TUOLUMNE UTILITIES DISTRICT

Annual Financial Report June 30, 2014

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Tuolumne Utilities District

Annual Financial Report

June 30, 2014

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tuolumne Utilities District
Sonora, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tuolumne Utilities District (the District), which comprise the statements of net position of the Water Fund and Sewer Fund as of June 30, 2014, and the related statements of revenues, expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

To the Board of Directors
Tuolumne Utilities District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District's Water Fund and Sewer Fund as of June 30, 2014 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 11 to 19 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.

Richardson & Company, LLP

September 12, 2014

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Management's Discussion and Analysis

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Introduction

In this discussion and analysis, management provides an overview of the Tuolumne Utilities District's ("the District") financial position at June 30, 2014 and its financial performance for the year then ended. Condensed financial information from 2013 is also presented for comparison only. Limited information is presented about conditions and events that may affect the District's future financial position and performance. The intent is to provide context for understanding the financial statements and the District's prospects, and assistance interpreting the financial statements. This discussion and analysis presents management's perspective and should be read in conjunction with the District's financial statements and accompanying notes which follow this discussion and analysis.

Financial Statements

The District's financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements, together with the related footnotes, are known as the "basic financial statements" and comply with generally accepted accounting principles, which for all state and local governments including the District, are set forth in Governmental Accounting Standards Board (GASB) Statements. In many, but not all cases, GASB Statements incorporate the provisions of Financial Accounting Standards Board Statements which establish generally accepted accounting principles for nongovernmental entities. The District's activities are business type activities and are accounted for as an enterprise fund. The accounting principles for an enterprise fund more closely resemble those of a commercial entity than a government.

Statement of Net Position

The statement of net position provides information about assets, obligations (liabilities), and net position of the District at a specific point in time. All amounts (except for investments in marketable debt securities) are shown at cost. Therefore, the liabilities, and net position sections of this statement reveal the sources of the District's capital, and the assets section shows how the capital has been used. The net position section reveals the life to date results of operations. Current assets and current liabilities are shown separately from other assets and liabilities to enable the reader to evaluate the adequacy of the District's working capital. Working capital is the excess of current assets over current liabilities, and current assets and current liabilities are those which liquidate within one year.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position provides information regarding the District's financial performance during the year. The difference between revenues and expenses is the change in net position for the period. The total net position in the balance sheet represents the life to date accumulation of changes in net position.

Revenues earned and expenses incurred during the year are presented in three categories: operating, nonoperating, and capital contributions. This allows the reader to evaluate the financial results of operating activities separately from other sources of income and expense.

The statement ends by showing how net income for the year, including capital contributions, accounts for the change in net position that occurred during the year.

Statement of Cash Flows

Because revenues and expenses are not identical to cash flows, generally accepted accounting principles require we provide the statement of cash flows. The statement of cash flows reports sources and uses of cash in four categories: operating activities, noncapital financing activities, capital financing activities, and investing activities. The statement also presents a reconciliation of the differences between net income from operations and net cash flows from operations.

Financial Highlights

Condensed Statements of Net Position
For the Years Ended June 30

	2014	2013	Dollar Change	Percentage Change
Current assets	$ 3,713,128	$ 3,709,933	$ 3,195	0.1%
Other assets and investments	10,858,289	10,196,458	661,831	6%
Capital assets	66,896,846	66,559,506	337,340	0.5%
Total Assets	$ 81,468,263	$ 80,465,897	$ 1,002,366	1%
Current liabilities	$ 1,528,650	$ 1,593,641	$ (64,991)	-4%
Long term liabilities	8,656,515	7,946,698	709,817	9%
Total liabilities	10,185,165	9,540,339	644,826	7%
Net investment in capital assets	60,755,998	60,024,097	731,901	1%
Restricted net position	10,323,891	9,620,315	703,576	7%
Unrestricted net position	203,209	1,281,146	(1,077,937)	-84%
Total net position	71,283,098	70,925,558	357,540	0.5%
Total liabilities and net position	$ 81,468,263	$ 80,465,897	$ 1,002,366	1%

These condensed Statements of Net Position exclude Interfund advances. The advance from the Sewer Fund to the Water Fund was reduced by $1,686,452 during fiscal year 2014.

2014 and 2013 Balance Sheets Compared

Current assets and other assets increased by $3 thousand and $662 thousand, respectively during 2014. Within current assets, cash and investments unrestricted, interest receivable, deposits, and inventory all increased over 2013, while accounts receivable, property taxes receivable, intergovernmental receivable, miscellaneous receivable, and prepaid expenses each decreased. The majority of the change in other assets is due to an increase in cash restricted for capital improvements due to facilities capital charges received exceeding capital costs.

Total capital assets increased by $3.3 million as the District invested in infrastructure improvements such as construction of the Columbia Intertie, installation of New Melones pump drives, sewer lining and improvements, and purchase of a new sewer inspection camera and software among others; which was offset by depreciation expense of $3.2 million for a net increase in the capital assets of $337 thousand or 0.5%.

Current liabilities decreased $65 thousand or 4%. Payroll payable, deposits, and current portion compensated absences all increased over 2013, while accounts payable and accrued expenses, accrued interest payable, and current portion of long-term debt each decreased.

Long-term liabilities increased by $710 thousand or 9%. The net other postemployment benefits obligation increased over 2013 by $1.2 million, while long-term debt and compensated absences both decreased.

Condensed Statements of Revenues
For the Years Ended June 30

	2014	2013	Dollar Change	Percentage Change
Operating revenues				
Service charges	$ 12,179,622	$ 12,379,179	$ (199,557)	-2%
Other	233,319	222,396	10,923	5%
Total operating revenues	12,412,941	12,601,575	(188,634)	-1%
Nonoperating revenues				
Property taxes	851,808	855,824	(4,016)	-0.5%
Connection fees	-	1,960	(1,960)	-100%
Debt service recovery charges	463,701	482,563	(18,862)	-4%
Intergovernmental revenue	124,919	476,035	(351,116)	-74%
Other income	77,503	48,634	28,869	59%
Investment income	84,602	89,936	(5,334)	-6%
Total nonoperating revenues	1,602,533	1,954,952	(352,419)	-18%
Capital contributions	2,413,444	1,914,548	498,896	26%
Total revenues	$ 16,428,918	$ 16,471,075	$ (42,157)	-0.3%

2014 and 2013 Revenues Compared

The comparative statement of revenues shows changes from 2013 to 2014 in the District's revenues, classified into operating, nonoperating, and capital categories. Total revenues decreased $42 thousand or .3%. Total operating revenues decreased $189 thousand or 1% due to conservation. Nonoperating revenues decreased $352 thousand or 18%. This is due principally to decreases in grant revenues. Capital contributions increased by $499 thousand or 26% as a result of developer donated infrastructure received in 2014.

Condensed Statements of Operating Expenses
For the Years Ended June 30

	2014	2013	Dollar Change	Percentage Change
Supply and pumping	$ 662,984	$ 674,693	$ (11,709)	-2%
Collection	599,803	533,679	66,124	12%
Treatment	2,378,180	2,970,111	(591,931)	-20%
Transmission and distribution	935,269	985,639	(50,370)	-5%
Disposal	244,909	245,626	(717)	-0.3%
Customer services	157,706	227,757	(70,051)	-31%
General and administrative	7,029,997	6,919,997	110,000	2%
Drought response	422,057	-	422,057	
Depreciation	3,166,738	3,148,704	18,034	1%
Total operating expenses	$ 15,597,643	$ 15,706,206	$ (108,563)	-1%

2014 and 2013 Operating Expenses Compared

The condensed statement of operating expenses, above, shows a decrease of $109 thousand or less than one percent, for total operating expenses. Collection, general and administrative, drought response, and depreciation increased; while supply and pumping, treatment, transmission and distribution, and customer services decreased from 2013.

2014 and 2013 Nonoperating Expense Compared

Nonoperating expense consists of interest expense which was $258 thousand and $336 thousand for 2014 and 2013, respectively, a decrease of approximately $78 thousand or 23%. Also included in nonoperating expense are the consultants payments for IRWMP program which is reimbursed under state funding included in the intergovernmental revenue. The loss on property and equipment shown is due to removal of several tanks not fully depreciated.

Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30

	2014	2013
Operating revenues	$ 12,412,941	$ 12,601,575
Nonoperating revenues	1,602,533	1,954,952
Total revenues	14,015,474	14,556,527
Operating expenses	15,597,643	15,706,206
Nonoperating expenses	473,735	592,365
Total expenses	16,071,378	16,298,571
Net (loss) before capital contributions	(2,055,904)	(1,742,044)
Capital contributions	2,413,444	1,914,548
Change in net position	357,540	172,504
Beginning net position	70,925,558	69,654,133
Restatement	-	1,098,921
Total net position	$ 71,283,098	$ 70,925,558

Capital Assets and Debt Administration

Capital assets include the District's water and wastewater system infrastructure of treatment plants, ditches, wells, pipelines, pumps, other buildings, and equipment.

2014 and 2013 Capital Assets Compared

Net capital assets totaled $67 million at June 30, 2014 and decreased $337 thousand from the previous year due to additions of approximately $3.5 million, net of depreciation of $3.2 million. The most significant addition to capital assets was $819 thousand for the Columbia Intertie project. Another important addition was $112 thousand for purchase and installation of the New Melones pump drives. See Note 3 to the basic financial statements.

2014 and 2013 LongTerm Debt Compared

At June 30, 2014 there was $6.1 million of long term debt outstanding which decreased by approximately $395 thousand from 2013 due to maturities of existing debt. See Note 4 to the basic financial statements.

Infrastructure Improvements 2014

BIG HILL – COLUMBIA INTERCONNECTION PROJECT – Funded by water rates, this project involved construction of approximately 7,000 feet of new 8-inch water main to connect the Big Hill Water System with the Columbia Water System. The project will allow for approximately 250 gallons per minute to flow into the Columbia area, which improves fire protection, reduces stress on the Columbia Water Treatment Plant, and allows the District to dismantle a pump station and in the future to dismantle the Columbia Vista Tank.

RESERVE POOL PUMPING PROJECT – Funded by connection fees and sewer rates. When complete this project will include a 150 horsepower floating pump, a 16-inch floating pipeline, a 250,000 gallon balancing pond, and the installation of 25,000 square feet of articulating concrete block mats to protect the upstream face of Quartz dam. By the end of FY14, most of the project had been completed. The last remaining item will be installation of a floating raft for the pump. This item is currently under design and will be installed in spring 2015.

MATELOT RESERVOIR EXPANSION – Funded by a grant from the Department of Public Health. This project cleaned accumulated sediment out of the Matelot Reservoir and expanded its capacity from estimated 9 acre-feet to a new total of 26 acre-feet. The Matelot Reservoir is the water supply for the Columbia Water Treatment Plant. The reservoir will allow the District to continue serving water to the Columbia Water System during the annual PG&E Ditch Outage.

MILL VILLA WELL AND FILTRATION SYSTEM – Funded through water rates. This project rehabilitated an existing well and installed a filtration system for iron and manganese. The District salvaged an old pressure vessel and restored it for use at the site. A new sewer pipeline was installed to convey spent backwash water to the sewer. Additionally, new pneumatically actuated valves and a valve positioner were put into service. The well is expected to provide a firm water supply of 180 gallons per minute to the Sonora Water Company, Mill Villa, and Valponi Acres areas.

CCTV SEWER COLLECTION SYSTEM CONDITION ASSESSMENT – Funded through sewer rates. Per the Consent Decree between the California Sportfishing Alliance and TUD, the District is required to conduct a sewer collection system condition assessment of all pipelines less than 15 inches in diameter. The District is required to complete the entire assessment of its 650,000 feet of sewer pipelines by the end of 2017. During FY14, the District's contractor assessed 176,000 feet of sewer pipeline. Work will continue through FY15 and into FY16.

SSO-SHEPHARD STREET SEWER REALIGNMENT – Funded by sewer rates. This project constructed a new 6-inch sewer main through a vacant lot between Shepherd and Stewart Streets in Sonora. The new sewer main replaced an old failing sewer main that was underneath an existing home. The new sewer main was designed such that District staff will have access for on-going future operations and maintenance.

NEW MELONES PUMP DRIVES - Funded by a grant from the Department of Public Health. This project involved replacing a 350 horsepower and a 500 horsepower pump drive at the New Melones Pump Station. The old pump drives were 25 years old and obsolete. The drives were operated by a non-standard voltage (575 volt) and were manufactured by a Canadian company that is no longer doing business. Due to a history of past failures and the fact that spare parts are not available, the drives were replaced. The new drives improved the station's reliability.

SSO-FAIRGROUNDS SECONDARY SUMP – Funded by sewer rates. This project involved installation of a fiberglass overflow sump adjacent to the primary sump at the Fairgrounds Sewer Lift Station. In the event of a power failure or a pump failure the overflow sump will provide several hours of storage to give District staff extra time to respond to the failure before a release occurs.

RWWTP PRIMARY CLARIFIER RECOAT – Funded by sewer rates. This project involved cleaning, sand blasting, and recoating the steel and portions of the concrete of one of the District's primary wastewater clarifiers at the Regional Wastewater Treatment Plant. The project was needed to extend the life of the clarifier and protect the steel and concrete from corrosion associated with continuous exposure to wastewater.

CURED-IN-PLACE PIPE SEWER REHABILITATION – Funded by sewer rates. This project involved rehabilitating approximately 2,000 feet of sewer main through the use of cured-in-place pipe. This method has proven to be a cost effective alternative to traditional dig and replace methods. Each year, District staff identifies segments of pipe that would be good candidates for cured-in-place pipe and bids are solicited from contractors who specialize in this type of work.

QUARTZ RESERVOIR RESERVE POOL PUMPING PROJECT – Since renewing a state permit in 2008, which allows the discharge of treated wastewater into Woods Creek, the District has been working towards the abandonment of its state permit to save substantial costs annually. This project, funded with connection fees and sewer rates, will span into the next fiscal year, and involves putting to beneficial use a portion of the existing treated wastewater storage that cannot be used, due to the location of this water at an elevation below the outlet tower. By utilizing the existing storage capacity, there will be adequate room for wastewater flows for current and future customers.

Infrastructure Improvements Currently Under Construction 2015

CDBG GIBBS SEWER IMPROVEMENTS – The project is contingent upon grant funding from a Community Development Block Grant. District staff will learn if the grant is awarded in the fall 2014. The project involves lining approximately 13,000 feet of sewer line in the Gibbs and Racetrack Estates areas. In addition, manholes will be installed and some pipeline segments will be re-routed. Design would be completed by District staff during the winter and the project would be bid in the spring 2015 for construction in FY16.

SOUTH WASHINGTON STREET WATER MAIN REPLACEMENT – Funded by water rates. This project will replace approximately 3,000 feet of 6-inch cast iron pipe that is in excess of 75 years old. The project was designed by a Consultant in partnership with District staff. The project has been bid and construction will begin in August 2014. Project completion is expected by November 2014.

GOPHER TANK REPLACEMENT – Within the Columbia-Gibbs water system there are two tanks that are in critical need of repair and are being operated at reduced capacity to avoid rupture. Staff has determined that the two tanks can be replaced with one tank. District staff will complete the design and site work in this fiscal year. The project will be bid in the spring 2015 for construction in FY16.

SRF-SAN DIEGO DITCH CONSTRUCTED CONVEYANCE – Funded by an 80% grant, 20% loan from the Department of Public Health. Debt service on the loan will be funded through rate surcharges from the project beneficiaries. This project will convert seven ditch domestic customers to treated water through the construction of new potable water mains on Damin Road and Kennebec Lane in the Columbia area. The project was designed by District staff and will be bid in the winter and constructed in Spring/Summer 2015.

COLUMBIA COUNTRY ESTATES SEWER LIFT STATION – Funded with connection fees and sewer rates. This project involves replacing an existing sewer lift station that has reached the end of its useful life. District staff will design and construct a new facility on land that was granted to the District by a developer. The construction will occur in summer 2015 and most of the costs will be realized in FY16.

CDBG-SONORA FIRE FLOW IMPROVEMENTS – Funded by a Community Development Block Grant awarded to the City of Sonora. The District is partnering with the City to carry out this project. The District's contribution will be the surveying and engineering design and also the selective replacement of water service laterals. The City will handle all environmental, bidding, construction management, and will administer the grant. The project involves replacement of 85 fire hydrants and construction of approximately 6,000 feet of new water main. Construction will occur in summer 2015.

COLUMBIA CLEARWELL #1 REHABILITATION – Funded by water rates. An inspection of Clearwell #1 at the Columbia Water Treatment Plant revealed severe interior corrosion as well as roof rafter failure. This project will involve repairing the roof rafters and their connections at the center column and at the shell. The tank will be blasted and recoated. The project will be bid in the fall 2014 so that work can be undertaken in the winter when demands are low.

RWWTP SECONDARY CLARIFIER RECOAT – Funded by sewer rates. This project involved cleaning, sand blasting, and recoating the steel and portions of the concrete of one of the District's secondary wastewater clarifiers at the Regional Wastewater Treatment Plant. The project was needed to extend the life of the clarifier and protect the steel and concrete from corrosion associated with continuous exposure to wastewater.

QUARTZ RESERVOIR RESERVE POOL PUMPING PROJECT – Funded with connection fees and sewer rates. The design and fabrication of a floating pump raft is on-going. The pump raft is scheduled to be placed into service in spring 2015.

SSO-PARROTS FERRY LIFT STATION – Funded by sewer rates. This project was started in FY14 and will be completed in the current fiscal year. The project involves installing new pumps, check valves, and gravity and force main bypass piping at the station. The project was designed and constructed by District staff.

COLUMBIA COLLEGE OVERFLOW SUMP – Funded by sewer rates. This project involved installation of a fiberglass overflow sump adjacent to the primary sump at the Columba College Lift Station. In the event of a power failure or a pump failure the overflow sump will provide several hours of storage to give District staff extra time to respond to the failure before a release occurs.

Revenue and Expenses

The over financial health of the District was slightly improved in FY 14. Although no rate changes occurred in the sewer fund, the water rates were increased. In order to improve the future financial condition of the water fund, the Board adopted the last two 2.78% approved rate increases. These occurred on February 25, 2014 and May 27, 2014 which were too late in the year to have a significant impact on FY 14 but will provide assistance to the future fiscal years. The water fund has reduced its liability to the sewer fund by approximately $1.7M. The sewer fund is approaching what appears a need for a rate adjustment or an adjustment of the percentage allocated to capital improvements. The impacts of the consent decree are less than were expected although the full impact to the sewer department labor does not seem to be fully realized.

In the upcoming year the impacts of the drought will reduce the water fund revenues and increase the expenses. The amount of revenue from water consumption is down and is expected to continue. The reduced revenue and increased expenses related to the drought could consume most of the water fund capital budget if not offset by grants from the State or other sources of revenue. Staff continues to apply for grants and is exploring options for other revenue such as selling water to PG&E for power generation and a drought surcharge. At the request of the Board, funds equal to the reduced revenue may be held back from the sewer fund repayment if alternative funding is not found.

Other Future Considerations

The District is working on the completion of the Treated Water System Optimization Plan. This plan is intended to establish a long term, 20 year, capital improvement plan with a 40 year vision of the District's water infrastructure. In October of 2013, the Board released the General Manager from his contract and replaced him with the then District Engineer. In a cost control strategy, the District Engineer was not replaced, reducing the capacity of the engineering department. This Plan along with the current rate structure underscores the need for a cost of services study for the water fund. The staff constantly develops a list of needed water capital projects that is greater than the available funding and management is forced to edit the list to match the available capital funds.

It would appear that a cost of services study is also appropriate for the wastewater fund partially to fund ongoing operational and maintenance needs but also to address needs developed by the extensive camera work performed as part of the consent decree.

Although the FY 14 Board began work on a Strategic Plan; no significant progress was made. The need for clear direction for water supply, staffing and rates is needed.

The pending retirement of current General Manager and the Operations Manager will impact the organizational efficiency.

Requests for Information

This discussion is intended to provide management's perspective on the District's financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 18885 Nugget Blvd., Sonora CA 95370.

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Basic Financial Statements

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Tuolumne Utilities District
Statements of Net Position
June 30, 2014

	Water	Sewer	Total
ASSETS			
Current Assets			
Cash and investments unrestricted	$ -	$ 756,598	$ 756,598
Accounts receivable	1,846,631	425,092	2,271,723
Property taxes receivable	39,728	22,463	62,191
Intergovernmental receivable	156,777	-	156,777
Miscellaneous receivable	8,253	260	8,513
Interest receivable	4,141	1,774	5,915
Deposits	5,320	2,280	7,600
Advances to water fund	-	5,062,119	5,062,119
Prepaid expenses	102,915	44,106	147,021
Inventory	207,753	89,037	296,790
Total Current Assets	2,371,518	6,403,729	8,775,247
Other Assets and Investments			
Cash and investments restricted	622,141	9,701,750	10,323,891
Assessments receivable	-	534,398	534,398
Total Other Assets and Investments	622,141	10,236,148	10,858,289
Capital Assets			
Nondepreciable	3,459,362	4,078,468	7,537,830
Depreciable, net of accumulated depreciation	42,750,398	16,608,618	59,359,016
Total Capital Assets	46,209,760	20,687,086	66,896,846
TOTAL ASSETS	$ 49,203,419	$ 37,326,963	$ 86,530,382
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable & accrued expenses	$ 271,908	$ 108,683	$ 380,591
Payroll payable	74,400	21,393	95,793
Deposits	157,250	57,388	214,638
Advances from sewer fund	5,062,119	-	5,062,119
Acccrued interest payable	25,722	10,353	36,075
Current portion of compensated absences	165,477	70,919	236,396
Current portion of long term debt	424,572	140,585	565,157
Total Current Liabilities	6,181,448	409,321	6,590,769
Long Term Liabilities			
Long term debt	4,409,234	1,166,457	5,575,691
Net other post employment benefits obligation	1,597,094	684,469	2,281,563
Compensated absences	559,483	239,778	799,261
Total Long Term Liabilities	6,565,811	2,090,704	8,656,515
TOTAL LIABILITIES	12,747,259	2,500,025	15,247,284
NET POSITION			
Net investment in capital assets	41,375,954	19,380,044	60,755,998
Restricted for capital improvements	-	9,515,775	9,515,775
Restricted for debt service	622,141	185,975	808,116
Unrestricted	(5,541,935)	5,745,144	203,209
TOTAL NET POSITION	36,456,160	34,826,938	71,283,098
TOTAL LIABILITIES AND NET POSITION	$ 49,203,419	$ 37,326,963	$ 86,530,382

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

Tuolumne Utilities District
Statements of Revenues, Expenses, and Changes in Financial Position
For the Year Ended June 30, 2014

	Water	Sewer	Total
OPERATING REVENUES			
Service charges	$ 9,293,285	$ 2,886,337	$ 12,179,622
Other revenue	13,342	219,977	233,319
Total Operating Revenues	9,306,627	3,106,314	12,412,941
OPERATING EXPENSES			
Supply and pumping	662,984	-	662,984
Collection	-	599,803	599,803
Treatment	1,791,997	586,183	2,378,180
Transmission and distribution	935,269	-	935,269
Disposal	-	244,909	244,909
Customer services	124,726	32,980	157,706
Administration and general	4,853,189	2,176,808	7,029,997
Drought response	422,057	-	422,057
Depreciation	2,249,923	916,815	3,166,738
Total Operating Expenses	11,040,145	4,557,498	15,597,643
Net (Loss) from Operations	(1,733,518)	(1,451,184)	(3,184,702)
NONOPERATING REVENUES (EXPENSES)			
Property taxes	653,060	198,748	851,808
Debt service recovery charges	463,701	-	463,701
Intergovernmental revenue	124,919	-	124,919
Investment income	9,818	74,784	84,602
Other income	48,459	29,044	77,503
Other expense - IRWMP	(202,590)	-	(202,590)
(Loss) on property & equipment	(12,850)	-	(12,850)
Interest expense	(195,233)	(63,062)	(258,295)
Total Nonoperating Revenues (Expenses)	889,284	239,514	1,128,798
Net (Loss) Before Capital Contributions	(844,234)	(1,211,670)	(2,055,904)
CAPITAL CONTRIBUTIONS			
Contributed capital	638,594	19,144	657,738
Facilities capital charges	320,783	1,434,923	1,755,706
Total Capital Contributions	959,377	1,454,067	2,413,444
Change in Net Position	115,143	242,397	357,540
Net Position, beginning of year	36,341,017	34,584,541	70,925,558
Net Position, end of year	$ 36,456,160	$ 34,826,938	$ 71,283,098

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

Tuolumne Utilities District
Statements of Cash Flow
For the Year Ended June 30, 2014

	Water	Sewer	Total
OPERATING ACTIVITIES			
Receipts from customers and users	$ 9,576,777	$ 3,116,828	$ 12,693,605
Payments to employees and benefit providers	(5,359,918)	(2,243,822)	(7,603,740)
Payments to suppliers for goods and services	(2,503,039)	(1,296,306)	(3,799,345)
Cash Provided (Used) by Operating Activities	1,713,820	(423,300)	1,290,520
NONCAPITAL FINANCING ACTIVITIES			
Property taxes and assessments received	663,045	239,336	902,381
Receipts from customers for debt recovery	463,701	-	463,701
Other income	48,459	29,044	77,503
Cash received from (paid to) other funds	(1,686,452)	1,686,452	-
Payments for reimbursable expenses	(202,590)	-	(202,590)
Receipts from other governments	441,177	-	441,177
Cash (Used) Provided by Noncapital Financing Activities	(272,660)	1,954,832	1,682,172
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(1,715,313)	(1,152,296)	(2,867,609)
Principal paid on long term debt	(515,282)	(161,750)	(677,032)
Proceeds from issuance of long term debt	282,471	-	282,471
Receipts from developers - contributed capital	5,235	3,184	8,419
Receipts from customers and users - facility fees	320,783	1,434,923	1,755,706
Interest paid on long term debt	(198,127)	(64,149)	(262,276)
Cash (Used) Provided by Capital and Related Financing Activities	(1,820,233)	59,912	(1,760,321)
INVESTING ACTIVITIES			
Investment interest earnings	9,714	74,740	84,454
Cash Provided by Investing Activities	9,714	74,740	84,454
Net (Decrease) Increase in Cash and Investments	(369,359)	1,666,184	1,296,825
Cash and Investments, Beginning of Year	991,500	8,792,164	9,783,664
Cash and Investments, End of Year	$ 622,141	$ 10,458,348	$ 11,080,489
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION			
Cash and investments unrestricted	$ -	$ 756,598	$ 756,598
Cash and investments restricted	622,141	9,701,750	10,323,891
Total cash and investments	$ 622,141	$ 10,458,348	$ 11,080,489
RECONCILIATION OF NET (LOSS) FROM OPERATIONS TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net (Loss) from Operations	$ (1,733,518)	$ (1,451,184)	$ (3,184,702)
Depreciation	2,249,923	916,815	3,166,738
(Increase) decrease in operating assets			
Accounts receivable	257,607	11,142	268,749
Miscellaneous receivables	4,132	179	4,311
Deposits	(5,320)	(2,280)	(7,600)
Prepaid expenses	54,243	23,248	77,491
Inventory	(54,484)	(23,351)	(77,835)
Increase (decrease) in operating liabilities			
Accounts payable & accrued expenses	108,041	(236,390)	(128,349)
Payroll payable	10,556	(9,627)	929
Deposits payable	8,411	(807)	7,604
Other postemployment benefit obligations	837,799	359,057	1,196,856
Compensated absences	(23,570)	(10,102)	(33,672)
Net Cash Provided (Used) by Operating Activities	$ 1,713,820	$ (423,300)	$ 1,290,520
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Donated infrastructure assets	$ 633,359	$ 15,960	$ 649,319

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

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Notes to the Basic Financial Statements

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Notes to the Basic Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Tuolumne Utilities District (District) was organized in 1992 as a result of combining the Tuolumne Regional Water District and the County Water Department under Division 12 of the California Water Code. The District is governed by an elected five member Board of Directors. This District's Board is elected at large and has the authority to develop and operate water facilities for consumption and hydroelectric power generation, and sewer facilities for collection treatment and disposal of sewage. The Board of Directors has the authority to fix rates and charges for the District's commodities and services. The District may also incur indebtedness, including issuing bonds, and is exempt from federal and state income taxes. The District has no component units.

B. Basis of Accounting

These financial statements are prepared in conformity with accounting principles generally accepted ("GAAP") in the United States of America. The Governmental Accounting Standards Board ("GASB") is the acknowledged standard setting body for accounting and financial reporting standards followed by government entities in the United States of America. The District is presented as two enterprise funds for water and sewer, respectively. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific government activity. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where activities are financed in whole or in substantial part by fees charged in exchange for goods and service provided by the District. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange like transactions are recognized when the exchange takes place, so revenues are recognized when earned rather than when received, and expenses are recorded when incurred rather than when paid.

The District applies all applicable GASB pronouncements in its accounting and reporting. Private sector standards of accounting and financial reporting issued by the Financial Accounting Standard Board ("FASB") are followed in the District's financial statements to the extent that those standards do not conflict with or contradict GASB statements.

The District classifies as operating revenues those charges for goods and services which constitute the primary business activities of the District. Operating expenses are those required to provide the primary goods and services of the District and to earn the operating revenues. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, which includes nonexchange transactions and ancillary activities.

C. Cash and Cash Equivalents

GAAP allows a financial statement issuer to choose the focus of the statement of cash flows as either cash or “cash and cash equivalents”. The District reports restricted and unrestricted cash, including bank deposits and the District’s investment in the State of California Local Agency Investment Fund (LAIF), as well as cash equivalents in the statement of cash flows. The District defines cash equivalents as certain highly liquid investments with an original maturity of three months or less, including only money market mutual funds.

D. Restricted Assets

The use of some assets can be restricted to certain purposes by law, by grantors of the assets, by legislative acts of the Board of Directors, or by contracts to which the District is a party. When the District has a choice to use either restricted or unrestricted funds the District’s policy is normally to use restricted funds first.

E. Receivables

Trade and property tax receivables are not shown net of an allowance for uncollectible amounts because the amounts estimated by management to be uncollectible are immaterial. The funds include a year-end accrual for services through the end of the fiscal year which have not yet been billed. Property taxes are levied as of January 1 on property values assessed as of the same date. State statutes provide that the property tax rate is limited generally to one percent of assessed value, and can be levied by only the county, and shared by applicable jurisdictions within the county. The County of Tuolumne collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter approved debt. Property taxes are due to the county on November 1 and February 1, and become delinquent after December 10 and April 10. The District recognizes property tax revenues in the year for which they are levied. Intergovernmental receivables include receivables due from other governments for State pass-through grants and other reimbursements.

Assessments receivable represents amounts due from property owners as a result of the special assessment district formed August 28, 1983 to provide funding for the design and construction of four wastewater collection facilities. The Tuolumne County Treasurer forwards capital contributions from the special assessment district to Tuolumne Utilities District as the proceeds are received.

F. Inventory

Inventories are valued at cost based upon physical determinations made at the end of each year. Inventories are assumed to be consumed on the “last in, first out” basis.

G. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

H. Capital Assets

Property, plant, equipment and infrastructure are reported at historical cost. If the individual cost is less than $5,000 or the estimated useful life is less than three years, then the cost is reported as an expense rather than as a capital asset. The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Donated property and assets constructed by developers are recorded at estimated fair market value at the date of donation. Depreciation is provided using the straight line method for assets other than land. Estimated useful lives as are follows:

Assets	Years
Utility systems and buildings	10-50
Transportation and other equipment	5-20
Office furniture and equipment	5-15

I. Compensated Absences

The total amount of liability for compensated absences is reflected in the basic financial statements. It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is liability for a portion of unpaid accumulated sick leave since the District does have a collective bargaining agreement with or on behalf of its employees which provides payments up to 100 percent of the accumulated and unused portion of sick leave amounts when employees separate from service with the District either at retirement or other termination of employment.

J. Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – Cash and Investments

A. Classification

The District pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash and investments held with fiscal agents is credited directly to the related funds.

Cash and investments are reported in the financial statements as follows:	
Statement of Net Position	
Cash and investments	$ 756,598
Restricted cash and investments	10,323,891
Total cash and investments	$ 11,080,489

Cash and investments as of June 30, 2014 consist of the following:	
Cash on hand	$ 475
Deposits with financial institutions	318,059
Local Agency Investment Fund (LAIF)	10,595,301
Held by bond trustee:	
Deposits with financial institutions	93,350
Money market mutual funds	73,304
Total cash and investments	$ 11,080,489

B. Investment Policy

California statutes authorize districts to invest idle, surplus or reserve funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. 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) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

The District's investment policy only authorizes selection of investments based on safety, liquidity and yield, authorizing investment in the Local Agency Investment Fund administered by the State of California (LAIF). Except for Government Code § 53601, as amended in 1995, prohibiting investment in "inverse floaters", "range notes", and "interest only strips", the District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
State of California obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by the bond trustee that are not subject to California Government Code restrictions.

The District complied with the provisions of the California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

C. Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

D. Interest Rate Risk and Credit Risk

Interest rate risk is the risk that increases in market interest rates will decrease the market value of an investment. Normally, the longer the remaining maturity of an investment, the greater is the sensitivity of its market value to changes in the market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	12 months or less	five years	Total
Money market funds	$ 73,304	$ -	$ 73,304
Local Agency Investment Fund	10,595,301	-	10,595,301
Total investments	$ 10,668,605	$ -	10,668,605
Cash in bank and on hand			411,884
Total cash and investments			$ 11,080,489

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating by Standard & Poor's required by the California Government Code or the District's investment policy and the actual rating as of June 30, 2014 for each investment type:

Investment Type	Minimum Rating	Ratings as of Year End AAA	Not Rated	Total
Local Agency Investment Fund	N/A	$ -	$ 10,595,301	$10,595,301
Held by bond trustee:				
Money market mutual fund	AAA	73,304	-	73,304
Total investments		$ 73,304	$ 10,595,301	$10,668,605

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated in California Government Code. The District has no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

E. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2014, the carrying amounts of the District's deposits were $411,409 and the balances in financial institutions were $544,142. Of the balance in financial institutions, $389,126 was covered by federal depository insurance and $155,016 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

F. California Local Agency Investment Fund

LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is $64,870,214,443 managed by the State Treasurer. Of that amount, 1.86% is invested in structured notes and asset-back securities. No amounts were invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Notes to the Basic Financial Statements

NOTE 3 – Capital Assets

Changes in capital assets accounts for the year ended June 30, 2014 are summarized below:

	Balance July 1, 2013	Additions	Disposals	Transfers	Balance June 30, 2014
Capital assets, not being depreciated:					
Land	$ 5,029,877	$ -	$ -	$ -	$ 5,029,877
Construction in progress	1,177,590	2,835,696	(10,243)	(1,495,090)	2,507,953
Total capital assets, not being depreciated	6,207,467	2,835,696	(10,243)	(1,495,090)	7,537,830
Capital assets, being depreciated:					
Water utility system - infrastructure	64,540,712	613,170	(270,979)	1,162,741	66,045,644
Sewer utility system - infrastructure	34,369,794	15,960	-	332,349	34,718,103
Buildings - administration	3,785,404	-	-	-	3,785,404
Equipment and machinery	6,970,680	52,102	(1,772)	-	7,021,010
Total capital assets, being depreciated	109,666,590	681,232	(272,751)	1,495,090	111,570,161
Accumulated depreciation:					
Water utility system - infrastructure	(24,241,046)	(1,932,486)	270,144	-	(25,903,388)
Sewer utility system - infrastructure	(18,599,005)	(778,433)	-	-	(19,377,438)
Buildings - administration	(1,275,877)	(96,366)	-	-	(1,372,243)
Equipment and machinery	(5,198,623)	(359,453)	-	-	(5,558,076)
Total accumulated depreciation	(49,314,551)	(3,166,738)	270,144	-	(52,211,145)
Total capital assets, being depreciated, net	60,352,039	(2,485,506)	(2,607)	1,495,090	59,359,016
Total capital assets, net	$ 66,559,506	$ 350,190	$ (12,850)	$ -	$ 66,896,846

NOTE 4 – Long-Term Debt

The District generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized on the following page.

A. Required disclosure of long-term debt activity

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
Special Assessment Bonds					
1976 Pinecrest Assessment District*	$ 21,875	$ -	$ (21,875)	$ -	$ -
1983 Greenly Basin Assessment District*	5,000	-	(5,000)	-	-
1984 Clean Water Assessment District	418,097	-	(40,000)	378,097	-
Certificates of Participation					
1991 COP	797,000	-	(26,000)	771,000	27,000
Loans Payable					
2007 LaSalle	812,744	-	(39,231)	773,513	81,328
2005 LaSalle	720,308	-	(88,991)	631,317	93,268
2005 SDWSRF	28,183	-	(2,451)	25,732	1,225
1996 SDWR	40,331	-	(4,797)	35,534	4,965
1996 LaSalle	1,104,264	-	(291,108)	813,156	310,006
1994 SDWR	80,541	-	(80,541)	-	-
1991 SDWR	57,412	-	(6,365)	51,047	6,582
1987 SDWR	14,802	-	(2,449)	12,353	2,552
1978 USDA	22,077	-	(6,783)	15,294	7,122
2008 SDWSRF	434,591	-	(16,715)	417,876	8,358
2011 SDWSRF	1,087,498	-	(44,726)	1,042,772	22,751
2012 SDWSRF - Loan Advance	890,686	282,471	-	1,173,157	-
Total Long Term Debt	$ 6,535,409	$ 282,471	$ (677,032)	$ 6,140,848	$ 565,157

* These bond amounts represent fully matured but unsurrendered certificates.

B. Description of individual long-term debt issues outstanding

1984 Clean Water Assessment Bonds

A special assessment district was formed August 28, 1983 to provide funding for the design and construction of four wastewater collection facilities in the communities of Willow Springs, Mono Vista, Crystal Falls Unit #1, and Ranchos Poquitos that experienced chronic failures of on-site septic systems. The Tuolumne County Treasury forwards capital contributions from special assessment districts to the District as the proceeds are received. A loan agreement with the United States Department of Agriculture, Rural Development was also obtained in August 1983, payable in installments of interest semi-annually and principal annually through July 2, 2022, including interest at 5%. The original amount of the debt was $1,230,000.

1991 Certificates of Participation (COP)

On March 1, 1991 the District issued $1,100,000 of 1991 net revenue Certificates of Participation. The issue was used to provide funds to design and construct a new water treatment plant (Columbia Water Project) with a capacity of 1 million gallons per day and one storage tank with a capacity of 150,000 gallons. These Certificates are held by the United States Department of Agriculture, Rural Development, and mature through March 1, 2031. The Certificates are not subject to prepayment and interest is paid semi-annually on February 15 and August 15 and principal is paid annually on February 15 and have a stated interest rate of 6%. The Certificates require that a reserve be maintained in an amount equal to 100% of the maximum annual debt service. An invested deposit in the amount of $73,304 is held on behalf of the District by the Trustee.

2007 LaSalle Loan

On January 18, 2007, the District entered into an Installment Sale Agreement with LaSalle Bank National Association for the purchase of land. The agreement is secured by a first lien against all water revenues, “at Parity” with the 1996 Installment Sale Agreement. The District covenants that it shall prescribe, revise and collect such charges for the services and facilities of the wastewater system which shall produce wastewater revenues sufficient in each fiscal year to provide net wastewater revenues equal to at least 1.25 times debt service coming due and payable during such fiscal year. The loan is paid semi-annually in installments of $58,859 which includes interest at 4.83% for a period of 15 years, maturing on January 18, 2022.

2005 LaSalle Loan

On March 23, 2005, the District entered into an Installment Sale Agreement with LaSalle Bank National Association for the design and construction of two water storage tanks in the Crystal Falls (1.5 MG) and Sonora (1 MG) water systems. The agreement is secured by a first lien against all water revenues, “at Parity” with the 1991 COP’s and the 1994 and 1996 Installment Sale Agreements. The District covenants that it shall prescribe, revise and collect such charges for the services and facilities of the water system which shall produce water revenues sufficient in each fiscal year to provide net water revenues equal to at least 1.25 times debt service coming due and payable during such fiscal year. The loan is paid semi-annually in installments of $61,080 which includes interest at 4.75% for a period of 15 years, maturing on March 23, 2020.

2005 SDWSRF Loan

In 2005, the District entered into a Revolving Fund Agreement with the California State Department of Water Resources, State Revolving Fund for the design and construction of a treated water distribution system including remote read meters to approximately 50 rural residences along an untreated raw water conveyance. The Agreement pledged water fund revenues. The zero-interest rate loan is paid semi-annually in principal installments of $1,225 for a period of 20 years, maturing on January 1, 2025.

1996 SDWR Loan

In 1996, the District entered into a Loan Agreement with the California State Department of Water Resources for the design and construction of a treated water distribution system. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $3,076 which includes interest at 3.46%, maturing on October 1, 2020.

1996 LaSalle Loan

In 1996, the District entered into an Installment Sale Agreement with LaSalle Bank National Association for water infrastructure improvements. The Agreement is secured by a first lien against all water revenues, “at Parity” with the 1991 COP’s. The District covenants that it shall prescribe, revise and collect such charges for the services and facilities of the system which shall produce revenues sufficient in each fiscal year to provide net revenues equal to at least 1.25 times debt service coming due and payable during such fiscal year. The loan is paid semi-annually in installments of $178,546 which includes interest at 6.39%, maturing on December 23, 2016.

1994 SDWR Loan

In 1994, the District entered into an Installment Sale Agreement with the California State Department of Water Resources for the design and construction of the Shaws Flat raw water pipeline. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $81,824 which includes interest at 3.18%, maturing on October 1, 2014.

1991 SDWR Loan

In 1991, the District entered into a Loan Agreement with the California State Department of Water Resources for the design and construction of water distribution improvements to the Columbia water system. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $4,123 which includes interest at 3.37%, maturing on April 21, 2021.

1987 SDWR Loan

In 1987, the District entered into a Loan Agreement with the California State Department of Water Resources for the design and construction of an interconnecting pipeline. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $1,519 which includes interest at 4.14%, maturing on October 1, 2018.

1978 USDA Loan

In 1978, the District entered into a Loan Agreement with the United States Department of Agriculture, Rural Development for the design and construction of improvements to the Sugar Pine water system. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $7,887 which includes interest at 5%, maturing on December 2, 2016.

2008 SDWSRF Loan

In 2008, the District entered into a Revolving Fund Agreement with the California State Department of Water Resources, State Revolving Fund for the design and construction of a water treatment plant. The Agreement includes a covenant to establish rates and changes in amounts sufficient to generate net income equal to 1.1 times that of debt service on all obligations until the loan is repaid in full. The Agreement pledged water fund revenues. The zero-interest rate loan is paid semi-annually in principal installments of $8,358 for a period of 30 years, maturing on July 1, 2039.

2011 SDWSRF Loan

In 2011, the District entered into a Revolving Fund Agreement with the California State Department of Public Health, Safe Drinking Water State Revolving Fund for Monte Grande water improvements. The Agreement pledged water fund revenues. The loan is paid semi-annually in installments of $34,788 which includes interest at 2.3086% for a period of 20 years, maturing on January 1, 2033.

2012 SDWSRF Loan Advance

In 2012, the District entered into a Revolving Fund Agreement with the California State Department of Public Health, Safe Drinking Water State Revolving Fund for Crystal Falls/Willow Springs water improvements. The total cost of the project was estimated to be $1,184,704 with the State agreeing to lend the District an amount not to exceed $1,184,704. A portion of the loan totaling $841,260 was received prior to June 30, 2012 with additional loan funds of $49,426 and $282,471 received during the fiscal years ended June 30, 2013 and 2014, respectively. The agreement requires water rates and charges equal to at least 1.20 times debt service. The loan bears interest at 2.3035% with semi-annual payments over a twenty-year period. Repayment of principal will not begin until the total loan amount is finalized by the California State Department of Public Health.

C. Debt service requirements to maturity

The annual requirements to amortize principal and interest on the above long-term debt at June 30, 2014 are as follows:

Years ending June 30,	Principal	Interest	Total
2015	$ 565,157	$ 184,222	$ 749,379
2016	674,721	172,737	847,458
2017	524,297	136,440	660,737
2018	368,519	115,659	484,178
2019	379,434	99,695	479,129
2020-2024	1,221,524	293,556	1,515,080
2025-2029	660,139	141,570	801,709
2030-2035	481,965	26,097	508,062
2036-2039	83,575	-	83,575
2040	8,360	-	8,360
Advance	1,173,157	-	1,173,157
	$ 6,140,848	$ 1,169,976	$ 7,310,824

D. Reserve Requirements, Pledged Revenues, and Rate Covenants

Debt covenants for the installment sale agreements to LaSalle Bank National Association, the loan agreements to the California State Department of Public Health, the United States Department of Agriculture, and the Certificates of Participation include reserve requirements be maintained by the District equal to the annual debt service payments. The District is in compliance with those covenants as of June 30, 2014.

As noted above in the individual debt issues outstanding, the District has pledged future water and sewer system revenues, net of specified operating expenses, to repay debt in the original amount of $8,205,962. Proceeds of these issues were used to refund certain debt issuances as described above and to fund improvements to the District's water and sewer systems. The debts are payable solely from water and sewer system revenues and are payable through July 1, 2039 and January 18, 2022, respectively. Annual principal and interest payments on the debts are expected to require approximately 25% of net revenues for water systems and all net revenues for sewer systems. Total principal and interest remaining to be paid on the debts was $4,925,075 at June 30, 2014.

Cash basis debt service paid during the year ended June 30, 2014 total $713,409 and $222,899 for water and sewer systems, respectively. Total water and sewer system net revenues calculated in accordance with the covenants were $1,613,772 and $(231,793), respectively, at June 30, 2014. The District is not in compliance with the rate covenant contained in the 2007 LaSalle loan agreement due to unanticipated expenditures within the sewer fund. Management believes the bank will waive this noncompliance.

NOTE 5 – Net Position

Net Position is the excess of all the District's assets outflows over all its liabilities. Net Position is divided into three categories as follows:

Net Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter, or is restricted by enabling legislation. These principally include facility capacity fees received for use on capital projects, fees charged for the provision of future water resources and debt service reserve funds. The debt service reserve is established under the terms of the various debt agreements to be used in the event of inadequate funds to pay debt service.

Unrestricted describes the portion of net position which is not restricted as to use.

NOTE 6 – Retirement Plan

Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. The District participates in the miscellaneous 2.7% at 55, 2% at 55, and 2% at 62 risk pools for employees hired prior to November 16, 2012, prior to January 1, 2013, and after January 1, 2013, respectively. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CALPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS requires agencies with less than 100 active members in the plan to participate in the risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in CalPERS. Under CalPERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months full-time equivalent monthly pay. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, California 95814.

Funding Policy

Plan participants are required to contribute 8 percent of their annual covered salary. The District makes the contributions required of general bargaining unit employees, under the memorandum of understanding, and all of the contributions required of management employees. The amount paid by the District on behalf of the employees for the year ended June 30, 2014 was $362,992. The District is required to contribute at an actuarially determined rate. The required employer contribution rate for fiscal years ended June 30, 2014, 2013, and 2012; was 21.866%, 21.184%, and 20.553%; respectively of covered payroll. The contribution requirements of the plan members and the District are established and may be amended by CalPERS. The District's contributions for the years ended June 30, 2014, 2013, and 2012 were $979,760, $981,306, and $992,972; respectively, which were equal to the required contributions each year.

NOTE 7 – Compensation Absences

It is the District policy to permit employees to accumulate earned but unused vacation, sick leave pay and compensatory time off (CTO) benefits. All vacation, sick pay and CTO is recorded as an expense and a liability at the time the benefit is earned.

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
Vacation	$ 367,621	$ 82,413	$ (76,455)	$ 373,579	$ 76,455
Sick leave	694,427	101,840	(147,065)	649,202	147,065
Comp time	7,281	26,777	(21,182)	12,876	12,876
	$ 1,069,329	$ 211,030	$ (244,702)	$ 1,035,657	$ 236,396

Vacation Pay

Vacation pay is accrued and credited to regular full time employees after three months of service, and are entitled to take up to one week accrued vacation with pay after 1,040 hours of actual continuous service. Employees are limited to a maximum vacation credit accrual of 360 hours. Once an employee has accrued 360 hours of vacation pay, no further accrual is allowed. Vacation credit is accumulated as follows:

Years of Service	Equivalent Days per Annum
0 – 2 years	10
3 – 9 years	15
10 – 20 years	20
Over 20 years	25

Sick Leave Pay

Regular full time employees receive 3.692 hours of sick leave credit for each pay period worked. There is no limit on the maximum amount of sick leave hours accrued. Employees terminating District service in good standing shall be compensated for accrued sick leave as follows. The rate of compensation paid at termination is the employee’s current base rate of pay for the first 240 hours and 50% for all additional hours accrued. An employee retiring from the District with five or more years of service may elect to convert accumulated sick leave hours to additional PERS retirement service at the rate of .004 year of service credit for each day of unused sick leave per Government Code Section 20862.8.

Compensatory Time Off (CTO)

An hourly employee may elect to accrue CTO in lieu of receiving overtime pay. Employees with accrued CTO credit may take up to a maximum of five days at any one time. Any unused CTO credits will be paid out by January 31 of each year.

Notes to the Basic Financial Statements

NOTE 8 – Other Postemployment Benefits (OPEB)

Plan Description

The District provides 100% of the monthly medical insurance premiums for retired employees and qualified family members until they reach age 65 and are eligible for Medicare. At age 65, these benefits are then reduced to include the coverage provided by Medicare. To be eligible for these benefits, the employee must be 50 years of age upon retirement with five years of service. Currently 41 retirees meet this eligibility requirement.

On July 28, 2009, the District's Board passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OEPB. CERBT is administered by CalPERS, and is managed by an appointed board not under the control of the District's Board of Directors. This Trust is not considered a component unit by the District and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento CA 94229-2709.

Effective February 1, 2006 all newly hired employees will vest on a sliding scale as follows:

Credited Year of Service	Vesting %
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

Effective May 1, 2013 for all newly hired employees the employer's contribution for each employee or annuitant shall be the amount necessary to pay the full cost of enrollment, including the enrollment of family members, in a health benefit plan up to a maximum of the minimum employer contributions per month as prescribed in Section 22892(b) (1) of the Government Code.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. Although a Trust has been established, the District is currently funding the OPEB plan on a pay-as-you-go basis. During the year ended June 30, 2014, the District made health insurance premium payments on behalf of retirees of $497,144. Plan members did not make any contributions to the Plan.

Annual OPEB Cost and Net OPEB Cost (Expense)

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table (amounts expressed in thousands) shows the components of the District's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

	2014
Annual required contribution end of year	$ 1,731
Interest on net OPEB obligation	88
Adjustment to annual required contribution	(125)
Annual OPEB cost (expense)	1,694
Contributions made including credited interest	(497)
Increase in net OPEB obligation	1,197
Net OPEB obligation, beginning of period	1,085
Net OPEB obligation, end of period	$ 2,282

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for the three most recent fiscal years are as follows (amounts expressed in thousands):

Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$1,172	$795	67.8%	$224
June 30, 2013	1,246	385	30.1%	1,085
June 30, 2014	1,694	497	29.3%	2,282

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2011, from the Plan's most recent actuarial valuation and the three previous valuations, was as follows (amounts expressed in thousands):

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
June 30, 2009	$8,377	$ -	$8,377	0.0%	$4,271	196.1%
June 30, 2010	$10,834	$2,060	$8,774	19.0%	$4,776	183.7%
June 30, 2011	$14,779	$3,282	$11,497	22.2%	$4,599	250.0%
June 30, 2013	$14,781	$4,220	$10,561	28.6%	$4,903	215.4%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, as shown above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial valuation used the rates of mortality, disability and other withdrawals used by CALPERS in the valuation of the District's pension plan. The actuarial assumptions included a 4.75% investment rate of return, inflation rate of 3%, healthcare premium increases starting at 8.3% and declining to 5% for 2020 and later and projected salary increases of 3.25%. The asset valuation method used is 5-year smoothed market. The UAAL is being amortized over a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 18 years.

NOTE 9 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District participates in the Special District Risk Management Authority (SDRMA) Property and Liability Insurance Program for risk of loss. The program provides general liability, property, commercial auto, boiler and machinery, employment practices, employee dishonesty coverage, employment benefits liability, public official errors and omissions and public official personal liability insurance coverage.

SDRMA is composed of California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of SDRMA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance and administrative services.

The District paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The District considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

The District's maximum coverage as of June 30, 2014 consisted of $10 million for general liability, public officials and employees' errors, employment practices liability and auto liability. In addition, the District has property coverage of $1 billion and boiler and machinery coverage of $100 million.

NOTE 10 – Groveland/Tuolumne Financing Authority

The Groveland/Tuolumne Financing Authority was created on June 1, 1994, by a Joint Exercise of Powers Agreement by and between the Groveland Community Services District and the Tuolumne Utilities District. The purpose of the Authority is to assist in financing the acquisition, construction and improvement of property for either or both of the Districts. The Authority serves as a legal mechanism by which conduit debt issuances are accomplished by both Districts. Debt transactions of the Authority that represent liabilities of Tuolumne Utilities District are reflected in the accompanying financial statements.

The Authority, as of June 30, 2014, has placed no debt for Tuolumne Utilities District. Copies of the Authority's annual financial report may be obtained from the Groveland Community Services District office: 18966 Ferretti Road, Groveland, CA 95321.

NOTE 11 – Tuolumne Stanislaus Integrated Regional Water Management Authority

The Tuolumne Stanislaus Integrated Regional Water Management Authority (RWMA) was created on March 11, 2014, by a Joint Exercise of Powers Agreement by and between the following public agencies: Chicken Ranch Rancheria of Me-Wuk Indians, City of Angels Camp, Groveland Community Services District, Murphys Sanitary District, Tuolumne County, Tuolumne Utilities District, and Twain Harte Community Services District. Each of the parties to this Agreement share a common interest in maximizing the beneficial use of water within the Tuolumne-Stanislaus Region and find that it would be to their mutual advantage and the public's benefit to coordinate the implementation and funding of the Tuolumne-Stanislaus Integrated Regional Water Management Plan (Plan). The RWMA will be the decision making body of the Plan going forward. The RWMA will also set the annual budget for the Plan as it will be funded solely by the members.

NOTE 12 – Advances to Water Fund from Sewer Fund

Advances from the Sewer Fund to the Water Fund represent negative cash in the Water Fund as a result of cash outflow exceeding cash inflow, as a result of deficits in the Water Fund over several years. The balance due will be repaid as funds are available. However, it is not expected that the amount will be repaid within one year. Interest has been charged to the Water Fund for its negative cash balance beginning in 2011 at the LAIF interest rates.

During the building boom of the late 80's and 90's, wherein the District was seeing many new system connections, the District also acquired 18 defunct water systems during those decades. The cost to operate and repair, or in some cases replace these systems, was grossly underestimated. But, due to the continuing new connections to the existing and acquired systems, interconnections between systems to make new capacity available for new customers and the associated positive revenue flow, much of the infrastructure became stressed and began failing. In response, the District's management and the Board in the early 2000's advanced a number of high cost, but necessary infrastructure projects. As a result, from 2000 through 2012, the average investment in water capital projects increased to $3.4 million with a high of $6.5 million and a low of $1.5 million.

In 2007, in an attempt to balance the budget going forward, and recognizing the warnings of management each year that reserve funds were being depleted, the Board directed staff to continue on the path toward completion of the major projects and no reductions in maintenance, repair or customer service and as a result, the Board committed to pursue necessary water rate increases to cover increasing operating costs, continuing infrastructure failure costs and cash deficits. The Board directed the preparation of five-year water rate studies in 2009, which was completed by District management, and again in 2011, which was completed by consultant.

The five year program in 2009 was approved by the Board and following less than 50 protests submitted during the rate increase hearing, the Board chose to implement only the first year's increase. The 2011 rate study and proposed increases were intended to balance the Water Fund and pay any previous amount due to the Sewer Fund. The initial rate increase program was abandoned following several hundred protests submitted at the rate hearing. The Board approved a revised rate plan calling for increases of approximately 6.8%, 2.78%, and 2.78% annually effective July 1st. These revisions were initially delayed by the Board; however, eventually approved by the Board effective August 1, 2012, April 18, 2014, and July 15, 2014, respectively.

Due to the events described above, the negative cash balance in the water fund grew from 2008 through 2011, reaching a high of $8,980,938 at June 30, 2011. During this same time period, the District also incurred negative cash flow from operating activities, as well as the continued capital infrastructure investments. Since 2011 the District has significantly reduced its annual capital expenditures as well as some operational expenses. This, combined with aforementioned rate increases, has reduced the negative water fund cash balance for each of the last three years, with a current balance of $5,062,119. Management is continuing its process of implementing the proposed strategy to repay the balance due as soon as possible.

NOTE 13 – Commitments and Contingencies

Contract Commitments

On June 11, 2014, the District awarded a contract for the Mono Way Sewer Relocation Project in the amount of $58,300. The project is expected to be completed within the 2015 fiscal year.

On February 20, 2014, the District entered into an agreement for the Mill Villa Filter Rehab Project in the amount of $118,828. As of June 30, 2014 $67,375 had been paid, with remaining work expected to be completed within the 2015 fiscal year.

On July 22, 2014, the District awarded a contract for the South Washington Street Water Main Project in the amount of $808,568. The project is expected to be completed within the 2015 fiscal year.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

There are various claims and legal actions pending against the District for which no provision has been made in the financial statements. In the opinion of the District Attorney and District Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

NOTE 15 – New Accounting Standards

In June 2012, the GASB approved Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The implementation of this GASB Statement will have a significant impact on the District's financial statements and is effective for the District's June 30, 2015 financial statements. The District will fully analyze the impact of this new Statement prior to the effective date above.

In November 2013, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68. This Statement amends Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The District will fully analyze the impact of this new Statement prior to the effective date.

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