TUOLUMNE UTILITIES DISTRICT

Annual Financial Report June 30, 2015

18885 Nugget Blvd. Sonora CA 95370 | 209.532.5536

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Tuolumne Utilities District

Annual Financial Report

June 30, 2015

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Independent Auditor's Report

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RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

550 Howe Avenue, Suite 210
Sacramento, California 95825

Telephone: (916) 564-8727
Fax: (916) 564-8728

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, 2015, 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, 2015 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.

Emphasis-of-Matter

As discussed in Note 16 to the basic financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended June 30, 2015. Due to the implementation of these Statements, the District recognized deferred outflows of resources, a pension liability and deferred inflows of resources for its cost-sharing pension plans in the financial statements as of July 1, 2014. Our opinion is not modified with respect to this matter.

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 17 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

October 13, 2015

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, 2015 and its financial performance for the year then ended. Condensed financial information from 2014 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

	2015	2014	Dollar Change	Percentage Change
Current assets	$ 2,954,061	$ 3,713,128	$ (759,067)	-20%
Restricted and other noncurrent assets	11,797,588	10,858,289	939,299	9%
Capital assets	66,688,879	66,896,846	(207,967)	-0.3%
Deferred outflows of resources	1,355,476	-	1,355,476	
Total assets and deferred outflows of resources	$ 82,796,004	$ 81,468,263	$ 1,327,741	2%
Current liabilities	$ 1,922,648	$ 1,528,650	$ 393,998	26%
Noncurrent liabilities	16,457,967	8,656,515	7,801,452	90%
Deferred inflows of resources	2,089,904	-	2,089,904	
Net position	62,325,485	71,283,098	(8,957,613)	-13%
Total liabilities, deferred inflows of resources, and net position	$ 82,796,004	$ 81,468,263	$ 1,327,741	2%

These condensed Statements of Net Position exclude Interfund advances.

2015 and 2014 Balance Sheets Compared

Current assets decreased by $759 thousand during 2015. Within current assets, cash and investments unrestricted, accounts receivable, property taxes receivable, and inventory all decreased from 2014, while intergovernmental receivable, miscellaneous receivable, interest receivable and prepaid expenses each increased. Other assets increased by $939 thousand over 2014. The majority of the change in other assets is due to an increase in cash restricted for capital improvements from the capital recovery charges with the rates received exceeding capital expenditures.

The District invested $2.8 million in infrastructure improvements which was offset by depreciation expense of $3 million for a net decrease in the capital assets of $208 thousand or 0.3%.

Current liabilities increased $394 thousand or 26%. Payroll payable, deposits, accrued interest payable, current portion of compensated absences, and current portion of long-term debt all increased over 2014, while accounts payable decreased.

Long-term liabilities increased by $7.8 million due to recording of net pension liability. The net other postemployment benefits obligation increased over 2014 by $846 thousand, while long-term debt and compensated absences both decreased. Net position decreased by approximately $9 million due to the implementation of GASB 68 that required a retroactive restatement to record the unfunded pension liability.

Condensed Statements of Revenues
For the Years Ended June 30

	2015	2014	Dollar Change	Percentage Change
Operating revenues				
Service charges	$ 11,480,017	$ 12,179,622	$ (699,605)	-6%
Other	332,598	233,319	99,279	43%
Total operating revenues	11,812,615	12,412,941	(600,326)	-5%
Nonoperating revenues				
Property taxes	891,857	851,808	40,049	5%
Debt service recovery charges	465,283	463,701	1,582	0.3%
Intergovernmental revenue	-	124,919	(124,919)	-100%
Investment income	74,469	84,602	(10,133)	-12%
Other income	54,169	77,503	(23,334)	-30%
Gain on disposal of property	14,971	-	14,971	n/a
Total nonoperating revenues	1,500,749	1,602,533	(101,784)	-6%
Capital contributions	2,538,660	2,413,444	125,216	5%
Total revenues	$ 15,852,024	$ 16,428,918	$ (576,894)	-4%

2015 and 2014 Revenues Compared

The comparative statement of revenues shows changes from 2014 to 2015 in the District's revenues, classified into operating, nonoperating, and capital categories. Total revenues decreased $577 thousand or 4%. Total operating revenues decreased $600 thousand or 6% due to state mandated conservation. Nonoperating revenues decreased $102 thousand or 6%. Capital contributions increased by $125 thousand or 5% in 2015.

Condensed Statements of Operating Expenses
For the Years Ended June 30

	2015	2014	Dollar Change	Percentage Change
Supply and pumping	$ 591,831	$ 662,984	$ (71,153)	-11%
Collection	645,001	599,803	45,198	8%
Treatment	2,401,063	2,378,180	22,883	1%
Transmission and distribution	773,014	935,269	(162,255)	-17%
Disposal	178,385	244,909	(66,524)	-27%
Customer services	90,770	157,706	(66,936)	-42%
Administration and general	6,770,823	7,029,997	(259,174)	-4%
Drought response	73,331	422,057	(348,726)	-83%
Depreciation	3,037,516	3,166,738	(129,222)	-4%
Total operating expenses	$ 14,561,734	$ 15,597,643	$ (1,035,909)	-7%

2015 and 2014 Operating Expenses Compared

The condensed statement of operating expenses, above, shows a decrease of $1 million or seven percent, for total operating expenses. Collection and treatment increased; while supply and pumping, transmission and distribution, disposal, customer services, administration and general, drought response, and depreciation decreased from 2014.

2015 and 2014 Nonoperating Expense Compared

Nonoperating expense consists of interest expense which was $250 thousand and $258 thousand for 2015 and 2014, respectively, a decrease of approximately $8 thousand or 3%. Also included in nonoperating expense are the local match expenses for the IRWM program.

Condensed Statements of Net Position
For the Years Ended June 30

	2015	2014
Operating revenues	$ 11,812,615	$ 12,412,941
Nonoperating revenues	1,500,749	1,602,533
Total revenues	13,313,364	14,015,474
Operating expenses	14,561,734	15,597,643
Nonoperating expenses	276,596	473,735
Total expenses	14,838,330	16,071,378
Net (loss) before capital contributions	(1,524,966)	(2,055,904)
Capital contributions	2,538,660	2,413,444
Change in net position	1,013,694	357,540
Beginning net position as previously reported	71,283,098	70,925,558
RESTATEMENT	(9,971,307)	-
Beginning net position as restated	61,311,791	70,925,558
Ending net position	$ 62,325,485	$ 71,283,098

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.

2015 and 2014 Capital Assets Compared

Net capital assets totaled $67 million at June 30, 2015 and decreased $208 thousand from the previous year due to additions of approximately $2.8 million, net of depreciation of $3 million. The most significant addition to capital assets was $1 million spent for the South Washington Street water main replacement project. Another important addition was $1.6 million for the Quartz reservoir wastewater reclamation expansion and pumping project. See Note 3 to the basic financial statements.

2015 and 2014 LongTerm Debt Compared

At June 30, 2015 there was $5.5 million of long term debt outstanding which decreased by approximately $631 thousand from 2014 due to maturities of existing debt. See Note 4 to the basic financial statements.

Infrastructure Improvements 2015

SOUTH WASHINGTON STREET WATER MAIN REPLACEMENT – Funded by water rates. This project replaced approximately 3,000 feet of 6-inch cast iron pipe that was in excess of 75 years old. The project was designed by a Consultant in partnership with District staff. The project was completed in February 2015.

DOUGLASVILLE MINE ROAD WATER MAIN EXTENSION – Funded by a grant from the California State Water Board Public Water System Drought Emergency Response Program. The project involved installation of approximately 300 feet of new water main to connect 3 properties, experiencing well failure, to the public water system. The project was completed in April 2015.

QUARTZ RESERVOIR RESERVE POOL PUMPING PROJECT – Funded with connection fees and sewer rates. This project involved the design and fabrication of a floating pump raft. The raft was purchased in Spring 2015 but not placed into service until August 2015.

GARDELLA SPRAYFIELD PUMP – Funded with connection fees and sewer rates. A new 50 horsepower irrigation pump station was constructed to convey water from Quartz Reservoir to a 22 acre reclamation spray field. The pump was installed and startup was conducted in late January 2015.

SSO-PARROTS FERRY LIFT STATION – Funded by sewer rates. The project involved installing new pumps, check valves, and gravity and force main bypass piping at the station. The project was designed and constructed by District staff.

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 calendar year 2014, the District's contractor assessed approximately 215,000 feet of sewer pipeline. Work will continue through FY16.

Infrastructure Improvements Currently Under Construction 2016

CAMPO SECO ROAD WATER MAIN EXTENSION – Funded by a grant from the California State Water Board Public Water System Drought Emergency Response Program. This project involved installing approximately 1,400 feet of 8-inch water main to deliver potable water to 11 residences experiencing well failure in the Jamestown area. The project was designed by District staff and constructed by a contractor. Construction was completed in July 2015.

CDBG GIBBS SEWER IMPROVEMENTS – The project is funded by a Community Development Block Grant. 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. Construction is expected to begin in the Fall 2015 and be completed in the Spring 2016.

SRF-SAN DIEGO DITCH CONSTRUCTED CONVEYANCE – Funded by an 80% grant, 20% loan from the California Water Boards Safe Drinking Water State Revolving Fund. 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 is being designed by District staff and will be bid in the winter and constructed in Spring/Summer 2016.

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. The City has awarded a contract and construction will begin in Fall 2015.

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.

CURED-IN-PLACE PIPE SEWER REHABILITATION – Funded by sewer rates. This project, which was completed in August 2015, involved rehabilitating approximately 2,400 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.

Other Future Considerations

The District is working on the completion of a 5-year Capital Improvement Plan to support a Rate Study. District staff will be presenting to the Board of Directors a proposed rate increase for both Water and Sewer. The adopted FY16 budget includes -$0- in water capital improvements and approximately $400,000 in sewer capital improvements, which is dramatically underfunding the capital needs of the District.

The drought also continues to take a toll on water revenues and operational costs continue to increase. Health premiums are scheduled to increase by approximately 21% for the 2016 calendar year.

The District has seen a turnover in key management positions with the District's Operations Manager and General Manager retiring in between June and July 2015. A new Operations Manager was promoted internally and an Interim General Manager was contracted for June through October. At its September 8, 2015 meeting the Board appointed a new General Manager who is scheduled to start effective November 2, 2015.

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 - Proprietary Funds
June 30, 2015

	Water	Sewer	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Accounts receivable	$ 1,527,621	$ 429,743	$ 1,957,364
Property taxes receivable	16,856	7,224	24,080
Intergovernmental receivable	166,559	-	166,559
Miscellaneous receivable	61,893	375	62,268
Interest receivable	5,294	2,269	7,563
Deposits	5,320	2,280	7,600
Prepaid expenses	321,808	137,917	459,725
Inventory	188,231	80,671	268,902
Total Current Assets	2,293,582	660,479	2,954,061
NONCURRENT ASSETS			
Restricted and Other Noncurrent Assets			
Cash and investments restricted	869,467	10,439,290	11,308,757
Assessments receivable	-	488,831	488,831
Advances to water fund	-	5,293,669	5,293,669
Total Restricted and Other Noncurrent Assets	869,467	16,221,790	17,091,257
Capital Assets			
Non-depreciable	2,723,229	2,685,603	5,408,832
Depreciable, net of accumulated depreciation	43,369,590	17,910,457	61,280,047
Total Capital Assets	46,092,819	20,596,060	66,688,879
Total Noncurrent Assets	46,962,286	36,817,850	83,780,136
TOTAL ASSETS	49,255,868	37,478,329	86,734,197
DEFERRED OUTFLOWS OF RESOURCES	944,993	410,483	1,355,476
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 50,200,861	$ 37,888,812	$ 88,089,673
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
CURRENT LIABILITIES			
Cash unrestricted deficit	-	$ 209,678	$ 209,678
Accounts payable & accrued expenses	208,205	59,739	267,944
Payroll payable	96,941	42,927	139,868
Deposits	173,608	56,605	230,213
Accrued interest payable	23,261	15,089	38,350
Current portion of compensated absences	327,930	140,541	468,471
Current portion of long-term debt	448,717	148,407	597,124
Total Current Liabilities	1,278,662	672,986	1,951,648
NONCURRENT LIABILITEIS			
Advances from sewer fund	5,293,669	-	5,293,669
Long-term debt	3,939,461	973,049	4,912,510
Net other post employment benefits obligation	2,189,002	938,143	3,127,145
Compensated absences	383,488	164,353	547,841
Net pension liability	5,466,813	2,374,658	7,841,471
Total Noncurrent Liabilities	17,272,433	4,450,203	21,722,636
TOTAL LIABILITIES	18,551,095	5,123,189	23,674,284
DEFERRED INFLOWS OF RESOURCES	1,457,012	632,892	2,089,904
NET POSITION			
Net investment in capital assets	41,704,641	19,474,604	61,179,245
Restricted for capital improvements	186,089	10,253,315	10,439,404
Restricted for debt service	683,378	185,975	869,353
Unrestricted	(12,381,354)	2,218,837	(10,162,517)
TOTAL NET POSITION	30,192,754	32,132,731	62,325,485
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 50,200,861	$ 37,888,812	$ 88,089,673

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, 2015

	Water	Sewer	Total
OPERATING REVENUES			
Service charges	$ 8,505,077	$ 2,974,940	$ 11,480,017
Other revenue	106,202	226,396	332,598
Total Operating Revenues	8,611,279	3,201,336	11,812,615
OPERATING EXPENSES			
Supply and pumping	591,831	-	591,831
Collection	-	645,001	645,001
Treatment	1,782,393	618,670	2,401,063
Transmission and distribution	773,014	-	773,014
Disposal	-	178,385	178,385
Customer services	71,120	19,650	90,770
Administration and general	4,621,268	2,149,555	6,770,823
Drought response	73,331	-	73,331
Depreciation	2,150,362	887,154	3,037,516
Total Operating Expenses	10,063,319	4,498,415	14,561,734
Net (Loss) From Operations	(1,452,040)	(1,297,079)	(2,749,119)
NONOPERATING REVENUES (EXPENSES)			
Property taxes	679,318	212,539	891,857
Debt service recovery charges	465,283	-	465,283
Investment income	-	74,469	74,469
Other income	52,969	1,200	54,169
Other expense - IRWMP	(26,330)	-	(26,330)
Gain (loss) on property and equipment	14,971	-	14,971
Interest expense	(181,481)	(68,785)	(250,266)
Total Nonoperating Revenues (Expenses)	1,004,730	219,423	1,224,153
Net (Loss) Before Capital Contributions	(447,310)	(1,077,656)	(1,524,966)
CAPITAL CONTRIBUTIONS			
Capital grants	894,122	-	894,122
Contributed capital	36,229	2,867	39,096
Facilities capital charges	205,217	1,400,225	1,605,442
Total Capital Contributions	1,135,568	1,403,092	2,538,660
Change in Net Position	688,258	325,436	1,013,694
Net Position, beginning as previously reported	36,456,160	34,826,938	71,283,098
RESTATEMENT	(6,951,664)	(3,019,643)	(9,971,307)
Net Position, beginning as restated	29,504,496	31,807,295	61,311,791
Net Position, End of Year	$ 30,192,754	$ 32,132,731	$ 62,325,485

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

Tuolumne Utilities District
Statements of Cash Flows
For the Year Ended June 30, 2015

	Water	Sewer	Total
OPERATING ACTIVITIES			
Receipts from customers and users	$ 8,865,129	$ 3,195,787	$ 12,060,916
Payments to employees and benefit providers	(6,899,759)	(3,002,436)	(9,902,195)
Payments to suppliers for goods and services	(1,648,197)	(896,385)	(2,544,582)
Cash Provided (Used) by Operating Activities	317,173	(703,034)	(385,861)
NONCAPITAL FINANCING ACTIVITIES			
Property taxes and assessments received	702,190	273,345	975,535
Receipts from customers for debt recovery	465,283	-	465,283
Other income	52,969	1,200	54,169
Cash received from (paid to) other funds	231,550	(231,550)	-
Payments for reimbursable expenses	(26,330)	-	(26,330)
Receipts from other governments	94,146	-	94,146
Cash Provided by Noncapital Financing Activities	1,519,808	42,995	1,562,803
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(2,009,702)	(796,128)	(2,805,830)
Proceeds from disposal of capital assets	19,130	-	19,130
Principal paid on long term debt	(457,169)	(185,586)	(642,755)
Proceeds from issuance of long term debt	11,541	-	11,541
Receipts from other governments - capital grants	790,194	-	790,194
Receipts from developers - contributed capital	36,229	2,867	39,096
Receipts from customers and users - facility fees	205,217	1,400,221	1,605,438
Interest paid on long-term debt	(183,942)	(64,049)	(247,991)
Cash Provided (Used) by Capital and Related Financing Activities	(1,588,502)	357,325	(1,231,177)
INVESTING ACTIVITIES			
Investment interest (expense) earnings	(1,153)	73,974	72,821
Cash Provided (Used) by Investing Activities	(1,153)	73,974	72,821
Net Increase (Decrease) in Cash and Investments	247,326	(228,740)	18,586
Cash and Investments, Beginning of Year	622,141	10,458,352	11,080,493
Cash and Investments, End of Year	$ 869,467	$ 10,229,612	$ 11,099,079
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION			
Cash and investments unrestricted	$ -	$ (209,678)	$ (209,678)
Cash and investments restricted	869,467	10,439,290	11,308,757
Total cash and investments	869,467	10,229,612	11,099,079
RECONCILIATION OF NET (LOSS) FROM OPERATIONS TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net (Loss) From Operations	$ (1,452,040)	$ (1,297,079)	$ (2,749,119)
Depreciation	2,150,362	887,154	3,037,516
Pension expense	(27,840)	(12,092)	(39,932)
(Increase) decrease in operating assets			
Accounts receivable	291,132	(4,651)	286,481
Miscellaneous receivables	(53,640)	(115)	(53,755)
Prepaid expenses	(218,893)	(93,811)	(312,704)
Inventory	19,522	8,366	27,888
Deferred outflows of resources for pension contribution	(944,993)	(410,483)	(1,355,476)
Increase (decrease) in operating liabilities			
Accounts payable & accrued expenses	(63,703)	(48,944)	(112,647)
Payroll payable	22,541	21,534	44,075
Deposits payable	16,358	(783)	15,575
Other postemployment benefit obligations	591,908	253,674	845,582
Compensated absences	(13,541)	(5,804)	(19,345)
Net Cash Provided (Used) by Operating Activities	$ 317,173	$ (703,034)	$ (385,861)
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES			
Land received in exchange for future water service	$ 27,878	$ -	$ 27,878

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 andare 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 straightline 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.

K. Pensions

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 District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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	$ (209,678)
Restricted cash and investments	11,308,757
Total cash and investments	$ 11,099,079

Cash and investments as of June 30, 2015 consist of the following:	
Cash on hand	$ 425
Deposits with financial institutions	250,776
Local Agency Investment Fund (LAIF)	10,619,986
Held by bond trustee:	
Deposits with financial institutions	154,588
Money market mutual funds	73,304
Total cash and investments	$ 11,099,079

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	10,619,986	-	10,619,986
Total investments	$ 10,693,290	$ -	10,693,290
Cash in bank and on hand			405,789
Total cash and investments			$ 11,099,079

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, 2015 for each investment type:

Investment Type	Minimum Rating	Ratings as of Year End AAA	Not Rated	Total
Local Agency Investment Fund	N/A	$ -	$ 10,619,986	$10,619,986
Held by bond trustee:				
Money market mutual fund	AAA	73,304	-	73,304
Total investments		$ 73,304	$ 10,619,986	$10,693,290

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, 2015, the carrying amounts of the District's deposits were $405,364 and the balances in financial institutions were $765,926. Of the balance in financial institutions, $404,588 was covered by federal depository insurance and $361,338 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 $69,641,162,418 managed by the State Treasurer. Of that amount, 2.08% 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.

NOTE 3 – Capital Assets

Changes in capital assets accounts for the year ended June 30, 2015 are summarized below:

	Balance July 1, 2014	Additions	Disposals	Transfers	Balance June 30, 2015
Capital assets, not being depreciated:					
Land	$ 5,029,877	$ 31,078	$ -	$ -	$ 5,060,955
Construction in progress	2,507,953	1,786,878	-	(3,946,954)	347,877
Total capital assets, not being depreciated	7,537,830	1,817,956	-	(3,946,954)	5,408,832
Capital assets, being depreciated:					
Water utility system - infrastructure	66,045,644	296,442	-	2,112,524	68,454,610
Sewer utility system - infrastructure	34,718,103	265,936	-	1,834,430	36,818,469
Buildings - administration	3,785,404	-	-	-	3,785,404
Equipment and machinery	7,021,010	453,374	(175,289)	-	7,299,095
Total capital assets, being depreciated	111,570,161	1,015,752	(175,289)	3,946,954	116,357,578
Accumulated depreciation:					
Water utility system - infrastructure	(25,903,388)	(1,911,745)	-	-	(27,815,133)
Sewer utility system - infrastructure	(19,377,438)	(764,349)	-	-	(20,141,787)
Buildings - administration	(1,372,243)	(93,180)	-	-	(1,465,423)
Equipment and machinery	(5,558,076)	(268,242)	171,130	-	(5,655,188)
Total accumulated depreciation	(52,211,145)	(3,037,516)	171,130	-	(55,077,531)
Total capital assets, being depreciated, net	59,359,016	(2,021,764)	(4,159)	3,946,954	61,280,047
Total capital assets, net	$ 66,896,846	$ (203,808)	$ (4,159)	$ -	$ 66,688,879

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, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Special Assessment Bonds					
1984 Clean Water Assessment District	$ 378,097	$ -	$ (45,000)	$ 333,097	$ -
Certificates of Participation					
1991 COP	771,000	-	(27,000)	744,000	29,000
Loans Payable					
2007 LaSalle	773,513	-	(81,329)	692,184	85,303
2005 LaSalle	631,317	-	(93,268)	538,049	97,751
2005 SDWSRF	25,732	-	(2,450)	23,282	1,225
1996 SDWR	35,534	-	(4,965)	30,569	5,136
1996 LaSalle	813,156	-	(310,005)	503,151	330,132
1991 SDWR	51,047	-	(6,582)	44,465	6,803
1987 SDWR	12,353	-	(2,552)	9,801	2,658
1978 USDA	15,294	-	(7,122)	8,172	7,478
2008 SDWSRF	417,876	-	(16,715)	401,161	8,358
2011 SDWSRF	1,042,772	-	(45,767)	997,005	23,280
2012 SDWSRF - Loan Advance	1,173,157	11,541	-	1,184,698	-
Total Long Term Debt	$ 6,140,848	$ 11,541	$ (642,755)	$ 5,509,634	$ 597,124

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.

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, $282,471, and $11,541 received during the fiscal years ended June 30, 2013, 2014, and 2015, 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, 2015 are as follows:

Years ending June 30,	Principal	Interest	Total
2016	$ 597,124	$ 165,133	$ 762,257
2017	570,981	163,291	734,272
2018	416,112	141,600	557,712
2019	428,130	124,534	552,664
2020	442,596	106,959	549,555
2021-2025	1,220,813	348,262	1,569,075
2026-2030	979,982	186,391	1,166,373
2031-2035	688,820	44,299	733,119
2036-2040	165,076	1,867	166,943
	$ 5,509,634	$ 1,282,336	$ 6,791,970

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, 2015.

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 $9,390,661. 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 48% 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 $5,237,571 at June 30, 2015.

Cash basis debt service paid during the year ended June 30, 2015 total $641,111 and $249,635 for water and sewer systems, respectively. Total water and sewer system net revenues calculated in accordance with the covenants were $1,034,272 and $(544,293), respectively, at June 30, 2015. The District is not in compliance with the rate covenant contained in the 2007 LaSalle loan agreement due to revenue restricted for capital recovery within the sewer fund's ordinance. 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 – Pension Plans

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the District's following separate cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS).

- Miscellaneous First Level Plan
- Miscellaneous Second Level Plan
- PEPRA Miscellaneous Plan

CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website, www.calpers.ca.gov.

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. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous		
	First Level	Second Level	PEPRA
Hire date	Prior to November 16, 2012	November 16, 2012 to January 1, 2014	On or after January 1, 2014
Benefit formula	2.7% @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	10.958%	8.512%	6.237%

All plans except the PEPRA plan are closed to new members that are not already CalPERS participants.

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. The total plan contributions are determined through the CalPERS's annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense were as follows:

	Miscellaneous		
	First Level	Second Level	PEPRA
Contributions - employer	$ 948,640	$ 5,405	$ 25,590
Contributions - employee (paid by employer)	$ 347,078	$ 3,173	$ 25,590

B. Net Pension Liability

As of June 30, 2015, the District reported a net pension liability for its proportionate share of the net pension liability of the Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous First Level Plan	$ 7,840,665
Miscellaneous Second Level Plan	806
Total Net Pension Liability	$ 7,841,471

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 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 for the Plans as of June 30, 2013 and 2014 was as follows:

	Miscellaneous		
	First Level	Second Level	PEPRA
Proportion - June 30, 2013	0.30428%	0.00003%	0%
Proportion - June 30, 2014	0.31724%	0.00003%	0%
Change - Increase (Decrease)	0.01296%	0.00000%	0%

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions for all Plans:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)

(1) Depending on entry age and service

(2) Net of pension plan investment expenses, including inflation

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. The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. The Experience Study can be obtained at the CalPERS' website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a 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. Based on the testing, none of the test plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

[1] An expected inflation of 2.5% used for this period.

[2] An expected inflation of 3.0% used for this period.

C. Net Pension Liability

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability for each plan as of the measurement date, calculated using the discount rate using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	Miscellaneous		
	First Level	**Second Level**	**PEPRA**
Discount Rate - 1% (6.50%)			
Net Pension Liability	$12,828,405	$1,436	$0
Current Discount Rate (7.50%)			
Net Pension Liability	$7,840,665	$806	$0
Discount Rate + 1% (8.50%)			
Net Pension Liability	$3,701,314	$283	$0

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District had a reduction in pension expense of $1,395,408 for all cost sharing Plans combined. At June 30, 2015, 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
Contributions subsequent to measurement date	$ 1,355,476	$ -
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(2,044,202)
Adjustment due to differences in proportions	-	(45,702)
Total	$ 1,355,476	$ (2,089,904)

The $1,355,476 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, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as future pension expense as follows:

Fiscal Year Ended June 30	
2016	$ (527,374)
2017	$ (527,374)
2018	$ (524,107)
2019	$ (511,049)
2020	$ -
Thereafter	$ -

E. Payables to the Pensions Plans

At June 30, 2015, the District had no outstanding contributions to the pension plan.

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, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Vacation	$ 373,579	$ 144,544	$ (118,658)	$ 399,465	$ 118,658
Sick leave	649,202	287,530	(334,849)	601,883	334,849
Comp time	12,876	28,221	(26,133)	14,964	14,964
	$ 1,035,657	$ 460,295	$ (479,640)	$ 1,016,312	$ 468,471

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.

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, 2015, the District made health insurance premium payments on behalf of retirees of $477,310 and a contribution towards the unfunded liability in the amount of $92,108. 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, 2015, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

	2014
Annual required contribution end of year	$ 1,477
Interest on net OPEB obligation	111
Adjustment to annual required contribution	(173)
Annual OPEB cost (expense)	1,415
Contributions made including credited interest	(570)
Increase in net OPEB obligations	845
Net OPE obligation, beginning of period	2,282
Net OPE obligation, end of period	$ 3,127

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, 2013	$1,246	$385	30.1%	$1,085
June 30, 2014	$1,694	$497	29.3%	$2,282
June 30, 2015	$1,415	$570	40.3%	$3,127

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2013, 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, 2015 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.

Notes to the Basic Financial Statements

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, 2015, 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

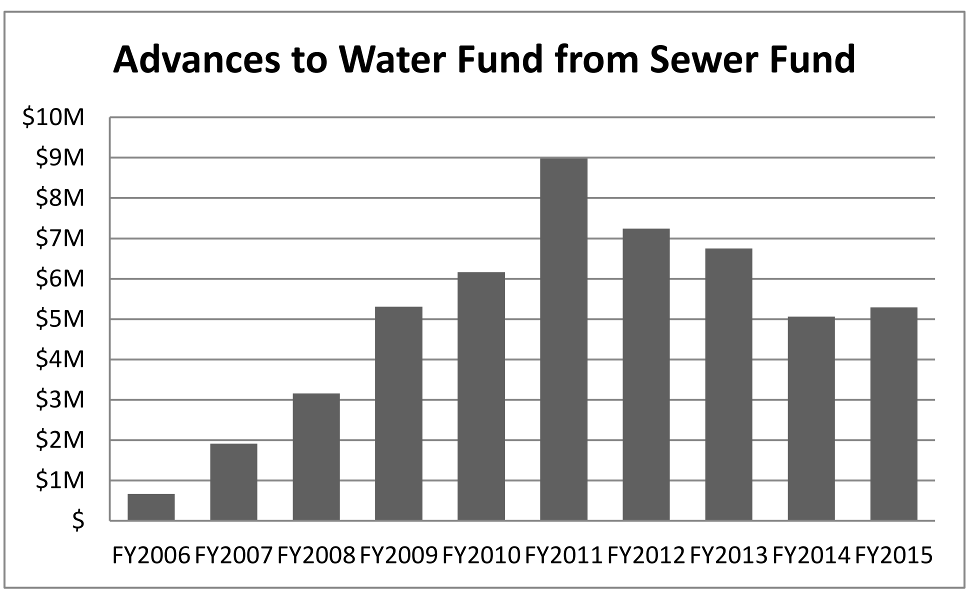
Advances from the Sewer Fund to the Water Fund represent negative cash in the Water Fund as a result of cash outflow exceeding cash inflow, as a result of deficits in the Water Fund over several years. The balance due will be repaid as funds are available. However, it is not expected that the amount 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 90's, wherein the District was seeing many new system connections, the District also acquired 18 defunct water systems during that decade. 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.

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 but experienced an increase of $45,461 for the 2015 year, with a current balance of $5,107,580. 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 May 26, 2015, the District awarded a contract for the TUD-2015 CIPP Sewer Rehabilitation Project in the amount of $82,071. The project is expected to be completed within the 2016 fiscal year.

On July 28, 2015, the District approved an agreement for Phase 2 of the Sewer Collection System Condition Assessment Project in the amount of $194,535. The phase of the project is expected to be completed within the 2016 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. As a result of implementing Statements 68 and 71, the District's liabilities were increased by $9,971,307 as of July 1, 2014, the effective date of these statements.

In November 2014, 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. As a result of implementing Statements 68 and 71, the District's liabilities were increased by $9,971,307 as of July 1, 2014, the effective date of these statements.

In February 2015, the GASB approved Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements and will require additional disclosures about assets and liabilities measured at fair value. This Statement is effective for periods beginning after June 15, 2015. The District will fully analyze the impact of this new Statement prior to the effective date above.

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)", which supersedes the requirements of GASB Statement No. 45 and requires governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria to report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments, on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for fiscal years beginning after June 15, 2017 and will result in a significant increase in the District's liabilities.

NOTE 16 – Changes in Accounting Principles

During the year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement 68*. These Statements required the District to recognize in its accrual basis financial statements the net pension liability, deferred outflows of resources and deferred inflows of resources for the District's pension plan. These Statements also required contributions made after the June 30, 2014 measurement date used in the actuarial valuation for the pension plan to be reported as deferred outflows of resources.

Due to the implementation of these statements, a pension liability of $5,466,813, deferred inflows of resources of $1,457,012 and deferred outflows of resources of $944,993 were recorded in the District's Water Fund as of June 30, 2015; and a pension liability of $2,374,658, deferred inflows of resources of $632,892 and deferred outflows of resources of $410,483 were recorded in the District's Sewer Fund as of June 30, 2015. Total net position as of July 1, 2014 was restated compared to the amounts reported in the June 30, 2014 financial statements, resulting in a decrease in net position of $6,951,664 in the Water Fund and $3,019,643 in the Sewer Fund.

Required Supplementary Information

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Tuolumne Utilities District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2015
Last 10 Years*

	Miscellaneous		
	First Level 2015	Second Level 2015	PEPRA 2015
Proportion of the net pension liability	0.12601%	0.00001%	
Proportionate share of the net pension liability	$ 7,840,655	$ 806	
Covered-employee payroll	$ 4,572,177	$ 38,228	
Proportionate share of the net pension liability as percentage of covered-employee payroll	171.49%	2.11%	
Plan fiduciary net position	$ 6,205,886	$ 669	
Plan fiduciary net position as a percentage of the total pension liability	79.15%	83.03%	

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.
PEPRA information is not available for 2015.

Tuolumne Utilities District
Schedule of Contributions
As of June 30, 2015
Last 10 Years*

	Miscellaneous		
	First Level 2015	Second Level 2015	PEPRA 2015
Actuarially determined contributions	$ 1,101,279	$ 4,347	
Contributions in relation to the actuarially determined contributions	$ (1,101,279)	$ (4,347)	
Contribution deficiency (excess)	$ -	$ -	
Covered-employee payroll	$ 4,572,177	$ 38,228	
Contributions as a percentage of covered-employee payroll	24.09%	11.37%	

Notes to Schedule:

A summary of principal assumptions and methods used to determine the contractually required contributions is shown below for the cost-sharing multiple-employer defined benefit plan.

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Asset valuation method	Market value
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed inflation growth of 2.75% and an annual production growth of 0.25%