



TRUCKEE SANITARY DISTRICT

Financial Statements
Supplementary Information
&
Independent Auditor's Report

For the Fiscal Years Ended June 30, 2011 and 2010

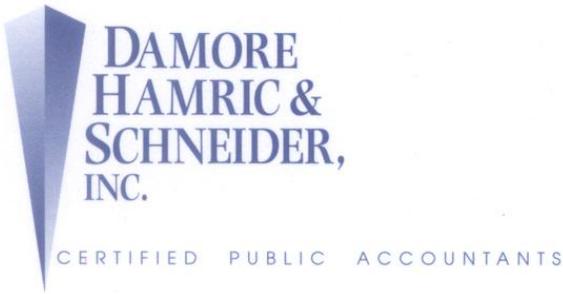
A PUBLIC AGENCY

Truckee Sanitary District

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June 30, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Truckee Sanitary District
Truckee, California

We have audited the accompanying financial statements of business-type activities of Truckee Sanitary District as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Truckee Sanitary District as of June 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Schedule of Funding Progress as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Damore, Hamric + Schneider Inc

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

February 7, 2012

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2011

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, 2010 through June 30, 2011 (FY 2010-11). Questions regarding this document or the Financial Statements should be directed to Thomas S. Selfridge, General Manager, at:

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

ORGANIZATION AND BUSINESS

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

The District's boundaries encompass an area of approximately 38 square miles. The District serves about 10,600 equivalent family units and approximately 730 commercial accounts. Service is provided through about 200 miles of gravity mains, 15 miles of force mains, 57 miles of laterals and 41 lift stations.

The District is governed by a five-member Board of Directors elected at-large for staggered four-year terms. The Board of Directors set policy and procedures, which are then administered by the General Manager. The District currently has 37 full-time employees.

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

The General Manager serves as District Treasurer.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2011

FINANCIAL HIGHLIGHTS

The District's Total Net Assets decreased by 2% (\$1.4 million) from the prior fiscal year.

The District's Restricted and Unrestricted Net Assets decreased by 9% (\$1.1 million) from FY 2009-10 to FY 2010-11.

District Operating Revenue (comprised primarily of Service Charges) increased by 8% (\$199,572) when compared to FY 2009-10.

District Non-Operating Revenue (comprised primarily of Property Taxes) decreased by 7% (\$327,818) when compared to FY 2009-10.

District Operating Expenses increased 17% (\$1.4 million) when compared to FY 2009-10.

OVERVIEW OF FINANCIAL STATEMENTS

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

The remaining pages of this MD&A summarize the District's Statements of Net Assets, Revenues, Expenses; Changes in Net Assets; and Cash Flows for FY 2010-11. An overview of the District's capital and operating activity follows the summary statements. These sections provide relevant details regarding significant or notable events. The last section of the MD&A discusses economic factors which provide context for the reader's consideration in evaluating the District's financial condition.

FINANCIAL STATEMENTS

Statements of Net Assets:

The District's Total Net Assets are categorized in three ways: 1) Net Capital Assets, 2) Restricted Assets, and 3) Unrestricted Assets. Net Capital Assets represent the net book value (cost less accumulated depreciation) of assets having an initial cost of \$5,000 or more, and an estimated useful life in excess of one year. Capital Assets include gravity pipelines, pump stations and force mains, operations and maintenance facilities, administrative facilities, equipment, and rolling stock.

Truckee Sanitary District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2011

FINANCIAL STATEMENTS (Continued):

Statements of Net Assets (Continued):

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

Unrestricted Net Assets are not legally designated for specific uses. The Board has by policy designated uses of these assets as discussed in Note 1P of the financial statements. The District maintains the Major Improvements Fund for the five-year capital improvement plan. Projects in this plan are not related to capacity expansion. This work is necessary to ensure the District continues to meet its mandate of conveying wastewater to the T-TSA regional treatment facility. Projects typically involve the rehabilitation or replacement of existing facilities. The remaining balance at fiscal year end 2010-11 is \$1,842,073.

A second unrestricted-designated fund was approved by the Board in FY 2010-11, the Contingency Reserve Fund. The established balance of this emergency fund is \$3 million, which cannot be accessed without Board approval.

The following Condensed Statement of Net Assets shows the District's current financial position and includes information on the nature and amount of resources and obligations at year-end for the District on June 30, 2011 and 2010.

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

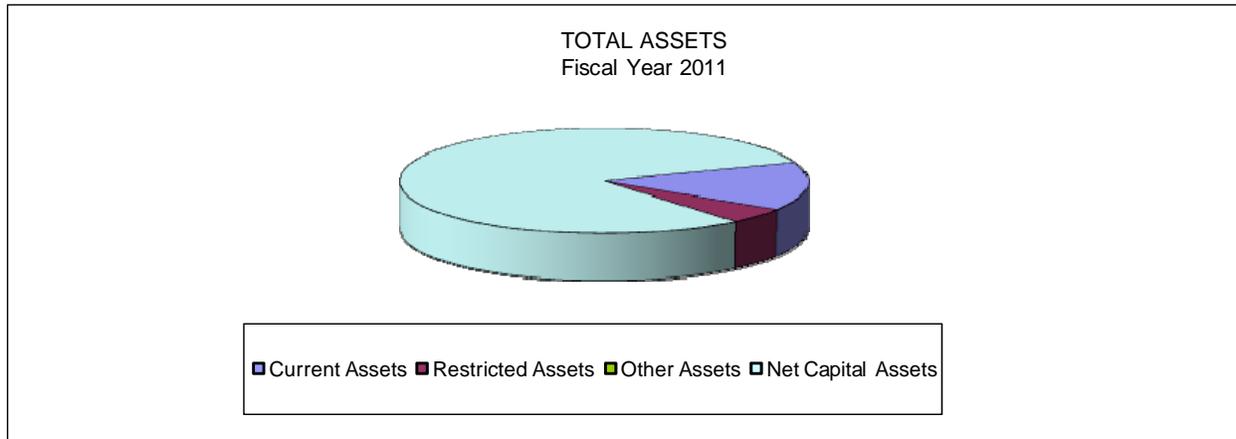
For the Fiscal Year Ended June 30, 2011

FINANCIAL STATEMENTS (Continued):

Statements of Net Assets (Continued):

Condensed Statement of Net Assets as of June 30, 2011 and 2010

	Fiscal Year 2011	Fiscal Year 2010	Difference \$	Difference %
Current Assets	\$ 9,639,664	\$ 10,880,104	(\$ 1,240,440)	-11%
Restricted Assets	3,181,536	3,139,639	41,897	1%
Other Assets	12,352	36,336	(23,984)	-66%
Net Capital Assets	<u>53,032,508</u>	<u>53,355,125</u>	<u>(322,617)</u>	-1%
Total Assets	<u>\$ 65,866,060</u>	<u>\$ 67,411,204</u>	<u>(\$ 1,545,144)</u>	-2%
Current Liabilities (payable from Current Assets)	\$ 1,198,396	\$ 1,298,619	(\$ 100,223)	-8%
Current Liabilities (payable from Restricted Assets)		4,819	(4,819)	-100%
Non-Current Liabilities	<u>632,045</u>	<u>628,970</u>	<u>3,075</u>	0%
Total Liabilities	<u>\$ 1,830,441</u>	<u>\$ 1,932,408</u>	<u>(\$ 101,967)</u>	-5%
<u>Net Assets:</u>				
Invested in Capital Assets, net of related debt	\$ 53,032,508	\$ 53,355,125	(\$ 322,617)	-1%
Restricted	2,549,491	2,505,850	43,641	2%
Unrestricted	<u>8,453,620</u>	<u>9,617,821</u>	<u>(1,164,201)</u>	-12%
Total Net Assets	<u>\$ 64,035,619</u>	<u>\$ 65,478,796</u>	<u>(\$ 1,443,177)</u>	-2%



The table shows the District’s Total Net Assets were \$64,035,619 as of June 30, 2011. This represents a 2% decrease of \$1.4 million from the close of the previous fiscal year. The decrease can be attributed to a one-time cash expenditure of \$1.5 million to pay off pension liabilities. The District’s employer contribution rate included payments to eliminate its unfunded position within the pension’s risk pool. Staff determined the District could reduce its employer pension contribution rate significantly by paying off the unfunded position balance. This obligation was amortized at 7.75%

Truckee Sanitary District

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2011

FINANCIAL STATEMENTS (Continued):

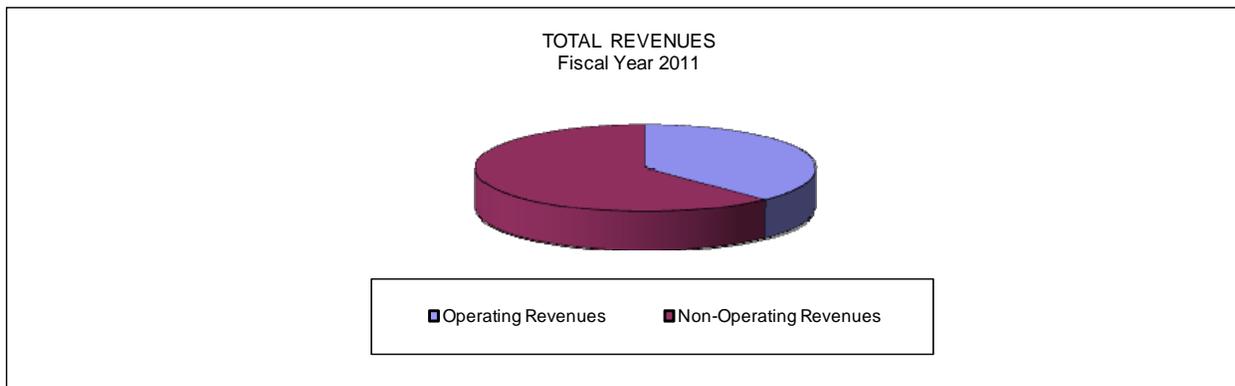
Statements of Revenues, Expenses and Changes in Net Assets:

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

The following Condensed Statement of Revenues, Expenses, and Change in Net Assets shows the change in Net Assets from the beginning to end of FY 2010-11 compared to FY 2009-10.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2011 and 2010

	2011	2010	Difference \$	Difference %
Operating Revenues	\$ 2,704,110	\$ 2,504,538	\$ 199,572	8%
Non-Operating Revenues	<u>4,464,519</u>	<u>4,792,337</u>	<u>(327,818)</u>	-7%
Total Revenues	<u>\$ 7,168,629</u>	<u>\$ 7,296,875</u>	<u>(\$ 128,246)</u>	-2%
Operating Expenses	<u>\$ 9,433,449</u>	<u>\$ 8,061,654</u>	<u>\$ 1,371,795</u>	17%
Total Expenses	<u>\$ 9,433,449</u>	<u>\$ 8,061,654</u>	<u>\$ 1,371,795</u>	17%
Income (Loss) Before Capital Contributions	(\$ 2,264,820)	(\$ 764,779)	(\$ 1,500,041)	196%
Capital Contributions	<u>821,643</u>	<u>597,738</u>	<u>223,905</u>	37%
Change in Net Assets	<u>(\$ 1,443,177)</u>	<u>(\$ 167,041)</u>	<u>(\$ 1,276,136)</u>	764%



Truckee Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

FINANCIAL STATEMENTS (Continued):

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

Service charges account for most (91%) of the District's Operating Revenues. In FY 2010-11, the District received \$2,467,520 in service charge revenue, up less than 1% from FY 2009-10. 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 (95%) of the District's Non-Operating Revenue. In FY 2010-11, the District received \$4,240,453 in property tax revenue, down 4% from the previous fiscal year.

Operating Expenses were \$9,433,449 in FY 2010-11, up 17% (\$1,371,795) from the previous fiscal year. The main cause of the increased expenses from FY 2009-10 levels is the one-time pension liability (\$1.5 million) payoff discussed previously.

Statement of Cash Flows:

The following Condensed Statement of Cash Flows for the fiscal year ended June 30, 2011 reports cash flow activities from operations, capital and non capital purchases, and investments.

Condensed Statement of Cash Flows as of June 30, 2011 and 2010

	2011	2010	Difference \$	Difference %
Net Cash Used by Operating Activities	(\$ 4,202,205)	(\$ 4,920,635)	\$ 718,430	-15%
Net Cash Provided by Non-Capital Financing Activities	4,179,284	5,329,193	(1,149,909)	-22%
Net Cash Used by Capital & Related Activities	(751,657)	(1,636,600)	884,943	-54%
Net Cash Provided by Investing Activities	<u>122,855</u>	<u>115,460</u>	<u>7,395</u>	6%
Net Decrease in Cash and Cash Equivalents	(\$ 651,723)	(\$ 1,112,582)	\$ 460,859	-41%
Cash and Cash Equivalents, Beginning of Year	<u>12,842,528</u>	<u>13,955,110</u>	(1,112,582)	-8%
Cash and Cash Equivalents, End of Year	<u>\$ 12,190,805</u>	<u>\$ 12,842,528</u>	<u>(\$ 651,723)</u>	-5%

The table shows the District's cash position declined 5% (\$651,723) from the beginning of the year to the end of the year of FY 2010-11.

The net decrease in operating activity cash flows for FY 2010-11 can be attributed directly to current economic conditions, stagnant development activity within the District, and increasing operating costs. These conditions continue from FY 2009-10.

Truckee Sanitary District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

FINANCIAL STATEMENTS (Continued):

Statement of Cash Flows (Continued):

As mentioned previously, \$1.5 million in cash was used to pay off the District's pension liability and reduce its pension expenses.

Both fiscal years presented have significant contributions to the retirement health trust fund to remain in compliance with the Governmental Accounting Standards Board Statement No. 45 (GASB 45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). GASB 45 requires recognition, and display of OPEB expense/expenditures and related liabilities (assets) with disclosures noted in the financial statements. In FY 2009-10 the District paid both the FY 2009-10 and FY 2010-11 Annual Required Contributions to the California Employers' Retiree Benefit Trust.

Cash flows from Non-Capital Financing Activities continue its downward trend in FY 2010-11 from FY 2009-10 levels as property tax revenue and customer deposits continue to decline.

During FY 2010-11 cash was used for the following capital activities: manhole & pipeline rehabilitation, lift station generator upgrades, lift station on-call unit, geographical information system, customer/accounting information system, sewage facility improvements, and operating and administrative 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 2010-11 from FY 2009-10 due to both low investment yields and declining cash balance held with LAIF.

The District ended the fiscal year with \$12,190,805 in cash and cash equivalents.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2011, the District's total investment in capital assets was \$81,890,256 including \$1,381,668 in non-depreciable assets (land and easements, construction in progress), and \$80,508,588 in depreciable assets (sewage collection and conveyance facilities, administrative facilities, general plant, and administrative equipment). Total depreciation on those assets of \$28,857,748 resulted in net capital assets as of June 30, 2011 of \$53,032,508. As described earlier, the District's net capital assets decreased by \$322,617 during FY 2010-11. 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, 2011

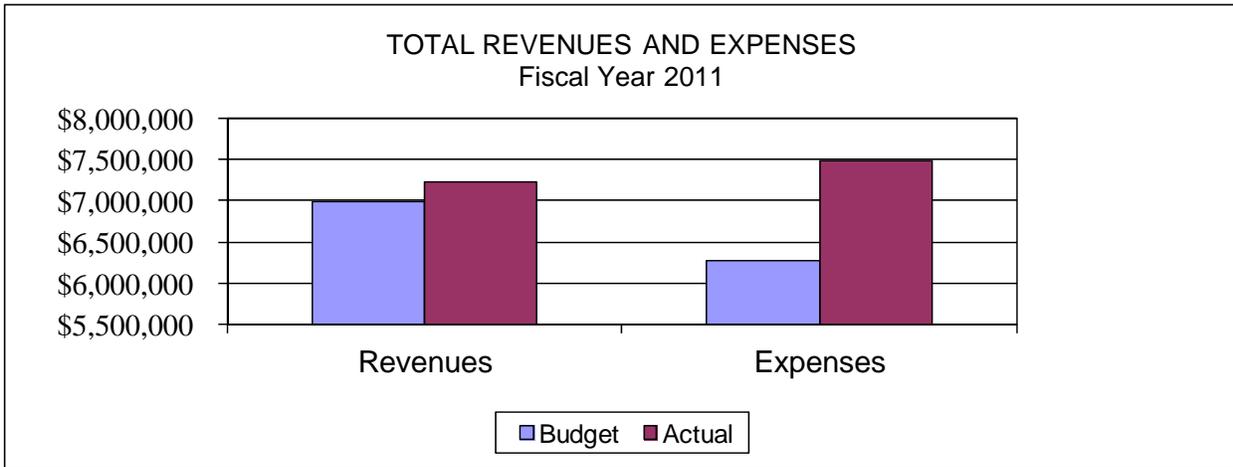
BUDGET ANALYSIS

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

The following table summarizes the budget and actual revenues and expenses for FY 2010-11:

Summary of Fiscal Year 2011 Budget

	FY 11	FY 11	Budget to Actual	
	Budget	Actual	\$	%
Revenues	\$ 6,981,400	\$ 7,231,458	\$ 250,058	104%
Expenses	\$ 6,279,850	\$ 7,491,212	(\$ 1,211,362)	119%
Excess Revenue Over Expenses	\$ 701,550	(\$ 259,754)	\$ 961,304	5%



The table shows the District received \$250,058 more in revenue than anticipated in the final FY 2010-11 budget. The main revenue sources providing most of the increase are work order revenue (\$163,609), inspection fees (\$37,981), and sewer service charges (\$23,620) as a result of more development projects being completed than anticipated. Actual property tax revenue was less than anticipated (\$72,047) as property tax re-assessments continue its downward trend.

Total expenses exceeded the final budget by 119%. As stated previously, the pension risk pool payoff used \$1.5 million cash. This expenditure was not scheduled in the budget and needed to be paid during FY 2010-11 to realize a cost savings budgeted to begin in FY 2011-12.

Truckee Sanitary District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District's overall financial outlook continues to be positive, but guarded, during a time when the region and the state are struggling economically. 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. Although real estate and development activities are currently focused on foreclosure-related acquisitions in FY 2010-11 compared to FY 2009-10, the District service area continues to be an attractive place for second-home purchases. There are a few high-end subdivisions still building with a significant number of custom-built vacation homes and estates. The FY 2011-12 budget, adopted by the Board of Directors in June, 2011, anticipates receipt of \$6,637,300 in total revenue, a decrease of 8% from FY 2010-11 actual income. The District expects reduced income earnings in FY 2011-12 for activities related to land development services and inspections since building-related activity levels are not expected to improve for a few years. Property tax revenue is expected to decline and interest earnings are estimated to yield less than 1%.

The FY 2011-12 budget shows \$6,252,500 in planned general fund expenditures, a decrease of 17% (\$1.2 million) from last year's actual expenditures. This variance is attributed to the one-time pension payoff expenditure in FY 2010-11, discussed previously. Although costs have increased for many liability and benefit insurance premiums, budgeted General Fund expenses have decreased slightly from FY 2010-11 to FY 2011-12.

The District has taken the following budgetary actions to control expenditures where possible without compromising service to the public or job performance:

- Reduced employer pension contributions
- No electrical bills for the entire year at the Joerger Drive facilities (on solar)
- No cost of living adjustments to salaries are scheduled to occur in FY 2011-12
- Benefit cost containment efforts
- Hiring freeze
- Cost-sharing with other local agencies where feasible

The District continues to review both revenue and expenditure opportunities to improve its financial position, without undue burden being placed on either its customer base or its workforce.

Truckee Sanitary District
STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

ASSETS

<u>Current Assets:</u>	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents	\$ 9,012,908	\$ 9,706,965
Accrued Interest Receivable	12,345	14,255
Accounts Receivable	223,404	253,403
Taxes Receivable	181,973	189,546
Parts and Supplies Inventory	170,240	183,977
Prepaid Expense	<u>38,794</u>	<u>531,958</u>
Total Current Assets	<u>\$ 9,639,664</u>	<u>\$ 10,880,104</u>
 <u>Restricted Assets:</u>		
Cash and Cash Equivalents	\$ 3,177,897	\$ 3,135,563
Accrued Interest Receivable	<u>3,639</u>	<u>4,076</u>
Total Restricted Assets	<u>\$ 3,181,536</u>	<u>\$ 3,139,639</u>
 <u>Other Assets:</u>		
Assessments Receivable - Sierra Meadows	<u>\$ 12,352</u>	<u>\$ 36,336</u>
Total Other Assets	<u>\$ 12,352</u>	<u>\$ 36,336</u>
Net Capital Assets	<u>\$ 53,032,508</u>	<u>\$ 53,355,125</u>
Total Assets	<u><u>\$ 65,866,060</u></u>	<u><u>\$ 67,411,204</u></u>

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

Truckee Sanitary District

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

<u>Current Liabilities (Payable from Current Assets):</u>	<u>2011</u>	<u>2010</u>
Accounts Payable	\$ 101,283	\$ 115,127
Contract Retentions Payable	19,111	
Accrued Payroll Deductions	151,650	119,109
Compensated Absences Payable	672,704	638,585
Customer Deposits	<u>253,648</u>	<u>425,798</u>
Total Current Liabilities (Payable from Current Assets)	<u>\$ 1,198,396</u>	<u>\$ 1,298,619</u>
 <u>Current Liabilities (Payable from Restricted Assets):</u>		
Accounts Payable	<u>\$</u>	<u>\$ 4,819</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$</u>	<u>\$ 4,819</u>
Total Current Liabilities	<u>\$ 1,198,396</u>	<u>\$ 1,303,438</u>
 <u>Noncurrent Liabilities:</u>		
Trust Fund Payable - Sewer Assessment Districts Maintenance Fund	<u>\$ 632,045</u>	<u>\$ 628,970</u>
Total Liabilities	<u>\$ 1,830,441</u>	<u>\$ 1,932,408</u>
 <u>Net Assets:</u>		
Invested in Capital Assets	\$ 53,032,508	\$ 53,355,125
Restricted for Martis Valley Interceptor Maintenance	221,528	220,450
Restricted for Capital Expense	2,213,138	2,136,470
Restricted for Landfill Cleanup	114,825	148,930
Unrestricted	<u>8,453,620</u>	<u>9,617,821</u>
Total Net Assets	<u>\$ 64,035,619</u>	<u>\$ 65,478,796</u>
Total Liabilities & Net Assets	<u>\$ 65,866,060</u>	<u>\$ 67,411,204</u>

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

Truckee Sanitary District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Years Ended June 30, 2011 and 2010

<u>Operating Revenues:</u>	<u>2011</u>	<u>2010</u>
Service Charges	\$ 2,467,520	\$ 2,449,224
Inspection and Cancellation Fees	52,981	43,446
Other Services	<u>183,609</u>	<u>11,868</u>
Total Operating Revenue	<u>\$ 2,704,110</u>	<u>\$ 2,504,538</u>
<u>Operating Expenses:</u>		
Operations and Maintenance	\$ 5,240,436	\$ 3,828,464
Administrative and General	2,250,776	2,321,713
Depreciation	<u>1,942,237</u>	<u>1,911,477</u>
Total Operating Expenses	<u>\$ 9,433,449</u>	<u>\$ 8,061,654</u>
Operating Loss	(<u>\$ 6,729,339</u>)	(<u>\$ 5,557,116</u>)
<u>Non-Operating Revenues:</u>		
Tax Revenue	\$ 4,240,453	\$ 4,415,060
Interest Earned	120,508	79,512
Rents and Leases	8,879	8,435
Gain on Disposal of Capital Assets	3,225	550
Other Revenue	<u>91,454</u>	<u>288,780</u>
Total Non-Operating Revenue	<u>\$ 4,464,519</u>	<u>\$ 4,792,337</u>
Net Loss before Contributions	(<u>\$ 2,264,820</u>)	(<u>\$ 764,779</u>)
<u>Capital Contributions:</u>		
Dedicated Land and Improvements	\$ 755,589	\$ 512,088
Connection Fees	<u>66,054</u>	<u>85,650</u>
	<u>\$ 821,643</u>	<u>\$ 597,738</u>
Change in Net Assets	(<u>\$ 1,443,177</u>)	(<u>\$ 167,041</u>)
Net Assets, Beginning of Year	<u>65,478,796</u>	<u>65,645,837</u>
Net Assets, End of Year	<u><u>\$ 64,035,619</u></u>	<u><u>\$ 65,478,796</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, 2011 and 2010

<u>Cash Flows From Operating Activities:</u>	<u>2011</u>	<u>2010</u>
Receipts from Customers	\$ 2,734,109	\$ 2,482,089
Payments to Suppliers	(3,763,236)	(4,326,525)
Payments to Employees	(3,166,148)	(3,065,389)
Other Payments	(6,930)	(10,810)
Net Cash Used by Operating Activities	(\$ 4,202,205)	(\$ 4,920,635)
<u>Cash Flows From Non-Capital Financing Activities:</u>		
Taxes Collected	\$ 4,248,026	\$ 4,446,873
Increase/(Decrease) in Customer Deposits	(172,150)	161,233
Other Non-Operating Revenues	100,333	716,988
Increase in Trust Funds Payable	3,075	4,099
Net Cash Provided by Non-Capital Financing Activities	\$ 4,179,284	\$ 5,329,193
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Capital Contributions	\$ 66,054	\$ 85,650
Acquisition of Capital Assets	(848,571)	(1,793,904)
Proceeds from Sierra Meadows Assessments	23,984	71,104
Proceeds from Sale of Capital Assets	6,876	550
Net Cash Used by Capital and Related Financing Activities	(\$ 751,657)	(\$ 1,636,600)
<u>Cash Flows From Investing Activities:</u>		
Interest Received on Investments	\$ 122,855	\$ 115,460
Net Cash Provided by Investing Activities	\$ 122,855	\$ 115,460
Net Decrease in Cash and Cash Equivalents	(\$ 651,723)	(\$ 1,112,582)
Cash and Cash Equivalents, Beginning of Year	<u>12,842,528</u>	<u>13,955,110</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,190,805</u>	<u>\$ 12,842,528</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, 2011 and 2010

<u>Cash and Cash Equivalents Classified in the Balance Sheet:</u>	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents:		
Unrestricted	\$ 9,012,908	\$ 9,706,965
Restricted	<u>3,177,897</u>	<u>3,135,563</u>
	<u>\$ 12,190,805</u>	<u>\$ 12,842,528</u>
<u>Reconciliation of Operating Loss</u>		
<u>to Net Cash Used by Operating Activities:</u>		
Operating Loss	(\$ 6,729,339)	(\$ 5,557,116)
Adjustments to Reconcile Operating Loss		
to Net Cash Used for Operating Activities:		
Depreciation	\$ 1,942,237	\$ 1,911,477
(Increase) Decrease in:		
Accounts Receivable	29,999	(22,449)
Inventories	13,737	(22,149)
Prepaid Expenses	493,164	(513,514)
Increase (Decrease) in:		
Accounts Payable	(18,663)	(778,983)
Accrued Compensated Absences	34,119	43,966
Accrued Payroll Deductions	<u>32,541</u>	<u>18,133</u>
Total Adjustments	<u>\$ 2,527,134</u>	<u>\$ 636,481</u>
Net Cash Used by Operating Activities	<u>(\$ 4,202,205)</u>	<u>(\$ 4,920,635)</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	\$ 821,643	\$ 597,738
Less - Contributions of Land and Improvements	<u>(755,589)</u>	<u>(512,088)</u>
Cash Provided by Contributions	<u>\$ 66,054</u>	<u>\$ 85,650</u>
<u>Capital Asset Acquisition:</u>		
Acquisition of Capital Assets	(\$ 867,682)	(\$ 1,793,904)
Increase/(Decrease) in Payables	<u>19,111</u>	<u> </u>
Cash Used for Capital Asset Acquisitions	<u>(\$ 848,571)</u>	<u>(\$ 1,793,904)</u>

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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 & Description of the District:

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

B. Description of the Reporting Entity:

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

C. Accounting Policies:

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

The Enterprise fund applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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

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

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. The District had no related debt of as of June 30, 2011 and 2010 respectively.
- *Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

E. Budgetary Control:

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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 & 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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010, accrued vacation and vested sick leave benefits totaled \$672,704 and \$638,585, respectively.

M. Revenue Recognition - Property Taxes:

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

N. Operating/Non-Operating Revenue and Expenses:

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

O. Restricted Net Assets:

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

Sewer Assessment District (SAD) 5 Fund - this fund is required to segregate the assessments collected for retirement of Sewer Assessment Districts 5 bonds. These funds were transferred from Nevada County to the District in 1990 to be used for maintenance of the original improvements within SAD 5.

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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

O. Restricted Net Assets (Continued):

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

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

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

P. Board Designated Net Assets:

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

Major Improvements - This reserve was established to segregate excess administrative, maintenance, and operation funds to be used for the construction and acquisition of capital assets. The balance of the reserve as of June 30, 2011 and 2010 was \$1,842,073 and \$1,760,159, respectively.

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

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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

P. Board Designated Net Assets (Continued):

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

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

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

Q. Pension Plan:

The District sponsors an agent multiple-employer pension plan which covers all eligible full-time and part-time employees. For more information about the pension plan see Note 5.

R. Other Post-Employment Benefits Plan:

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

S. Medical Benefits:

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

T. Subsequent Events Review:

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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

U. Reclassifications:

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

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS:

A. Deposits and Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires California banks and savings and loans to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the District's carrying value of the deposits (demand deposits and certificates of deposit).

At June 30, 2011 and 2010, the carrying amounts of the District's deposits were \$34,117 and \$27,584, respectively. The bank balances were \$42,911 and \$40,034, respectively. The District's bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) subject to certain limits. At June 30, 2011, and 2010 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, 2011 and 2010

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:

	2011		2010	
	Carrying Amount	Market Value	Carrying Amount	Market Value
LAIF	<u>\$ 12,156,138</u>	<u>\$ 12,175,302</u>	<u>\$ 12,814,394</u>	<u>\$ 12,835,458</u>

Structured notes and asset backed securities comprise 5.01% of LAIF's total portfolio for all investors (Fair value of a pool share is 1.001576470. Cost value of a pool share is 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 the 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, 2011 and 2010

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

C. Classification:

<u>Summary of Cash and Investments:</u>	<u>2011</u>	<u>2010</u>
Cash on Hand	\$ 550	\$ 550
Cash Deposits	34,117	27,584
Investments	<u>12,156,138</u>	<u>12,814,394</u>
	<u>\$ 12,190,805</u>	<u>\$ 12,842,528</u>

Balance Sheet Classification:

<u>Cash and Cash Equivalents:</u>		
Unrestricted (1)	\$ 9,012,908	\$ 9,706,965
Restricted	<u>3,177,897</u>	<u>3,135,563</u>
	<u>\$ 12,190,805</u>	<u>\$ 12,842,528</u>

(1) The Designated portion of unrestricted cash (see Note 1P) for major improvements and contingency reserve is \$4,842,073 and \$1,760,159 for 2011 and 2010, respectively.

NOTE 3 RESTRICTED ASSETS:

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

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 3 RESTRICTED ASSETS (Continued):

Restricted and designated assets and related current liabilities as of June 30, 2010 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	\$ 628,105	\$ 2,133,562	\$ 220,147	\$ 153,749	\$ 3,135,563
Accrued Interest Receivable	865	2,908	303		4,076
Total Restricted Assets	<u>\$ 628,970</u>	<u>\$ 2,136,470</u>	<u>\$ 220,450</u>	<u>\$ 153,749</u>	<u>\$ 3,139,639</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>					
Accounts Payable	\$	\$	\$	\$ 4,819	\$ 4,819
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,819</u>	<u>\$ 4,819</u>

NOTE 4 CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2011 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	470,012	800,450	467,393	803,069
Total Capital Assets not being Depreciated	<u>\$ 1,048,611</u>	<u>\$ 800,450</u>	<u>\$ 467,393</u>	<u>\$ 1,381,668</u>
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 67,267,480	\$ 987,156	\$	\$ 68,254,636
Administrative Facilities	7,852,223			7,852,223
General Plant and Administrative Equipment	4,142,983	303,058	44,312	4,401,729
Total Capital Assets being Depreciated	<u>\$ 79,262,686</u>	<u>\$ 1,290,214</u>	<u>\$ 44,312</u>	<u>\$ 80,508,588</u>
Less Accumulated Depreciation for:				
Sewage Collection Facilities	\$ 21,727,185	\$ 1,452,939	\$	\$ 23,180,124
Administrative Facilities	2,467,494	265,548		2,733,042
General Plant and Administrative Equipment	2,761,493	223,751	40,662	2,944,582
Total Depreciation	<u>\$ 26,956,172</u>	<u>\$ 1,942,238</u>	<u>\$ 40,662</u>	<u>\$ 28,857,748</u>
Net Capital Assets	<u>\$ 53,355,125</u>	<u>\$ 148,426</u>	<u>\$ 471,043</u>	<u>\$ 53,032,508</u>

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 4 CAPITAL ASSETS (Continued):

Capital asset activity for the year ended June 30, 2010 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	<u>805,251</u>	<u>1,633,062</u>	<u>1,968,301</u>	<u>470,012</u>
Total Capital Assets not being Depreciated	<u>\$ 1,383,850</u>	<u>\$ 1,633,062</u>	<u>\$ 1,968,301</u>	<u>\$ 1,048,611</u>
<u>Capital Assets being Depreciated:</u>				
Sewage Collection Facilities	\$ 65,973,423	\$ 1,294,057	\$	\$ 67,267,480
Administrative Facilities	6,714,848	1,137,375		7,852,223
General Plant and Administrative Equipment	<u>3,982,413</u>	<u>209,799</u>	<u>49,229</u>	<u>4,142,983</u>
Total Capital Assets being Depreciated	<u>\$ 76,670,684</u>	<u>\$ 2,641,231</u>	<u>\$ 49,229</u>	<u>\$ 79,262,686</u>
Less Accumulated Depreciation for:				
Sewage Collection Facilities	\$ 20,290,615	\$ 1,436,570	\$	\$ 21,727,185
Administrative Facilities	2,235,027	232,467		2,467,494
General Plant and Administrative Equipment	<u>2,568,282</u>	<u>242,440</u>	<u>49,229</u>	<u>2,761,493</u>
Total Depreciation	<u>\$ 25,093,924</u>	<u>\$ 1,911,477</u>	<u>\$ 49,229</u>	<u>\$ 26,956,172</u>
Net Capital Assets	<u>\$ 52,960,610</u>	<u>\$ 2,362,816</u>	<u>\$ 1,968,301</u>	<u>\$ 53,355,125</u>

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 2011 and 2010. 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, 2011 and 2010

NOTE 5 PENSION PLAN (Continued):

CalPERS Board of Administration. The required employer contribution rate was 17.559% and 17.233% for fiscal years 2011 and 2010, 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 2011 and 2010, the District's annual pension costs were \$794,050, and \$753,390, 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>
6/30/2009	\$ 799,644	100%	\$ 0
6/30/2010	\$ 753,309	100%	\$ 0
6/30/2011	\$ 794,060	100%	\$ 0

The required contribution for fiscal year 2011 was determined as part of the June 30, 2008 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 3.25% 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, 2008 was 17 years.

Side Fund Contribution:

The District had a side fund liability because of mandated participation in a risk pool (further described below) of \$1,483,058 as of the June 30, 2008 valuation date. The Board approved funding of this liability prior to June 30, 2011, which

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 5 PENSION PLAN (Continued):

will save the District from paying 7.75% interest per annum on the unfunded liability. This cost is included in the current year cost of operations.

Funding Status and Funding Progress:

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

As of June 30, 2009, the most recent actuarial valuation date, the plan was 57.2% funded. The actuarial accrued liability for benefits was \$2.140 billion and the actuarial value of the assets was \$1.224 billion, resulting in an unfunded actuarial liability (UAAL) of \$916 million. The covered payroll (annual payroll of active employees covered under by the plan) was \$440 million, and the ratio of the UAAL to the covered payroll was 208 %.

NOTE 6 OTHER POST-EMPLOYMENT BENEFITS PLAN:

Plan Description:

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

Plan Benefits:

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

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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 five retirees and receiving benefits and 42 active participants receiving benefits. The Board of Directors has the authority to establish and amend benefit provisions of the Plan.

Annual OPEB Cost and Net OPEB Obligation:

The District is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The ARC for the years ended June 30, 2011 and 2010 was \$279,351 and \$271,215, respectively. The District's current contribution included \$130,155 to fund the amortization of the actuarial accrued liability as determined by the July 1, 2009 actuarial valuation.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, 2011 were as follows:

Annual Required Contribution	\$ 271,215
Interest on OPEB Obligation	
Adjustment to Annual Required Contribution	<u>8,136</u>
Annual OPEB Cost	\$ 279,351
Contributions Made	<u>318,524</u>
Change in Net OPEB Obligation (Asset)	(\$ 39,173)
Net OPEB Obligation (Asset), Beginning of Year	<u>(33,208)</u>
Net OPEB Obligation (Asset), End of Year	<u><u>(\$ 72,381)</u></u>

The adjustment to the annual required contribution for June 30, 2010 includes a contribution of \$285,735 required by CalPERS for the June 30, 2008 year, and a 3% adjustment to the 2008-2009 contribution in the amount of \$7,832 for increased payroll for the year ended June 30, 2009.

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, 2009	\$ 293,567	\$ 307,013	104.58%	\$ 272,289
June 30, 2010	\$ 271,215	\$ 576,712	212.64%	(\$ 33,208)
June 30, 2011	\$ 279,351	\$ 318,524	114.02%	(\$ 72,381)

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 \$39,173 and \$36,609 for the years ended June 30, 2011 and 2010, respectively.

Funding Status and Funding Progress:

As of July 1, 2009, the most recent actuarial valuation date, the plan was 11.7% funded. The actuarial accrued liability was \$2,338,445 and the actuarial value of assets was \$273,687 resulting in an unfunded actuarial accrued liability (UAAL)

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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

of \$2,064,758. The annual covered payroll was \$3,172,066 and the ratio of the UAAL to the annual covered payroll was 73.7%.

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, 2011, two retired District employees are receiving health benefits under the current CalPERS health program. Eligible retired elected officials, retired employees, and their spouses covered under the previous plan receive 100% of the Medicare supplemental policy premiums paid by the District. As of June 30, 2011, four retirees are covered under the previous plan.

NOTE 7 VOTER LEGISLATION:

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

NOTE 8 COMMITMENTS AND CONTINGENCIES:

Commitments - As of June 30, 2011, the District had entered into construction commitments totaling \$301,729, of which \$241,707 had been earned, leaving a remaining balance of \$60,022.

Truckee Sanitary District

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, 2011 and 2010, the District paid \$54,580 and \$50,685, respectively, for insurance coverage under this agreement. A refund of \$7,178 and \$8,746 from previous years was applied to the payments for the fiscal years ended 2011 and 2010, 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 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, 2011 and 2010

NOTE 11 PROPERTY TAXES:

The District has a gross assessed valuation of \$4.999 billion and \$5.221 billion for the fiscal years ended June 30, 2011 and 2010, 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.

The remaining estimated costs of closure and postclosure care were \$23,800 at June 30, 2009. This amount was estimated to be the present value of postclosure care costs remaining. No further amounts were expected to be recognized in future periods at this time. The District has set aside cash for the purposes of paying the remaining remediation costs and has reported this amount as a component of Cash and Cash Equivalents – Restricted Assets on the Statement of Net Assets. For the fiscal year ended 2009, the District applied for and received a matching state grant in the amount of \$645,000 to offset a portion of the remediation costs. The District has earned \$616,026 of that grant to date.

NOTE 13 COMMITMENTS OCCURRING SUBSEQUENT TO YEAR END:

Subsequent to year end, the District entered into a contract for a construction project in the amount of \$193,710.

REQUIRED SUPPLEMENTARY INFORMATION

Truckee Sanitary District

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

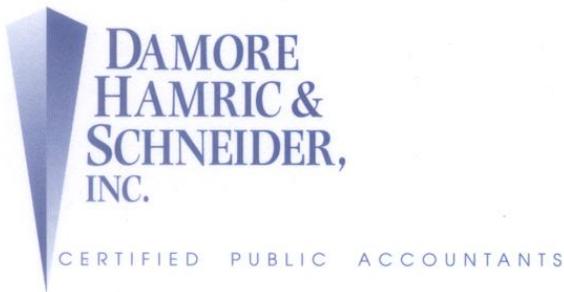
June 30, 2011

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	73.7%

Notes to the Required Supplementary Information

1. 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.
2. Because this is the second valuation under GASB 45, there are only two years of historical information provided. In the future, information from the three most recent valuations will be presented.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Truckee Sanitary District

Our report on our audits of the basic financial statements of the Truckee Sanitary District appears on Pages 3 and 4. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Damore, Hamric & Schneider Inc

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

February 7, 2012

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2011

<u>Revenues:</u>	<u>Budgeted Amounts Original & Final</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance With Budget</u>
Service Charges	\$ 2,443,900	\$ 2,467,520	\$ 23,620
Taxes	4,312,500	4,240,453	(72,047)
Connection Fees	50,000	66,054	16,054
Inspection Fees	15,000	52,981	37,981
Work Order Revenue	20,000	183,609	163,609
Interest Earned	127,500	120,508	(6,992)
Rent and Leases	6,600	8,879	2,279
Other	5,900	91,454	85,554
	<u> </u>	<u> </u>	<u> </u>
Total Revenue	\$ 6,981,400	\$ 7,231,458*	\$ 250,058
 <u>Expenses:</u>			
Administrative and General:			
Salaries and Wages	\$ 808,950	\$ 801,636	\$ 7,314
Payroll Burden	58,325	58,680	(355)
Benefits	549,400	913,697	(364,297)
Directors Fees	18,700	6,930	11,770
Transportation, Gas and Oil	8,000	6,281	1,719
Insurance	140,000	130,365	9,635
Dues and Subscriptions	24,000	25,394	(1,394)
Office Expense	24,000	21,780	2,220
Operating Supplies	15,700	16,777	(1,077)
Safety Supplies	2,000	1,822	178
Professional Services	60,000	22,085	37,915
Legal	50,000	14,629	35,371
Printing and Publications	5,000	285	4,715
Repairs and Maintenance-Vehicles and Equipment	6,200	9,194	(2,994)
Travel and Meetings	42,000	36,243	5,757
Utilities and Telephone	29,000	29,149	(149)
Billing/Collection Expense	100,000	96,855	3,145
Other	27,500	58,974	(31,474)
	<u> </u>	<u> </u>	<u> </u>
Total Administrative and General	\$ 1,968,775	\$ 2,250,776	(\$ 282,001)

* 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, 2011

Operation and Maintenance:	Budgeted Amounts Original & Final	Actual Amounts	Favorable (Unfavorable) Variance With Budget
Salaries and Wages	\$ 2,193,450	\$ 2,220,543	(\$ 27,093)
Payroll Burden	213,925	223,318	(9,393)
Benefits	1,244,600	2,322,350	(1,077,750)
Transportation, Gas and Oil	79,500	65,174	14,326
Operating Supplies	139,900	93,672	46,228
Safety Supplies	19,000	15,949	3,051
Professional Services	36,400	8,496	27,904
Environmental Permits and Fees	6,800	6,053	747
Repairs and Maintenance	160,000	107,033	52,967
Vehicle Maintenance	100,000	46,889	53,111
Travel and Meetings	1,000		1,000
Utilities and Telephone	115,000	115,068	(68)
Other	<u>1,500</u>	<u>15,891</u>	<u>(14,391)</u>
Total Operations and Maintenance	<u>\$ 4,311,075</u>	<u>\$ 5,240,436</u>	<u>(\$ 929,361)</u>
Total Expenses	<u>\$ 6,279,850</u>	<u>\$ 7,491,212</u>	<u>(\$ 1,211,362)</u>
Excess Revenues Over Expenses	<u>\$ 701,550</u>	<u>(\$ 259,754)</u>	<u>(\$ 961,304)</u>

Excess of Expenses Over Budget:

For the year ended June 30, 2011, Employee Benefits exceeded the approved budget due primarily to the unbudgeted one - time retirement contribution of \$1,483,058 to fully fund the District's side fund liability (See Note 5 for additional information). These expenses were covered by revenues that exceeded the approved budget and by available funds from the prior fund balance.