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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# TOWN OF TRUCKEE, CALIFORNIA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This discussion and analysis of the Town of Truckee's (Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the accompanying basic financial statements and the notes to the financial statements.

### **FINANCIAL HIGHLIGHTS**

The Town's government-wide total assets exceeded liabilities (net position) at the close of the fiscal year by \$180.6 million. Of this amount, \$41.6 million is in unrestricted net position, which is available to meet the Town's ongoing commitments to citizens and creditors.

The Town's governmental activities ended the year with total net position of \$179.0 million. Of this balance, \$40.4 million is unrestricted and available for spending at the Town's discretion.

The Town's General Fund ended the year with a fund balance of \$21.0 million. The non-spendable balance of \$0.5 million is for the Town's public works inventory on hand. The restricted balance is \$0.1 million. The assigned balance of \$13.0 million is designated for various contingencies and future capital needs and \$7.4 million is unassigned and available for spending at the Town's discretion.

Construction of a Town Animal Shelter was begun during fiscal 2012. The Shelter was a joint project with the Humane Society of Truckee-Tahoe. Construction was completed in September of 2013 and the grand opening of the building held on September 27, 2013. Other projects completed in fiscal 2014 include the first phase of the Glenshire Drive reconstruction and the Bridge Street At-Grade Railroad Pedestrian Crossing project. Projects in-process at year end include the Brickelltown Streetscape project, the 2014 Paving Project, phase two of Glenshire Drive reconstruction, the SR89/UPRR underpass (Mousehole), and the Trout Creek Trail. The third phase of the Truckee River Legacy trail connects the Truckee River Regional Park to Glenshire. The grand opening of the legacy trail, a multi-year project, was on August 8, 2014.

On December 29, 2011 the California Supreme Court upheld Assembly Bill 1x26 that provides for the dissolution of all redevelopment agencies in the State effective February 1, 2012. Assets of the former redevelopment agency were transferred to a fiduciary fund as of that date and reported as an extraordinary gain. As of fiscal 2011-12, the Town no longer reported the activities of the Agency as a component unit in its financial statements.

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

This annual report consists of a series of financial statements. These statements include all activities of the Town of Truckee using the integrated approach as prescribed by GASB Statement No. 34. The Statement of Net Position and Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements tell how these services are financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

### **GOVERNMENT- WIDE STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances. These statements include all assets and liabilities of the Town using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received.

The Statement of Net Position presents information on all the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as one indicator of whether the Town's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed in the most recent fiscal year. All changes of net position are reported as soon as the underlying event giving rise to the

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change occurs. Thus, revenues and expenses are reported on this statement for some items that will result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The government-wide financial statements of the Town are divided as follows:

**Governmental Activities:** Most of the Town's basic services are included here such as public safety, public works (snow removal, streets and roads), community development, facilities and general government. These services are primarily financed by property and sales taxes, federal and state grants, and development fees.

**Business-type Activities:** The Town charges fees to customers to cover the costs of services provided. The Town's solid waste removal service, parking, building & safety and transit services are included in business-type activities.

The government-wide financial statements can be found on pages 15, 16 and 17 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Since the resources of these funds are not available to support the Town's own programs, they are not reflected in the government-wide financial statements. The Statement of Fiduciary Net Position is on page 34 and includes the assets and liabilities of the Truckee Redevelopment Successor Agency formed in accordance with State law requiring the dissolution of redevelopment agencies.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Town's most significant funds, not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State Law or by bond covenants. Management establishes other funds to control and manage money for particular purposes or to show the Town is meeting legal responsibilities for using certain taxes, grants, and other money. All the funds of the Town can be classified into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliations between governmental funds and governmental activities. These reconciliations explain the relationship (or differences) between the fund statements and the government-wide statements. The basic governmental fund financial statements can be found on pages 19-27.

**Proprietary Funds.** The Town utilizes enterprise funds (one type of proprietary fund) to account for those activities that are supported primarily by user charges to external users, specifically solid waste removal service, parking, building & safety, and transit services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Parking, Solid Waste, Transit and Building & Safety divisions. The basic proprietary fund financial statements can be found on pages 28-33.

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**Fiduciary Funds.** The Town utilizes fiduciary funds to account for resources held for the benefit of parties outside the Town. The Statement of Fiduciary Net Position is on page 34 and includes the assets and liabilities of the Truckee Redevelopment Successor Agency formed in accordance with State law requiring the dissolution of redevelopment agencies.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund statements. The notes to the financial statements can be found on pages 39-65.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

Below is a table showing the Town's net position for the fiscal year ended June 30, 2014.

	Governmental Activities		Business-type Activities		Total Activities		Total Percentage Change
	2013	2014	2013	2014	2013	2014	
Current and other assets	\$ 66,085	\$ 68,731	\$ 877	\$ 1,831	\$ 66,963	\$ 70,562	5%
Capital assets	118,493	123,407	443	421	118,935	123,828	4%
<b>Total assets</b>	<b>184,578</b>	<b>192,138</b>	<b>1,320</b>	<b>2,252</b>	<b>185,898</b>	<b>194,390</b>	5%
Current Liabilities	2,947	3,057	305	578	3,253	3,635	12%
Long-term debt outstanding	10,283	10,037	63	97	10,345	10,134	-2%
<b>Total liabilities</b>	<b>13,229</b>	<b>13,094</b>	<b>368</b>	<b>675</b>	<b>13,597</b>	<b>13,769</b>	
Net position							
Invested in capital assets net of related debt	108,914	113,973	443	421	109,357	114,394	5%
Restricted	26,460	24,674	-	-	26,460	24,674	-7%
Unrestricted	35,975	40,397	509	1,156	36,485	41,553	14%
<b>Total net position</b>	<b>\$ 171,349</b>	<b>\$ 179,044</b>	<b>\$ 952</b>	<b>\$ 1,577</b>	<b>\$ 172,301</b>	<b>\$ 180,621</b>	

As of June 30, 2014, the Town's government-wide total assets exceeded liabilities (net position) by \$180.6 million. Governmental activities finished the year with a positive net position balance of \$179.0 million. Business type activities finished the year with a positive balance of \$1.6 million. Net position as noted earlier may serve over time as a useful indicator of the Town's financial position.

Of the total net position, \$114.0 million is the Town's investment in capital assets (e.g. land, buildings and improvements, machinery and equipment and the road network) less any related debt used to acquire those assets that is still outstanding. Significant projects completed in fiscal 2014 included Phase 1 of the Glenshire Drive reconstruction, completion and grand opening of the Town Animal Shelter, the Bridge Street At-grade Pedestrian Railroad Crossing and the 2014 Slurry Seal project.

The Town's long-term liabilities include debt incurred to acquire the Town's administrative facility, debt issued in 2009 to pay for the land purchased for the Public Service Facility and compensated absences payable. The proceeds of the debt issued for the administrative facility and land for the public service facility are utilized to provide services to citizens and are not available for future spending. The repayment of the debt on the general fund assets must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. See Note 3 D for debt schedules.

Restricted net position amounts to \$24.7 million or 13.7% of total net position. Restricted net position represents those resources that are subject to external restrictions on how they may be used. These restrictions are established by bond covenants or restrictions on the use of funds by state or federal regulations.

Unrestricted net position represents those resources which may be used to meet the Town's ongoing commitments to citizens and creditors. Government-wide unrestricted net position is \$41.6 million or 23% of the total net position. Governmental activities account for \$40.4 million or 97.2% of the total unrestricted net

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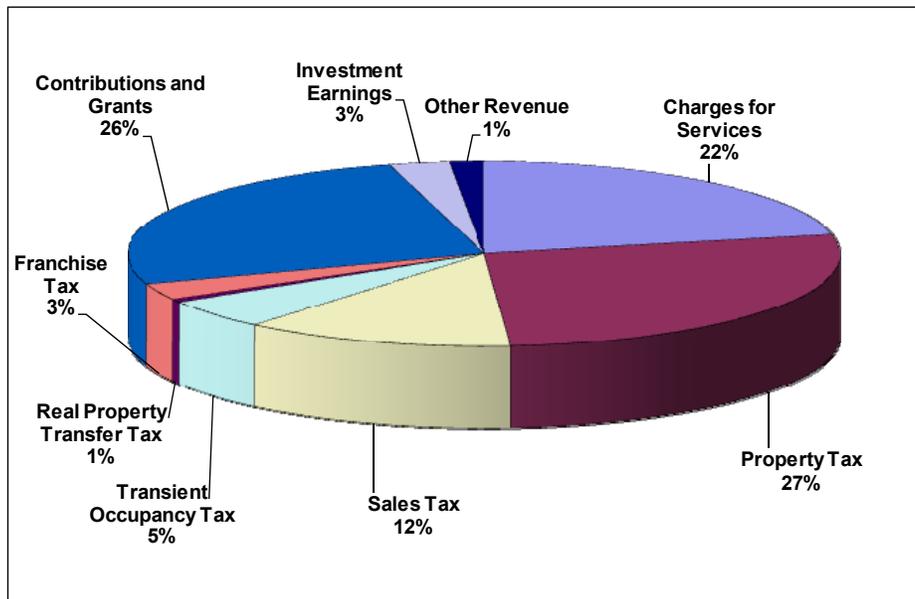
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position. Business-type activities account for \$1.2 million or 2.8% of the total. The Town can use unrestricted net position of the solid waste, parking, building & safety and transit funds to finance their continuing operations.

**GOVERNMENTAL ACTIVITIES**

The following lists key components of net position and highlights the changes between fiscal 2013 and fiscal 2014 for both Governmental Activities and Business-type Activities:

Town of Truckee Changes in Net Position <i>(in thousands of dollars)</i>							
	Governmental Activities		Business-type Activities		Total Activities		Total Percentage Change
	2013	2014	2013	2014	2013	2014	
<b>Revenues</b>							
<i>Program Revenues</i>							
Charges for services	\$ 2,389	\$ 2,617	\$ 4,643	\$ 5,127	\$ 7,034	\$ 7,744	10%
Operating grants and contributions	2,165	2,170	564	659	2,729	\$ 2,829	4%
Capital grants and contributions	4,888	5,102	-	-	4,888	\$ 5,102	4%
<i>General Revenues</i>							
Property taxes	9,516	9,621	-	-	9,516	\$ 9,621	1%
Sales taxes	4,101	4,372	-	-	4,101	\$ 4,372	7%
Transient occupancy tax	1,718	1,843	-	-	1,718	\$ 1,843	7%
Other taxes	1,148	1,212	-	-	1,148	\$ 1,212	6%
Interest and contributed capital	1,956	956	2	5	1,958	\$ 961	-51%
Other revenue	1,694	1,795	72	78	1,766	\$ 1,873	6%
<b>Total revenues</b>	<b>\$ 29,576</b>	<b>\$ 29,688</b>	<b>\$ 5,281</b>	<b>\$ 5,869</b>	<b>\$ 34,857</b>	<b>\$ 35,557</b>	



Total governmental revenues for the year were \$29.7 million, an increase of \$.1 million or .3% when compared to 2013. Revenues from charges for services increased \$.2 million or 9.5% when compared to 2013 and in 2014 the Town received \$7.3 million in operating and capital grants and contributions compared with \$7.1 million in 2013. An overall tax revenue increase of \$.57 million or 3.4% was driven by increased property values, increased sales tax receipts and increased transient occupancy tax. Property tax revenue, the Town’s largest revenue source, had an increase of 1.1% compared with 2013. Sales taxes had a 7% increase compared with 2013, indicating continued recovery in all types of sales. Transient occupancy tax revenues significantly increased for a second year in a row, with the highest collection year in the Town’s history. Taxes, which include property, sales, and other taxes account for \$17.0 million or 57.4% of the Town’s

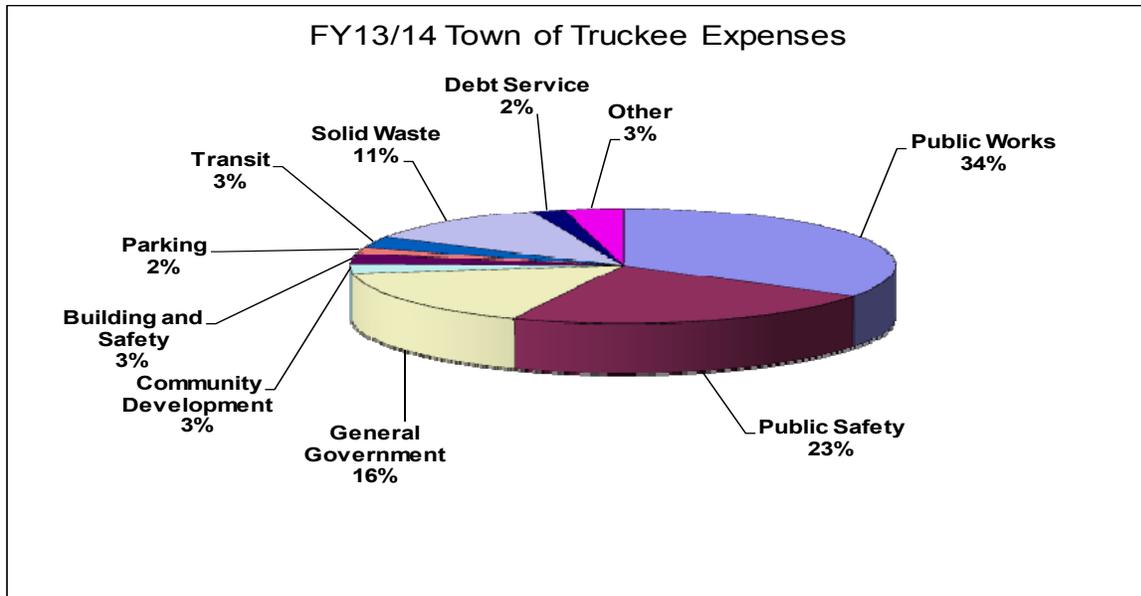
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governmental activities revenue. Without capital grants, taxes would be 76.1% of the Town’s governmental activities revenue. The Town accepted multiple roads in fiscal 2013 and none in fiscal 2014, this is reflected above as a reduction in revenues from interest and contributed capital, this 51% decrease was more than offset by the increases noted above.

	Governmental Activities		Business-type Activities		Total Activities		Total Percentage Change
	2013	2014	2013	2014	2013	2014	
<b>Expenses</b>							
General government	\$ 3,465	\$ 4,401	\$ -	\$ -	\$ 3,465	\$ 4,401	27%
Public safety	5,915	6,109	-	-	5,915	6,109	3%
Public works	10,426	9,213	-	-	10,426	9,213	-12%
Community development	730	705	-	-	730	705	-3%
Transit	-	-	802	861	802	861	7%
Solid Waste	-	-	2,923	3,069	2,923	3,069	5%
Building & Safety	-	-	792	821	792	821	4%
Parking	-	-	431	427	431	427	-1%
Interest on long-term debt	537	518	-	-	537	518	-4%
Other	917	955	-	-	917	955	4%
<b>Total expenses</b>	<b>21,991</b>	<b>21,901</b>	<b>4,948</b>	<b>5,178</b>	<b>26,939</b>	<b>27,079</b>	
<b>Excess (deficiency) before transfers</b>	<b>7,584</b>	<b>7,787</b>	<b>334</b>	<b>691</b>	<b>7,918</b>	<b>8,478</b>	
Transfers	19	65	(19)	(65)	-	-	
Extraordinary Items	(245)	-	-	-	(245)	-	
<b>Increase (decrease) in net position</b>	<b>\$ 7,358</b>	<b>\$ 7,852</b>	<b>\$ 315</b>	<b>\$ 626</b>	<b>\$ 7,673</b>	<b>\$ 8,478</b>	



Total governmental expenses for the year were \$21.9 million as compared to \$22.0 million in 2013, a .4% decrease. The most significant changes from 2013 were higher general government expenditures, including increased funding for the Truckee Donner Chamber of Commerce (due to increased transient occupancy tax revenues), a Town staff compensation and classification study, normalized property tax collection costs (fiscal 2013 costs were reduced due to a settlement with Nevada County) and an increase in expenditures for Town projects including Trout Creek Restoration and selection costs for a new Town wide enterprise resource system. Other increases were due to Town staff reorganization to support exploration of economic development in Truckee that shifted personnel expenditures into General Government from other Town functions. The noted increases in general government expenditures were more than offset by reduced public works costs driven by lower snow removal costs due to the mild winter.

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### BUSINESS-TYPE ACTIVITIES

Business-type activities account for a total increase in net position of \$0.63 million to \$1.58 million or .9% of the total Government-wide net position. The increase in net position is the result of a 10% increase in charges for services in the parking, solid waste, and building & safety funds. Due to cost controls and an increase in permit revenues, building and safety's revenues exceeded expenses by \$.59 million and the fund built on the positive net position gained in fiscal 2013. Solid waste revenue increased 4.6% compared to 2013 due to budgeted rate increases for enhancements in service.

### FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The ending fund balance for all funds is \$45.6 million. Of the Town's governmental funds all but the capital projects fund ended the year with positive fund balance. The negative balance in the capital projects fund was due to uncollected grant revenues for grant expenditures in the fiscal year, see note 2.A on page 48 on the financials statements. Of the total fund balance, \$7.4 million or 16% is unassigned, which is available for spending at the Town's discretion. See the notes to the financial statements, note 1.N on page 45. for more in-depth discussion of the fund balance designations.

The general fund is the chief operating fund of the Town. As of June 30, 2014 the total fund balance of the general fund was \$21.0 million with \$.5 million in non-spendable inventory, \$105,000 restricted for self-insurance, and \$20.4 million in assigned/unassigned funds for contingencies, equipment replacement, facilities construction, long-term road maintenance, economic development and capital projects.

Total governmental revenues, excluding other financing sources/uses, exceeded expenditures by \$75,994. A combination of higher than expected sales and transient occupancy tax revenues and savings in the public works department as a result of a low snow year offset increases in general government expenditures for economic development, a home loan to the Chief of Police, increased funding for the Truckee Donner Chamber of Commerce and normalized property tax collection fees.

**Proprietary Funds.** The Town's parking, solid waste, building and safety and transit funds ended the year with positive unrestricted net position. The building & safety fund increased the positive net position that was achieved in fiscal 2013.

**Fiduciary Funds.** The Town of Truckee Redevelopment Successor Agency fiduciary fund incurred an extraordinary loss and has a negative net position due to the transfer of assets and liabilities from the former Redevelopment Agency in fiscal 2012. In March 2012, GASB issued Statement number 65, Items Previously Reported as Assets and Liabilities. This statement established an alternative treatment of costs of issuance for bond issues that were previously classified as an asset and amortized over the life of the bond. Amounts previously reported as deferred charges assets in fiduciary statements have been removed via a prior period adjustment, see note 8, F for details.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund Budgetary Comparison Schedule is shown on page 69. There were no significant changes to the original budget.

Total actual revenues of \$18.6 million were \$1.1 million higher than budgeted revenues. While fines and forfeitures were lower than budgeted, taxes and assessments, licenses and permits, intergovernmental revenues, use of money and property, other revenues and charges for services all exceeded budgeted revenues. Property tax, sales tax, and transient occupancy tax revenues were over budget by a total of \$.7 million and other revenues were over budget by \$.2 million primarily due to accelerated loan repayments.

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Actual expenditures were lower than budgeted expenditures as a result of budgetary savings, primarily due to lower than budgeted snow activity during the winter season, unfilled police positions, and deferral of capital project costs into later years. The savings noted above was partially offset by increased general government expenditures from the addition of the economic development department and a loan to the Chief of Police for the purchase of a home within Truckee Town limits.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$123.4 million (net of depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and the road network.

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2013	2014	2013	2014	2013	2014	
Right of way	\$ 44,993	\$ 44,993	\$ -	\$ -	\$ 44,993	\$ 44,993	0.0%
Land	6,960	6,960	-	-	6,960	6,960	0.0%
Construction in progress	11,425	10,867	-	-	11,425	10,867	-4.9%
Buildings and improvements	21,435	25,996	285	267	21,719	26,263	20.9%
Equipment	5,629	6,838	158	154	5,787	6,992	20.8%
Infrastructure	28,049	27,753	-	-	28,049	27,753	-1.1%
<b>TOTALS</b>	<b>\$ 118,492</b>	<b>\$ 123,407</b>	<b>\$ 443</b>	<b>\$ 421</b>	<b>\$ 118,933</b>	<b>\$ 123,828</b>	

Major capital asset additions this year were due to the new animal shelter, the first phase of Glenshire Drive Reconstruction and the Bridge St At-Grade Pedestrian Railroad Crossing as well as additions in infrastructure projects still in construction at year end in fiscal 2014, including the Truckee River Legacy Trail, the 2014 Slurry Seal project and the Brockway Road Trail project.

Additional information on the Town's capital assets can be found in note 3 C on pages 52 and 53.

**Long-term Debt.** The Town's long-term debt as of June 30, 2014 was \$10.4 million. The majority of the Town's debt is lease revenue bonds used to acquire the Town's current administrative office facility and land for the Public Service Facility. Additional information on the Town's long-term debt, including business-type activities debt, can be found in note 3 D on pages 53-55.

General obligation debts are direct obligations of the Town and are backed by the full faith and credit of the Town requiring voter approval, and may have a tax rate set to cover repayment. State statutes limit the amount of general obligation debt to 15% of the Town's total assessed valuation which was \$5,236.5 million in fiscal 2014. The Town of Truckee's debt limit is \$785.5 million. The Town currently has no general obligation debt outstanding.

**ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES**

The Town continues to experience slow to moderate residential growth, 2014 growth increased over 2013 and the revenue budget for 2015 was increased compared to the 2014 budget. During the budget process for fiscal 2015 it was estimated that 80 new single-family units would be constructed within the Town, compared with 55 budgeted units and 87 actual units in fiscal 2014. Non-residential growth is estimated to be similar in 2014 when compared to 2013. These factors as well as the changing economy statewide were utilized in developing the Town's revenue estimates.

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General Fund expenditures, excluding debt service, overlay reserve and capital expenditures, were projected to increase approximately 2% compared with 2014 budgeted expenditures. Personnel costs were budgeted in June 2014 to increase 3.0% for the fiscal year 14-15. Subsequent to the completion of the budget, the Town and two of the three employee groups signed new memorandums of understanding implementing the recently completed compensation and classification study. This implementation resulted in a projected 4.09% increase in employee costs. Tier one employees began paying the full employee share (8%) of the CalPERS retirement contribution which was offset by similar pay increases. Tier 2 and 3 employees received modest increases in pay. All employees were placed in appropriate job classifications. Overall service and supply costs are expected to decrease by 3.5% from the 2014 budget due to decreased operating costs in nearly every general fund operating department.

The Town's general fund is budgeted to contribute approximately \$1.2 million to the Town's capital programs, as well as \$750,000 for street overlay maintenance reserve and \$500,000 for Town facilities improvements. It has \$13.0 million in assigned fund balance which includes \$4.8 million (25% of revenues) of general fund balance to be assigned for contingencies and \$4.8 million for long-term road maintenance program, and \$2.7 for economic development infrastructure.

In June 2014 the voters approved a one-quarter cent sales tax add-on ("Measure R") to build and maintain trails within the Town limits. This revenue and related expenditures on trails was not included in the original Town budget. Collections of the revenues began in October 2014 and the Town Council approved budget amendments for these activities in October 2014.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town of Truckee's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Administrative Services Director, Town of Truckee, 10183 Truckee Airport Road, Truckee, CA, 96161-3306.