
SOUTH TAHOE PUBLIC UTILITY DISTRICT

**ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2018

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**SOUTH TAHOE PUBLIC UTILITY DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Tahoe Public Utility District
South Lake Tahoe, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Tahoe Public Utility District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 opinions.

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 South Tahoe Public Utility District, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note 1 to the financial statements, during the fiscal year ending June 30, 2018, South Tahoe Public Utility District adopted new accounting guidance, GASB Statement 85, *Omnibus 2017*. 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 and pension related schedules as listed in the table of contents 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 as a whole. The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on 2017 Summarized Comparative Information

We have previously audited the District's 2017 basic financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived. *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of South Tahoe Public Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Tahoe Public Utility District's internal control over financial reporting and compliance.



Sacramento, California
October 30, 2018

**South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2018**

Financial Highlights

The District has long been addressing the aging water system infrastructure, including undersized waterlines. A major water infrastructure replacement program was started in the early 90's, and since then more than \$87 million of infrastructure has been placed into service. With advances in asset management tools, the District now utilizes a strategic set of criteria to determine construction priorities. In fiscal year 2017-18, the District invested nearly \$8.3 million in water infrastructure.

Approximately 10% of the water distribution system is undersized and does not provide appropriate fire protection. The waterline, pumping, and storage replacement program improves water quality, quantity, and fire suppression capabilities. As a public service, each waterline project also includes installation of fire hydrants at 500-foot intervals. During fiscal year 2017-18, the District spent \$.9 million on fire hydrant installations.

The District is continuing to install water meters on all service connections to meet the California state mandate, which requires all water providers with greater than 3,000 service connections be completely metered by 2025. During fiscal year 2010-11, the District began by completing installation of approximately 2,500 meters funded with a \$4.4 million grant. Through the end of 2017-18, approximately 7,400 additional meters have been installed. These additional installations increased the portion of the water system metered to approximately 68%. The amount spent on meter installations in fiscal year 2017-18 was \$5.1 million. The remaining unmetered service connections will have meters installed within the next three years and will be funded with a low-cost \$14 million loan secured through the California State Water Resources Control Board. The loan has a thirty-year term with an interest rate of 1.8% and includes \$4 million in principle forgiveness.

The Sewer Enterprise Fund also continues investing in its infrastructure. In fiscal year 2017-18, \$3.4 million was invested in sewer infrastructure improvements. Two significant projects which began during the year are replacement of the aged wastewater treatment plant emergency generator and rehabilitation of the big-five sewer pump stations. Completion of these projects will greatly improve the long term reliability of the sewer systems. These projects are being funded with low cost loans through the California State Water Resources Control Board.

- During the year more than \$11 million was invested in sewer and water infrastructure and equipment.
- Net position of the District increased \$2.5 million or 1.2%.
- The Sewer and Water Enterprise Funds' income is \$2,010,139 and \$444,670, respectively.
- Operating revenue is up 7.3% due to an increase in service charge rates and water consumption.
- Operating expenses less depreciation are up 7.0%, but came in 1.1% under budget.
- In fiscal year 2017-18, the District was awarded competitive grants totaling more than \$.6 million, following more than \$.6 million awarded in 2016-17 and \$.7 million awarded in 2015-16. These grants will fund, among other things, waterline replacements, water pumping facilities, and water conservation programs.

South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
For the year ended June 30, 2018

Overview of the Basic Financial Statements

The District's basic financial statements are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. An important part of the basic financial statements is the accompanying notes, which provide the users additional information required by generally accepted accounting principles (GAAP). Preceding the basic financial statements is Management's Discussion and Analysis, which is required supplementary information to the basic financial statements.

The Statement of Net Position includes the District's assets and liabilities. The difference between assets and liabilities is reported as net position. The Statement of Revenues, Expenses and Changes in Net Position account for revenue, expenses, and capital contributions and calculates the change in net position. Over time, increases or decreases in net position serve as a key indicator of the District's financial position. The Statement of Cash Flows provides the details on the changes in cash and cash equivalents during the year. By contrast the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are prepared on an accrual basis, meaning revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts and payments.

Net Position

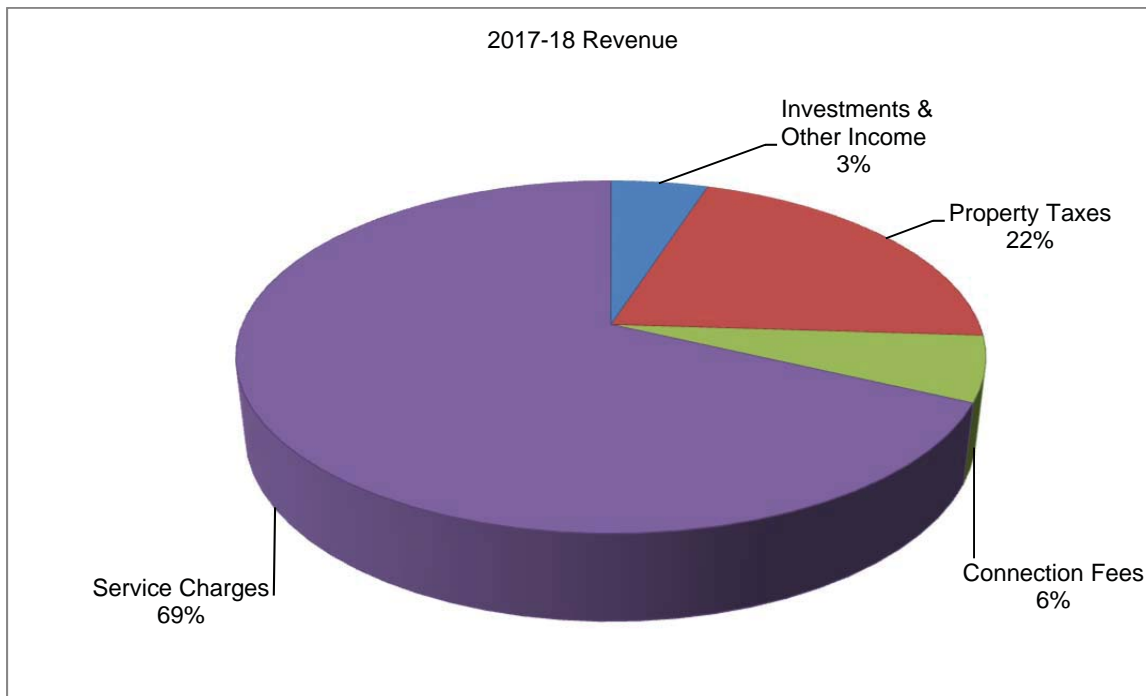
The condensed Statement of Net Position below shows the District is investing in capital assets while keeping its debt at manageable levels. For the year ended June 30, 2015, the District was required to implement GASB 68, Accounting and Financial Reporting for Pensions. Under the new GASB standards, each participating cost-sharing employer is required to report its actuarially determined proportionate share of the collective net pension liability, pension expense, and deferred outflows/deferred inflows of resources in their financial statements determined in conformity with GASB 68. Previously to GASB 68, the District was only required to report the actual payments submitted to the pension plan as an expense and no liability or deferred inflows/deferred outflows. The net pension liability reported in the Statement of Net Position for years ended June 30, 2018 and 2017 was \$10.1 million and \$8.6 million respectively. For more information on the District's pension plan, see Note 9 of the Notes to the Financial Statements.

| | <u>Net Position</u> <i>(in thousands)</i> | | | |
|--|--|------------------|------------------|--------------|
| | June 30 | | | |
| | 2018 | 2017 | Change | Change |
| Current and other | \$ 59,989 | \$ 50,991 | \$ 8,998 | 17.6% |
| Capital assets | 222,939 | 216,615 | 6,324 | 2.9% |
| Total assets | <u>\$282,928</u> | <u>\$267,606</u> | <u>\$15,322</u> | <u>5.7%</u> |
| Deferred outflows of resources | \$5,293 | \$5,543 | (\$250) | (4.5%) |
| Debt outstanding | \$ 53,223 | \$ 42,296 | \$10,927 | 25.8% |
| Net Pension Liability | 10,140 | 8,640 | 1,500 | 17.4% |
| Other liabilities | 12,638 | 12,477 | 161 | 1.3% |
| Total liabilities | <u>\$ 76,001</u> | <u>\$ 63,413</u> | <u>\$ 12,588</u> | <u>19.9%</u> |
| Deferred inflows of resources | \$8,396 | \$8,368 | \$28 | .3% |
| Net investment in capital assets | \$167,524 | \$172,100 | (\$ 4,576) | (2.7%) |
| Restricted for security deposits | 165 | 165 | 0 | 0.0% |
| Restricted for capital asset purchases | 3,000 | 3,000 | 0 | 0.0% |
| Restricted for debt service payment | 5,904 | 1,117 | 4,787 | 428.6% |
| Unrestricted | 27,230 | 24,987 | 2,243 | 9.0% |
| Total net position | <u>\$203,823</u> | <u>\$201,369</u> | <u>\$2,454</u> | <u>1.2%</u> |

**South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
For the year ended June 30, 2018**

Revenue and Expenses

The District finances sewer and water operations through user charges, property tax receipts, and other income. Total revenue for fiscal year 2017-18 is \$37.2 million, a \$2.0 million or 5.8% increase from the prior year. The 2018 service charge revenue is up from the prior year, reflecting a 6.0% increase in sewer rates, a 6.5% increase in water rates and an increase in water consumed. Connection fees are up \$2 million or 13.4% reflecting to a slight increase in both commercial and residential development. Property tax revenue is up by \$.5 million or 6.6%, compared to the prior year reflecting an increase in property assessed values. El Dorado County estimates that gross property tax collections will be up approximately 6.2 % for 2018-19. Investment income is up 53% due to a rising interest rate environment, while other income is down compared to the prior year due to the timing of grant receipts and FEMA reimbursements.



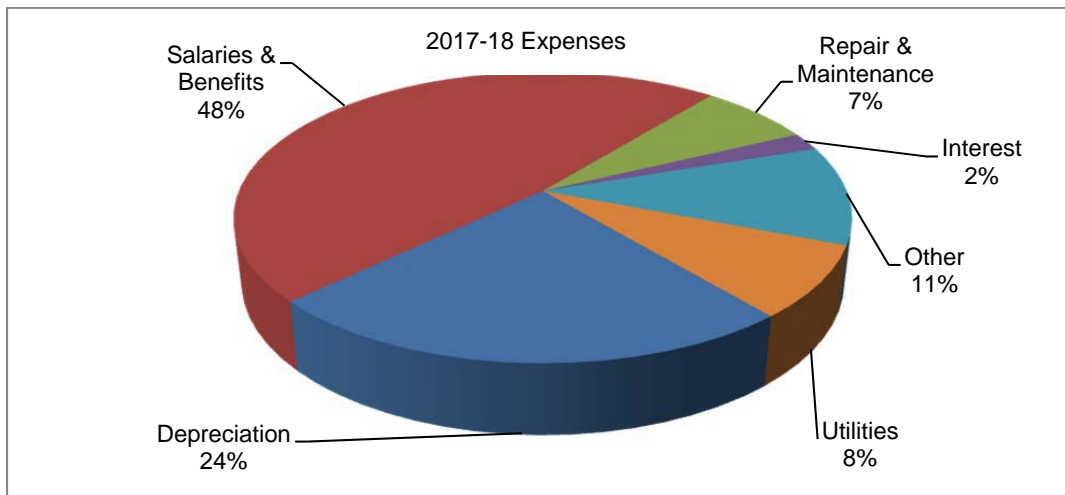
Revenues
(in thousands)

| | June 30 | | Change | Change |
|-----------------------------|----------|----------|----------|---------|
| | 2018 | 2017 | | |
| Service charges | \$25,651 | \$24,054 | \$ 1,597 | 6.6% |
| Connection fees | 2,049 | 1,807 | 242 | 13.4% |
| Other | 423 | 344 | 79 | 23.0% |
| Total operating revenue | 28,123 | 26,205 | 1,918 | 7.3% |
| Property taxes | 7,989 | 7,492 | 497 | 6.6% |
| Investments | 238 | 156 | 82 | 52.6% |
| Other | 801 | 1,275 | (474) | (37.2%) |
| Total non-operating revenue | 9,028 | 8,923 | 105 | 1.2% |
| Total revenue | \$37,151 | \$35,128 | \$ 2,023 | 5.8% |

**South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
For the year ended June 30, 2018**

Revenue and Expenses - Continued

Total operating expenses for the current year are \$34.3 million, up \$2.4 million from the prior year. The combined salaries and benefits are up \$2.2 million or 15.1%. The year-over-year change of the required GASB 68 adjustment to pension expense accounted for \$1.5 million of the \$2.2 million increase. The District's policy is to capitalize labor associated with capital projects. The capitalized portion of salaries and benefits is not accounted for in operating expenses, as it is included in capital assets on the Statement of Net Position. The amount of capitalized labor for fiscal year 2018 was \$1,237,267 compared to \$1,163,763 in the prior year. The GASB 68 pension expense adjustment for fiscal year 2018 was \$1.3 million compared to (\$0.2) million in the prior year. Similar to the capitalized labor, this adjustment impacts the Statement of Net Position. When comparing salary and benefit totals year-to-year prior to the reduction for the capitalized labor and the increase due to the GASB 68 adjustment, the 2018 increase over the prior year was \$827,339 or 5.1%. The increase to salaries was \$535,961 or 5.1% while \$291,378 or 5.2% was the increase to benefits. The increase to salaries represents a 2.5% cost of living increase and 5% step increases for employees who are not at the top of their wage scale. The majority of the increase to benefits is due to a 4.5% increase to health insurance premiums and a 5.6% increase to CalPERS expense. Depreciation is up reflecting a continued investment in infrastructure projects. Utilities are down in fiscal year 2018 due to a milder than average winter. Repair and maintenance expenditures fluctuate year to year based on unexpected or planned projects. Combined operating and non-operating other expenses fluctuate year to year depending on the level of contracted and other professional services utilized by the District. Interest expense is down reflecting a greater principle component of the total debt service payments and a greater amount of interest capitalized and transferred to the statement of net position.



| | <u>Expenses</u> (in thousands) June 30 | | | |
|--------------------------------|--|----------|----------|---------|
| | 2018 | 2017 | Change | Change |
| <u>Operating expenses:</u> | | | | |
| Salaries and benefits | \$16,948 | \$14,728 | \$ 2,220 | 15.1% |
| Depreciation | 8,385 | 7,680 | 705 | 9.2% |
| Utilities | 2,822 | 2,937 | (115) | (3.9%) |
| Repair and maintenance | 2,390 | 1,934 | 456 | 23.6% |
| Other | 3,733 | 4,605 | (872) | (18.9%) |
| Total operating expenses | 34,278 | 31,884 | 2,394 | 7.5% |
| <u>Non-operating expenses:</u> | | | | |
| Interest expense | 679 | 813 | (134) | (16.5%) |
| Other | 293 | 252 | 41 | 16.3% |
| Total non-operating expenses | 972 | 1,065 | (93) | (8.7%) |
| Total expenses | \$35,250 | \$32,949 | \$ 2,301 | 7.0% |

**South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
For the year ended June 30, 2018**

Revenue and Expenses - Continued

The fiscal year 2017-18 income before capital contributions is \$1.9 million as compared to the budgeted income of \$.5 million and the actual prior year income of \$2.2 million. For the year, capital contributions increased net position an additional \$.6 million.

| | <u>Changes in Net Position</u> <i>(in thousands)</i> | | | |
|-----------------------------|---|------------------|----------------|---------------|
| | <u>June 30</u> | | <u>Change</u> | <u>Change</u> |
| | <u>2018</u> | <u>2017</u> | | |
| Beginning net position | <u>\$201,368</u> | <u>\$198,724</u> | <u>\$2,644</u> | <u>1.3%</u> |
| Income before contributions | 1,901 | 2,178 | (277) | (12.7%) |
| Capital contributions | <u>554</u> | <u>466</u> | <u>88</u> | <u>18.9%</u> |
| Changes in net position | <u>2,455</u> | <u>2,644</u> | <u>(189)</u> | <u>(7.1%)</u> |
| Ending net position | <u>\$203,823</u> | <u>\$201,368</u> | <u>\$2,455</u> | <u>1.2%</u> |

Capital Assets

The District's investment in its sewer and water systems is \$223 million at the end of the fiscal year net of depreciation. During the year, more than \$11 million was spent on new infrastructure and equipment. \$3.2 million was spent on water system improvements, not including water meter installations. As noted in the highlights, new waterlines improve system reliability, water pressure, and fire flow capability. For the year \$3.4 was invested in sewer system improvements including pumping and treatment upgrades, line protection, and recycled effluent projects.

| | <u>Capital Assets</u> <i>(net of depreciation, in thousands)</i> | | | | | |
|--------------------------|---|------------------|-----------------|-----------------|------------------|------------------|
| | <u>Sewer</u> | | <u>Water</u> | | <u>Total</u> | |
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Land and easements | \$ 22,843 | \$ 22,843 | \$ 1,903 | \$ 1,903 | \$ 24,746 | \$ 24,746 |
| Water rights | - | - | 1,668 | 1,668 | 1,668 | 1,668 |
| Plant and equipment | 86,035 | 80,813 | 89,307 | 85,450 | 175,342 | 166,263 |
| Construction in Progress | 17,180 | 21,986 | 4,003 | 1,952 | 21,183 | 23,938 |
| Total | <u>\$126,058</u> | <u>\$125,642</u> | <u>\$96,881</u> | <u>\$90,973</u> | <u>\$222,939</u> | <u>\$216,615</u> |

For additional information on Capital Assets, see Note 4 in the Notes to Financial Statements.

**South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
For the year ended June 30, 2018**

Debt Administration

The District prefers to avoid funding capital improvement projects with debt, but will do so when necessary to keep service rates at reasonable levels. The last time the District received a formal credit rating in 2012, Fitch Ratings affirmed the District's ratings of AA+ for both Water and Sewer Funds, while Standard and Poor's increased its rating for the Sewer Fund to AA from AA- and affirmed the Water Fund rating of AA-. At year-end, the District had \$53.2 million in installment sales and loans outstanding as detailed below. As always, grant opportunities and low-interest subsidized loans are pursued by the District.

Outstanding Debt at Year End
(in thousands)

| | June 30, | |
|---|-----------|-----------|
| | 2018 | 2017 |
| <u>Sewer Enterprise Fund:</u> | | |
| California State Revolving Loan Fund (secured by sewer revenue) | 1,832 | 1,948 |
| California State Revolving Loan Fund (secured by sewer revenue) | 725 | 764 |
| California State Revolving Loan Fund (secured by sewer revenue) | 992 | 1,050 |
| California State Revolving Loan Fund (secured by sewer revenue) | 7,626 | 5,724 |
| California State Revolving Loan Fund (secured by sewer revenue) | 4,506 | 3,709 |
| Sewer Refunding (secured by sewer revenue) | 5,796 | 6,331 |
| Sewer Refunding (secured by sewer revenue) | 6,097 | 6,957 |
| Installment Sale Agreement (secured by sewer revenue) | 4,896 | 5,172 |
| Installment Sale Agreement (secured by sewer revenue) | 4,853 | 0 |
| California State Revolving Loan Fund (secured by sewer revenue) | 1,070 | 0 |
| California State Revolving Loan Fund (secured by sewer revenue) | 580 | 0 |
| Total sewer enterprise fund | 38,973 | 31,655 |
| <u>Water Enterprise Fund:</u> | | |
| Water Refunding (secured by water revenue) | 5,403 | 6,039 |
| California State Revolving Loan Fund (secured by water revenue) | 3,386 | 3,503 |
| California State Revolving Loan Fund (secured by water revenue) | 1,075 | 1,099 |
| California State Revolving Loan Fund (secured by water revenue) | 3,357 | 0 |
| California State Revolving Loan Fund (secured by water revenue) | 1,029 | 0 |
| Total water enterprise fund | 14,250 | 10,641 |
| Total debt | \$ 53,223 | \$ 42,296 |

For additional information on Outstanding Debt, see Note 6 in the Notes to the Financial Statements.

Contacting the District's Financial Management

This financial report is designed to provide the District's elected officials, customers, investors, and creditors with an assessment of the District's financial condition and an accounting of the public's money. If you have questions about this report or need more financial information, contact the Chief Financial Officer, South Tahoe Public Utility District, 1275 Meadow Crest Drive, South Lake Tahoe, CA 96150.

SOUTH TAHOE PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

| | Business-type Activities Enterprise Funds | | Total | |
|---|--|---------------------|---------------------|----------------------------|
| | Sewer | Water | 2018 | 2017 (Restated) |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents (Note 2) | \$ 11,375,279 | \$ 1,325,739 | \$ 12,701,018 | \$ 8,527,374 |
| Investments (Note 2) | 2,305,706 | 1,354,309 | 3,660,015 | 4,229,073 |
| Accounts receivable, net of allowance (Note 3) | 211,841 | 1,005,849 | 1,217,690 | 1,276,628 |
| Due from governmental agencies (Note 3) | 58,350 | 667,172 | 725,522 | 1,388,055 |
| Property tax receivable | 7,994,808 | - | 7,994,808 | 7,519,073 |
| Interest receivable | 114,455 | 47,662 | 162,117 | 113,573 |
| Other current assets | <u>305,904</u> | <u>820,614</u> | <u>1,126,518</u> | <u>1,109,860</u> |
| Total current assets | <u>22,366,343</u> | <u>5,221,345</u> | <u>27,587,688</u> | <u>24,163,636</u> |
| Noncurrent assets | | | | |
| Restricted assets: | | | | |
| Cash and cash equivalents (Note 2) | 5,719,182 | 659,875 | 6,379,057 | 1,584,798 |
| Certificate of deposit (Note 2) | <u>50,000</u> | <u>115,000</u> | <u>165,000</u> | <u>165,000</u> |
| Total restricted assets | <u>5,769,182</u> | <u>774,875</u> | <u>6,544,057</u> | <u>1,749,798</u> |
| Long-term accounts receivable (Note 3) | 600,177 | - | 600,177 | 525,745 |
| Due from governmental agencies, net of allowance (Note 3) | 73,020 | 73,020 | 146,040 | 106,040 |
| Interfund loan (Note 8) | 3,000,000 | - | 3,000,000 | 3,000,000 |
| Investments (Note 2) | 13,929,815 | 8,181,264 | 22,111,079 | 21,445,651 |
| Capital assets, net of accumulated depreciation (Note 4) | <u>126,057,602</u> | <u>96,881,338</u> | <u>222,938,940</u> | <u>216,615,092</u> |
| Total noncurrent assets | <u>149,429,796</u> | <u>105,910,497</u> | <u>255,340,293</u> | <u>243,442,326</u> |
| Total Assets | <u>171,796,139</u> | <u>111,131,842</u> | <u>282,927,981</u> | <u>267,605,962</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | |
| Refunding loan costs | 207,481 | 9,150 | 216,631 | 254,320 |
| Changes in the net pension liability (Note 9) | <u>3,101,436</u> | <u>1,974,706</u> | <u>5,076,142</u> | <u>5,288,980</u> |
| Total Deferred Outflows of Resources | <u>\$ 3,308,917</u> | <u>\$ 1,983,856</u> | <u>\$ 5,292,773</u> | <u>\$ 5,543,300</u> |

See accompanying notes to the basic financial statements.

SOUTH TAHOE PUBLIC UTILITY DISTRICT
STATEMENT OF NET POSITION (continued)
JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

| | Business-type Activities Enterprise Funds | | Total | |
|---|--|----------------------|-----------------------|----------------------------|
| | Sewer | Water | 2018 | 2017 (Restated) |
| <u>LIABILITIES</u> | | | | |
| Current liabilities | | | | |
| Accounts payable and other liabilities | \$ 1,013,231 | \$ 1,858,429 | \$ 2,871,660 | \$ 2,905,504 |
| Unearned revenue (Note 5) | 967,274 | 873,225 | 1,840,499 | 1,659,225 |
| Accrued expenses | 595,174 | 806,688 | 1,401,862 | 1,293,446 |
| Accrued interest payable | 383,858 | 71,842 | 455,700 | 472,219 |
| Compensated absences - current portion (Note 7) | 727,255 | 501,726 | 1,228,981 | 1,301,626 |
| Long term liabilities - current portion (Note 6) | <u>2,589,241</u> | <u>815,160</u> | <u>3,404,401</u> | <u>2,661,234</u> |
| Total current liabilities | <u>6,276,033</u> | <u>4,927,070</u> | <u>11,203,103</u> | <u>10,293,254</u> |
| Noncurrent liabilities | | | | |
| Compensated absences - long term portion (Note 7) | 1,096,925 | 742,208 | 1,839,133 | 1,845,349 |
| Interfund loan (Note 8) | - | 3,000,000 | 3,000,000 | 3,000,000 |
| Long term liabilities - long term portion (Note 6) | 36,382,968 | 13,435,690 | 49,818,658 | 39,634,578 |
| Net pension liability (Note 9) | <u>6,184,127</u> | <u>3,956,462</u> | <u>10,140,589</u> | <u>8,639,873</u> |
| Total long-term liabilities | <u>43,664,020</u> | <u>21,134,360</u> | <u>64,798,380</u> | <u>53,119,800</u> |
| Total Liabilities | <u>49,940,053</u> | <u>26,061,430</u> | <u>76,001,483</u> | <u>63,413,054</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | |
| Property tax receivable | 7,994,808 | - | 7,994,808 | 7,519,073 |
| Changes in the net pension liability (Note 9) | <u>241,835</u> | <u>159,240</u> | <u>401,075</u> | <u>848,556</u> |
| Total Deferred Inflows of Resources | <u>8,236,643</u> | <u>159,240</u> | <u>8,395,883</u> | <u>8,367,629</u> |
| <u>NET POSITION</u> | | | | |
| Net Investment in capital assets | 87,767,897 | 79,756,374 | 167,524,271 | 172,100,162 |
| Restricted for security deposits | 50,000 | 115,000 | 165,000 | 165,000 |
| Restricted for debt service payment | 5,244,159 | 659,875 | 5,904,034 | 1,116,622 |
| Unrestricted - designated for capital asset purchases | - | 3,000,000 | 3,000,000 | 3,000,000 |
| Unrestricted | <u>23,866,304</u> | <u>3,363,779</u> | <u>27,230,083</u> | <u>24,986,795</u> |
| Total Net Position | <u>\$ 116,928,360</u> | <u>\$ 86,895,028</u> | <u>\$ 203,823,388</u> | <u>\$ 201,368,579</u> |

See accompanying notes to the basic financial statements.

SOUTH TAHOE PUBLIC UTILITY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

| | Business-type Activities | | Total | |
|---|---------------------------------|----------------------|-----------------------|----------------------------------|
| | Enterprise Funds | | | |
| | Sewer | Water | 2018 | 2017 (Restated) |
| <u>OPERATING REVENUE</u> | | | | |
| Charges for sales and services: | | | | |
| Service charges | \$ 13,573,779 | \$ 12,077,067 | \$ 25,650,846 | \$ 24,054,288 |
| Connection and service fees | 1,124,075 | 925,552 | 2,049,627 | 1,807,033 |
| Other operating income | <u>180,171</u> | <u>242,652</u> | <u>422,823</u> | <u>343,714</u> |
| Total operating revenues | <u>14,878,025</u> | <u>13,245,271</u> | <u>28,123,296</u> | <u>26,205,035</u> |
| <u>OPERATING EXPENSES</u> | | | | |
| Salaries, wage and employee benefits | 10,243,013 | 6,704,821 | 16,947,834 | 14,728,493 |
| Depreciation and amortization | 4,802,028 | 3,582,452 | 8,384,480 | 7,680,425 |
| Utilities | 2,079,288 | 742,590 | 2,821,878 | 2,936,986 |
| Repairs and maintenance | 991,995 | 1,398,207 | 2,390,202 | 1,933,796 |
| Other operating expenses | <u>2,241,227</u> | <u>1,492,023</u> | <u>3,733,250</u> | <u>4,604,509</u> |
| Total operating expenses | <u>20,357,551</u> | <u>13,920,093</u> | <u>34,277,644</u> | <u>31,884,209</u> |
| OPERATING LOSS | <u>(5,479,526)</u> | <u>(674,822)</u> | <u>(6,154,348)</u> | <u>(5,679,174)</u> |
| <u>NONOPERATING REVENUE (EXPENSE)</u> | | | | |
| Tax revenue | 7,952,418 | 36,057 | 7,988,475 | 7,491,933 |
| Investment earnings | 208,117 | 30,057 | 238,174 | 155,946 |
| Aid from governmental agencies | 4,508 | 372,237 | 376,745 | 912,758 |
| Other nonoperating income | 201,421 | 223,135 | 424,556 | 362,175 |
| Interest expense | (621,487) | (57,653) | (679,140) | (813,155) |
| Debt Issuance Cost | (74,871) | - | (74,871) | - |
| Other expense | <u>(180,441)</u> | <u>(38,140)</u> | <u>(218,581)</u> | <u>(252,395)</u> |
| Total nonoperating revenue | <u>7,489,665</u> | <u>565,693</u> | <u>8,055,358</u> | <u>7,857,262</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | <u>2,010,139</u> | <u>(109,129)</u> | <u>1,901,010</u> | <u>2,178,088</u> |
| <u>CAPITAL CONTRIBUTIONS</u> | | | | |
| Capital contributions | <u>-</u> | <u>553,799</u> | <u>553,799</u> | <u>466,496</u> |
| CHANGE IN NET POSITION | <u>2,010,139</u> | <u>444,670</u> | <u>2,454,809</u> | <u>2,644,584</u> |
| TOTAL NET POSITION, BEGINNING OF YEAR - RESTATED | <u>114,918,221</u> | <u>86,450,358</u> | <u>201,368,579</u> | <u>198,723,995</u> |
| TOTAL NET POSITION, END OF YEAR | <u>\$ 116,928,360</u> | <u>\$ 86,895,028</u> | <u>\$ 203,823,388</u> | <u>\$ 201,368,579</u> |

See accompanying notes to the basic financial statements.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

| | Business-type Activities Enterprise Funds | | Total | |
|---|--|---------------------|----------------------|----------------------|
| | Sewer | Water | 2018 | 2017 |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | | |
| Receipts from customers | \$ 14,866,962 | \$12,999,291 | \$ 27,866,253 | \$ 25,954,470 |
| Receipts from other funds | - | - | - | 3,000,000 |
| Other operating receipts | 180,171 | 242,652 | 422,823 | 150,747 |
| Payments to suppliers | (4,421,098) | (733,068) | (5,154,166) | (4,730,307) |
| Payments to employees | (8,986,213) | (6,260,985) | (15,247,198) | (14,617,554) |
| Payments to other funds | - | - | - | (3,000,000) |
| Other operating payments | <u>(2,241,227)</u> | <u>(1,492,023)</u> | <u>(3,733,250)</u> | <u>(4,604,509)</u> |
| NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES | <u>(601,405)</u> | <u>4,755,867</u> | <u>4,154,462</u> | <u>2,152,847</u> |
| <u>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</u> | | | | |
| Tax revenue | 7,952,418 | 36,057 | 7,988,475 | 7,491,933 |
| Payments from/(to) governmental agencies | <u>86,721</u> | <u>1,031,295</u> | <u>1,118,016</u> | <u>(112,509)</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>8,039,139</u> | <u>1,067,352</u> | <u>9,106,491</u> | <u>7,379,424</u> |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u> | | | | |
| Acquisition of capital assets | (5,383,920) | (9,499,022) | (14,882,942) | (11,027,436) |
| Repayment of debt | (2,031,980) | (776,580) | (2,808,560) | (2,459,124) |
| Proceeds from issuance of debt | 9,349,414 | 4,386,393 | 13,735,807 | 5,416,036 |
| Interest paid on notes payable | (636,052) | (59,607) | (695,659) | (720,333) |
| Contributed capital | <u>-</u> | <u>265,040</u> | <u>265,040</u> | <u>351,153</u> |
| NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES | <u>1,297,462</u> | <u>(5,683,776)</u> | <u>(4,386,314)</u> | <u>(8,439,704)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | | |
| Investment earnings | 382,473 | 126,681 | 509,154 | 476,582 |
| Purchase of investments | (11,198,250) | (6,576,750) | (17,775,000) | (23,827,203) |
| Proceeds from sale of investments | <u>12,732,316</u> | <u>4,626,794</u> | <u>17,359,110</u> | <u>18,117,596</u> |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | <u>1,916,539</u> | <u>(1,823,275)</u> | <u>93,264</u> | <u>(5,233,025)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>10,651,735</u> | <u>(1,683,832)</u> | <u>8,967,903</u> | <u>(4,140,458)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>6,442,726</u> | <u>3,669,446</u> | <u>10,112,172</u> | <u>14,252,630</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 17,094,461</u> | <u>\$ 1,985,614</u> | <u>\$ 19,080,075</u> | <u>\$ 10,112,172</u> |

See accompanying notes to the basic financial statements.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)**

| | <u>Business-type Activities</u> <u>Enterprise Funds</u> | | <u>Total</u> | |
|--|--|----------------------------|-----------------------------|-----------------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>2018</u> | <u>2017</u> |
| <u>RECONCILIATION OF CASH AND CASH EQUIVALENTS</u> | | | | |
| <u>TO THE STATEMENT OF NET POSITION</u> | | | | |
| Unrestricted cash and cash equivalents | \$ 11,375,279 | \$ 1,325,739 | \$ 12,701,018 | \$ 8,527,374 |
| Restricted cash and cash equivalents | <u>5,719,182</u> | <u>659,875</u> | <u>6,379,057</u> | <u>1,584,798</u> |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 17,094,461</u> | <u>\$ 1,985,614</u> | <u>\$ 19,080,075</u> | <u>\$ 10,112,172</u> |
| <u>RECONCILIATION OF OPERATING LOSS TO</u> | | | | |
| <u>NET CASH (USED FOR) PROVIDED BY OPERATING</u> | | | | |
| <u>ACTIVITIES</u> | | | | |
| Operating loss | \$ (5,479,526) | \$ (674,822) | \$ (6,154,348) | \$ (5,679,174) |
| Adjustments to reconcile operating loss to net cash used for (provided by) operating activities | | | | |
| Depreciation and amortization | 4,802,028 | 3,582,452 | 8,384,480 | 7,680,425 |
| Net change in deferred outflows and inflows | 387,217 | (108,436) | 278,781 | (1,348,986) |
| Increase (Decrease) in receivables | 18,063 | (33,557) | (15,494) | (340,278) |
| Increase in due from other funds | - | - | - | (3,000,000) |
| (Increase) Decrease in other assets | (333) | (16,325) | (16,658) | (136,142) |
| (Decrease) Increase in accounts payable | (1,111,234) | 1,077,390 | (33,844) | 631,188 |
| Increase in pension liability | 900,430 | 600,286 | 1,500,716 | 1,627,501 |
| Increase in unearned revenue | 151,045 | 30,229 | 181,274 | 240,460 |
| Increase in due to other funds | - | - | - | 3,000,000 |
| (Decrease) Increase in other payables | <u>(269,095)</u> | <u>298,650</u> | <u>29,555</u> | <u>(522,147)</u> |
| NET CASH (USED FOR) PROVIDED BY OPERATING | <u>\$ (601,405)</u> | <u>\$ 4,755,867</u> | <u>\$ 4,154,462</u> | <u>\$ 2,152,847</u> |
| ACTIVITIES | | | | |
| <u>NONCASH INVESTING, CAPITAL, AND FINANCING</u> | | | | |
| <u>ACTIVITIES</u> | | | | |
| Decrease in fair value of investments | \$ (138,954) | \$ (91,623) | \$ (230,577) | \$ (202,943) |
| Noncash capital contributions | - | 288,759 | 288,759 | 115,343 |
| Loss on disposition of CIP | <u>(165,971)</u> | <u>(8,645)</u> | <u>(174,616)</u> | <u>-</u> |
| Total Non-Cash investing, Capital, and financing activities | <u>\$ (304,925)</u> | <u>\$ 188,491</u> | <u>\$ (116,434)</u> | <u>\$ (87,600)</u> |

See accompanying notes to the basic financial statements.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's Board of Directors. Management has determined the District to be a single reporting entity for financial reporting purposes by applying the criteria set forth in Statement of Governmental Accounting Standards No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. This criteria requires the reporting entity to have a separate elected governing body, that it be a legal separate entity and fiscally independent.

Based on the foregoing criteria; the following funds are included in the District's annual report and are combined for financial reporting purposes:

- Sewer Enterprise Fund
- Water Enterprise Fund

B. Measurement Focus, Basis of Accounting and Presentation

The financial statements have been prepared in conformity with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Measurement Focus

The statement of net position and the statement of revenues, expenses and changes in net position, are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The financial records of the District are maintained on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

C. Budget

The District develops and adopts an annual budget; however, this budget is a management tool and is not a legal requirement.

D. Cash and Cash Equivalents

The District considers cash and all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The District's cash and cash equivalents consist of cash, deposits in financial institutions, money market accounts, certificates of deposit and pooled investments. Cash and cash equivalents invested for specific requirements, such as deposits for construction projects, are segregated as restricted cash and cash equivalents.

Deposits of cash and cash equivalents must comply with the District's Investment Policy which complies with the California Government Code. The policy requires deposits in financial institutions to be FDIC insured or fully collateralized.

E. Investments

Investments consist of unrestricted and restricted federal agency notes, corporate notes and commercial paper. The District records its investments at fair value. Changes in fair value are reported as investment income in the statement of revenues, expenses and changes in net position.

The Chief Financial Officer invests monies not required for the immediate operations of the District, in accordance with the District's Investment Policy.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Reserves

The District uses the term "reserves" to refer to all cash and investments belonging to the District at any given time. The District's policy is to have reserves to adequately provide for infrastructure replacement, economic uncertainties, loss of revenue sources, local disasters and catastrophic events, cash flow requirements and unfunded mandates (i.e. new regulatory requirements). In addition, adequate reserves are an essential part of sound financial management and reflect positively on the District's credit standing. Reserves are based on management's estimates for the cash needs of the District, and estimates may vary from actual.

The reserve Policy adopted by the Board of Directors establishes the minimum and maximum amount of reserves for operations, capital, self-insurance and rate stabilization and when to use reserves.

G. Inventory

Inventory is valued at cost, using the first in first out method (FIFO). Inventory consists of supplies used in the maintenance of water and sewer lines. The cost is recorded as an expense as inventory items are consumed.

H. Property and Equipment

Capital assets are recorded at cost except in those cases where facilities are donated by private developers or special assessment districts. In the latter cases, assets are recorded at acquisition value. At the date of donation, assets are capitalized when they are expected to have useful lives of three years or greater and the original cost is \$5,000 or more. All depreciation is computed on the straight-line basis over the following useful lives:

| | <u>Years</u> |
|----------------------------------|--------------|
| <u>Sewer Enterprise</u> | |
| Subsurface lines | 10-70 |
| Sewage collection facilities | 5-40 |
| Sewage treatment | 3-40 |
| Sewage disposal | 5-100 |
| General plant and administration | 3-50 |
| <u>Water Enterprise</u> | |
| Source of supply | 10-40 |
| Pumping plant | 12-30 |
| Water treatment plant | 4-35 |
| Transmission and distribution | 20-74 |
| General plant | 3-20 |

I. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave, which will be paid to employees upon separation from the District's service. For employees hired after January 1, 2013, earned but unused sick time will not be paid upon separation from the District's services. The cost of vacation and sick leave is recorded in the period accrued.

J. Pension Plan

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 South Tahoe Public Utility District PERS (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Capital Contributions

Capital contributions are grant monies received from the federal and state government in aid of construction, and assets contributed by Special Assessment Districts or real estate developers.

L. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Operating and Non-operating Revenues

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations of sewer and water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

N. Restricted Resources

The District's policy is to first apply restricted resources when an expense is incurred for purposes which both restricted and unrestricted net position are available.

O. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

P. Net Position

Net position represents the residual interest in District's assets and deferred outflows after liabilities and deferred inflows are deducted. Net position is presented in three broad components: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets includes capital assets, net of accumulated depreciation, and outstanding principal balances of debt and related deferred outflows and inflows attributable to the acquisition, construction or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted. Operating losses outside of depreciation are funded by operating and capital reserves.

Q. Comparative Information

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with current year's presentation.

R. Implementation of Government Accounting Standards Board Statements

Effective July 1, 2017, the District implemented the following accounting and financial reporting standards:

Government Accounting Standards Board Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. 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).

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2018 or later and may be applicable for the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 86

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishments Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2019.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this statement is effective for the District's fiscal year ending June 30, 2021. The District has not determined what impact, if any, this pronouncement will have on the financial statements.

Government Accounting Standards Board Statement No. 88

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this statement is to clarify which liabilities governments should include in their note disclosures related to debt. GASB is requiring debt borrowings and direct placements to be presented separately because they may expose a government to risks that are different from, or in addition to, risks related to other types of debt. The new standard also requires the disclosure of additional essential debt-related information for all types of debt, including amounts of unused lines of credit and assets pledged as collateral for debt. Also required to be disclosed are terms specified in debt agreements related to: (1) significant events of default with finance-related consequences, (2) significant termination events with finance-related consequences, (3) significant subjective acceleration clauses. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2020.

Government Accounting Standards Board Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires interest costs incurred before the end of a construction period to be recorded as an expenditure in the applicable period. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2021.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government Accounting Standards Board Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The purpose of this statement is 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 new standard clarifies the differences between a majority equity interests reported as an investment and majority equity interest reported as a component unit of the governmental entity. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2020.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 consisted of the following:

Cash and cash equivalents:

Unrestricted:

| | | |
|--|----|-------------------|
| Cash on hand | \$ | 2,450 |
| Unrestricted deposits in financial institutions | | 2,435,879 |
| Deposits in Local Agency Investment Fund (LAIF) | | 10,144,196 |
| Deposits in El Dorado County Treasury | | 77,224 |
| Deposits in California Asset Management Program (CAMP) | | <u>41,269</u> |
| Total unrestricted cash and cash equivalents | | <u>12,701,018</u> |

Restricted:

| | | |
|--|--|------------------|
| Deposits in CAMP | | 475,023 |
| Restricted for debt service payment | | <u>5,904,034</u> |
| Total restricted cash and cash equivalents | | <u>6,379,057</u> |

| | | |
|---------------------------------|--|-------------------|
| Total cash and cash equivalents | | <u>19,080,075</u> |
|---------------------------------|--|-------------------|

Investments:

Unrestricted:

| | | |
|--------------------------------------|--|-------------------|
| Federal agency and instrumentalities | | 2,120,106 |
| U.S. corporate debt | | 14,665,089 |
| Commercial paper | | 1,338,744 |
| U.S. Treasury obligations | | 3,870,855 |
| Negotiable certificates of deposit | | <u>3,776,300</u> |
| Total unrestricted investments | | <u>25,771,094</u> |

Restricted:

| | | |
|------------------------------------|--|----------------|
| Negotiable certificates of deposit | | <u>165,000</u> |
|------------------------------------|--|----------------|

| | | |
|-------------------|--|-------------------|
| Total investments | | <u>25,936,094</u> |
|-------------------|--|-------------------|

| | | |
|----------------------------|----|-------------------|
| Total cash and investments | \$ | <u>45,016,169</u> |
|----------------------------|----|-------------------|

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: CASH AND INVESTMENTS (continued)

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|--------------------------------------|-------------------------|--|---|
| U.S. Treasury obligations | 5 Years | None | None |
| Federal agency and instrumentalities | | | |
| Callable | 5 Years | 25% | None |
| Asset backed securities | 5 Years | 20% | None |
| Other | 5 Years | None | None |
| Supranationals | 5 Years | 30% | None |
| U.S. corporate debt | 5 Years | 30% | 10% |
| Negotiable certificates of deposit | 5 Years | 30% | 10% |
| Commercial paper | 270 days | 25% | 10% |
| Bank deposits | N/A | 20% | 10% |
| Bankers' acceptances | 180 days | 40% | 10% |
| Pooled investment funds | | | |
| LAIF | N/A | None | None |
| CAMP | N/A | None | None |
| El Dorado County pool | N/A | None | None |
| Money market funds | N/A | 20% | 10% |

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. One way the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities. A portion of the portfolio is always maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for the District's operations and capital improvement program.

In addition, the Investment Policy limits purchase of securities to those with maturities of five years or less. Longer investments require prior authorization of the Board of Directors. Certain investments that are highly sensitive to interest rate fluctuations are prohibited by the Investment Policy.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following tables that shows the distribution of the District's investments by maturity as of June 30, 2018:

| <u>Investment Type</u> | <u>Investment Maturities (in years)</u> | | | |
|--------------------------------------|---|--------------------|----------------------|----------------------|
| | <u>Fair Value</u> | <u>Less than 1</u> | <u>1-2</u> | <u>3-5</u> |
| Federal agency and instrumentalities | \$ 2,120,106 | \$ 9,978 | \$ 1,932,655 | \$ 177,473 |
| U.S. corporate debt | 14,665,089 | - | 8,472,466 | 6,192,623 |
| Commercial paper | 1,338,744 | - | - | 1,338,744 |
| U.S. Treasury obligations | 3,870,855 | 819,690 | 1,666,960 | 1,384,205 |
| Negotiable certificates of deposit | 3,941,300 | 65,000 | 953,949 | 2,922,351 |
| | <u>\$ 25,936,094</u> | <u>\$ 894,668</u> | <u>\$ 13,026,030</u> | <u>\$ 12,015,396</u> |

As provided in the Investment Policy, the District should target a maximum allocation of 25% to callable Federal agency securities.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: CASH AND INVESTMENTS (continued)

Concentration of Credit Risk

The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or the limits noted above, with the exception of U.S. Treasury obligation bonds, U.S. Agency securities, and pooled investment funds. As of June 30, 2018, the District held \$14,665,089 or 57%, of its investment portfolio, in the U.S. corporate Debt. This exceeds the District's 30% policy limitation.

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.

Presented below is the actual rating as of June 30, 2018 for each investment type.

| Investment Type | Total | Rating as of Fiscal Year End | |
|--------------------------------------|----------------------|------------------------------|-----------|
| | | S&P | N/A |
| Federal agency and instrumentalities | \$ 2,120,106 | AA+ | |
| U.S. corporate debt | 5,534,716 | AAA | |
| U.S. corporate debt | 552,009 | AA+ | |
| U.S. corporate debt | 593,308 | AA | |
| U.S. corporate debt | 1,191,351 | AA- | |
| U.S. corporate debt | 2,492,686 | A+ | |
| U.S. corporate debt | 1,063,177 | A | |
| U.S. corporate debt | 839,253 | A- | |
| U.S. corporate debt | 399,255 | A-1 | |
| U.S. corporate debt | 1,116,516 | BBB+ | |
| U.S. corporate debt | 882,818 | | Not rated |
| Commercial paper | 1,338,744 | | Not rated |
| U.S. Treasury obligations | 3,870,855 | AA+ | |
| Negotiable certificates of deposit | 795,170 | AA- | |
| Negotiable certificates of deposit | 398,263 | A-1+ | |
| Negotiable certificates of deposit | 757,894 | A-1 | |
| Negotiable certificates of deposit | 1,047,295 | A+ | |
| Negotiable certificates of deposit | 777,678 | A | |
| Negotiable certificates of deposit | 165,000 | | Not rated |
| | <u>\$ 25,936,094</u> | | |

Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of an investor's investment in a single issuer. To limit concentration risk, the District places a 10% limit on investments in any one non-governmental issuer. Investments exceeding 5% of the total investments, excluding external investment pools, as of June 30, 2018 were U.S. Treasury obligations and Federal Agency notes which totaled 15% and 8% of the total investments, respectively.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the depositor will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District's Investment Policy requires the financial institution to either collateralize the deposits or cover them with Federal deposit insurance. The District's cash and deposits in financial institutions, totaling \$2,987,316 as of June 30, 2018, are secured by federal depository insurance for \$415,000 with the remainder covered by collateral held by an agent of the pledging bank in the District's name.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2: CASH AND INVESTMENTS (continued)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the investor will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. To eliminate investment custodial credit risk, the District's Investment Policy requires that all cash and securities in the District's portfolio be held in safekeeping in the District's name by a third party bank trust department, acting as agent for the District, under the terms of a custody agreement.

Pooled Investment Funds

Pooled investment funds consist of cash deposited in the interest-bearing El Dorado County Treasurer's Pooled Surplus Investment Fund, LAIF, and CAMP.

The fair value of the pooled investments deposited in the El Dorado County Treasurer's Pooled Surplus Investment Fund and CAMP are equal to the value of the pool shares, and the fair value of the pooled investments deposited in the California state pool is greater than the fair value of the pool shares.

The District's deposits are maintained in recognized pooled investment funds under the care of oversight agencies. The El Dorado County Treasurer's Investment Fund has a Treasury Policy Oversight Committee in addition to annual audits. LAIF, in addition to being part of a Pooled Money Investment Account with oversight provided by the Pooled Money Investment Board and an in-house Investment Committee, also has oversight by the Local Agency Investment Advisory Board. CAMP is a trust under the oversight of the CAMP Board of Trustees.

Because the District's deposits are maintained in recognized pooled investment funds under the care of a third party and the District's share of the pool does not consist of specific identifiable investment securities owned by the District, no disclosure of the individual deposits is required. The District's deposits in the funds are considered to be highly liquid. The El Dorado County Treasurer, LAIF, and CAMP representatives have indicated there are no derivatives in the pools as of June 30, 2018. LAIF does invest in structured notes and asset-based securities.

Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 1 and 3 inputs.

The following tables set forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2018.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------------------|----------------|----------------------|----------------|----------------------|
| Federal agency and instrumentalities | \$ - | \$ 2,120,106 | \$ - | \$ 2,120,106 |
| U.S corporate debt | - | 14,665,089 | - | 14,665,089 |
| Commercial paper | - | 1,338,744 | - | 1,338,744 |
| U.S. Treasury obligations | - | 3,870,855 | - | 3,870,855 |
| Negotiable certificates of deposit | <u>-</u> | <u>3,941,300</u> | <u>-</u> | <u>3,941,300</u> |
| Total assets at fair value | <u>\$ -</u> | <u>\$ 25,936,094</u> | <u>\$ -</u> | <u>\$ 25,936,094</u> |

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3: ACCOUNTS RECEIVABLE AND AMOUNTS DUE FROM GOVERNMENTAL AGENCIES

Short-term receivables at June 30, 2018 consisted of the following:

| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
|---------------------------------------|-------------------|---------------------|---------------------|
| Customer receivables | \$ 246,137 | \$ 654,467 | \$ 900,604 |
| Other receivables | 56,163 | 423,247 | 479,410 |
| Due from Federal Government | 46,680 | 162,449 | 209,129 |
| Due from State Government | 11,670 | 174,586 | 186,256 |
| Due from El Dorado County | <u>-</u> | <u>330,137</u> | <u>330,137</u> |
| | 360,650 | 1,744,886 | 2,105,536 |
| Allowance for doubtful accounts | <u>(90,459)</u> | <u>(71,865)</u> | <u>(162,324)</u> |
| Accounts receivable, net of allowance | <u>\$ 270,191</u> | <u>\$ 1,673,021</u> | <u>\$ 1,943,212</u> |

Long-term receivables at June 30, 2018 consisted of the following:

| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
|---------------------------------------|-------------------|------------------|-------------------|
| Customer receivables | \$ 600,177 | \$ - | \$ 600,177 |
| Due from State Government | <u>73,020</u> | <u>73,020</u> | <u>146,040</u> |
| | 673,197 | 73,020 | 746,217 |
| Allowance for doubtful accounts | <u>-</u> | <u>-</u> | <u>-</u> |
| Accounts receivable, net of allowance | <u>\$ 673,197</u> | <u>\$ 73,020</u> | <u>\$ 746,217</u> |

Long-term customer receivables are submitted to the county of El Dorado for collection through a special property tax assessment or if unpaid, ultimately through foreclosure on the property.

NOTE 4: CAPITAL ASSETS

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

| | <u>July 1, 2017</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>June 30, 2018</u> |
|---|-----------------------|---------------------|---------------------|--------------------|-----------------------|
| Capital assets not being depreciated | | | | | |
| Land and easement | \$ 24,745,627 | \$ - | \$ - | \$ - | \$ 24,745,627 |
| Water rights | 1,668,308 | - | - | - | 1,668,308 |
| Construction in progress | <u>23,937,526</u> | <u>5,118,375</u> | <u>(174,614)</u> | <u>(7,698,504)</u> | <u>21,182,783</u> |
| Total capital assets not being depreciated | <u>50,351,461</u> | <u>5,118,375</u> | <u>(174,614)</u> | <u>(7,698,504)</u> | <u>47,596,718</u> |
| Capital assets being depreciated | | | | | |
| Plant and equipment | <u>309,959,853</u> | <u>9,764,567</u> | <u>(673,786)</u> | <u>7,698,504</u> | <u>326,749,138</u> |
| Less accumulated depreciation | | | | | |
| Plant and equipment | <u>(143,696,222)</u> | <u>(8,384,480)</u> | <u>673,786</u> | <u>-</u> | <u>(151,406,916)</u> |
| Total capital assets being depreciated, net | <u>166,263,631</u> | <u>1,380,087</u> | <u>-</u> | <u>7,698,504</u> | <u>175,342,222</u> |
| Capital assets, net | <u>\$ 216,615,092</u> | <u>\$ 6,498,462</u> | <u>\$ (174,614)</u> | <u>\$ -</u> | <u>\$ 222,938,940</u> |

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 4: CAPITAL ASSETS (continued)

Construction in progress as of June 30, 2018 consisted of the following:

| | |
|-------------------------------------|----------------------|
| Alpine County Master Plan | \$ 1,295,525 |
| BMP projects, sewer | 174,936 |
| BMP projects, water | 201,519 |
| Breakpoint Chamber Mod | 187,663 |
| C-Line energy generation | 189,305 |
| C-Line reroute | 236,334 |
| Collection system master plan | 680,144 |
| Concrete coating project | 187,101 |
| DVR emergency storage basin | 146,188 |
| DVR environmental impact report | 769,991 |
| DVR irrigation improvements | 11,053,860 |
| ERP System | 278,255 |
| Keller-Heavenly System Improvements | 505,721 |
| Meters, Phase 4 | 2,067,304 |
| PRV instrumentation Project | 89,553 |
| Scada upgrades | 68,137 |
| Sewer Pump Stn Improvements Big5 | 359,197 |
| Tallac Creek Sewer Crossing | 142,237 |
| Treatment plant generator | 1,035,929 |
| Water system optimization plan | 484,518 |
| Waterline evaluations | 77,803 |
| Waterline replacement, Bower | 46,012 |
| Waterline replacement, Marlette | 373,481 |
| Wildwood intercept | 264,751 |
| Other projects | <u>267,319</u> |
| | <u>\$ 21,182,783</u> |

Depreciation expense for the year ended June 30, 2018 was charged to the different activities as follows:

| | |
|-------|---------------------|
| Sewer | \$ 4,802,028 |
| Water | <u>3,582,452</u> |
| | <u>\$ 8,384,480</u> |

NOTE 5: UNEARNED REVENUE

Unearned revenue represents revenues that had been collected or billed, but not yet earned. Unearned revenue consisted of the following at June 30, 2018:

| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
|-------------------------|-------------------|-------------------|---------------------|
| Connection fee deposits | \$ 929,685 | \$ 817,900 | \$ 1,747,585 |
| Other unearned revenue | <u>37,589</u> | <u>55,325</u> | <u>92,914</u> |
| | <u>\$ 967,274</u> | <u>\$ 873,225</u> | <u>\$ 1,840,499</u> |

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 6: LONG TERM LIABILITIES

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

| | <u>June 30, 2017</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2018</u> | <u>Current Portion</u> |
|---|----------------------|----------------------|-----------------------|----------------------|----------------------------|
| SRF Luther Pass Pump Station | \$ 1,948,363 | \$ - | \$ (116,368) | \$ 1,831,995 | \$ 119,510 |
| SRF Headworks | 764,077 | - | (38,812) | 725,265 | 39,860 |
| SRF Emergency Retention Basin | 1,049,649 | - | (57,688) | 991,961 | 59,246 |
| 2011 Sewer Installment Agreement | 5,171,958 | - | (276,255) | 4,895,703 | 286,430 |
| 2012 Sewer Refunding | 6,957,304 | - | (860,159) | 6,097,145 | 880,056 |
| 2013 Sewer Refunding | 6,330,871 | - | (535,372) | 5,795,499 | 548,623 |
| SRF Luther Pass Power | 3,708,397 | 797,395 | - | 4,505,792 | 123,595 |
| SRF Diamond Valley Irrigation Improvement | 5,724,157 | 1,901,788 | - | 7,625,945 | 200,043 |
| SRF Aeration Basin #2 Rehabilitation | - | 1,070,077 | - | 1,070,077 | 28,355 |
| SRF Primary Clarification #1 Rehabilitation | - | 580,153 | - | 580,153 | 15,602 |
| Chase Bank Sewer Loan | - | 5,000,000 | (147,326) | 4,852,674 | 287,921 |
| 2013 Water Refunding | 6,039,327 | - | (636,466) | 5,402,861 | 650,996 |
| SRF Meters Phase 1 | 3,503,116 | - | (116,771) | 3,386,345 | 116,771 |
| SRF Meters Phase 2 | 1,098,593 | - | (23,343) | 1,075,250 | 47,393 |
| SRF Meters Phase 3 - 5 | - | 3,357,245 | - | 3,357,245 | - |
| SRF Waterline Replacement | - | 1,029,149 | - | 1,029,149 | - |
| | <u>\$ 42,295,812</u> | <u>\$ 13,735,807</u> | <u>\$ (2,808,560)</u> | <u>\$ 53,223,059</u> | <u>\$ 3,404,401</u> |
| Total | | | | | |

A description of the long-term liabilities at June 30, 2018 follows:

SRF Luther Pass Pump Station

2011 California State Water Resources Control Board Revolving Fund loan secured by a first lien against all sewer revenues, due October 15, 2030, payable \$168,973 annually, including interest at 2.7%. The original amount of the debt was \$2,485,968 and was used for construction of the Luther Pass Pump Station Generator Replacement project. For the year ended June 30, 2018, principal and interest payments accounted for 0.5% of total sewer revenues.

SRF Headworks

2011 California State Water Resources Control Board Revolving Fund loan secured by a first lien against all sewer revenues, due October 15, 2032, payable \$59,442 annually, including interest at 2.7%. The original amount of the debt was \$909,386 and was used for construction of the Headworks Replacement project. For the year ended June 30, 2018, principal and interest payments accounted for 0.2% of total sewer revenues.

SRF Emergency Retention Basin

2011 California State Water Resources Control Board Revolving Fund loan secured by a first lien against all sewer revenues, due October 15, 2031, payable \$86,029 annually, including interest at 2.7%. The original amount of the debt was \$1,344,698 and was used for construction of the Emergency Retention Basin Liner project. For the year ended June 30, 2018, principal and interest payments accounted for 0.2% of total sewer revenues.

2011 Sewer Installment Agreement

2011 Sewer Installment Sale Agreement with BBVA Compass Bank, secured by a first lien against all sewer revenues, due August 1, 2031, payable \$231,267 semi-annually, including interest at 3.65%. The original amount of the debt was \$6,525,000 and was used for constructions of sewer infrastructure improvements. For the year ended June 30, 2018, principal and interest payments accounted for 1.2% of total sewer revenues.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 6: LONG TERM LIABILITIES (continued)

2012 Sewer Refunding

2012 Sewer Installment Sale Agreement with BBVA Compass Bank, secured by a first lien against all sewer revenues, due September 1, 2024, payable \$507,630 semi-annually, including interest at 2.3%. The original amount of the debt was \$10,605,000 and was used for construction of sewer infrastructure improvements and was also used to repay the 2004 Sewer Revenue Certificates of Participation, which funded sewer infrastructure improvements. For the year ended June 30, 2018, principal and interest payments accounted for 3.7% of total sewer revenues.

2013 Sewer Refunding

2013 Sewer Installment Sale Agreement with BBVA Compass Bank, secured by a first lien against all sewer revenues, due August 2027, payable \$343,919 semi-annually, including interest at 2.46%. The original amount of the debt was \$8,400,000 and was used to repay the 2007 Sewer Installment Sale Agreement, which funded sewer infrastructure improvements. For the year ended June 30, 2018, principal and interest payments accounted for 2.3% of total sewer revenues.

SRF Luther Pass Power

2015 California State Water Resources Control Board Revolving Fund Loan secured by a first lien against all sewer revenues, due August 30, 2017, payable \$190,054 annually, including interest of 1.6%. The original amount of the debt was \$4,444,057 and was used for construction of Luther Pass Pump Station upgrades. For the year ended June 30, 2018, principal and interest payments accounted for 0% of total sewer revenues.

SRF Diamond Valley Ranch Irrigation Improvement

2015 California State Water Resources Control Board Revolving Fund Loan secured by a first lien against all sewer revenues, due December 31, 2047, payable \$322,058 annually, including interest of 1.6%. The original amount of the debt was \$8,860,890 and was used for construction of the Diamond Valley Ranch Irrigation improvements. For the year ended June 30, 2018, principal and interest payments accounted for 0% of total sewer revenues.

SRF Aeration Basin #2 Rehabilitation

2018 California State Water Resources Control Board Revolving Fund Loan secured by a first lien against all sewer revenues, due December 31, 2047, payable \$45,799 annually, including interest of 1.7%. The original amount of the debt was \$1,070,077 and was used for the rehabilitation of aeration basin #2. For the year ended June 30, 2018, principal and interest payments accounted for 0% of total sewer revenues.

SRF Primary Clarifier #1 Rehabilitation

2018 California State Water Resources Control Board Revolving Fund Loan secured by a first lien against all sewer revenues, due December 31, 2047, payable \$24,820 annually, including interest of 1.7%. The original amount of the debt was \$580,153 and was used for the rehabilitation of primary clarifier #1. For the year ended June 30, 2018, principal and interest payments accounted for 0% of total sewer revenues.

Chase Bank Sewer Loan

2017 Installment Sale Agreement with Chase Bank, secured by a first lien against all sewer revenues, due December 1, 2032, payable \$196,074 semi-annually, including interest at 2.18%. The original amount of the debt was \$5,000,000 and was used for construction of the sewer plant generator and building. For the year ended June 30, 2018, principal and interest payments accounted for 0.6% of total sewer revenues.

2013 Water Refunding

2013 Water Installment Sale Agreement with BBVA Compass Bank, secured by a first lien against all water revenues, due January 30, 2030, payable \$237,786 semi-annually, including interest at 2.27%. The original amount of the debt was \$10,000,000 and was used for construction of water infrastructure improvements and was also used to repay the 2001 Water Refunding and 1999 Installment Sale Agreement, both of which funded water infrastructure improvements. For the year ended June 30, 2018, principal and interest payments accounted for 4.6% of total water revenues.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 6: LONG TERM LIABILITIES (continued)

SRF Meters Phase 1

2014 California State Water Resources Control Board Revolving Fund Loan secured by a first lien against all water revenues, due January 1, 2047, payable \$58,385 semi-annually, including interest of 0%. The original amount of the debt was \$3,503,116 and was used for installation of water meters. Imputed interest for this loan is not material. For the year ended June 30, 2018, principal and interest payments accounted for 0.8% of total water revenues.

SRF Meters Phase 2

2017 California State Water Resources Control Board Revolving Fund Loan secured by a first lien against all water revenues, due July 1, 2037, payable \$32,204 semi-annually, including interest of 1.6%. The original amount of the debt was \$1,098,593 and was used for installation of water meters. For the year ended June 30, 2018, principal and interest payments accounted for 0.2% of total water revenues.

SRF Meters Phase 3 -5

In 2018, the District entered into a revolving fund loan agreement with California State Water Resources Control Board to provide funding for phases 3 through 5 of the water meter installation project. The loan is secured by a first lien against all water revenues. Funds are drawn on the agreement as work is completed up to a maximum approved amount of \$14,010,534. At project completion, \$4,000,000 of this amount is anticipated to be forgiven. Annual principal and interest payments will begin after project completion, which is expected to be in October, 2020. The loan will accrue interest at a rate of 1.8% annually. As of June 30, 2018 the District incurred a total of \$3,357,244 in Phase 3 - 5 costs. For the year ended June 30, 2018, principal and interest payments accounted for 0% of total water revenues.

SRF Waterline Replacement

In 2018, the District entered into a revolving fund loan agreement with California State Water Resources Control Board to provide funding for the waterline replacement project. The loan is secured by a first lien against all water revenues. Funds are drawn on the agreement as work is completed up to a maximum approved amount of \$3,627,005. Semi-annual principal payments will occur each January 1 and July 1, commencing January 1, 2020. The loan accrues interest at a rate of 1.7% annually. Final payment is due July 1, 2049. For the year ended June 30, 2018, principal and interest payments accounted for 0% of total water revenues.

Principal and interest maturities of long-term debt are as follows:

| Years ending June 30, | Principal | Interest | Total |
|-----------------------|----------------------|---------------------|----------------------|
| 2019 | \$ 3,404,401 | \$ 1,012,436 | \$ 4,416,837 |
| 2020 | 3,341,574 | 947,971 | 4,289,545 |
| 2021 | 3,283,051 | 872,591 | 4,155,642 |
| 2022 | 3,358,737 | 796,907 | 4,155,644 |
| 2023 | 3,436,315 | 719,329 | 4,155,644 |
| 2024 - 2028 | 14,392,735 | 2,488,158 | 16,880,893 |
| 2029 - 2033 | 8,396,144 | 1,126,022 | 9,522,166 |
| 2034 - Thereafter | <u>13,610,102</u> | <u>1,137,717</u> | <u>14,747,819</u> |
| | <u>\$ 53,223,059</u> | <u>\$ 9,101,131</u> | <u>\$ 62,324,190</u> |

Interest charges on debt, including amounts capitalized totaling \$149,425, for the year ended June 30, 2018 was \$679,140.

Debt covenants for the installment sale agreements to BBVA Compass Bank and the California State Water Resource Control Board Revolving Fund include thresholds for minimum net water and sewer revenue and maximum outstanding debt obligations. The District is in compliance with the requirements as of June 30, 2018.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 7: COMPENSATED ABSENCES

Compensated absences balance and activity for the year ended June 30, 2018 were as follows:

| | <u>July 1, 2017</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2018</u> | <u>Current Portion</u> |
|----------------------|---------------------|---------------------|-----------------------|----------------------|----------------------------|
| Compensated absences | \$ <u>3,146,975</u> | \$ <u>1,756,993</u> | \$ <u>(1,835,854)</u> | \$ <u>3,068,114</u> | \$ <u>1,228,981</u> |

NOTE 8: INTERFUND LOAN

During the year ended June 30, 2017, the sewer fund loaned the water fund \$3 million to provide bridge funding for the water meter installation projects. This funding helps cover the expenses of the meter installations until the District is reimbursed from the Clean Water State Revolving Loan. The water fund is to reimburse the sewer fund, including interest, by June 30, 2021, when all remaining meter installations are expected to be complete and the District has been completely reimbursed from the loan funds. Interest on the loan will be paid at the same rate received by the District on its funds invested in the California Local Agency Investment Fund.

NOTE 9: PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan), administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all others). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety and miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the safety or miscellaneous pools. The District sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS 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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits.

The District has one local Miscellaneous Retirement Benefit Plan, with two tiers. Tier I benefits for members hired before January 1, 2013 are under the 2.7% @ 55 retirement formula, and Tier II benefits for members hired on or after January 1, 2013 are under the 2% at 62 retirement formula.

Tier I final compensation is calculated using the highest average pay rate and special compensation during a three year period. Tier I employee contributions are shared by the employer and employee. This tier and retirement formula is closed to employees hired on or after January 1, 2013 with the exception of employees considered to be Classic Members with a break in CalPERS qualified employment of less than 6 months and who did not receive a refund of their contributions on deposit with the retirement fund. Tier II final compensation is calculated using the highest average pay rate and special compensation during any consecutive three-year period. Tier II employee contributions are paid by the employee.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9: PENSION PLAN (continued)

The rate plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

| | <u>Miscellaneous Plan</u> | |
|---|-----------------------------------|--------------------------------------|
| | Hired prior to January 1, 2013 | Hired on or after January 1, 2013 |
| Benefit Formula | 2.7% at 55 | 2.0% at 62 |
| Benefit Vesting Schedule | 5 years service | 5 years service |
| Benefit Payments | monthly for life | monthly for life |
| Retirement Age | 50 - 55 | 52 - 67 |
| Monthly Benefits, as a % of Eligible Compensation | 2.0% - 2.7% | 1.0% - 2.5% |
| Required Employee Contribution Rate | 8.000% | 6.250% |
| Required Employer Contribution Rate | 15.455% | 6.564% |

Contributions

Section 20814(c) of the California Public Employees' Retirement Law 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. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's contributions to the Plan for the year ended June 30, 2018 were \$1,446,366.

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported a net pension liability of \$10,140,589 for its proportionate share of the net pension liability of the Plan.

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability of the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's' long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability to the Plan as of June 30, 2018 and 2017 was follows:

| | |
|----------------------------|------------------|
| Proportion - June 30, 2017 | 0.24871 % |
| Proportion - June 30, 2018 | <u>0.25724 %</u> |
| Change - decrease | <u>0.00853 %</u> |

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9: PENSION PLAN (continued)

For the year ended June 30, 2018, the District recognized pension expense of \$2,748,945. At June 30, 2018, the District 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 the measurement date | \$ 1,446,366 | \$ - |
| Change in employer's proportion | 1,235,259 | 218,217 |
| Difference between actual and expected experience | - | 182,858 |
| Changes in assumptions | 1,572,638 | - |
| Difference between employer contributions and the employer's proportionate share of the risk pool's contributions | 436,855 | - |
| Net difference between projected and actual earning on plan investments | 385,024 | - |
| Total | \$ 5,076,142 | \$ 401,075 |

\$1,446,366 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June 30, | |
|-------------------------------|--------------|
| 2019 | \$ 1,355,717 |
| 2020 | 1,262,670 |
| 2021 | 838,912 |
| 2022 | (228,598) |

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

| | |
|----------------------------------|--|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry-age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.15% net of pension plan investment expenses, includes inflation |
| Mortality (1) | Derived using CalPERS membership data for all funds |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until purchasing protection allowance floor on purchasing power applied, 2.75% thereafter |

(1): The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more on this table, please refer to the 2014 Experience Study Report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Changes in Assumptions

There were no changes of assumptions during the measurement period ended June 30, 2017. Deferred inflows of resources for changes in assumptions presented in the deferred outflows/inflows table above represents the portion of the changes of assumptions related to prior measurement periods.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9: PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) cash flows. Using historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 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 each PERF fund. 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 equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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. The target allocation shown was adopted by the Board effective on July 1, 2015.

| <u>Asset class</u> | <u>Current target allocation</u> | <u>Real return years 1-10 (1)</u> | <u>Real return years 11+ (2)</u> |
|-------------------------------|----------------------------------|---------------------------------------|--------------------------------------|
| Global Equity | 47.0% | 4.90% | 5.38% |
| Global Fixed Income | 19.0% | 0.80% | 2.27% |
| Inflation Sensitive | 6.0% | 0.60% | 1.39% |
| Private Equity | 12.0% | 6.60% | 6.63% |
| Real Estate | 11.0% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.0% | 3.90% | 5.36% |
| Liquidity | 2.0% | (0.40%) | (0.90%) |

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District'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:

| | <u>Discount Rate - 1%</u> | <u>Current Discount Rate</u> | <u>Discount Rate + 1%</u> |
|-----------------------|---------------------------|------------------------------|---------------------------|
| | <u>6.15%</u> | <u>7.15%</u> | <u>8.15%</u> |
| Net pension liability | \$15,752,358 | \$10,140,589 | \$5,492,821 |

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 9: PENSION PLAN (continued)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 10: DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code Section 457. The 457 Plan permits the employees to defer a portion of their salary until future years. A third party administrator maintains deferrals in a trust capacity. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Participants may elect to contribute, through salary reductions, up to the IRC (g) limit (\$18,500 in 2018).

The 457 Plan assets totaled \$17,506,939 at June 30, 2018. Plan assets consist of investments in mutual funds, which are held in trust and are considered protected from the general creditors of the District.

NOTE 11: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. To protect the District from these risks, it is a member of a risk management program as discussed in Note 13. The District carries commercial insurance to protect against the risk of errors and omissions. For each of the three most recent years, settlement of claims has not exceeded insurance coverage.

NOTE 12: COMMITMENTS AND CONTINGENCIES

A. Contractual Obligations

At June 30, 2018, the District's significant contractual commitments with outside firms for engineering, construction, consulting, and various other services totaled approximately \$11.7 million.

At June 30, 2018, the District's management was in negotiations with various contractors regarding change orders for work performed prior to year-end. Management has made estimates for amounts due at year-end and had recorded them in accrued liabilities.

B. Contingencies

The District has received federal and state grants for specific purposes that are subject to review and audit by the federal and state government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

The District is also subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the District.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 13: JOINT POWERS AUTHORITY

The District is a member of a joint powers authority, California Sanitation Risk Management Authority (CSRMA), for the operation of a common risk management and insurance program. The program covers workers' compensation, property and liability insurance. The membership includes public wastewater agencies within California. CSRMA is governed by a Board of Directors consisting of representatives from member agencies, which controls the operations of the CSRMA, including selection of management and approval of operating budgets.

The following is a summary of the most current audited financial information for CSRMA as of June 30, 2017 (the most recent information available):

| | |
|-------------------|---------------|
| Total assets | \$ 28,419,707 |
| Total liabilities | 17,241,037 |
| Net assets | 11,178,670 |
| Total income | 11,166,523 |
| Total expense | 11,588,811 |

If the District's deposits are not adequate to meet costs of claims and expenses, a retrospective adjustment to make up the difference, subject to minimum and maximum amounts, can take place. Coverage under this program has not changed and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

The District is also a member of a joint powers authority, California Asset Management Program (CAMP), which provides professional investment services to California public agencies. Members of CAMP can participate in the Cash Reserve Portfolio. CAMP is governed by a Board of Trustees, which is made up of experienced local government finance directors, treasurers, and school business officials. Trustees control the operation of CAMP, including formation and implementation of its investment and operating policies.

The following is a summary of the most current audited financial information for the CAMP portfolio as of December 31, 2017 (the most recent information available):

| | |
|--|------------------|
| Total assets | \$ 3,060,399,463 |
| Total liabilities | 535,958 |
| Net assets | 3,059,863,505 |
| Total income | 27,570,775 |
| Total expenses | 3,142,427 |
| Net increase in net assets resulting from operations | 24,428,348 |

Complete financial statements for CAMP can be obtained from the PFM Asset Management, LLC at 50 California Street, Suite 2300, San Francisco, California 94111.

The relationships between South Tahoe Public Utility District and the joint powers authorities are such that CSRMA and CAMP are not component units of the District for financial reporting purposes.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 14: PROPERTY TAX REVENUE

Secured property taxes are attached as an enforceable lien and levied on property as of January 1st. Taxes are due in two installments, on or before December 10th and April 10th. The District recognizes property tax receivables on January 1st and defers revenue recognition until the period for which the property taxes are levied (July 1st through June 30th). Property tax revenue is derived from property tax assessments levied within the entire District. The Board of Directors is using these funds to subsidize the Sewer Enterprise Fund operations. The District relies upon the competency of the County of El Dorado for assessing the property tax and establishing a lien date, and for billing, collecting and distributing its share of the property tax revenue.

NOTE 15: INVESTMENT EARNINGS

Investment earnings consisted of the following for the year ended June 30, 2018:

| | |
|--------------------------------|-------------------|
| Interest income | \$ 557,698 |
| Realized and unrealized losses | <u>(319,524)</u> |
| | <u>\$ 238,174</u> |

NOTE 16: OTHER OPERATING EXPENSES

Other operating expenses consisted of the following for the year ended June 30, 2018:

| | |
|-----------------------------------|---------------------|
| Professional services | \$ 1,325,134 |
| Operating permits | 355,523 |
| Chemical supplies | 271,697 |
| Office expense | 245,787 |
| Insurance and unreimbursed claims | 312,153 |
| Travel, meetings, and education | 231,776 |
| Research and monitoring | 51,156 |
| Miscellaneous expense | <u>940,024</u> |
| | <u>\$ 3,733,250</u> |

NOTE 17: RESTATEMENT OF FINANCIAL STATEMENTS

During the fiscal year ending June 30, 2017, the District reported grants receivable in the sewer fund related to FEMA reimbursements. In fiscal year ending June 30, 2018, the District discovered that a total of \$144,958 of these reimbursements will not be received, causing an overstatement of grants receivable and federal aid for the fiscal year ending June 30, 2017, and unrestricted net assets as of July 1, 2017.

The effect of the restatement on the change in unrestricted net assets and financial position as of and for the year ended June 30, 2018 is as follows.

| | <u>As previously reported</u> | <u>Restated</u> |
|--|-------------------------------|-----------------|
| Aid from governmental agencies | \$ 1,057,716 | \$ 912,758 |
| Due from Governmental agencies (current portion) | 1,533,013 | 1,388,055 |
| Unrestricted Net Position | 25,131,753 | 24,986,795 |

NOTE 18: SUBSEQUENT EVENT

Management has evaluated events subsequent to June 30, 2018 through October 30, 2018, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2018
LAST 10 YEARS ***

| | Measurement Period | | | |
|--|--------------------|--------------|--------------|--------------|
| | 2017 | 2016 | 2015 | 2014 |
| Proportion of the net pension liability | 0.25724 % | 0.24871 % | 0.25560 % | 0.24100 % |
| Proportionate share of the net pension liability | \$10,140,589 | \$ 8,639,873 | \$ 7,012,372 | \$ 5,945,128 |
| Covered - employee payroll | \$ 9,307,465 | \$ 9,428,197 | \$ 8,791,579 | \$ 8,813,523 |
| Proportionate share of the net pension liability as a percentage of covered - employee payroll | 108.95 % | 91.64 % | 79.76 % | 67.45 % |
| Plan fiduciary net position as a percentage of the total pension liability | 75.39 % | 74.06 % | 78.40 % | 79.82 % |

* Schedule is intended to show information for ten years. Fiscal year 2015 was the first year of implementation, therefore only four years are shown. Additional years' information will be displayed as it becomes available.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2018
LAST 10 YEARS ***

| | Fiscal Year-End | | | |
|---|------------------|------------------|------------------|------------------|
| | 2018 | 2017 | 2016 | 2015 |
| Contractually required contribution (actuarially determined) | \$ 1,446,366 | \$ 1,369,744 | \$ 1,278,986 | \$ 1,545,374 |
| Contributions in relation to the actuarially determined contributions | <u>1,446,366</u> | <u>1,369,744</u> | <u>1,278,986</u> | <u>1,545,374</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered - employee payroll | \$ 9,650,512 | \$ 9,307,465 | \$ 9,428,197 | \$ 8,791,579 |
| Contributions as a percentage of covered - employee payroll | 14.99 % | 14.72 % | 13.57 % | 17.58 % |

* Schedule is intended to show information for ten years. Fiscal year 2015 was the first year of implementation, therefore only four years are shown. Additional years' information will be displayed as it becomes available.



MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
GLENDALE • ROSEVILLE • SACRAMENTO • SOUTH LAKE TAHOE • KAUAI, HAWAII

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
South Tahoe Public Utility District
South Lake Tahoe, California

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Tahoe Public Utility District (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Mann Urrutia Nelson CPAs".

Sacramento, California
October 30, 2018



MANN • URRUTIA • NELSON CPAs & ASSOCIATES, LLP
GLENDALE • ROSEVILLE • SACRAMENTO • SOUTH LAKE TAHOE • KAUAI, HAWAII

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
South Tahoe Public Utility District
South Lake Tahoe, California

Report on Compliance for Each Major Federal Program

We have audited South Tahoe Public Utility District's (the "District") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal

control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Mam Vati RLCPA3".

Sacramento, California
October 30, 2018

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Contract Number</u> | <u>Passed- Through to Subrecipients</u> | <u>Expenditures</u> |
|--|------------------------------------|----------------------------|---|---------------------|
| <u>U.S. Environmental Protection Agency</u> | | | | |
| <i>Pass-through from the California Department of Public Health:</i> | | | | |
| Capitalization Grants for Drinking Water State Revolving Funds | | D16-01007 | \$ - | \$ 175,738 |
| Capitalization Grants for Drinking Water State Revolving Funds | | D16-01006 | - | 151,502 |
| Capitalization Grants for Drinking Water State Revolving Funds | | D15-01010 | - | 633,304 |
| Capitalization Grants for Drinking Water State Revolving Funds | | D17-01007 | - | 3,357,244 |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | 14-835-550 | - | <u>395,232</u> |
| Total U.S. Environmental Protection Agency | | | <u>-</u> | <u>4,713,020</u> |
| <u>U.S. Department of Agriculture</u> | | | | |
| <i>Direct Programs:</i> | | | | |
| Cooperative Forestry Assistance | 10.664 | 15-DG11052012-128 | 112,037 | 165,448 |
| Cooperative Forestry Assistance | 10.664 | 16-DG11052012-142 | 178,995 | 341,444 |
| Cooperative Forestry Assistance | 10.664 | 17-DG-11052012-140 | <u>132,291</u> | <u>248,920</u> |
| Total U.S. Department of Agriculture | | | <u>423,323</u> | <u>755,812</u> |
| <u>U.S. Department of the Interior</u> | | | | |
| <i>Direct Programs:</i> | | | | |
| Reclamation States Emergency Drought Relief | 15.514 | R16-AP-00139 | <u>-</u> | <u>290,099</u> |
| Total U.S. Department of Interior | | | <u>-</u> | <u>290,099</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 423,323</u> | <u>\$ 5,758,931</u> |

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1: SCOPE OF AUDIT PURSUANT TO UNIFORM GUIDANCE

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance provided to South Tahoe Public Utility District under programs of the Federal Government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the District. The District reporting entity is defined in Note 1 of the District's financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule. When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

NOTE 3: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant and contract revenues are recorded for financial reporting purposes when the District has met the qualifications for the respective grants and contracts.

NOTE 4: CLAIMS

The District has received federal grants for specific purposes that are subject to review and audit by the Federal Government. Although such audits could result in expenditure disallowances under the grant terms, any required reimbursements are not expected to be material.

NOTE 5: INDIRECT COSTS

The District elected not to use the 10% de minimus indirect cost rate, and did not charge indirect costs to federal grants during the year ended June 30, 2018.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|--|---------------|
| Type of auditor's report issued on basic financial statements | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiencies identified that are not considered to be material weakness? | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| Internal control over major programs: | | | | | | | |
|---|--|--------------------------------|--------|---------------------------------|--------|--|--|
| Material weakness(es) identified? | No | | | | | | |
| Significant deficiencies identified that are not considered to be material weakness? | None reported | | | | | | |
| Type of auditor's report issued on compliance for major programs: | Unmodified | | | | | | |
| Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance? | No | | | | | | |
| Major programs are as follows: | | | | | | | |
| <table border="0"> <thead> <tr> <th style="text-align: left;"><u>CFDA Number</u></th> <th style="text-align: left;"><u>Name of Federal Program</u></th> </tr> </thead> <tbody> <tr> <td>10.664</td> <td>Cooperative Forestry Assistance</td> </tr> <tr> <td>66.468</td> <td>Capitalization Grant for Drinking Water State Revolving Fund</td> </tr> </tbody> </table> | <u>CFDA Number</u> | <u>Name of Federal Program</u> | 10.664 | Cooperative Forestry Assistance | 66.468 | Capitalization Grant for Drinking Water State Revolving Fund | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> | | | | | | |
| 10.664 | Cooperative Forestry Assistance | | | | | | |
| 66.468 | Capitalization Grant for Drinking Water State Revolving Fund | | | | | | |
| Dollar threshold used to distinguish between type A and type B programs: | \$750,000 | | | | | | |
| Auditee qualified as low-risk auditee? | Yes | | | | | | |

SECTION II - FINANCIAL STATEMENT FINDINGS

No current year findings relating to the financial statements which are required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No current year findings and questioned costs for federal awards as defined in section 200.516 of the Uniform Guidance.

**SOUTH TAHOE PUBLIC UTILITY DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no findings to report for the year ended June 30, 2017.