49,580)</u>	<u>50,343</u>
Cash Used for Capital Asset Acquisitions	<u>(\$ 469,701)</u>	<u>(\$ 882,212)</u>

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013

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, 2014 and 2013

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, 2014 and 2013

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, 2014 and 2013, accrued vacation and vested sick leave benefits totaled \$731,865 and \$705,488, 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, 2014 and 2013

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, 2014 and 2013 was \$3,286,196 and \$2,731,382, 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, 2014 and 2013

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, 2014 and 2013

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

U. Prior 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 did not have a material impact on the District's financial statements at the time of implementation.

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, 2014 and 2013

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, 2014 and 2013, the carrying amounts of the District's deposits were \$129,530 and \$39,764, respectively. The bank balances were \$160,760 and \$60,334, respectively. The District's bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) subject to certain limits. At June 30, 2014, and 2013 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, 2014 and 2013

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:

	2014		2013	
	Carrying Amount	Market Value	Carrying Amount	Market Value
LAIF	<u>\$ 13,235,103</u>	<u>\$ 13,239,057</u>	<u>\$ 12,831,187</u>	<u>\$ 12,834,693</u>

Structured notes and asset-backed securities comprised 1.86% and 1.96% of LAIF's total portfolio for all investors as of June 30, 2014 and 2013, respectively. Fair value of a pool share was 1.00029875 and 1.000273207 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, 2014 and 2013

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

C. Classification:

<u>Summary of Cash and Investments:</u>	<u>2014</u>	<u>2013</u>
Cash on Hand	\$ 550	\$ 550
Cash Deposits	129,529	39,764
Investments	<u>13,235,103</u>	<u>12,831,187</u>
	<u>\$ 13,365,182</u>	<u>\$ 12,871,501</u>

Balance Sheet Classification:

Cash and Cash Equivalents:		
Unrestricted (1)	\$ 10,084,826	\$ 9,530,338
Restricted	<u>3,280,356</u>	<u>3,341,163</u>
	<u>\$ 13,365,182</u>	<u>\$ 12,871,501</u>

(1) The Designated portion of unrestricted cash (see Note 1P) for major improvements and contingency reserve is \$6,286,196 and \$5,730,338 for 2014 and 2013, respectively.

NOTE 3 RESTRICTED ASSETS:

Restricted and designated assets and related current liabilities as of June 30, 2014 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	\$ 556,755	\$ 2,471,484	\$ 177,544	\$ 74,573	\$ 3,280,356
Accrued Interest Receivable	306	1,332	98		1,736
Accounts Receivable		<u>150</u>			<u>150</u>
Total Restricted Assets	<u>\$ 557,061</u>	<u>\$ 2,472,966</u>	<u>\$ 177,642</u>	<u>\$ 74,573</u>	<u>\$ 3,282,242</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>					
Accounts Payable	\$	\$	\$	\$ 1,081	\$ 1,081
Accrued Payroll Deductions					
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,081</u>	<u>\$ 1,081</u>

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 3 RESTRICTED ASSETS (Continued):

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>

NOTE 4 CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2014 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	397,748	414,823	509,004	303,567
Total Capital Assets not being Depreciated	<u>\$ 976,347</u>	<u>\$ 414,823</u>	<u>\$ 509,004</u>	<u>\$ 882,166</u>
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 72,659,811	\$ 1,054,116	\$	\$ 73,713,927
Administrative Facilities	8,031,935			8,031,935
General Plant and Administrative Equipment	4,463,828	182,968		4,646,796
Total Capital Assets being Depreciated	<u>\$ 85,155,574</u>	<u>\$ 1,237,084</u>	<u>\$</u>	<u>\$ 86,392,658</u>
Less Accumulated Depreciation for:				
Sewage Collection Facilities	\$ 26,326,396	\$ 1,534,841	\$	\$ 27,861,237
Administrative Facilities	3,268,382	271,763		3,540,145
General Plant and Administrative Equipment	2,915,500	236,683		3,152,183
Total Depreciation	<u>\$ 32,510,278</u>	<u>\$ 2,043,287</u>	<u>\$</u>	<u>\$ 34,553,565</u>
Net Capital Assets	<u>\$ 53,621,643</u>	<u>(\$ 391,380)</u>	<u>\$ 509,004</u>	<u>\$ 52,721,259</u>

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 4 CAPITAL ASSETS (Continued):

Capital asset activity for the year ended June 30, 2013 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	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
Less Accumulated Depreciation for:				
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

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 issue 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 *Classic* plan were required to contribute 8% of their annual covered salary for fiscal years 2014 and 2013. The District pays the *Classic* plan members' required contributions. Active members hired after January 1, 2013 (*PEPRA* plan) were required to contribute 6.25% of their annual covered salary for fiscal year 2014. *PEPRA* plan members pay their own contributions.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 5 PENSION PLAN (Continued):

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 CalPERS Board of Administration. The required employer contribution rate was 15.064% and 14.525% for fiscal years 2014 and 2013, 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 2014 and 2013, the District's annual pension costs were \$727,949 and \$708,989, 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>
6/30/2012	\$ 719,969	100%	\$ 0
6/30/2013	\$ 708,989	100%	\$ 0
6/30/2014	\$ 727,949	100%	\$ 0

The required contribution for fiscal year 2014 was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), and (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20% depending on age, service and type of employment. Both (a) and (b) include an inflation component of 2.75%, payroll growth of 3.00%, and individual salary growth using a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% 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, 2011 was 20 years.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2012, the most recent actuarial valuation date, the plan was 69% funded. The actuarial accrued liability for benefits was \$2.680 billion and the actuarial value of the assets was \$2.179 billion, resulting in an unfunded actuarial liability (UAAL) of \$501 million. The covered payroll (annual payroll of active employees covered under by the plan) was \$418 million, and the ratio of the UAAL to the covered payroll was 120%.

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 administered 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, 2014 and 2013

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 seven retirees receiving benefits and 35 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, 2014 and 2013 was \$247,261 and \$293,546, respectively, and included \$98,331 and \$115,014 respectively, to fund the amortization of the actuarial accrued liability as determined by the June 30, 2013 actuarial valuation.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2014 were as follows:

Annual Required Contribution	\$ 247,261
Interest on OPEB Obligation	
Adjustment to Annual Required Contribution	<u> </u>
Annual OPEB Cost	\$ 247,261
Contributions Made	<u>(346,030)</u>
Change in Net OPEB Obligation (Asset)	(\$ 98,769)
Net OPEB Obligation (Asset), Beginning of Year	<u>(188,722)</u>
Net OPEB Obligation (Asset), End of Year	<u><u>(\$ 287,491)</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, 2012	\$ 284,996	\$ 336,278	117.99%	(\$ 123,663)
June 30, 2013	\$ 293,546	\$ 358,605	122.16%	(\$ 188,722)
June 30, 2014	\$ 247,261	\$ 346,030	139.95%	(\$ 287,491)

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 \$98,769 and \$65,059 for the years ended June 30, 2014 and 2013, respectively.

Funding Status and Funding Progress:

As of June 30, 2013, the most recent actuarial valuation date, the plan was 60.6% funded. The actuarial accrued liability was \$3,463,526 and the actuarial value of assets was \$2,098,945 resulting in an unfunded actuarial accrued liability (UAAL) of \$1,364,581. The annual covered payroll was \$3,159,942 and the ratio of the UAAL to the annual covered payroll was 43.18%.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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

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, 2014, nine 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, 2014, there are twelve retirees, three under a prior plan and nine under CalPERS. There are thirty-nine total actives and of that total, five are board members.

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 \$72,922 and \$178,837 for fiscal years ended June 30, 2014 and 2013, respectively. As of June 30, 2014, the amount earned on the contracts was \$72,922 with a remaining balance of \$0. As of June 30, 2013, the amount earned on the contracts was \$178,837 with a remaining balance of \$0.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

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, 2014 and 2013, the District paid \$62,611 and \$64,271, respectively, for insurance coverage under this agreement. There was a refund of \$8,981 from previous years was applied to the payments for the fiscal years ended 2013.

NOTE 10 RISK MANAGEMENT:

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

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

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, 2014 and 2013

NOTE 11 PROPERTY TAXES:

The District has a gross assessed valuation of \$4,805 billion and \$4.735 billion for the fiscal years ended June 30, 2014 and 2013, 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, 2014, the remaining estimated costs of closure and post closure care were \$2,114. 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, 2014 and 2013

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. The District is currently reviewing the implementation of this standard with *CalPERS* to acquire information necessary to make the adjustments and disclosures.

REQUIRED SUPPLEMENTARY INFORMATION

Truckee Sanitary District

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

June 30, 2014

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%
6/30/2013	\$ 2,098,945	\$ 3,463,526	\$ 1,364,581	60.6%	\$ 3,159,942	43.2%

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, 2014

<u>Revenues:</u>	Budgeted Amounts Original and Final	Actual Amounts	Positive (Negative) Variance With Budget
Service Charges	\$ 2,553,300	\$ 2,571,552	\$ 18,252
Taxes	4,205,900	4,344,098	138,198
Connection Fees	96,000	161,371	65,371
Inspection Fees	50,500	62,923	12,423
Work Order Revenue	46,500	32,856	(13,644)
Interest Earned	27,300	29,740	2,440
Rent and Leases	9,000	12,870	3,870
Other	30,300	72,362	42,062
	<u>\$ 7,018,800</u>	<u>\$ 7,287,772*</u>	<u>\$ 268,972</u>
 <u>Expenses:</u>			
Administrative and General:			
Salaries and Wages	\$ 878,900	\$ 863,177	\$ 15,723
Payroll Burden	68,600	65,383	3,217
Benefits	643,550	632,307	11,243
Directors Fees	17,500	18,010	(510)
Transportation, Gas and Oil	7,000	6,911	89
Insurance	133,000	138,211	(5,211)
Dues and Subscriptions	20,000	20,893	(893)
Office Expense	23,000	19,455	3,545
Operating Supplies	7,000	6,968	32
Safety Supplies	3,000	2,079	921
Professional Services	75,000	98,693	(23,693)
Legal	50,000	40,870	9,130
Printing and Publications	5,000	6,906	(1,906)
Repairs and Maintenance-Vehicles and Equipment	6,500	7,934	(1,434)
Travel and Meetings	24,300	46,888	(22,588)
Utilities and Telephone	15,600	13,218	2,382
Billing/Collection Expense	94,000	94,064	(64)
Other	31,339	38,454	(7,115)
	<u>\$ 2,103,289</u>	<u>\$ 2,120,421</u>	<u>(\$ 17,132)</u>

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

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2014

Operation and Maintenance:	Budgeted Amounts Original and Final	Actual Amounts	Positive (Negative) Variance With Budget
Salaries and Wages	\$ 2,197,300	\$ 2,224,580	(\$ 27,280)
Payroll Burden	223,100	220,560	2,540
Benefits	1,303,373	1,264,460	38,913
Transportation, Gas and Oil	80,000	69,055	10,945
Operating Supplies	25,700	13,386	12,314
Safety Supplies	23,500	28,611	(5,111)
Professional Services	133,500	67,882	65,618
Environmental Permits and Fees	18,000	14,464	3,536
Repairs and Maintenance	158,389	107,200	51,189
Vehicle Maintenance	76,743	54,620	22,123
Travel and Meetings	21,200	8,592	12,608
Utilities and Telephone	111,500	100,845	10,655
Other	134,626	35,545	99,081
	<u>\$ 4,506,931</u>	<u>\$ 4,209,800</u>	<u>\$ 297,131</u>
Total Operations and Maintenance			
	<u>\$ 6,610,220</u>	<u>\$ 6,330,221</u>	<u>\$ 279,999</u>
Total Expenses			
Excess Revenues Over Expenses	<u>\$ 408,580</u>	<u>\$ 957,551</u>	<u>\$ 548,971</u>