



***TAHOE-TRUCKEE SANITATION AGENCY***

Financial Statements  
Supplementary Information  
and  
Independent Auditor's Report

For the Fiscal Years Ended June 30, 2018 and 2017

Tahoe-Truckee Sanitation Agency

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June 30, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Tahoe-Truckee Sanitation Agency  
Truckee, California

We have audited the accompanying financial statements of the business-type activities of Tahoe-Truckee Sanitation Agency as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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## **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 the Tahoe-Truckee Sanitation Agency as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

### *Change in Accounting Principle*

As discussed in Note 14 to the financial statements, in 2018 the Agency adopted new accounting guidance, *Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 9 and the required supplementary information related to the pension and post-employment healthcare plans on pages 45 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tahoe-Truckee Sanitation Agency's basic financial statements. The supplementary information contained in Schedules 1 and 2, are presented for purposes of additional analysis and are not a required part of the financial statements.

These schedules are the responsibility of management and were derived from and relate 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 supplementary 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

Sacramento, CA

December 5, 2018

## Tahoe-Truckee Sanitation Agency

### MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

The Tahoe-Truckee Sanitation Agency (Agency) is presenting the following discussion and analysis in order to provide a review of the Agency's financial activities for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with T-TSA's financial statements to gain an understanding of the Agency's overall financial position.

#### **FINANCIAL HIGHLIGHTS**

Tahoe-Truckee Sanitation Agency was formed for the purpose of planning, administering, and coordinating wastewater treatment and disposal services throughout the North and West Tahoe and Truckee areas to protect the public health and the environment. Tahoe-Truckee Sanitation Agency is required to meet some of the most stringent discharge requirements in the country. In June of 2008, T-TSA completed an expansion project at a cost of \$75 million to increase overall capacity to 9.6 mgd, which should accommodate growth in the service area population through the year 2020. T-TSA entered into a State Revolving Fund loan with the California State Water Resources Control Board on February 24, 2004 to provide financing for the plant capacity expansion. Over the course of the project, the Agency borrowed \$50.1 million, which it is repaying over 20 years at an annual payment of approximately \$3.2 million. This is a significant factor in assessing the Agency's overall financial activities during the fiscal year ended June 30, 2018.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of the Management Discussion and Analysis report, the Independent Auditor's Report and Basic Financial Statements of the Agency. The financial statements also include the notes to the financial statements, which explain and give further detail of the data provided.

#### **REQUIRED FINANCIAL STATEMENTS**

The Agency's financial statements are prepared in conformity with generally accepted accounting principles as they apply to government units on an accrual basis. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the Agency's assets and liabilities. It presents the financial position of the Agency and provides information about the nature and amount of resources and obligations at fiscal year-end.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of operations over the past year, and can be used to determine whether T-TSA has successfully recovered its costs through service charges and property taxes.

Tahoe-Truckee Sanitation Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

**REQUIRED FINANCIAL STATEMENTS (Continued)**

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides insight into the sources and uses of cash and the changes in cash balances during the reporting period.

**NET POSITION**

Table A-1 Condensed Statement of Net Position summarizes activities leading to a \$507,000 increase in Net Position. FYE 2018 Total Assets and Deferred Outflows of Resources increased due to cash provided by operating activities, noncapital financing activities (property taxes), and interest earned, and were decreased by long-term debt repayment, capital expenditures, and depreciation expense. Pension-related Deferred Outflows, Net Pension Liability, and Deferred Inflows resulting from the GASB 68 adjustments also contributed to the increase in Net Position.

**Table A-1**  
Condensed Statement of Net Position

	FYE 6/30/2018	FYE 6/30/2017	Change in Dollars	Percent Change
Current Assets	\$ 30,525,082	\$ 27,863,168	\$ 2,661,914	10%
Restricted Assets	22,651,768	23,744,590	( 1,092,822)	-5%
Net Capital Assets	<u>83,992,362</u>	<u>86,152,315</u>	( 2,159,953)	-3%
Total Assets	<u>137,169,212</u>	<u>137,760,073</u>	( 590,861)	0%
Deferred Outflows of Resources	<u>4,907,832</u>	<u>3,427,897</u>	<u>1,479,935</u>	43%
Total Assets and Deferred Outflows of Resources	<u>\$ 142,077,044</u>	<u>\$ 141,187,970</u>	<u>\$ 889,074</u>	1%
Current Liabilities Unrestricted	\$ 1,541,236	\$ 1,397,179	\$ 144,057	10%
Current Liabilities Restricted	3,005,420	2,981,217	24,203	1%
Long-Term Liabilities	<u>42,365,047</u>	<u>41,998,515</u>	<u>366,532</u>	1%
Total Liabilities	<u>46,911,703</u>	<u>46,376,911</u>	<u>534,792</u>	1%
Deferred Inflows of Resources	<u>1,190,187</u>	<u>1,342,483</u>	( 152,296)	-11%
Total Liabilities and Deferred Inflows of Resources	<u>\$ 48,101,890</u>	<u>\$ 47,719,394</u>	<u>\$ 382,496</u>	1%
Net Investment in Capital Assets	\$ 55,716,366	\$ 55,427,663	\$ 288,703	1%
Restricted for Waste Water Capital Reserve	19,206,979	20,294,802	( 1,087,823)	-5%
Restricted for State Loan Repayment	2,951,690	2,917,227	34,463	1%
Unrestricted	<u>16,100,119</u>	<u>14,828,884</u>	<u>1,271,235</u>	9%
Total Net Position	<u>\$ 93,975,154</u>	<u>\$ 93,468,576</u>	<u>\$ 506,578</u>	1%

Tahoe-Truckee Sanitation Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

**CHANGE IN NET POSITION**

Table A-2 represents the change in the Agency's net position. Operating expenses for FYE 2018 increased by approximately \$1.9 million to \$16.3 million, primarily due to pension expense adjustments under GASB 68.

The Agency relies on property tax revenue, classified as non-operating revenue, to fund a portion of its general and administrative operating expenses. Property tax revenue increased to \$3.5 million FYE 2018 compared to \$3.3 million for FYE 2017. T-TSA also relies on connection fee income for capital improvement projects, which decreased to \$1.0 million in FYE 2018 from \$1.3 million in FYE 2017 due to a reduction in residential and commercial construction projects.

**Table A-2**  
Condensed Statement of Revenues, Expenses and Changes in Net Position

	FYE 6/30/2018	FYE 6/30/2017	Change in Dollars	Percent Change
Operating Revenues/Service Charges	\$ 12,543,300	\$ 12,487,274	\$ 56,026	0%
Operating Expenses	<u>16,335,023</u>	<u>14,463,376</u>	<u>1,871,647</u>	13%
Net Operating Loss	(\$ 3,791,723)	(\$ 1,976,102)	(\$ 1,815,621)	92%
Property Tax Revenues	\$ 3,458,387	\$ 3,278,320	\$ 180,067	5%
Other Non-Operating Revenues & Expenses	<u>72,043</u>	<u>(357,497)</u>	<u>429,540</u>	- 120%
Non-Operating Revenues & Expenses	<u>\$ 3,530,430</u>	<u>\$ 2,920,823</u>	<u>\$ 609,607</u>	21%
Income (Loss) before Capital Contributions	(\$ 261,293)	\$ 944,721	(\$ 1,206,014)	- 128%
Capital Contributions/Connection Fees	<u>1,033,400</u>	<u>1,257,624</u>	<u>(224,224)</u>	- 18%
Change in Net Position	<u>\$ 772,107</u>	<u>\$ 2,202,345</u>	<u>(\$ 1,430,238)</u>	- 65%
Net Position, Beginning of Year, Before Restatement	\$ 93,468,576	\$ 91,266,231	\$ 2,202,345	2%
Prior Period Adjustment per Implementation of GASB 75 (Note 8)	<u>(265,529)</u>	<u>                    </u>	<u>(265,529)</u>	100%
Net Position, Beginning of Year, After Restatement	<u>\$ 93,203,047</u>	<u>\$ 91,266,231</u>	<u>\$ 1,936,816</u>	2%
Ending Net Position	<u>\$ 93,975,154</u>	<u>\$ 93,468,576</u>	<u>\$ 506,578</u>	1%

Tahoe-Truckee Sanitation Agency

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

**BUDGETARY HIGHLIGHTS**

Table A-3 demonstrates an overall positive variance in property tax revenues and operating expenses. Setting adequate levels of rates and charges have resulted in the Agency’s ability to operate and maintain its facilities and to service debt requirements. Actual Operations & Maintenance expenses did not exceed budgeted amounts due to a combination of improved efficiencies and pension expense adjustments as mentioned under changes in net position above.

**Table A-3**  
Budgeted Summary

	Budget	Actual	Positive (Negative) Variance
Service & Other Charge Revenue	\$ 12,600,000	\$ 12,543,300	(\$ 56,700)
Property & In Lieu Tax Revenue	1,700,000	3,458,387	1,758,387
Total Operating Revenue	<u>\$ 14,300,000</u>	<u>\$ 16,001,687</u>	<u>\$ 1,701,687</u>
Operations & Maintenance	\$ 12,695,000	\$ 11,694,006	\$ 1,000,994
Administrative & General	1,605,000	1,659,139	( 54,139)
Total Operating Expenses	<u>\$ 14,300,000</u>	<u>\$ 13,353,145</u>	<u>\$ 946,855</u>
Total Positive Variance	<u>\$ 0</u>	<u>\$ 2,648,542</u>	<u>\$ 2,648,542</u>

**CAPITAL ASSETS AND LONG TERM DEBT**

In October 2008, the Agency began making payments of \$3.2 million per year to repay the State Revolving Fund Loan. The SRF loan the Agency received has a fixed 2.6% rate, which consists of 1.6% in interest and a 1% service charge and is repayable over 20 years.

**OTHER ECONOMIC FACTORS AFFECTING FUTURE FINANCIAL POSITION AND OPERATIONS**

The key economic factors affecting T-TSA’s future financial position and operations are the fluctuations of the local construction market, the rate of inflation, and future cost increases of equipment and materials.

Tahoe-Truckee Sanitation Agency

STATEMENTS OF NET POSITION

June 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

<u>Current Assets:</u>	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 29,697,504	\$ 27,109,009
Accrued Interest Receivable	141,393	62,812
Accounts Receivable	271,571	285,786
Inventory	111,137	121,902
Due from Other Governmental Agencies	<u>303,477</u>	<u>283,659</u>
Total Current Assets	<u>\$ 30,525,082</u>	<u>\$ 27,863,168</u>
<u>Restricted Assets:</u>		
Cash and Cash Equivalents	\$ 22,517,234	\$ 23,685,825
Accrued Interest Receivable	105,291	53,406
Accounts Receivable - Connection Fees	<u>29,243</u>	<u>5,359</u>
Total Restricted Assets	<u>\$ 22,651,768</u>	<u>\$ 23,744,590</u>
<u>Non-Current Assets:</u>		
Net Capital Assets	<u>\$ 83,992,362</u>	<u>\$ 86,152,315</u>
Total Assets	<u>\$ 137,169,212</u>	<u>\$ 137,760,073</u>
<u>Deferred Outflows of Resources:</u>		
Deferred Pension Outflows (Note 7)	\$ 4,325,072	\$ 3,427,897
Deferred OPEB Outflows (Note 8)	<u>582,760</u>	<u></u>
Total Deferred Outflows of Resources	<u>\$ 4,907,832</u>	<u>\$ 3,427,897</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 142,077,044</u></u>	<u><u>\$ 141,187,970</u></u>

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

Tahoe-Truckee Sanitation Agency

STATEMENTS OF NET POSITION

June 30, 2018 and 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

<u>Current Liabilities (Payable from Current Assets):</u>	<u>2018</u>	<u>2017</u>
Accounts Payable	\$ 490,501	\$ 387,003
Compensated Absences Payable	914,334	914,144
Customer Deposits	400	200
Accrued Expenses	<u>136,001</u>	<u>95,832</u>
Total Current Liabilities (Payable from Current Assets)	<u>\$ 1,541,236</u>	<u>\$ 1,397,179</u>
<u>Current Liabilities (Payable from Restricted Assets):</u>		
Accounts Payable	\$ 2,982	\$
Accrued Interest Payable	490,117	532,561
Loan Payable - State of California, Current Portion	<u>2,512,321</u>	<u>2,448,656</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 3,005,420</u>	<u>\$ 2,981,217</u>
<u>Long-Term Liabilities:</u>		
Loan Payable - State of California, Net of Current Portion	\$ 25,763,675	\$ 28,275,996
Net Pension Liability (Note 7)	15,830,320	13,722,519
Net OPEB Liability (Note 8)	<u>771,052</u>	<u></u>
Total Long-Term Liabilities	<u>\$ 42,365,047</u>	<u>\$ 41,998,515</u>
<u>Deferred Inflows of Resources:</u>		
Deferred Pension Inflows (Note 7)	<u>\$ 1,190,187</u>	<u>\$ 1,342,483</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 48,101,890</u>	<u>\$ 47,719,394</u>
<u>Net Position:</u>		
Net Investment in Capital Assets	\$ 55,716,366	\$ 55,427,663
Restricted for Waste Water Capital Reserve	19,206,979	20,294,802
Restricted for State Loan Repayment	2,951,690	2,917,227
Unrestricted	<u>16,100,119</u>	<u>14,828,884</u>
Total Net Position	<u>\$ 93,975,154</u>	<u>\$ 93,468,576</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 142,077,044</u>	<u>\$ 141,187,970</u>

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

Tahoe-Truckee Sanitation Agency

STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION

For the Fiscal Years Ended June 30, 2018 and 2017

<u>Operating Revenues:</u>	<u>2018</u>	<u>2017</u>
Service Charges	\$ 12,534,980	\$ 12,477,179
Other Services	8,320	10,095
Total Operating Revenues	<u>\$ 12,543,300</u>	<u>\$ 12,487,274</u>
 <u>Operating Expenses:</u>		
Operations & Maintenance	\$ 11,694,006	\$ 10,185,900
Administrative & General	1,659,139	1,314,491
Depreciation	<u>2,981,878</u>	<u>2,962,985</u>
Total Operating Expenses	<u>\$ 16,335,023</u>	<u>\$ 14,463,376</u>
Operating Loss	<u>(\$ 3,791,723)</u>	<u>(\$ 1,976,102)</u>
 <u>Non-Operating Revenues:</u>		
Property Taxes	\$ 3,222,300	\$ 3,046,098
Interest Earned	738,628	375,845
Interest Expense	( 756,398)	( 819,525)
In-Lieu Taxes	236,087	232,222
Aid from Other Governmental Agencies	25,463	24,897
Other Income	<u>64,350</u>	<u>61,286</u>
Total Non-Operating Revenues	<u>\$ 3,530,430</u>	<u>\$ 2,920,823</u>
Net Income (Loss) Before Capital Contributions	<u>(\$ 261,293)</u>	<u>\$ 944,721</u>
Capital Contributions - Connection Fees	<u>1,033,400</u>	<u>1,257,624</u>
Change in Net Position	<u>\$ 772,107</u>	<u>\$ 2,202,345</u>
Net Position, Beginning of Year, Before Restatement	\$ 93,468,576	\$ 91,266,231
Prior Period Adjustment per Implementation of GASB 75 (Note 8)	<u>( 265,529)</u>	<u>                    </u>
Net Position, Beginning of Year, After Restatement	<u>\$ 93,203,047</u>	<u>\$ 91,266,231</u>
Net Position, End of Year	<u><u>\$ 93,975,154</u></u>	<u><u>\$ 93,468,576</u></u>

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

Tahoe-Truckee Sanitation Agency

STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended June 30, 2018 and 2017

<u>Cash Flows from Operating Activities:</u>	<u>2018</u>	<u>2017</u>
Receipts from Customers	\$ 12,557,715	\$ 12,494,759
Payments to Suppliers	( 3,814,346)	( 3,715,069)
Payments to Employees	( 8,397,884)	( 8,293,125)
Other Payments	( 5,200)	( 4,100)
Net Cash Provided by Operating Activities	<u>\$ 340,285</u>	<u>\$ 482,465</u>
<u>Cash Flows from Noncapital Financing Activities:</u>		
Property Taxes Collected	\$ 3,202,482	\$ 3,056,873
Aid from Other Governmental Agencies and Other Income	<u>325,900</u>	<u>318,404</u>
Net Cash Provided by Noncapital Financing Activities	<u>\$ 3,528,382</u>	<u>\$ 3,375,277</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition of Capital Assets	(\$ 818,943)	(\$ 668,069)
Principal Payment on Loan	( 2,448,656)	( 2,386,605)
Interest Payments on Loan	( 798,842)	( 860,892)
Capital Contributions	<u>1,009,516</u>	<u>1,329,267</u>
Net Cash Used by Capital and Related Financing Activities	<u>(\$ 3,056,925)</u>	<u>(\$ 2,586,299)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received on Investments	<u>\$ 608,162</u>	<u>\$ 325,917</u>
Net Cash Provided by Investing Activities	<u>\$ 608,162</u>	<u>\$ 325,917</u>
Net Increase in Cash and Cash Equivalents	\$ 1,419,904	\$ 1,597,360
Cash and Cash Equivalents, Beginning of Year	<u>50,794,834</u>	<u>49,197,474</u>
Cash and Cash Equivalents, End of Year	<u>\$ 52,214,738</u>	<u>\$ 50,794,834</u>
<u>Cash and Cash Equivalents Classified in the Balance Sheet:</u>		
Current Assets	\$ 29,697,504	\$ 27,109,009
Restricted Assets	<u>22,517,234</u>	<u>23,685,825</u>
	<u>\$ 52,214,738</u>	<u>\$ 50,794,834</u>

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

Tahoe-Truckee Sanitation Agency

STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended June 30, 2018 and 2017

Reconciliation of Operating Loss

to Net Cash Provided by Operating Activities:

	<u>2018</u>	<u>2017</u>
Operating Loss	(\$ 3,791,723)	(\$ 1,976,102)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	\$ 2,981,878	\$ 2,962,985
Prior Period Adjustment	( 265,529)	
Changes in Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources:		
(Increase) Decrease in:		
Accounts Receivable	14,215	8,785
Inventory	10,765	( 27,592)
Deferred Outflows of Resources	( 1,479,935)	( 2,840,292)
Increase (Decrease) in:		
Accounts Payable	103,498	28,014
Accrued Compensated Absences	190	( 141,073)
Customer Deposits	200	( 1,300)
Accrued Expenses	40,169	47,061
Deferred Inflows of Resources	( 152,296)	( 622,523)
Net Pension Liability	2,107,801	3,044,502
Net OPEB Liability	771,052	
Total Adjustments	<u>\$ 4,132,008</u>	<u>\$ 2,458,567</u>
Net Cash Provided by Operating Activities	<u>\$ 340,285</u>	<u>\$ 482,465</u>

Capital and Related Financing Activities

Acquisition of Capital Assets	\$ 821,925	\$ 643,019
(Increase)/Decrease in Accounts Payable	( 2,982)	25,050
Cash Used for Acquisition of Capital Assets	<u>\$ 818,943</u>	<u>\$ 668,069</u>

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

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization and Description of the Agency - The Tahoe-Truckee Sanitation Agency was formed in May 1972, under the provisions of the Tahoe-Truckee Sanitation Agency Act that was passed by the State Legislature and signed into law by the Governor on November 17, 1971. The Agency consists of all the area within the following five districts:

- (1) Alpine Springs County Water District
- (2) North Tahoe Public Utility District
- (3) Squaw Valley Public Service District
- (4) Tahoe City Public Utility District
- (5) Truckee Sanitary District

The Truckee Sanitary District services a portion of Northstar Community Services District through contract.

The Agency was formed to provide major sewage facilities for the North and West Lake Tahoe Area, Alpine Meadows, Squaw Valley, Truckee River, Donner Lake and Martis Valley areas. The facilities of the Agency have been receiving sewage collected by each of the five districts and has been transporting it to its treatment disposal site since February 1978.

The Reporting Entity:

The Agency, for financial purposes, includes all of the funds relevant to the operations of the Tahoe-Truckee Sanitation Agency. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Tahoe-Truckee Sanitation Agency.

One entity that is not a part of the Agency's reporting entity but was in part, created by the Agency for special purposes, is accounted for as a jointly governed organization. Additional information regarding the Agency's jointly governed organization is provided in Notes 10 and 11. The following is a description of the jointly owned organization in which the Agency participates.

The California Sanitation Risk Management Authority (CSRMA) was created by a Joint Exercise of Powers Agreement between the Tahoe-Truckee Sanitation Agency and several other member Agencies. The Authority is organized under Government Code Section 6500 as a separate and distinct public entity and is governed by a Board comprised of one member appointed by the governing body of each party to the agreement. The governing board appoints its own management and approves its own budget.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- B. Basis of Accounting - The accounting policies of the Agency 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.

Operating revenues are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The entity is a special purpose governmental enterprise fund that operates as a stand-alone business-type.

- C. 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 assets 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 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 Agency had debt of \$28,275,996 and \$30,724,652 as of June 30, 2018 and 2017, respectively.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

C. Financial Statements Presentation (Continued):

- *Restricted* - This component of net position 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 position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

D. Budgetary Control - The Board adopts an operating budget at the beginning of each year.

E. Cash, Certificates of Deposit and Savings - Deposits of the Agency are located at various financial institutions within the state and are recorded at cost. (See Note 2 for additional disclosure of Agency deposits.)

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

F. Investments - Investments in equity securities with readily determinable fair values, open-end mutual funds, and debt securities are valued at their fair values in the balance sheet. Investments in external investment pools are valued on the basis of \$1 in the statement of net position.

G. Accounts Receivable - The accounts receivable consist of charges for service fees, connection fees and property taxes. Fees are considered to be fully collectible, since the Agency liens the property for unpaid charges. Therefore, no allowance for uncollectible fees is provided.

H. Capital Assets - Capital assets are defined by the Agency as assets with an initial, individual cost of \$1,000 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:

Utility Plant	20 - 50 Years
Machinery and Equipment	4 - 8 Years

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

H. Capital Assets (Continued):

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.

I. Restricted Net Position - Legally segregated net position is recorded as restricted. The Agency has the following restricted net assets:

- *Waste Water Capital Expense* - The restricted net assets consist of connection fees and the earnings thereon and are restricted for the acquisition and/or construction of sewer infrastructure necessary to increase capacity for service.
- *State Loan* - The restricted net assets consist of connection fee revenues pledged as collateral for repayment of the loan upon completion of construction.

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

J. Board-Designated Net Position - The Agency has designated a portion of the unrestricted net position for major Plant Replacement Reserve in order to provide funds for future replacement of plant and equipment. Excess resources from operations are transferred into the reserve each year. The designated balances as of June 30, 2018 and 2017 were \$16,100,119 and \$14,828,884, respectively.

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

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- L. Other Post Employment Benefit Plan - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Agency's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. For information about the OPEB plan, see Note 8.
- M. Compensated Absences - The Agency accrues a liability for unpaid vacation and sick pay in accordance with GASB 16. Sick pay is accumulated at the rate of one day per month. Unused sick leave is to be paid at the rate of 50% upon termination or 100% upon death or retirement. Vacation pay is accumulated at various rates depending on length of service. Vacation pay accrued in excess of 30 days is paid at the end of each year. As of June 30, 2018 and 2017, accrued vacation and vested sick leave benefits totaled \$914,335 and \$914,144, respectively.
- N. 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.
- Property tax revenues are recognized in the fiscal period for which they are levied and in which they become available.
- O. Inventory - Inventory is recorded at lower of cost or market using the first-in, first-out method.
- P. Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities and deferred inflows 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.
- Q. 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.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

R. Reclassifications - Certain amounts in fiscal year 2017 have been reclassified to conform to the fiscal year 2018 presentation.

S. Accounting Pronouncements that have been Implemented in the Current Financial Statements:

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

Governmental Accounting Standards Board Statement No. 85 - In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*, with required implementation for the Agency during the year ended June 30, 2018. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The implementation of this Statement did not have material effect on the financial statements.

T. Newly Issued Accounting Pronouncements, But Not Yet Effective - The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

U. Governmental Accounting Standards Board Statement No. 90 - In August 2018, the GASB issued Statement No. 90 –*Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61* with required implementation for the Agency during the year ended June 30, 2020. The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The impact of the implementation of this Statement to the Agency’s financial statements has not been assessed at this time.

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

Contributions made to the Agency’s pension plan after the measurement date but before the fiscal year-end are recorded as a deferred outflow of resources. Additional factors involved in the calculation of the Agency’s pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between the Agency’s contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 7 for further details related to these pension deferred outflows and inflows.

W. Deferred Outflow/Deferred Inflow of Resources - OPEB - Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 2 CASH, CASH EQUIVALENTS, AND INVESTMENTS:

A. Deposits:

The carrying amounts of the Agency's deposits were \$566,582 and \$641,126 while the banks' balances were \$676,044 and \$729,334 for the years ended June 30, 2018 and 2017, respectively. Of these amounts, \$500,000 and \$359,572 were covered by federal depository insurance. The remaining balances of \$176,044 and \$369,762 for the years ended June 30, 2018 and 2017, respectively, were exposed to custodial credit risk with deposits uninsured and collateralized with securities held by the pledging financial institution or its agent but not in the Agency's name.

*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 total amount deposited by public agencies. All deposits in excess of insurance from the Federal Deposit Insurance Corporation are collateralized with eligible securities, as described by the Agency's investment policy, in amounts equal to at least 110% of the Agency's carrying value of the deposits (demand deposits and certificates of deposit).

B. Investments:

*Investment in Local Agency Investment Fund* - The Agency'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 Agency is a voluntary participant in the investment pool. LAIF, being an investment pool, is subject to fair value measurement; however, as they are not measured at fair value, they are not subject to the fair value hierarchy.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

B. Investments (Continued):

As of the end of the year, the Agency had the following investments:

	2018		2017	
	Carrying Amount	Market Value	Carrying Amount	Market Value
LAIF	\$ 51,648,156	\$ 51,551,412	\$ 50,153,708	\$ 50,100,579

Structured notes and asset-backed securities comprised 2.67% and 2.89% of LAIF's total portfolio for all investors as of June 30, 2018 and 2017, respectively. Fair value of a pool share was \$0.998126869 and \$0.998940671 for those same periods. The cost value of a pool share was constant at \$1.00.

*Investment Policy* - Statutes authorize the Agency 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 and Poor's Corporation, repurchase or reverse repurchase agreements, and the State's Local Agency Investment Fund (LAIF).

The investment policy set by the directors of the Agency is more conservative than that set by state statute. The policy allows the Agency's treasurer to invest in certificates of deposit, U.S. Treasury Bills and Notes, Placer County Investment Fund, and the LAIF.

*Fair Value of Investments* - The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements).

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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

B. Investments (Continued):

Deposits and withdrawals in governmental investment pools, such as LAIF are made on the basis of \$1 and not fair value. Accordingly, the Agency's proportionate share in these types of investments is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input. The Agency does not have any investments that are subject to the fair value hierarchy at June 30, 2018 or 2017.

*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.

*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. Investments in LAIF are subject to credit risk, with the full faith and credit of the State of California collateralizing these investments. The Agency's investment in LAIF has not been rated by a nationally recognized statistical organization.

<u>Summary of Cash and Investments:</u>	<u>2018</u>	<u>2017</u>
Cash Deposits	\$ 566,582	\$ 641,126
Investments	<u>51,648,156</u>	<u>50,153,708</u>
Total	<u>\$ 52,214,738</u>	<u>\$ 50,794,834</u>

Balance Sheet Classification:

Cash and Cash Equivalents:		
Unrestricted	\$ 29,697,504	\$ 27,109,009
Restricted	<u>22,517,234</u>	<u>23,685,825</u>
Total	<u>\$ 52,214,738</u>	<u>\$ 50,794,834</u>

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 3 ACCOUNTS RECEIVABLE:

The accounts receivable at year-end are comprised of the following:

	<u>2018</u>	<u>2017</u>
Service Charges - Regular Collections	\$ 28,193	\$ 66,226
Property Taxes	192,090	187,976
Other	<u>51,288</u>	<u>31,584</u>
	<u>\$ 271,571</u>	<u>\$ 285,786</u>

As mentioned in the Summary of Significant Accounting Policies, certain accounts receivable uncollected at the end of the year are transferred to the county and become recorded liens on the property, thereby substantially reducing the Agency's exposure to uncollectible accounts. These amounts are presented as due from Other Government Agencies, separate from other accounts receivable.

NOTE 4 RESTRICTED ASSETS:

Restricted assets as of June 30, 2018 are identified by use as follows:

	<u>Waste Water Capital Reserve</u>	<u>State Loan</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 19,565,544	\$ 2,951,690	\$ 22,517,234
Accrued Interest Receivable	105,291		105,291
Accounts Receivable - Connection Fees	<u>29,243</u>		<u>29,243</u>
Total Restricted Assets	<u>\$ 19,700,078</u>	<u>\$ 2,951,690</u>	<u>\$ 22,651,768</u>
<u>Current Liabilities Payable</u>			
<u>from Restricted Assets:</u>			
Accounts Payable	\$ 2,982	\$	\$ 2,982
Accrued Interest Payable	490,117		490,117
Current Portion of Long-Term Debt	<u>2,512,321</u>		<u>2,512,321</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 3,005,420</u>	<u>\$ 0</u>	<u>\$ 3,005,420</u>

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4 RESTRICTED ASSETS (Continued):

Restricted assets as of June 30, 2017 are identified by use as follows:

	Waste Water Capital Reserve	State Loan	Total
Cash and Cash Equivalents	\$ 20,768,598	\$ 2,917,227	\$ 23,685,825
Accrued Interest Receivable	53,406		53,406
Accounts Receivable - Connection Fees	5,359		5,359
	<u>20,827,363</u>	<u>2,917,227</u>	<u>23,744,590</u>
Total Restricted Assets	<u>\$ 20,827,363</u>	<u>\$ 2,917,227</u>	<u>\$ 23,744,590</u>
<u>Current Liabilities Payable</u>			
<u>from Restricted Assets:</u>			
Accrued Interest Payable	\$ 532,561		\$ 532,561
Current Portion of Long-Term Debt	2,448,656		2,448,656
	<u>2,981,217</u>	<u>0</u>	<u>2,981,217</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 2,981,217</u>	<u>\$ 0</u>	<u>\$ 2,981,217</u>

NOTE 5 CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets not being Depreciated:</u>				
Land	\$ 2,174,726	\$	\$	\$ 2,174,726
Total Capital Assets not being Depreciated	<u>\$ 2,174,726</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,174,726</u>
<u>Capital Assets being Depreciated:</u>				
Sewage Treatment and Collection	\$ 139,506,722	\$ 603,710	\$	\$ 140,110,432
General Plant and Equipment	3,982,616	218,215	23,733	4,177,098
Vehicles	1,209,947			1,209,947
Total Capital Assets being Depreciated	<u>\$ 144,699,285</u>	<u>\$ 821,925</u>	<u>\$ 23,733</u>	<u>\$ 145,497,477</u>
Less Accumulated Depreciation for:				
Sewage Treatment and Collection	\$ 56,036,579	\$ 2,797,476	\$	\$ 58,834,055
General Plant and Equipment	3,476,525	170,274	23,733	3,623,066
Vehicles	1,208,592	14,128		1,222,720
Total Depreciation	<u>\$ 60,721,696</u>	<u>\$ 2,981,878</u>	<u>\$ 23,733</u>	<u>\$ 63,679,841</u>
Net Capital Assets	<u>\$ 86,152,315</u>	<u>(\$ 2,159,953)</u>	<u>\$ 0</u>	<u>\$ 83,992,362</u>

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 5 CAPITAL ASSETS (Continued):

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets not being Depreciated:</u>				
Land	\$ 2,174,726	\$	\$	\$ 2,174,726
Total Capital Assets not being Depreciated	\$ 2,174,726	\$ 0	\$ 0	\$ 2,174,726
<u>Capital Assets being Depreciated:</u>				
Sewage Treatment and Collection	\$ 138,962,307	\$ 544,415	\$	\$ 139,506,722
General Plant and Equipment	3,915,350	98,604	31,338	3,982,616
Vehicles	1,209,947			1,209,947
Total Capital Assets being Depreciated	\$ 144,087,604	\$ 643,019	\$ 31,338	\$ 144,699,285
Less Accumulated Depreciation for:				
Sewage Treatment and Collection	\$ 53,244,547	\$ 2,792,032	\$	\$ 56,036,579
General Plant and Equipment	3,353,314	154,549	31,338	3,476,525
Vehicles	1,192,188	16,404		1,208,592
Total Depreciation	\$ 57,790,049	\$ 2,962,985	\$ 31,338	\$ 60,721,696
Net Capital Assets	\$ 88,472,281	(\$ 2,319,966)	\$ 0	\$ 86,152,315

NOTE 6 LONG-TERM DEBT:

Loans Payable - On November 6, 2004, the Agency entered into an agreement with the California State Water Resources Control Board to borrow funds for the construction of additional sewage processing facilities. The California State Water Resources Control Board released Loan funds to the Agency upon submission of expense reports. During the construction phase, the loan accrued interest at an annual fixed rate of 2.6%, which added to the principal balance of the loan. Modification of the loan was required upon completion of the project. The new terms required the Agency to pay an annual interest rate of 1.6% and an annual service charge of 1.0%. The loan began amortization over a 20-year repayment period on October 31, 2008 with equal annual payments of \$3,247,497.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 6 LONG-TERM DEBT (Continued):

As of June 30, 2018, the annual repayment requirements of the loan were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest and Service Charge</u>
2019	\$ 2,512,321	\$ 735,176
2020	2,577,642	669,856
2021	2,644,660	602,837
2022	2,713,422	534,076
2023	2,783,970	463,527
2024-2028	<u>15,043,981</u>	<u>1,193,504</u>
Total Requirements	\$ 28,275,996	\$ 4,198,976
Less - Current Portion	<u>2,512,321</u>	<u>735,176</u>
Long-Term Portion	<u>\$ 25,763,675</u>	<u>\$ 3,463,800</u>

The following is a summary of loan transactions for the years ended June 30, 2018 and 2017:

	<u>Balance July 1,</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30,</u>	<u>Amount Due Within One Year</u>
	<u>2017</u>			<u>2018</u>	
Loans Payable	\$ 30,724,652	\$ 0	\$ 2,448,656	\$ 28,275,996	\$ 2,512,321
	<u>2016</u>			<u>2017</u>	
Loans Payable	\$ 33,111,257	\$ 0	\$ 2,386,605	\$ 30,724,652	\$ 2,448,656

Total interest expense was \$756,398 and \$819,525 for the years ended June 30, 2018 and 2017, respectively. Interest was expensed to operations for both years.

NOTE 7 PENSION:

General Information about the Pension Plan:

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan's benefit provisions are

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

General Information about the Pension Plan (Continued):

Plan Description (Continued) - established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at [www.calpers.ca.gov](http://www.calpers.ca.gov).

The Plan consists of a miscellaneous pool and a safety pool (referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively, including those of the Tahoe-Truckee Sanitation Agency. The Agency’s employer rate plans in the miscellaneous risk pool include the Miscellaneous plan (Miscellaneous) and the PEPRA Miscellaneous plan (PEPRA Miscellaneous). The Agency does not have any rate plans in the safety risk pool.

Benefits Provided - The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA Miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the Optional Settlement 2W Death Benefit, or the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at June 30, 2018 and 2017, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	6.50%
Required employer contribution rates	12.293% as of June 30, 2018 and 12.252% as of June 30, 2017	7.045% as of June 30, 2018 and 7.066% as of June 30, 2017

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

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

The Tahoe-Truckee Sanitation Agency's contributions to the risk pool in the Plan for the years ended June 30, 2018 and 2017, were as follows:

	<u>Miscellaneous Plan</u>	
	<u>2018</u>	<u>2017</u>
Miscellaneous Risk Pool	<u>\$ 1,197,164</u>	<u>\$ 1,081,422</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - As of June 30, 2018 and 2017, the Agency reported net pension liability of \$15,830,320 and \$13,722,519, respectively, for its proportionate share of the net pension liability. The Agency's net pension liability for each risk pool is measured as the proportionate share of each risk pool's net pension liability. GASB 68 indicates that to the extent different contribution rates are assessed based on separate relationships that constitute the collective net pension liability, the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those relationships. The allocation method used by CalPERS to determine each employer's proportionate share reflects those relationships through the employer rate plans they sponsor within the respective risk pools. An actuarial measurement of the employer's rate plan liability and asset-related information are used where available, and proportional allocations of individual employer rate plan amounts as of the valuation date are used where not available.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

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

The Agency's proportionate share of the net pension liability as of June 30, 2016, the valuation date, was calculated as follows:

In determining an employer's proportionate share, the employer rate plans included in the Plan were assigned to either the Miscellaneous or Safety risk pool. Estimates of the total pension liability and the fiduciary net position were first determined for the individual rate plans and each risk pool as of the valuation dates June 30, 2016 and June 30, 2015. Each employer rate plan's fiduciary net position was subtracted from its total pension liability to obtain its net pension liability as of the valuation date. The Agency's proportionate share percentage for each risk pool at the valuation date was calculated by dividing the Tahoe-Truckee Sanitation Agency's net pension liability for each of its employer rate plans within each risk pool by the net pension liability of the respective risk pool as of the valuation date.

The Agency's proportionate share of the net pension liability as of June 30, 2017, the measurement date, was calculated as follows:

Each risk pool's total pension liability was computed at the measurement dates June 30, 2017 and June 30, 2016, by applying standard actuarial roll-forward methods to the total pension liability amounts as of the valuation date. The fiduciary net position for each risk pool at the measurement date was determined by CalPERS' Financial Office. The net pension liability for each risk pool at June 30, 2017, was computed by subtracting the respective risk pool's fiduciary net position from its total pension liability.

The individual employer rate plan's proportionate share percentage of the total pension liability and fiduciary net position as of June 30, 2017, was calculated by applying the Agency's proportionate share percentages as of the valuation date (described above) to the respective risk pool's total pension liability and fiduciary net position as of June 30, 2017, to obtain each employer rate plan's total pension liability and fiduciary net position as of June 30, 2017. The fiduciary net position was then subtracted from the total pension liability to obtain the net pension liability as of the measurement date.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

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

The Agency's proportionate share of the net pension liability for each risk pool as of the measurement date June 30, 2017, was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2016 (Valuation Date)	0.395020%
Proportion - June 30, 2017 (Measurement Date)	<u>0.401576%</u>
Change - Increase	<u>0.006556%</u>

The Agency's proportionate share of the net pension liability for each risk pool as of the measurement date June 30, 2016, was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015 (Valuation Date)	0.389216%
Proportion - June 30, 2016 (Measurement Date)	<u>0.395020%</u>
Change - Increase	<u>0.005804%</u>

The Agency recognized pension expense of \$2,255,495 and \$663,108 at June 30, 2018 and 2017, respectively. Pension expense is comprised of various elements including service cost, interest, changes in benefit terms, investment experience, and the amortization of deferred outflows and inflows of resources, which are all factors used by the actuaries in the calculation of the net pension liability.

At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Pension Contributions Subsequent to Measurement Date	\$ 1,197,164	\$
Changes of Assumptions	2,277,547	
Differences between Expected and Actual Experiences		( 264,324)
Differences between Actual and Required Contributions		( 925,863)
Adjustment due to Differences in Proportions	552,923	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>297,438</u>	
Total	<u>\$ 4,325,072</u>	<u>(\$ 1,190,187)</u>

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

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

It should be noted that a deferred outflow of \$1,197,164 was recognized as pension expense related to contributions subsequent to the measurement date, but the entire amount will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts (i.e. amounts other than contributions subsequent to the measurement date) reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Date Fiscal Year Ending June 30:	Deferred Outflow/(Inflows) of Resources
2018	\$ 301,304
2019	1,141,166
2020	806,659
2021	( 311,408)
Total	<u>\$ 1,937,721</u>

At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 1,081,422	\$
Changes of Assumptions		( 295,656)
Differences between Expected and Actual Experiences	21,151	
Differences between Actual and Required Contributions		( 1,046,827)
Adjustment due to Differences in Proportions	627,339	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>1,697,985</u>	
Total	<u>\$ 3,427,897</u>	<u>(\$ 1,342,483)</u>

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

Actuarial Assumptions – For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 and June 30, 2016 total pension liability was determined using the following actuarial methods and assumptions:

	<u>Miscellaneous</u>
Valuation Date (VD)	June 30, 2016 and 2015
Measurement Date (MD)	June 30, 2017 and 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15% as of June 30, 2016 Valuation Date and 7.65% as of June 30, 2015 Valuation Date
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase (1)	Varies By Age and Length of Service
Investment Rate of Return (2)	7.50%
Mortality Rate Table (3)	Derived using CalPERS' Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment.

(2) Net of pension plan investment and Administrative expenses; including inflation.

(3) The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

Changes of Assumptions – The discount rate changed during the measurement period June 30, 2017. Deferred inflows of resources for changes of assumptions presented in the financial statements represent the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate - The discount rate used to measure the total pension liability were 7.15% and 7.65% for the measurement periods June 30, 2017 and June 30, 2016, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, *GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2017 based on June 30, 2016 Valuations*, that can be obtained from the CalPERS website.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

Discount Rate (Continued):

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.15% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 0 basis points. An investment return excluding administrative expenses would have been 7.50%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the PERF. In making its decision, the Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies and school districts.

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

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

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

Discount Rate (Continued):

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

Asset Class	June 30, 2018		
	New Strategic Allocation	Real Return Years 1 – 10 (a)	Real Return Years 11+ (b)
	Global Equity	47.00%	4.90%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	( 0.40%)	( 0.90%)
Total	100.00%		

Asset Class	June 30, 2017		
	New Strategic Allocation	Real Return Years 1 – 10 (a)	Real Return Years 11+ (b)
	Global Equity	51.00%	5.25%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	( 0.55%)	( 1.05%)
Total	100.00%		

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

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

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 7 PENSION (Continued):

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

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

At June 30, 2018, the discount rate comparison was the following:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability/(Asset)	\$ 23,770,910	\$ 15,830,320	\$ 9,253,784

At June 30, 2017, the discount rate comparison was the following:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability/(Asset)	\$ 20,771,653	\$ 13,722,519	\$ 7,896,761

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS (OPEB):

Plan Description - The Plan provides other post-employment benefits (medical and prescription coverage) to qualified employees, elected officials, and their eligible dependents. The Agency contracts with CalPERS for the medical and prescription coverage (see Note 1 L) CERBT is part of the Public District portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administrated by CalPERS, which acts as a common investment and administrative agent for participating public employees within the State of California. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 Q Street - Sacramento, CA 95811.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS PLAN (Continued):

Benefits Provided - The plan provides post-retirement healthcare benefits to all employees and directors who retire from the Agency on or after attaining age 50 with at least 5 years of service.

Employees Covered - As of the measurement date June 30, 2017, the following current and former employees were covered by the benefit terms under the Plan:

Participating Active employees	48
Inactive employees or beneficiaries currently receiving benefits	48
Inactive employees entitled to, but not yet receiving benefits*	_____
	<u>96</u>

\* Information was not provided about any terminated, vested employees

Contributions - The annual contribution is made on an ad-hoc basis, but in an amount sufficient to fully fund the obligation over the period not to exceed 30 years. For the fiscal year ended June 30, 2018 and 2017, the Agency's contributions were \$582,760 and \$552,462, respectively.

Net OPEB Liability - The Agency's net OPEB liability was measured as of June 30, 2017; the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date based on the following actuarial methods and assumptions:

<u>Actuarial Assumptions:</u>	
Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2017
Actuarial Cost Method	Entry Age
Discount Rate	7.00%
Inflation	2.75%
Trend	4.00%
Payroll Growth	2.75%
Investment Rate of Return (1)	7.00%
Mortality Rate Table (2)	2014 CalPERS Active and Retiree Mortality for Miscellaneous Employees
Pre-Retirement Turnover	2009 CalPERS' Turnover for Miscellaneous Employees
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Net of expenses; Based on long-term return on plan assets assuming 100% funding through CERBT.

(2) Based on the 2014 CalPERS Active Mortality for Miscellaneous Employees.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS PLAN (Continued):

Net OPEB Liability (Continued):

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Percentage of Portfolio</u>	<u>Assumed Gross Return</u>
US Large Cap	43.00%	7.7950%
US Small Cap	23.00%	7.7950%
Long-Term Corporate Bonds	12.00%	5.2950%
Long-term Government Bonds	6.00%	4.5000%
Treasury Inflation Protected Securities (TIPS)	5.00%	7.7950%
US Real Estate	8.00%	7.7950%
All Commodities	3.00%	7.7950%
	100.00%	

Discount Rate - The discount rate used to measure the total OPEB liability was 7.00%. The discount rate is based on assumed long-term expected rate of return on plan assets assuming 100% funding through CERBT. The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, historic 30-year real rates were used for each asset class, along with assumed long-term inflation assumptions. The expected investment returns were offset by investment expenses of 25 basis points.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS PLAN (Continued):

Changes in the OPEB Liability -The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Roll-back Balance at June 30, 2016	\$ 10,222,004	\$ 8,821,253	\$ 1,400,751
Changes recognized for the measurement period:			
Service Cost	\$ 149,069	\$	\$ 149,069
Interest on TOL	701,278		701,278
Changes of assumptions			
Employer Contributions		552,462 (	552,462)
Actual investment income		935,429 (	935,429)
Benefit payments	( 552,462) (	552,462)	
Administrative expense		( 7,845)	7,845
Net Changes	\$ 297,885	\$ 927,584	(\$ 629,699)
Balance at June 30, 2017	\$ 10,519,889	\$ 9,748,837	\$ 771,052

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the net OPEB liability of the Agency if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ 2,059,980	\$ 771,052	(\$ 301,686)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates - The following presents the net OPEB liability of the Agency if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	Current Healthcare Cost		
	1% Decrease	Trend Rates	1% Increase
Net OPEB Liability	(\$ 328,566)	\$ 771,052	\$ 2,061,823

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 8 OTHER POST-EMPLOYMENT BENEFITS PLAN (Continued):

OPEB Plan Fiduciary Net Position - Detailed information about the OPEB plan's fiduciary net position is available in the separately issued plan financial report issued by CalPERS and located on its website.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - For the fiscal year June 30, 2018, the Agency recognized OPEB expense of \$77,237. OPEB expense is comprised of various elements including service cost, interest on total OPEB liability, changes in benefit terms, recognized actuarial gains and losses, investment income, recognized investment gains and losses, and administrative expense, which are all factors used by the actuaries in the calculation of the net pension liability.

As of fiscal year ended June 30, 2018, the Agency reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
OPEB contributions subsequent to measurement date	\$ 582,760	\$
Total	<u>\$ 582,760</u>	<u>\$</u>

It should be noted that the \$582,760 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date was recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2018.

NOTE 9 PROPERTY TAXES:

The Agency has a gross assessed valuation of \$18.009 billion and \$16.990 billion for the fiscal years ended June 30, 2018 and 2017, respectively. The tax rate for the administration expenses of the Agency was computed by the counties under Proposition 13. The tax rates assessed were within legal limits as allowed by law.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 10 RISK MANAGEMENT:

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect itself from the above risks, the Agency participates in the CSRMA, a public entity risk pool currently operating as a common risk management and loss prevention program for 62 member sanitation districts. The Agency pays an annual premium to CSRMA for its general insurance coverage. The CSRMA purchases excess insurance (\$15,500,000 in 2018 and 2017) to reduce its exposure to large losses on the self-insured program. Members can be assessed a supplemental assessment if funds are insufficient to pay losses. The Agency continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance.

NOTE 11 RELATED PARTY TRANSACTIONS:

Because the Agency has entered into a joint powers agreement with others to form a separate entity to provide insurance coverage, the Agency has related party transactions with this entity. During the year ended June 30, 2018, the Agency paid CSRMA \$153,837 for insurance coverage and received \$16,636 in dividends. During the year ended June 30, 2017, the Agency paid CSRMA \$170,801 for insurance coverage and received \$15,327 in dividends. There were no payments of claims which fell under the \$25,000 deductible during the years ended June 30, 2018, and 2017.

NOTE 12 PROPOSITION 218:

Proposition 218, which was approved by the voters in November 1996, provides procedures governing an increase in existing fees or the imposition of new fees by the Agency. The Agency complies with its requirements.

NOTE 13 COMMITMENTS AND CONTINGENCIES:

The Agency has entered into construction and consulting commitments totaling \$3,761,615 and \$3,167,758 for fiscal years ended June 30, 2018 and 2017, respectively. As of June 30, 2018, the amount earned on the contracts was \$427,861 with a remaining balance of \$3,333,754. As of June 30, 2017, the amount earned on the contracts was \$194,834 with a remaining balance of \$2,972,924.

Tahoe-Truckee Sanitation Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 14 CHANGE IN ACCOUNTING PRINCIPLE:

During the year ended June 30, 2018, the Agency adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement required the Agency to report a net OPEB liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. This Statement also required contributions made after the June 30, 2017 measurement date used in the actuarial valuation for the OPEB plan to be reported as deferred outflows of resources. Due to the implementation of these statements, an OPEB liability of \$771,052, and deferred outflows of resources of \$582,760 were recorded as of June 30, 2018; total net position as of July 1, 2017 was restated compared to the amounts reported in the June 30, 2017 financial statements, resulting in a decrease in net position of \$265,529.

NOTE 15 PRIOR PERIOD ADJUSTMENTS:

The District recorded the following prior period adjustments for fiscal year ended 2018 in order to implement GASB Statement 75:

Beginning Net Position, as previously reported	\$ 93,468,576
Prior Period Adjustments:	
To adjust Total OPEB Liability due to implementation of GASB 75	( 265,529)
Beginning Net Position, as Restated	<u>\$ 93,203,047</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

Tahoe-Truckee Sanitation Agency

SCHEDULE OF OPEB CONTRIBUTIONS

As of June 30, 2018

LAST TEN YEARS\*

	Fiscal Year 2018
<u>Schedule of Pension Plan Contributions:</u>	
Actuarially Determined Contributions (ADC)	\$
Contributions in relation to the ADC	( 582,760)
Contribution deficiency (excess)	(\$ 582,760)
Covered-employee payroll	\$ 4,670,923
Contributions as a percentage of covered payroll	12.48%

Notes to Schedule:

\* Fiscal Year 2018 was the first year of implementation, therefore only one year is shown.

Tahoe-Truckee Sanitation Agency

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY

As of June 30, 2018

LAST TEN YEARS\*

	Measurement Date June 30, 2017
<b>Total OPEB Liability</b>	
Service Cost	\$ 149,069
Interest on Total OPEB Liability	701,278
Benefit payments	( 552,462)
Net Change in Total OPEB Liability	\$ 297,885
Total OPEB Liability- Beginning	10,222,004
Total OPEB Liability - Ending (a)	<u>\$ 10,519,889</u>
 <b>Plan Fiduciary Net Position</b>	
Employer Contributions	\$ 552,462
Actual investment income	935,429
Benefit payments	( 552,462)
Administrative expense	( 7,845)
Net Change in Plan Fiduciary Net Position	<u>\$ 927,584</u>
Plan Fiduciary Net Position - Beginning	8,821,253
Plan Fiduciary Net Position - Ending (b)	<u>\$ 9,748,837</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 771,052</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	92.67%
Covered-employee payroll	\$ 4,483,071
Net OPEB liability as a percentage of covered-employee payroll	17.20%

Notes to Schedule:

\*Fiscal Year 2018 was the first year of implementation, therefore only one year is shown.

Tahoe-Truckee Sanitation Agency

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

As of June 30, 2018

LAST TEN YEARS\*

	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015	Measurement Date June 30, 2014
Plan's Proportion of the Net Pension Liability/(Asset)	0.159624%	0.158585%	0.155568%	0.129553%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 15,830,320	\$ 13,722,519	\$ 10,678,017	\$ 8,171,772
Plan's Covered Payroll	\$ 4,670,923	\$ 4,483,071	\$ 4,318,577	\$ 4,378,738
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	338.91%	306.10%	247.26%	186.62%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Agency's Total Pension Liability	72.58%	73.79%	78.53%	83.26%

Notes to Schedule:

Change of benefit terms – In 2018, there were no changes to the benefit terms.

Changes in assumptions – In 2018, the discount rate changed from 7.65% as of June 30, 2016 measurement date and to 7.15% as of June 30, 2017 measurement date. In 2017, there were no changes to the benefit terms. In 2016, the discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of June 30, 2015 measurement date to correct adjustments which previously reduced the discount rate for administrative expenses. There were no changes in assumptions during the measurement period ended June 30, 2014.

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

Tahoe-Truckee Sanitation Agency

SCHEDULE OF THE AGENCY'S PENSION PLAN CONTRIBUTIONS

As of June 30, 2018

LAST TEN YEARS\*

<u>Schedule of Pension Plan Contributions:</u>	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Contractually required Contribution (actuarially determined)	\$ 1,197,164	\$ 1,081,422	\$ 1,081,422	\$ 758,609
Actual Contributions During the Measurement Period	( 1,197,164)	( 1,081,422)	( 1,081,422)	( 758,609)
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered payroll	\$ 4,670,923	\$ 4,483,071	\$ 4,318,577	\$ 4,378,738
Contributions as a percentage of covered payroll	25.63%	24.12%	25.04%	17.32%
Contribution Valuation Date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012

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

**SUPPLEMENTARY INFORMATION**

## COMPARISON OF BUDGET TO ACTUAL

For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Positive (Negative) Variance With Budget
<u>Revenues:</u>				
Service and Other Charges	\$ 12,600,000	\$ 12,600,000	\$ 12,543,300	(\$ 56,700)
Property and In Lieu Taxes	<u>1,700,000</u>	<u>1,700,000</u>	<u>3,458,387</u>	<u>1,758,387</u>
	<u>\$ 14,300,000</u>	<u>\$ 14,300,000</u>	<u>\$ 16,001,687</u>	<u>\$ 1,701,687</u>
<u>Expenses:</u>				
Operations and Maintenance	\$ 12,695,000	\$ 12,695,000	\$ 11,694,006	\$ 1,000,994
Administrative and General	<u>1,605,000</u>	<u>1,605,000</u>	<u>1,659,139</u>	<u>( 54,139)</u>
	<u>\$ 14,300,000</u>	<u>\$ 14,300,000</u>	<u>\$ 13,353,145</u>	<u>\$ 946,855</u>
Transfers from Rehab Reserve	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Total Positive Variance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,648,542</u>	<u>\$ 2,648,542</u>

NOTE: Budget versus actual schedule includes only budgeted items.

## COMPARISON OF BUDGET APPROPRIATIONS TO ACTUAL EXPENDITURES

For the Fiscal Year Ended June 30, 2018

	OPERATIONS AND MAINTENANCE			ADMINISTRATIVE AND GENERAL			TOTALS		
	Budgeted Appropriations	Actual Expenditures	Positive/ (Negative) Variances	Budgeted Appropriations	Actual Expenditures	Positive/ (Negative) Variances	Budgeted Appropriations	Actual Expenditures	Positive/ (Negative) Variances
<b>Budgeted Operating Expense:</b>									
Salaries and Wages	\$ 5,561,500	\$ 4,538,500	\$ 1,023,000	\$ 500,000	\$ 505,809	(\$ 5,809)	\$ 6,061,500	\$ 5,044,309	\$ 1,017,191
Employee Benefits	3,485,000	3,929,303	( 444,303)	354,000	405,555	( 51,555)	3,839,000	4,334,858	( 495,858)
Directors' Fees				12,000	5,200	6,800	12,000	5,200	6,800
Transportation Expense									
- Gas and Oil	15,000	13,342	1,658	4,000	3,103	897	19,000	16,445	2,555
Insurance				110,000	63,254	46,746	110,000	63,254	46,746
Memberships	14,500	13,423	1,077	25,000	24,138	862	39,500	37,561	1,939
Office Expense				75,000	70,891	4,109	75,000	70,891	4,109
Fees, Licenses and Permits		486	( 486)	150,000	139,193	10,807	150,000	139,679	10,321
Operating Supplies	1,295,000	1,041,150	253,850				1,295,000	1,041,150	253,850
Contractual Services	567,000	598,057	( 31,057)	75,000	49,497	25,503	642,000	647,554	( 5,554)
Professional Services				250,000	340,513	( 90,513)	250,000	340,513	( 90,513)
Printing and Publications				15,000	21,972	( 6,972)	15,000	21,972	( 6,972)
Rents and Leases	22,000	12,309	9,691	5,000	5,428	( 428)	27,000	17,737	9,263
Repairs and Maintenance	261,000	320,900	( 59,900)	1,000	19	981	262,000	320,919	( 58,919)
Research and Monitoring	80,000	82,586	( 2,586)				80,000	82,586	( 2,586)
Training	46,000	50,920	( 4,920)	5,000	7,780	( 2,780)	51,000	58,700	( 7,700)
Uncollectible Accounts				5,000	6,618	( 1,618)	5,000	6,618	( 1,618)
Utilities	1,273,000	979,914	293,086	12,000	10,169	1,831	1,285,000	990,083	294,917
Equipment		4,933	( 4,933)	7,000		7,000	7,000	4,933	2,067
Instrumentation and Electrical	75,000	108,183	( 33,183)				75,000	108,183	( 33,183)
Totals	<u>\$ 12,695,000</u>	<u>\$ 11,694,006</u>	<u>\$ 1,000,994</u>	<u>\$ 1,605,000</u>	<u>\$ 1,659,139</u>	<u>(\$ 54,139)</u>	<u>\$ 14,300,000</u>	<u>\$ 13,353,145</u>	<u>\$ 946,855</u>