

TRUCKEE TAHOE AIRPORT DISTRICT POLICY INSTRUCTION

PI NUMBER 309

Formerly PI 213

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SUBJECT: DESIGNATING UNRESTRICTED NET ASSETS

PURPOSE: To establish district policy for designating unrestricted net assets

BACKGROUND:

Net assets are the amount by which the District's assets exceed its liabilities. Net assets may consist of three components: Invested in capital assets, net of related debt, Restricted and Unrestricted. Net assets are restricted when constraints are placed upon them, such as by creditors, or when there exists enabling legislation which includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. The District will restrict the appropriate portion of net assets, if either of those conditions is met. The majority of the District's net assets consist of the other two components: those that are invested in capital assets, and those that are unrestricted.

Accounting standards allow, and prudent fiscal policy demands, that the District evaluate the unrestricted reserves and make designations which reflect tentative plans for resource utilization in future periods. The designations are reflective of Board policy, potential capital improvement projects, forecasted financial results and the District's strategic plan. These designations are internal, and the Board can remove or modify them as required.

Designations of unrestricted net assets are not shown on the face of the financial statements. They are reported in the footnotes to the District's annual financial statements and as a supporting schedule in the monthly financial package. They are also exclusive of amounts actually budgeted for similar items in the current budget.

POLICY:

1. The Truckee Tahoe Airport District Board of Directors recognizes the need to designate Unrestricted Net Assets. The designations establish and confirm the intention of the Board of

Directors to designate working capital for nine future uses: a) debt retirement, b) completing prior year budgeted construction and improvement projects, c) maintenance necessitated by a catastrophic event, d) operating funds, e) the recording of the net pension liability related to the defined benefit pension plan of the District's employees, f) acquisition of land to maintain open space, g) noise abatement and community outreach projects, h) grant eligible capital improvement projects, and i) future non-grant eligible projects. These designations have been stated in order of priority, and each designation should be met before fulfilling the next one.

2. By this Policy Instruction the Directors establish the target designations of Unrestricted Net Assets to accomplish the District's goals. The District recognizes that prudent fiscal management of the funds which have been entrusted to the District calls for annual re-evaluation of the noted designations. The target designation amounts may be adjusted at each fiscal year end to coincide with the planning for the strategic future uses of working capital. At the time of the annual budget, the Board of Directors will review the net asset designations and discuss the effect any budgeted cash shortfall or surplus on them.

3. DESIGNATION OF UNRESTRICTED NET ASSETS FOR DEBT RETIREMENT

- a. The target total of both the Restricted Net Assets for Debt Retirement and the Designation of Unrestricted Net Assets for Debt Retirement will be an amount equal to the total principal payments due during the next five fiscal years.
- b. The Restricted Net Assets for Debt Retirement will equal the amount of Restricted Cash as determined by the loan covenants.
- c. The Designation of Unrestricted Net Assets for Debt Retirement will be equal to the difference between the target total determined in paragraph (a.) above, and the Restricted Net Assets for Debt Retirement.
- d. When new debt is acquired, the increase in the Restricted Net Assets for Debt Retirement and/or the Designation of Unrestricted Net Assets for Debt Retirement may be funded over three years.

4. DESIGNATION OF UNRESTRICTED NET ASSETS FOR COMPLETING PRIOR YEAR CAPITAL PROJECTS

The District undertakes capital improvement projects which frequently take place over more than one fiscal year. Working capital funds need to be set aside to provide for completion of projects in progress.

The target amount for the Designation of Unrestricted Net Assets for Completing Prior Year Capital Projects is the estimate of the cost to complete all budgeted capital improvement projects at each fiscal year end.

5. DESIGNATION OF UNRESTRICTED NET ASSETS FOR HAZMAT SPILL CLEANUP OR OTHER CATASTROPHIC EVENT

The District would like to set aside funds for emergency hazmat spill containment and remediation costs. The target amount for the Designation of Unrestricted Net Assets for

Hazmat Spill Cleanup is \$30,000.

6. DESIGNATION OF UNRESTRICTED NET ASSETS FOR OPERATING FUNDS

The District needs to have sufficient working capital available to pay bills and make payroll on a timely basis. The District's greatest exposure to having insufficient working capital would be in the event the Counties did not remit the property taxes on a timely basis. Currently sixty percent (60%) of the District's property taxes are credited to the District's account in January of each year. The target amount for the Designation of Unrestricted Net Assets for Operating Funds would be an amount equal to 60% of the current fiscal year's budgeted property taxes. The designation may be for any amount up to the target amount. No less than four months cash flow is designated.

7. DESIGNATION OF UNRESTRICTED NET ASSETS IN PREPARATION FOR RECOGNITION OF NET PENSION LIABILITY MANDATED BY GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) passed Statement Number 68, "Accounting for Pensions," in June of 2012. The statement, which is effective for fiscal years beginning after June 15, 2014, will require the District to record its share of the net pension liability of the risk pool it has been assigned to by CalPERS. As of the date of the most recent valuation (6/30/11), the net pension liability for the District (according to CalPERS) is \$1,356,194. The amount will likely increase each year until it must be recorded, so the designation should reflect the most current valuation and then be rounded up to the nearest half-million dollars. That amount shall be designated in Unrestricted Net Assets until such time as the District adopts GASB Statement Number 68 and records the appropriate liability in their financial statements.

8. DESIGNATION OF UNRESTRICTED NET ASSETS FOR FUTURE ACQUISITION/MANAGEMENT OF LAND TO MAINTAIN OPEN SPACE

The District recognizes that the acquisition of open-space which is in the District's area of influence will benefit the constituents in the future by preserving currently undeveloped areas as green space, and by eliminating the possibility of development occurring in areas which may be affected by airport noise. Although some of these purchases may be FAA grant eligible, the timing of possible acquisitions would make the grant process difficult. As a result, the District designates \$2.75 million dollars for possible land acquisition and management of the District's open space parcels, with that amount to be evaluated on an annual basis or as need presents itself.

9. DESIGNATION OF UNRESTRICTED NET ASSETS FOR ANNOYANCE REDUCTION AND COMMUNITY OUTREACH PROGRAMS

The District seeks to be a good neighbor to the surrounding community. Accordingly, the District is constantly searching for ways to reduce the annoyance caused by activity at the airport and to communicate with the public. The District realizes that there is a cost for each of the possible solutions to the noise situation and in no way wants the lack of funding to be an

impediment to a possible program. As such, the District sets a target designation of \$1,000,000 for annoyance reduction and community outreach programs.

10. DESIGNATION OF UNRESTRICTED NET ASSETS FOR PAVEMENT MAINTENANCE

The single most vital asset to the Airport is the pavement. The District recognizes that grant funding is not always available to complete necessary pavement maintenance. There is the possibility of maintenance work being required to preserve the operating capabilities of the airfield within a timeframe that does not allow for the grant funding process or at an expense in excess of what was anticipated in the annual budget. The District will designate \$500,000 to be used for pavement projects; the projects must go through the board authorization process to access these funds.

11. DESIGNATION OF UNRESTRICTED NET ASSETS FOR GRANT ELIGIBLE CAPITAL IMPROVEMENT PROJECTS

Certain capital projects are eligible for FAA grants. The District has presumed in its budgeting and forecasting process that the funding status of those projects which are eligible for FAA grants will determine whether or not the project will be completed. Some projects may be required to keep the airfield operating safely and comply with covenants of previous grants. The District would like to set aside funds for future FAA grant eligible projects which may not be funded by the FAA as presumed in the District's fiscal forecasting. The District sets as a target designation an amount equal one half of the full cost of grant eligible projects (excluding pavement maintenance) forecasted for the upcoming two years. The District recognizes that some of the projects planned will not be completed or may be postponed if funding is not available.

12. DESIGNATION OF UNRESTRICTED NET ASSETS FOR FUTURE CONSTRUCTION/ACQUISITION OF NON-GRANT ELIGIBLE PROJECTS

The District is required to make many capital improvements/purchases which are not eligible for FAA grants. Based on the District's equipment replacement schedule and the five-year forecast, there must be a designation of net assets of an amount which will provide a solid basis for projects anticipated in future fiscal years. For example, the District's Master Plan may suggest future building construction that would not be funded by FAA grants. This designation category will be the balance of the Unrestricted Net Assets which have not been otherwise designated.

John Jones, President