TUOLUMNE UTILITIES DISTRICT

Annual Financial Report June 30, 2016

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Tuolumne Utilities District

Annual Financial Report

June 30, 2016

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Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tuolumne Utilities District
Sonora, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tuolumne Utilities District (the District), which comprise the statements of net position of the Water Fund and Sewer Fund as of June 30, 2016, 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, the State Controller's Minimum Audit Requirements for California Special Districts and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

To the Board of Directors
Tuolumne Utilities District

accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

September 20, 2016

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Management's Discussion and Analysis

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Introduction

In this discussion and analysis, management provides an overview of the Tuolumne Utilities District's ("the District") financial position at June 30, 2016 and its financial performance for the year then ended. Condensed financial information from 2015 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

	2016	2015	Dollar Change	Percentage Change
Current assets	$ 4,675,314	$ 2,954,061	$ 1,721,253	58%
Restricted and other noncurrent assets	12,307,096	11,797,588	509,508	4%
Capital assets	67,410,589	66,688,879	721,710	1%
Deferred outflows of resources	1,436,720	1,355,476	81,244	6%
Total assets and deferred outflows of resources	$ 85,829,719	$ 82,796,004	$ 3,033,715	4%
Current liabilities	$ 1,259,333	$ 1,922,648	$ (663,315)	-35%
Noncurrent liabilities	18,628,709	16,457,967	2,170,742	13%
Deferred inflows of resources	1,239,851	2,089,904	(850,053)	-41%
Net position	64,701,826	62,325,485	2,376,341	4%
Total liabilities, deferred inflows of resources, and net position	$ 85,829,719	$ 82,796,004	$ 3,033,715	4%

These condensed Statements of Net Position exclude Interfund advances.

2016 and 2015 Balance Sheets Compared

Current assets increased by $1.7 million during 2016. Within current assets, cash and investments unrestricted, accounts receivable, property taxes receivable, intergovernmental receivable, and interest receivable all increased from 2015, while miscellaneous receivable, prepaid expenses and inventory each decreased. Other assets increased by $510 thousand over 2015.

The District invested $3.7 million in infrastructure improvements which were offset by depreciation expense of $3 million for a net increase in the capital assets of $722 thousand.

Total current liabilities decreased by $663 thousand. Accounts payable, accrued interest payable, current portion of compensated absences, and current portion of long-term debt all decreased over 2015, while payroll payable and deposits increased.

Long-term liabilities increased by $2.2 million. The net pension liability, net other postemployment benefits obligation and noncurrent portion of compensated absences increased over 2015, while long-term debt decreased. Net position increased by $2.4 million. GASB 68 related outflows and inflows of pension resources increased by $81 thousand and decreased by $850 thousand respectively.

Condensed Statements of Revenues
For the Years Ended June 30

	2016	2015	Dollar Change	Percentage Change
Operating revenues				
Service charges	$ 13,539,280	$ 11,480,017	$ 2,059,263	18%
Other	442,603	332,598	110,005	33%
Total operating revenues	13,981,883	11,812,615	2,169,268	18%
Nonoperating revenues				
Property taxes	938,891	891,857	47,034	5%
Debt service recovery charges	409,362	465,283	(55,921)	-12%
Investment income	96,547	74,469	22,078	30%
Other income	59,584	54,169	5,415	10%
Gain on disposal of property	12,030	14,971	(2,941)	n/a
Total nonoperating revenues	1,516,414	1,500,749	15,665	1%
Capital contributions	4,215,765	2,538,660	1,677,105	66%
Total revenues	$ 19,714,062	$ 15,852,024	$ 3,862,038	24%

2016 and 2015 Revenues Compared

The comparative statement of revenues shows changes from 2016 to 2015 in the District's revenues, classified into operating, nonoperating, and capital categories. Total revenues increased $3.9 million. Total operating revenues increased $2.2 million mainly due to rate changes. Nonoperating revenues increased $16 thousand. Capital contributions increased by $1.7 million in 2016 due to CDBG sewer grant and contributed capital from the City of Sonora fire flow project.

Condensed Statements of Operating Expenses
For the Years Ended June 30

	2016	2015	Dollar Change	Percentage Change
Supply and pumping	$ 741,848	$ 591,831	$ 150,017	25%
Collection	876,445	645,001	231,444	36%
Treatment	3,016,999	2,401,063	615,936	26%
Transmission and distribution	1,328,871	773,014	555,857	72%
Disposal	198,526	178,385	20,141	11%
Customer services	160,684	90,770	69,914	77%
Administration and general	7,790,649	6,770,823	1,019,826	15%
Drought response	-	73,331	(73,331)	-100%
Depreciation	3,016,388	3,037,516	(21,128)	-1%
Total operating expenses	$ 17,130,410	$ 14,561,734	$ 2,568,676	18%

2016 and 2015 Operating Expenses Compared

The condensed statement of operating expenses, above, shows an increase of $2.6 million for total operating expenses principally due to costs of labor. Supply and pumping, collection, treatment, transmission and distribution, disposal, customer services, administration and general increased over 2015. Drought response and depreciation decreased from 2015.

2016 and 2015 Nonoperating Expense Compared

Nonoperating expense consists of interest expense which was $207 thousand and $250 thousand for 2016 and 2015, respectively, a decrease of approximately $43 thousand. Also included in nonoperating expense are the local match expenses for the IRWM program in 2015.

Condensed Statements of Net Position
For the Years Ended June 30

	2016	2015
Operating revenues	$ 13,981,883	$ 11,812,615
Nonoperating revenues	1,516,414	1,500,749
Total revenues	15,498,297	13,313,364
Operating expenses	17,130,410	14,561,734
Nonoperating expenses	207,311	276,596
Total expenses	17,337,721	14,838,330
Net (loss) before capital contributions	(1,839,424)	(1,524,966)
Capital contributions	4,215,765	2,538,660
Change in net position	2,376,341	1,013,694
Beginning net position as previously reported	62,325,485	71,283,098
RESTATEMENT (GASB 68)	-	(9,971,307)
Beginning net position as restated	62,325,485	61,311,791
Ending net position	$ 64,701,826	$ 62,325,485

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.

2016 and 2015 Capital Assets Compared

Net capital assets totaled $67 million at June 30, 2016 and increased $722 thousand from the previous year due to additions of approximately $3.7 million, net of depreciation of $3 million. The most significant addition to capital assets was $1.6 million spent for the South Washington Street water main replacement project. Another important addition was $1.3 million for the Sonora fire flow hydrant and laterals project. See Note 3 to the basic financial statements.

2016 and 2015 LongTerm Debt Compared

At June 30, 2016 there was $4.8 million of long term debt outstanding which decreased by approximately $724 thousand from 2015 due to maturities of existing debt. See Note 4 to the basic financial statements.

Infrastructure Improvements 2016

CDBG GIBBS SEWER IMPROVEMENTS – The project was funded by a Community Development Block Grant. The project involved lining approximately 13,000 feet of sewer line in the Gibbs and Racetrack Estates areas. In addition, manholes were installed and some pipeline segments. The project was completed in May 2016.

CDBG-SONORA FIRE FLOW IMPROVEMENTS – Funded by a Community Development Block Grant awarded to the City of Sonora. The District partnered with the City to carry out this project. The District's contribution included the surveying and engineering design and also the selective replacement of water service laterals. The City handled all environmental, bidding, construction management, and administered the grant. The project involved replacement of 85 fire hydrants and construction of approximately 6,000 feet of new water main. In connection with this, TUD also replaced 75 laterals to customers. The project was completed in June 2016.

COLUMBIA WATER TREATMENT PLANT CONTROLS – The controls at the Columbia Water Treatment Plant dated back to the construction of the plant in the early 1990's. Over the years additional regulation has required the installation of additional data monitoring and alarm capabilities. The additional inputs and outputs had exceeded the capacity of the processor. As a result, the plant's controls were on the brink of failure, systems were running slower than normal, and the operators were forced to carry out some tasks manually. The plant had become unreliable. Consequently, this project involved a complete replacement of the plant controls and added some automation to improve the efficiency of plant operations. The project was completed in May 2016.

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.

FLOC BASIN – TUOLUMNE WATER TREATMENT PLANT – This project replaced the shafts, paddles, baffle walls, and motor driving the flocculation paddles. The work was completed by TUD staff and partially funded through the Tuolumne Band of MiWuk.

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 2016, the District's contractor assessed approximately 91,000 feet of sewer pipeline. Work will continue through FY17.

Infrastructure Improvements Currently Under Construction 2017

GOLD SPRINGS SEWER FORCE MAIN PROJECT – Funded by sewer rates. This project entails replacing 4,750 linear feet of existing 4-inch sewer force main with a 6-inch force main in Columbia. This force main has experienced many main breaks in the past few years and TUD crews have repaired the line numerous times.

GOLD SPRINGS GRAVITY SEWER – Funded by sewer rates. This project will replace a vitrified clay pipe with many structural defects with a larger main to also accommodate greater flows in the future.

FIFTH AVENUE UTILITY RELOCATION – Funded by water rates. The purpose of this project is to replace 900 linear feet of old 4-inch cast iron water main crossing Hwy 108 at Fifth Ave. with new 10-inch water main prior to the County's signalization and road realignment project.

CUESTA HEIGHTS TANK – Funded by water rates; however, a funding application has been submitted that would allow the District to receive a low interest loan to fund the project. The District will likely elect to wait on the outcome of the funding before proceeding. The project is broken up into phases with the overall objective of consolidating three water tanks into one 600,000 gallon treated water storage tank. The Gopher, 420k, and Saratoga tanks are in disrepair and need to be replaced. The project will also lead to the abandonment of the Saratoga Pump Station and the Racetrack Pump Station. The project will improve system reliability and fire flow.

Other Future Considerations

The Board of Directors of Tuolumne Utilities District (TUD) adopted its first biennial budget for Fiscal Year 2017 and Fiscal Year 2018. This two year budget offers the District the ability to provide for more systemic long range planning over the budget term, achieve efficiencies in the second year of the budget by relieving staff of the budget preparation process to instead focus on validation efforts for the second year of the budget and other worthwhile projects. The two year budget also demonstrates a commitment to our customers to operate the District over the long term with the goal of mitigating deficit spending to the greatest extent possible while genuinely pursuing a balanced budget.

The adopted budget and the operational, programmatic and capital costs identified therein are possible as a result of the November 2015, Proposition 218 process in which the Board proposed a 5-year program of incremental rate increases for District customers to evaluate. The proposed rate increase was not protested by District customers and the Board approved the rate plan. The new rate structure was effective in January 2016 and is in full compliance with California statute and case law that regulates how rates are established, the rate structure itself, and how rates apply to users.

The District will undertake an aggressive capital improvement plan (CIP) during the budget term. The District's adoption of a 5-year, incremental rate increase was in part to address compelling infrastructure needs in the water and sewer system. Water system related CIP projects will total approximately $1.9 million and $3.5 million in FY 17 and FY 18 respectively. Sewer related CIP projects will total $0.8 million and $0.9 million in FY 17 and FY 18 respectively. The planned projects are consistent with the adopted CIP and in several cases are the beginning phases of what are multi-year projects to substantially improve infrastructure and provide for greater reliability for District customers.

California has suffered the effects of a sustained drought for the past five years, including Tuolumne County. The lack of adequate precipitation in winter months coupled with moderate temperatures has undermined tree health and given way to an explosive bark beetle infestation that has severely crippled the pine tree population in the Sierra Nevada including the District's service territory. The District developed a Hazard Tree Mitigation Plan that identifies five (5) separate tree mortality project areas for inspection.

In May the District began assessing the status of dead and dying trees adjacent to District facilities including 72 miles of ditch and flume system. Certified arborist assessments of just two ditches (project areas), the Eureka and Soulsbyville, indicate that as many as 2400 surveyed trees have succumbed or will succumb to the effects of drought, including bark beetle infestation. The District anticipates that as many as 1000 more trees (an approximate total of 3400) in proximity to District facilities may die. The projections noted here are based upon what is being observed in the field coupled with the expectations of experts assessing the Sierra Nevada generally. This portion of the discussion merely emphasizes the order of magnitude problem and associated costs the District may face. For these reasons the effects of pervasive tree mortality represent a difficult scenario for the District.

Funding for tree removal is likely to come from various sources, including the District. Currently, California Disaster Assistance Act (CDAA) funding has been allocated by the Governor's Office of Emergency Services to the District to pay for 75% of tree removal cost with the District responsible for the remaining 25%. With the District facing an estimated 3400 dead trees, ultimate removal cost may eclipse an estimated $4 million (M). Though this may occur over the course of 2 to 3 fiscal years, the costs nonetheless remain staggering.

The fiscal impact of hazard tree mitigation may approach $1M+ over the next several years as weakened trees give way to disease, drought and beetle related mortality and represents the District's 25% contribution to California Disaster Assistance Act funding. The District is working with the County to obtain other funding to reduce this potential cost downwards.

For the fiscal year ended June 30, 2016 the District exceeded budget expectations relative to both revenues and expenses. As the water fund had sufficient revenues in excess of expenses, management has established an unrestricted reserve of approximately $531 thousand for anticipated expenses.

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.

Basic Financial Statements

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Tuolumne Utilities District
Statements of Net Position - Proprietary Funds
June 30, 2016

	Water	Sewer	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and investments unrestricted	$ 531,252	$ 872,634	$ 1,403,886
Accounts receivable	1,891,147	476,552	2,367,699
Property taxes receivable	17,324	12,289	29,613
Intergovernmental receivable	268,497	96,928	365,425
Miscellaneous receivable	4,444	286	4,730
Interest receivable	-	16,348	16,348
Deposits	5,320	2,280	7,600
Prepaid expenses	151,648	64,992	216,640
Inventory	184,361	79,012	263,373
Total Current Assets	3,053,993	1,621,321	4,675,314
NONCURRENT ASSETS			
Restricted and Other Noncurrent Assets			
Cash and investments restricted	1,021,601	10,845,541	11,867,142
Assessments receivable	-	439,954	439,954
Advances to water fund	-	4,446,471	4,446,471
Total Restricted and Other Noncurrent Assets	1,021,601	15,731,966	16,753,567
Capital Assets			
Non-depreciable	2,895,446	2,674,291	5,569,737
Depreciable, net of accumulated depreciation	42,940,880	18,899,972	61,840,852
Total Capital Assets	45,836,326	21,574,263	67,410,589
Total Noncurrent Assets	46,857,927	37,306,229	84,164,156
TOTAL ASSETS	49,911,920	38,927,550	88,839,470
DEFERRED OUTFLOWS OF RESOURCES (PENSIONS)	1,001,564	435,156	1,436,720
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 50,913,484	$ 39,362,706	$ 90,276,190
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable & accrued expenses	$ 114,678	$ 118,952	$ 233,630
Payroll payable	124,790	52,190	176,980
Deposits	186,539	62,742	249,281
Accrued interest payable	20,726	13,166	33,892
Current portion of compensated absences	67,935	29,115	97,050
Current portion of long-term debt	345,955	122,545	468,500
Total Current Liabilities	860,623	398,710	1,259,333
NONCURRENT LIABILITIES			
Advances from sewer fund	4,446,471	-	4,446,471
Long-term debt	3,512,556	804,505	4,317,061
Net other post employment benefits obligation	2,643,278	1,132,834	3,776,112
Compensated absences	749,860	321,369	1,071,229
Net pension liability	6,596,797	2,867,510	9,464,307
Total Noncurrent Liabilities	17,948,962	5,126,218	23,075,180
TOTAL LIABILITIES	18,809,585	5,524,928	24,334,513
DEFERRED INFLOWS OF RESOURCES (PENSIONS)	865,119	374,732	1,239,851
NET POSITION			
Net investment in capital assets	41,977,815	20,647,213	62,625,028
Restricted for capital	346,401	10,659,566	11,005,967
Restricted for debt service	675,200	185,975	861,175
Unrestricted	(11,760,636)	1,970,292	(9,790,344)
TOTAL NET POSITION	31,238,780	33,463,046	64,701,826
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 50,913,484	$ 39,362,706	$ 90,276,190

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, 2016

	Water	Sewer	Total
OPERATING REVENUES			
Service charges	$ 9,702,400	$ 3,836,880	$ 13,539,280
Other revenue	103,600	339,003	442,603
Total Operating Revenues	9,806,000	4,175,883	13,981,883
OPERATING EXPENSES			
Supply and pumping	741,848	-	741,848
Collection	-	876,445	876,445
Treatment	2,187,543	829,456	3,016,999
Transmission and distribution	1,328,871	-	1,328,871
Disposal	-	198,526	198,526
Customer services	123,415	37,269	160,684
Administration and general	5,345,732	2,444,917	7,790,649
Depreciation	2,076,931	939,457	3,016,388
Total Operating Expenses	11,804,340	5,326,070	17,130,410
Net (Loss) From Operations	(1,998,340)	(1,150,187)	(3,148,527)
NONOPERATING REVENUES (EXPENSES)			
Property taxes	712,770	226,121	938,891
Debt service recovery charges	409,362	-	409,362
Investment income	-	96,547	96,547
Other income	58,791	793	59,584
Gain (loss) on property and equipment	7,287	4,743	12,030
Interest expense	(156,097)	(51,214)	(207,311)
Total Nonoperating Revenues (Expenses)	1,032,113	276,990	1,309,103
Net (Loss) Before Capital Contributions	(966,227)	(873,197)	(1,839,424)
CAPITAL CONTRIBUTIONS			
Capital grants	320,554	1,420,000	1,740,554
Contributed capital	1,272,072	-	1,272,072
Facilities capital charges	419,627	783,512	1,203,139
Total Capital Contributions	2,012,253	2,203,512	4,215,765
Change in Net Position	1,046,026	1,330,315	2,376,341
Net Position, Beginning of Year	30,192,754	32,132,731	62,325,485
Net Position, End of Year	$ 31,238,780	$ 33,463,046	$ 64,701,826

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

Tuolumne Utilities District
Statement of Cash Flows
For the Year Ended June 30, 2016

	Water	Sewer	Total
OPERATING ACTIVITIES			
Receipts from customers and users	$ 9,512,854	$ 4,135,300	$ 13,648,154
Payments to employees and benefit providers	(6,110,389)	(2,686,933)	(8,797,322)
Payments to suppliers for goods and services	(2,466,495)	(1,106,320)	(3,572,815)
Cash Provided by Operating Activities	935,970	342,047	1,278,017
NONCAPITAL FINANCING ACTIVITIES			
Property taxes and assessments received	712,302	269,933	982,235
Receipts from customers for debt recovery	409,362	-	409,362
Other income	58,791	793	59,584
Cash received from (paid to) other funds	(847,198)	847,198	-
Receipts from other governments	62,230	-	62,230
Cash Provided by Noncapital Financing Activities	395,487	1,117,924	1,513,411
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(552,829)	(1,917,660)	(2,470,489)
Proceeds from disposal of capital assets	7,287	4,743	12,030
Principal paid on long term debt	(529,667)	(194,406)	(724,073)
Receipts from other governments - capital grants	155,986	1,382,859	1,538,845
Receipts from developers - contributed capital	4,463	-	4,463
Receipts from customers and users - facility fees	419,627	723,725	1,143,352
Interest paid on long-term debt	(158,632)	(53,137)	(211,769)
Cash Used by Capital and Related Financing Activities	(653,765)	(53,876)	(707,641)
INVESTING ACTIVITIES			
Investment interest earnings	5,294	82,468	87,762
Cash Provided by Investing Activities	5,294	82,468	87,762
Net Increase in Cash and Investments	682,986	1,488,563	2,171,549
Cash and Investments, Beginning of Year	869,467	10,229,612	11,099,079
Cash and Investments, End of Year	$ 1,552,453	$ 11,718,175	$ 13,270,628
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION			
Cash and investments unrestricted	$ 531,252	$ 872,634	$ 1,403,886
Cash and investments restricted	1,021,601	10,845,541	11,867,142
Total cash and investments	$ 1,552,853	$ 11,718,175	$ 13,271,028
RECONCILIATION OF NET (LOSS) FROM OPERATIONS TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net (Loss) From Operations	$ (1,998,340)	$ (1,150,187)	$ (3,148,527)
Depreciation	2,076,931	939,457	3,016,388
Change in net pension liability and related deferred inflows (outflows)	481,520	210,019	691,539
(Increase) decrease in operating assets			
Accounts receivable	(363,526)	(46,809)	(410,335)
Miscellaneous receivables	57,449	89	57,538
Prepaid expenses	170,160	72,925	243,085
Inventory	3,870	1,659	5,529
Increase (decrease) in operating liabilities			
Accounts payable & accrued expenses	(93,527)	59,213	(34,314)
Payroll payable	27,849	9,263	37,112
Deposits payable	12,931	6,137	19,068
Other postemployment benefit obligations	454,276	194,691	648,967
Compensated absences	106,377	45,590	151,967
Net Cash Provided (Used) by Operating Activities	$ 935,970	$ 342,047	$ 1,278,017
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Donated infrastructure	$ 1,267,608	$ -	$ 1,267,608

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

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Notes to the Basic Financial Statements

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Notes to the Basic Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting

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

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

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

C. Cash and Cash Equivalents

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

D. Restricted Assets

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

E. Receivables

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

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

F. Inventory

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

G. Prepaid expenses

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

H. Capital Assets

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

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

I. Compensated Absences

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

J. Use of Estimates

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

K. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the District's pension plans under GASB 68 as described in Note 6.

L. 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	$ 1,403,886
Restricted cash and investments	11,867,142
Total cash and investments	$ 13,271,028

Cash and investments as of June 30, 2016 consist of the following:	
Cash on hand	$ 425
Deposits with financial institutions	781,950
Local Agency Investment Fund (LAIF)	12,261,052
Held by bond trustee:	
Deposits with financial institutions	
Money Market mutual funds	154,293
Total cash and investments	73,308
	$ 13,271,028

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	Total
Money market funds	$ 73,308	$ 73,308
Local Agency Investment Fund	12,261,052	$ 12,261,052
Total investments	$ 12,334,360	12,334,360
Cash in bank and on hand		736,668
Total cash and investments		$ 13,071,028

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, 2016 for each investment type:

Investment Type	Minimum Rating	Ratings as of Year End AAA	Not Rated	Total
Local Agency Investment Fund	N/A	$ -	$ 12,261,052	$ 12,261,052
Held by bond trustee:				
Money market mutual fund	AAA	73,308	-	73,308
Total investments		$ 73,308	$ 12,261,052	$ 12,334,360

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, 2016, the carrying amounts of the District's deposits were $936,243 and the balances in financial institutions were $984,947. Of the balance in financial institutions, $404,293 was covered by federal depository insurance and $580,654 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 $75,442,588,513 managed by the State Treasurer. Of that amount, 2.81% 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. There are no restrictions or limitations on withdrawals from LAIF.

NOTE 3 – Capital Assets

Changes in capital assets accounts for the year ended June 30, 2016 are summarized below:

	Balance July 1, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Capital assets, not being depreciated:					
Land	$ 5,060,955	$ -	$ -	$ -	$ 5,060,955
Construction in progress	347,877	2,185,745	-	(2,024,840)	508,782
Total capital assets, not being depreciated	5,408,832	2,185,745	-	(2,024,840)	5,569,737
Capital assets, being depreciated					
Water utility system - infrastructure	68,454,610	1,411,123	(972,471)	222,935	69,116,197
Sewer utility system - infrastructure	36,818,469	57,413	(227,803)	1,784,394	38,432,473
Buildings - administration	3,785,404	-	(5,298)	-	3,780,106
Equipment and machinery	7,299,094	83,815	(848,074)	17,511	6,552,347
Total capital assets, being depreciated	116,357,577	1,552,351	(2,053,646)	2,024,840	117,881,122
Accumulated depreciation					
Water utility system - infrastructure	(27,815,133)	(1,806,771)	972,471	-	(28,649,433)
Sewer utility system - infrastructure	(20,141,787)	(814,443)	227,803	-	(20,728,426)
Buildings - administration	(1,465,423)	(93,575)	5,298	-	(1,553,700)
Equipment and machinery	(5,655,186)	(301,599)	848,074	-	(5,108,711)
Total accumulated depreciation	(55,077,530)	(3,016,388)	2,053,646	-	(56,040,270)
Capital assets, being depreciated, net	61,280,048	(1,464,036)	-	2,024,840	61,840,852
Total capital assets, net	$ 66,688,880	$ 721,709	$ -	$ -	$ 67,410,589

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, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Special Assessment Bonds					
1984 Clean Water Assessment District	$ 333,097	$ -	$ (46,000)	$ 287,097	$ -
Certificates of Participation					
1991 COP	744,000	-	(29,000)	715,000	31,000
Loans Payable					
2007 LaSalle	692,184	-	(85,304)	606,880	89,473
2005 LaSalle	538,049	-	(97,751)	440,298	102,449
2005 SDWSRF	23,282	-	(2,451)	20,831	1,225
1996 SDWR	30,569	-	(5,136)	25,433	5,319
1996 LaSalle	503,151	-	(330,131)	173,020	173,020
1991 SDWR	44,465	-	(6,803)	37,662	7,039
1987 SDWR	9,801	-	(2,658)	7,143	2,770
1978 USDA	8,172	-	(8,172)	-	
2008 SDWSRF	401,161	-	(16,714)	384,447	8,358
2011 SDWSRF	997,005	-	(46,827)	950,178	23,820
2012 SDWSRF - Loan Advance	1,184,698	-	(47,126)	1,137,572	24,027
Total Long-Term Debt	$ 5,509,634	$ -	$ (724,073)	$ 4,785,561	$ 468,500

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 $73,308 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%. The loan was paid off on November 25, 2015.

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, 2015, 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, 2016 are as follows:

Years ending June 30,	Principal	Interest	Total
2017	$ 468,500	$ 129,940	$ 598,440
2018	417,406	141,029	558,435
2019	429,455	123,933	553,388
2020	443,951	106,328	550,279
2021	335,816	89,382	425,198
2022-2026	1,077,931	303,774	1,381,705
2027-2031	1,019,332	150,139	1,169,471
2032-2036	534,666	22,400	557,066
2037-2040	58,504	-	58,504
	$ 4,785,561	$ 1,066,925	$ 5,852,486

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, 2016.

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 25% of net revenues for water systems and 48% net revenues for sewer systems. Total principal and interest remaining to be paid on the debts was $4,360,622 at June 30, 2016.

Cash basis debt service paid during the year ended June 30, 2016 total $688,299 and $247,543 for water and sewer systems, respectively. Total water and sewer system net revenues calculated in accordance with the covenants were $1,712,244 and $316,272, respectively, at June 30, 2016.

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, 2016, are summarized as follows:

	Miscellaneous		
	First Level	Second Level	PEPRA
Hire date	Prior to November 16, 2012	November 16, 2012 to January 1, 2013	On or after January 1, 2013
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 - 63	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%

In addition to the contribution rates above, the District was also required to make a payment of $697,019 toward its unfunded actuarial liability during the year ended June 30, 2016.

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, 2016, the contributions recognized as part of pension expense were as follows:

	Miscellaneous			
	First Level	Second Level	PEPRA	Total
Contributions - employer	$ 1,152,754	$ 14,263	$ 50,488	$ 1,217,505

B. Net Pension Liability

As of June 30, 2016, 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	$ 9,464,965
Miscellaneous Second Level Plan	(174)
PEPRA Miscellaneous Plan	(484)
Total Net Pension Liability	$ 9,464,307

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, 2015, 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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows:

	Miscellaneous		
	First Level	Second Level	PEPRA
Proportion - June 30, 2014	0.317245%	0.000033%	0.000000%
Proportion - June 30, 2015	0.345000%	-0.000006%	-0.000018%
Change - Increase (Decrease)	0.027755%	-0.000039%	-0.000018%

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions for all Plans:

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.65% (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, 2014 valuation were based on the results of a January 2015 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 7.65% 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 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% 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 68 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The discount rate was changed form 7.50% (net of administration expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

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. The target allocation shown was adopted by the CalPERS Board effective July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	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 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

Discount Rate - 1% (6.65%)
Net Pension Liability $15,872,304

Current Discount Rate (7.65%)
Net Pension Liability $9,464,307

Discount Rate + 1% (8.65%)
Net Pension Liability $4,173,762

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, 2016, the District recorded pension expense of $2,047,015 for all cost sharing Plans combined. At June 30, 2016, 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	$ 1,218,752	$ -
Differences between expected and actual experience	75,457	-
Changes of assumptions	-	(713,898)
Net difference between projected and actual earnings on pension plan investments	-	(357,886)
Adjustments due to differences in proportions	-	(168,067)
Difference between actual and allocated contribution	142,511	-
Total	$ 1,436,720	$ (1,239,851)

The $1,218,752 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, 2017. 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	
2017	$ (486,479)
2018	$ (499,048)
2019	$ (493,820)
2020	$ 457,464
2021	$ -
Thereafter	$ -
	$ (1,021,883)

E. Payables to the Pensions Plans

At June 30, 2016, 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, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Vacation	$ 399,465	$ 97,659	$ (41,158)	$ 455,966	$ 41,158
Sick leave	601,883	138,436	(41,949)	698,370	41,949
Comp time	14,964	26,610	(27,631)	13,943	13,943
	$ 1,016,312	$ 262,705	$ (110,738)	$ 1,168,279	$ 97,050

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, 2016, the District made health insurance premium payments on behalf of retirees of $586,262 and a contribution towards the unfunded liability in the amount of $197,771. 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, 2016, the amount actually contributed to the Plan, and changes in the District's Net OPEB obligation:

	2016
Annual required contribution end of year	$ 1,519
Interest on net OPEB obligation	151
Adjustment to annual required contribution	(237)
Annual OPEB cost (expense)	1,433
Contributions made including credited interest	(784)
Increase in net OPEB obligations	649
Net OPE obligation, beginning of period	3,127
Net OPE obligation, end of period	$ 3,776

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, 2014	$1,694	$497	29.3%	$2,282
June 30, 2015	$1,415	$570	40.3%	$3,127
June 30, 2016	$1,433	$784	54.7%	$3,776

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2015, from the Plan's most recent actuarial valuation and the two 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, 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%
June 30, 2015	$16,181	$4,841	$11,340	29.9%	$4,459	254.3%

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, 2015 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 4.5% to 7.25% investment rate of return, inflation rate of 3%, healthcare premium increases starting at 7.2% 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, 2015 was 16 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, 2016 consisted of $10 million for general liability, public officials and employees’ errors, employment practices liability and auto liability. In addition, the District has property coverage of $1 billion and boiler and machinery coverage of $100 million.

NOTE 10 – 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 11 – 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 at the LAIF interest rates.

Since 2011 the District has significantly reduced its annual capital expenditures as well as some operational expenses. This, combined with rate increases, has reduced the negative water fund cash balance in four of the last five years, with a current balance of $4,446,471. Management is continuing its process of implementing the proposed strategy to repay the balance due as soon as possible.

NOTE 12 – Commitments and Contingencies

Contract Commitments

On June 14, 2016, the District awarded a contract for the 2016 Districtwide HMA Trench Paving Project in the amount of $127,300. The project is expected to be completed within the 2017 fiscal year.

On June 28, 2016, the District approved the purchasing and financing of a Vac-Con Hydro Excavator in the amount of $417,972 with a five-year lease-purchase agreement at 2.06% interest through Wells Fargo Bank. Delivery of the equipment is anticipated to be by October 2016.

On July 12, 2016, the District awarded a contract for the Gold Springs Sewer Replacement Project in the amount of $673,238. The project is expected to be completed within the 2017 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 13 – New Accounting Standards

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 the year ended June 30, 2018 and will result in a significant increase in the District’s liabilities.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). GASB 79 addresses accounting and financial reporting for certain external pools and pool participants and establishes criteria for an external pool to qualify for making an election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for the year ending June 30, 2016.

In June 2015, the GASB issued Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for the year ended June 30, 2017.

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Required Supplementary Information

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Tuolumne Utilities District
Required Supplementary Information
For the Year Ended June 30, 2016

Schedule of the Proportionate Share of the Net Pension Liability - Miscellaneous First Level Plan

Last 10 Years*

	2016	2015
Proportion of the net pension liability	0.345%	0.12601%
Proportionate share of the net pension liability	$ 9,464,965	$ 7,540,655
Covered-employee payroll - measurement period	$ 4,370,879	$ 4,572,177
Proportionate share of the net pension liability as percentage of covered-employee payroll	216.55%	171.49%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Schedule of Contributions to the Pension Plan - Miscellaneous First Level Plan

	2016	2015
Actuarially determined contributions	$ 1,152,754	$ 1,146,729
Contributions in relation to the actuarially determined contributions	$ (1,152,754)	$ (1,146,729)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll - fiscal year	$ 4,158,939	$ 4,370,879
Contributions as a percentage of covered-employee payroll	27.72%	26.24%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:		
Valuation date	June 30, 2013	June 30, 2012
Actuarial cost method	Entry age normal cost method	
Amortization method	Level percent of payroll	
Asset valuation method	Market value	
Actuarial assumptions:	7.50%	7.50%
Discount rate	3.30% to 14.20%	
Projected salary increases	2.75%	2.75%
Inflation	3.00%	3.00%
Payroll growth		

* Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015.
No information was available prior to this date.

Tuolumne Utilities District
Required Supplementary Information
For the Year Ended June 30, 2016

Schedule of the Proportionate Share of the Net Pension Liability - Miscellaneous Second Level Plan

Last 10 Years*

	2016	2015
Proportion of the net pension liability	-0.00001%	-0.00001%
Proportionate share of the net pension liability	$ (174)	$ 806
Covered-employee payroll - measurement period	$ 46,912	$ 38,228
Proportionate share of the net pension liability as percentage of covered-employee payroll	-0.37%	2.11%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	79.82%

Schedule of Contributions to the Pension Plan - Miscellaneous Second Level Plan

	2016	2015
Actuarially determined contributions	$ 14,263	$ 5,405
Contributions in relation to the actuarially determined contributions	$ (14,263)	$ (5,405)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll - fiscal year	$ 167,559	$ 46,912
Contributions as a percentage of covered-employee payroll	8.51%	11.52%

Notes to Schedule:		
Methods and assumptions used to determine contribution rates:		
Valuation date	June 30, 2013	June 30, 2012
Actuarial cost method	Entry age normal cost method	
Amortization method	Level percent of payroll	
Asset valuation method	Market value	
Actuarial assumptions:	7.50%	7.50%
Discount rate	3.30% to 14.20%	
Projected salary increases	2.75%	2.75%
Inflation	3.00%	3.00%
Payroll growth		

* Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

Tuolumne Utilities District
Required Supplementary Information
For the Year Ended June 30, 2016

Schedule of the Proportionate Share of the Net Pension Liability - PEPRA Miscellaneous Plan

Last 10 Years*

	2016	2015
Proportion of the net pension liability	0.00002%	
Proportionate share of the net pension liability	$ (484)	
Covered-employee payroll - measurement period	$ 403,004	
Proportionate share of the net pension liability as percentage of covered-employee payroll	-0.12%	
Plan fiduciary net position as a percentage of the total pension liability	78.40%	

Schedule of Contributions to the Pension Plan - PEPRA Miscellaneous Plan

	2016	2015
Actuarially determined contributions	$ 50,488	$ 25,590
Contributions in relation to the actuarially determined contributions	$ (50,488)	$ (25,590)
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll - fiscal year	$ 809,380	$ 403,004
Contributions as a percentage of covered-employee payroll	6.24%	6.35%

Notes to Schedule:		
Methods and assumptions used to determine contribution rates:		
Valuation date	June 30, 2013	June 30, 2012
Actuarial cost method	Entry age normal cost method	
Amortization method	Level percent of payroll	
Asset valuation method	Market value	
Actuarial assumptions:	7.50%	7.50%
Discount rate	3.30% to 14.20%	
Projected salary increases	2.75%	2.75%
Inflation	3.00%	3.00%
Payroll growth		

* Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015.
The 2015 net pension liability amounts were not provided for the PEPRA Miscellaneous Plan.
No information was available prior to this date.

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Compliance Reports

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

To the Board of Directors
Tuolumne Utilities District
Sonora, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tuolumne Utilities District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Richardson & Company, LLP

September 20, 2016

RICHARDSON & COMPANY LLP
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors
Tuolumne Utilities District
Sonora, California

Report on Compliance for Each Major Federal Program

We have audited Tuolumne Utilities District's (the District) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

To the Board of Directors
Tuolumne Utilities District

Report on Internal Control Over Compliance

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

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

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

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

Richardson & Company, LLP

September 20, 2016

TUOLUMNE UTILITIES DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor, Program Title	Federal C.F.D.A. Number	Program or Award Amount	Federal Assistance Expended
U.S. Department of Housing and Urban Development			
Passed through California Department of Housing and Community Development and Tuolumne County:			
Community Development Block Grants/Small Cities Program	14.219	$ 1,420,000	$ 1,420,000
TOTAL FEDERAL AWARDS		$ 1,420,000	$ 1,420,000

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Tuolumne Utilities District (the District) and is presented on the same accrual basis as the basic financial statements and in accordance with the requirements of the Uniform Guidance.

TUOLUMNE UTILITIES DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued:	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Reportable condition(s) identified that are not considered to be material weaknesses?	None noted
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	None noted
2. Type of auditor's report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No
4. Identification of major programs:	

CFDA Numbers	Name of Federal Program
14.219	Community Development Block Grants/Small Cities Program

5. Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
6. Auditee qualified as low-risk auditee under 2 CFR Section 200.516(a)?	No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. PRIOR YEAR FINDINGS

None