

November 12, 2014

Authority Staff  
 South Lake Tahoe Basin Waste Management Authority  
 1901 Airport Road  
 South Lake Tahoe, CA 96150

Subject: **Base Year 2015 Rate Review of South Tahoe Refuse Company**

Crowe Horwath (Crowe) has completed its review of South Tahoe Refuse Company Inc.'s (STR's) Base Year 2015 Rate Application (Application). The South Lake Tahoe Basin Waste Management Authority (JPA) contracted with Crowe to conduct a review of the Application and to provide recommendations for changes in refuse collection rates effective January 1, 2015. This letter report documents results of our review, and is organized as follows:

1. Summary
2. Background of Review
3. Scope of Review
4. Rate Setting Adjustments
5. Recommended Rate Change.

## 1. Summary

Crowe recommends a rate increase of 2.88 percent for the City of South Lake Tahoe and Douglas County and 2.66 percent for El Dorado County, effective January 1, 2015. This compares to STR's requested 2015 rate increase of 3.71 percent for the City of South Lake Tahoe and Douglas County and 3.48 percent for El Dorado County. Current and recommended residential rates, for selected service levels, are shown in **Table 1** below. The complete recommended residential rate structure is provided in Table 7 of the report.

**Table 1**  
**South Tahoe Refuse**  
**Residential Rates with a 2.88 Percent Rate Increase for the City of South Lake Tahoe and Douglas County and a 2.66 Percent Rate Increase for El Dorado County**  
**(Base Year 2015)**

Service Level	Current Rate (Per Customer, Per Month)	Crowe Recommended Rate (Per Customer, Per Month, with the Recommended Increase)	Crowe Recommended Rate Increase (Per Customer, Per Month)
<b>City of South Lake Tahoe</b>			
Unlimited service	\$ 25.40	\$26.13	\$0.73
<b>Douglas County</b>			
1, 32-gallon can	\$16.95	\$17.44	\$0.49
<b>El Dorado County</b>			
Unlimited service	\$29.20	\$29.98	\$0.78

## 2. Background of Review

The JPA is a joint powers authority comprised of the City of South Lake Tahoe, California; Douglas County, Nevada; and El Dorado County, California (Member Agencies). The JPA is responsible for overseeing regional cooperation regarding solid waste, and coordinating solid waste program planning and reporting for these Member Agencies.

STR is the franchise hauler for the three (3) jurisdictions. STR provides exclusive refuse collection, recycling, and transfer station operations to Member Agencies in accordance with separate franchise agreements.

JPA rate setting is guided by the JPA's 2012 *Solid Waste Rate Setting Policies and Procedures Manual* (Manual). The Manual allows STR to submit a base year rate application for the rate year 2015. Our review was conducted consistent with Steps 2, 3, 4, and 5 in Section 2 of the Manual.

Rate setting has generally followed an approximately three year cycle with the prior base year rate review completed for rate year 2012. The JPA and STR followed the Interim Year Rate Setting Process in Section 3 of the Manual for interim years 2013 and 2014. Recently approved rate changes include:

- 2012 – 4.97 percent rate increase (City of South Lake Tahoe and Douglas County) and 4.48 percent rate increase (El Dorado County) – base year
- 2013 – 1.57 percent rate increase (City of South Lake Tahoe), 1.53 percent rate increase (Douglas County), and 1.58 percent rate increase (El Dorado County) – interim year
- 2014 – 2.78 percent rate increase (City of South Lake Tahoe and El Dorado County) and 2.73 percent rate increase (Douglas County) – interim year.

In **Table 2**, we summarize residential rates since 2012.

**Table 2**  
**South Tahoe Refuse**  
**Selected Residential Rates**  
**(2012 to 2014)**

Service Level	2012	2013	2014
<b>City of South Lake Tahoe</b>			
Unlimited service	\$24.33	\$24.71	\$ 25.40
<b>Douglas County</b>			
1, 32-gallon can	\$16.33	\$16.58	\$16.95
<b>El Dorado County</b>			
Unlimited service	\$27.97	\$28.41	\$29.20

On May 27, 2014, STR submitted its base year rate application to the JPA for rate year 2015 (hereafter referred to as the Application). We enclose a copy of this Application in **Attachment A**. The JPA requires that the franchise hauler submit a base year rate application once every three (3) years. In accordance with the Manual, rate year 2015 is a base year.

STR's Application to the JPA projected a rate increase to cover a combined \$508,339 projected net revenue shortfall. STR requested an increase of 3.71 percent for the City of South Lake Tahoe and Douglas County (to cover a \$414,217 projected total revenue shortfall) and 3.48 percent for El Dorado County (to cover a \$94,122 projected total revenue shortfall).

We relied on STR audited financial statements, internally prepared financial information, and operational data for our review. STR provided audited financial statements for rate year 2013 (included in Attachment A). STR also provided internally prepared financial information and operational data for rate years 2014 (estimated) and 2015 (projected), and additional information and data requested by Crowe during the rate review process.

### 3. Scope of Review

Our scope of services included the following tasks:

1. Verify the completeness of STR's Base Year 2015 Application
2. Review the Base Year 2015 Application and prepare responses
3. Develop detailed rate adjustments, by line item
4. Review proposed adjustments with JPA and STR representatives, and clarify outstanding issues
5. Recommend the revenue requirement and associated rate adjustments
6. Prepare a draft report
7. Prepare a final report
8. Participate in JPA meeting.

For this rate review and evaluation, we performed the following tasks:

- Assessed if the Application was mathematically accurate and logically consistent
- Verified that the Application complied with the terms and conditions of the Manual
- Reconciled the Application to STR's Rate Year 2013 audited financial statements
- Reviewed STR financial information, operational data, and projections for reasonableness
- Assessed supporting data, worksheets, and documentation
- Reviewed historical actual, estimated, and projected revenues and expenses
- Reviewed cost allocation methods for reasonableness
- Reviewed the assignment of revenues and expenses to each Member Agency
- Obtained and reviewed support for the assumptions used to project Rate Year 2014 and 2015 revenues and expenses
- Confirmed the use of the allowed operating ratio
- Confirmed the franchise fee calculation
- Confirmed the accuracy of STR's calculated revenue requirement and associated rate adjustment
- Performed facility and operations site visit
- Prepare draft and final reports
- Participate in JPA and Member Agency preparation and meeting(s).

Crowe did not perform a financial audit, but relied on financial audits conducted by STR's auditor VT Williams & Associates LLP.

We submitted detailed data requests to STR on September 2, 2014, September 29, 2014, and October 15, 2014. STR was cooperative and provided timely responses to our data requests. STR furnished the information we requested.

Based on audited financial statements included with the Application, we determined the operating ratio the company actually realized for calendar years 2012 and 2013. The actual operating ratio (on an

earnings before interest and tax basis) equaled 88.4 for 2012 and 88.0 for 2013. The actual operating ratio (on an earnings before tax basis) equaled 90.5 for 2012 and 89.4 for 2013.<sup>1</sup> These returns are consistent with targets established in the Rate Manual (e.g., 87 percent for South Lake Tahoe and Douglas County and 89 percent for El Dorado County specified on page 1-11).

#### 4. Rate Setting Adjustments

In this section, we present our adjustments to the STR Application for 2015. Total adjustments result in a projected 2015 revenue shortfall of \$393,871 combined for the three Member Agencies. The revenue shortfall includes a 2015 revenue shortfall of \$321,924 for the City of South Lake Tahoe and Douglas County combined, equal to an increase in rates of 2.88 percent for each of these two Member Agencies; and a projected 2015 revenue shortfall of \$71,947 for El Dorado County, equal to an increase in rates of 2.66 percent. **Attachment B** provides a summary of recommended adjustments to the STR 2015 Application. **Attachment C** includes our rate model with Crowe's rate adjustments summarized.

Our adjustments are organized to generally match the organization provided in STR's Application. The Application is organized consistent with the guidance provided in the Manual for allowable revenue and expense categories, using the template located in Appendix A (Exhibit A-1) of the Manual. The remainder of this subsection is organized as follows:

##### ■ Revenues

- Residential Collection Revenues
- Commercial Collection Revenues
- Non-Collection Revenue Allocation
- Transfer Station and RRF Revenues
- Recycled Material Sales (MRF and Recycling Sales)

##### ■ Operating Expenses

- Operating Expense Allocation
- Expense Escalation
- Direct Labor
- Equipment Costs and Facility Costs
- Landfill Disposal Costs
- Office Salaries
- General and Administrative Costs
- MRF Principal and Interest Payments (El Dorado County)
- RRF Principal and Interest Payments (El Dorado County)
- Other Interest Expenses (El Dorado County)

##### ■ Operating Profit

##### ■ Pass-Through Costs

- MRF Principal Payments (City and Douglas)
- RRF Principal Payments (City and Douglas)
- MRF and RRF Interest Expenses (City and Douglas)
- Other Interest Expenses (City and Douglas)
- RRF Fund Credit
- Recycling Revenue Bonus
- Franchise Fees.

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<sup>1</sup> Where the operating ratio equals actual expenses divided by actual revenues. The lower the operating ratio, the higher the profit level. Note that these operating ratio figures, contained in audited financial statements, do not reflect rate setting adjustments.

## Revenues

### **Residential Collection Revenues**

STR estimated residential collection revenues to increase by \$40,656 or 0.61 percent, between 2013 and 2014. This increase reflects the 2014 year-to-date trend, resulting in residential collection increases of \$28,065 for the City of South Lake Tahoe and \$98,375 for El Dorado County, and a decrease of \$13,800 for Douglas County. STR projected no further changes in residential collection revenues in 2015 for the City of South Lake Tahoe and El Dorado County. STR projected an increase in Douglas County residential revenue of \$23,218, or by 5.14 percent. We found these residential collection revenue projections reasonable.

STR projected uncollectible residential revenues of \$10,381 for 2015. This uncollectible residential revenue amount is 0.15 percent of projected 2015 residential revenues. We found this allowance for uncollectible revenues level reasonable.

#### Impact(s):

- No adjustment.

### **Commercial Collection Revenues**

STR estimated commercial collection revenues to increase by \$107,056 or 2.14 percent, between 2013 and 2014. This increase is based on historical trends between 2012 and 2013, applying the same percentage increase to 2013 commercial revenues for the City of South Lake Tahoe and El Dorado County. STR's estimate of commercial revenues for Douglas County is based on year-to-date 2014 revenues. The 2014 revenues include increases of \$98,375, \$1,424, and \$7,257, respectively, for the City of South Lake Tahoe, Douglas County, and El Dorado County.

STR projected 2015 commercial revenues for each Member Agency based on historical trends between 2013 and 2014. Further, STR accounted for a reduction in revenue (\$94,774) for Douglas County due to casino customers transitioning from daily to on-call service and the closing of a casino account. We found these collection revenue projections reasonable.

STR projected uncollectible commercial revenues of \$2,595 for 2015. This projected uncollectible commercial revenue amount is 0.05 percent of projected 2015 commercial revenues. We found this allowance for uncollectible revenues percentage reasonable.

#### Impact(s):

- No adjustment.

### **Non-Collection Revenues Allocation**

For 2015, STR allocated non-collection revenues, including: (1) transfer station and RRF revenues, (2) forestry, federal, and state contracts revenues; and (3) recycled materials sales, between (1) the City of South Lake Tahoe and Douglas County, and (2) El Dorado County. The non-collection revenue allocation is based on 2013 residential and commercial collection revenues.

Revenue allocation percentages were 80.39 percent and 19.61 percent, respectively, for the City of South Lake Tahoe and Douglas County combined, and El Dorado County. We verified that this allocation calculation was supportable and correct.

STR allocated recycled materials sales revenues using Member Agency collection revenue allocation percentages (e.g., from the transfer station), except for recycling sales originating from recycling collection. STR tracked sales revenue from recycling collection to each Member Agency.

Impact(s):

- No adjustment.

### **Transfer Station and RRF Revenues**

Transfer station revenues are trending upward. STR estimated transfer station revenues to increase by \$132,111 or 9.41 percent, between 2013 and 2014. This 9.41 percent increase is based on the recent trend. STR applied the same percentage increase for 2014 as occurred between 2012 and 2013.

STR projected an increase of \$144,540 in 2015, for a total of \$1,680,920 in transfer station revenues. For 2015, STR also projected transfer station revenues to increase at the same percentage as between 2013 and 2014 (9.41 percent).

STR estimated RRF revenues to increase by \$17,018 between 2013 and 2014. This increase is based on the year-to-date 2014 trend. STR projected RRF revenues to continue to increase in 2015, by the same levels as those between 2013 and 2014. We found this approach to projecting RRF revenues reasonable.

We identified RRF recycling revenue of \$371.47 that was included in MRF revenues, for 2015. We reallocated this revenue to the transfer station and RRF estimated revenues for 2015, also decreasing MRF revenues by the same amount. We used STR's estimated 2014 and projected 2015 revenue to apply to the total RRF revenues. The adjusted transfer station and RRF revenues total is increased by \$371 in 2014 and 2015.

Impact(s):

- Increase Transfer Station and RRF Revenues by \$371 in 2015.

### **Recycled Material Sales (Materials Recovery Facility (MRF) and Recycling Sales)**

STR estimated revenues associated with the MRF sale of recyclables to increase by approximately \$43,713, or 10.94 percent, between 2013 and 2014. This estimated increase is based on the year-to-date 2014 trend. STR projected no further change in MRF recycled material sales revenues for 2015. We found this approach to determining the MRF revenues reasonable.

STR estimated recycled materials sales revenues to decrease by approximately \$232,167, or 14.85 percent, between 2013 and 2014. This estimated decrease is based on the year-to-date 2014 trend. STR projected no further change in revenue of recycling sales for 2015. We found this approach to determining the recycling sales revenues reasonable.

We identified RRF revenue within the MRF revenues category. We reduced 2015 MRF revenues by \$371, reallocating the revenue to transfer station and RRF revenues, as mentioned above.

Impact(s):

- Decrease Recycled Material Sales Revenues by \$371 in 2015.

**Operating Expenses****Operating Expense Allocation**

For 2015, STR allocated operating expenses between (1) the City of South Lake Tahoe and Douglas County, and (2) El Dorado County, based on Rate Year 2013 residential and commercial collection revenues. Revenue allocation percentages were 80.39 percent and 19.61 percent, respectively, for the City of South Lake Tahoe and Douglas County together, and El Dorado County. We verified that the allocation calculation was supportable and correct.

**Expense Escalation**

For purposes of projecting inflationary costs, as shown in **Table 3**, we used a 2.69 percent Consumer Price Index (CPI) equal to the percent change from March 2013 to March 2014 in the Bureau of Labor Statistics' *Consumer Price Index – Garbage and trash collection*. We rounded the CPI increase to the nearest hundredth given its material effect on the projections and for consistency with prior rate reviews. In its Application, STR rounded this change in the CPI to 2.7 percent.

**Table 3**  
**Consumer Price Index (CPI)**  
**Used by Crowe for Rate Setting Purposes**

Description	Index
March 2013	412.305
March 2014	423.413
Percent Change	2.69%

STR escalated wages and salaries, payroll taxes, and certain employee benefits<sup>2</sup>, for 2015, using the change in the CPI – *Garbage and trash collection*. STR also escalated certain general and administrative expenses for Base Year 2015, including advertising, utilities, and licenses and fees, using this CPI escalation rate.

**Impact(s):**

- Used an escalation factor of 2.69 percent for selected inflationary costs.<sup>3</sup>

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<sup>2</sup> The escalation factor did not apply to health insurance and workers' compensation. STR projected these expenses based on annual adjustments on premiums.

<sup>3</sup> Adjustments related to our recommended change to the CPI adjustment factor are not specifically discussed and quantified in this line item. Adjustments related to the CPI factor are reflected in our adjustment for each of the applicable cost items described in our report. The impact is also reflected in our adjusted revenue requirement calculation (Attachment B).



**Direct Labor**

STR estimated wages and payroll to increase by approximately \$289,773, or 5.53 percent, from 2013 to 2014. STR projected total direct labor expenses of \$178,697, a 3.23 percent increase from 2014. This projected direct labor increase reflects various wage and benefit changes, including:

- CPI adjustment of 2.70 percent for wages and salaries, payroll taxes, and employee benefits (based on the STR CPI described above)
- Officer salary increases based on 6 percent of net revenue estimations for 2014 and 2015 (the maximum allowed cap level)
- Health insurance expense increase of 7.51 percent from 2014 to 2015
- Workers' compensation expense decrease of 20.69 percent from 2014 to 2015
- Pension expense increase, based on 6.5 percent of labor costs for qualifying employees in 2015, compared with 4.5 percent of labor costs for qualifying employees in 2014 (where qualifying employees must work at least 1,000 hours).

We escalated wages and salaries, payroll taxes, and employee benefits, by the annual CPI change of 2.69 percent, as described in Table 3, above. This adjustment reduced projected 2015 direct labor expenses by \$341.

We allowed the pension expense, based on 5.5 percent of total labor costs, for 2015. This level is consistent with pension levels we observe in the industry at this time. This adjustment reduced projected 2015 direct labor expenses by \$31,424 for 2015.

Impact(s):

- Decrease Direct Labor expenses by \$31,765 in FY 2015.

**Equipment Costs and Facility Costs**

STR estimated equipment costs and facility costs to decrease by approximately \$50,954, or 4.16 percent, between 2013 and 2014. STR projected equipment costs and facility costs to decrease by \$24,109, or 2.05 percent, between 2014 and 2015. The primary driver for this decrease is the recent replacement of the transfer trailer fleet which has reduced repair and maintenance costs. This projected reduction accounts for the following:

- STR estimated depreciation costs of approximately \$1,073,257 and made adjustments to correct for allowable useful life and non-allowable depreciation items, totaling -\$427,531 for 2014.
- STR projected depreciation costs of approximately \$1,107,211 and made adjustments to correct for allowable useful life and non-allowable depreciation items, totaling -\$445,868 for 2015
- STR estimated 2014 rent costs based on the year-to-date 2014 trend, and projected 2015 rent costs based on 2014 rent costs
- STR estimated 2014 repairs and maintenance costs based on the year-to-date 2014 trend, deducting \$7,000 for a non-allowable expense. STR projected 2015 repairs and maintenance costs to decrease at the same percentage as between 2013 to 2014.

Impact(s):

- No adjustment.



### Landfill Disposal Costs

STR estimated landfill disposal costs to decrease by approximately \$112,514, or 9.74 percent, between 2013 and 2014. STR projected landfill disposal costs of \$1,083,005 for 2015, representing a 3.91 percent increase from 2014. Landfill disposal costs include Lockwood landfill and Carson City landfill dump fees; disposal costs related to e-waste, tire, asphalt, and food waste recycling; and alternative daily cover (ADC) dump fees.

**Table 4**, below, provides a summary of the dump fees for Lockwood landfill and Carson City landfill, for FY 2014 (MSW, C&D, and ADC only). Lockwood tonnage and rates include both MSW and C&D tons. Per STR's contract with Lockwood landfill, the rate per ton of MSW/C&D increases by contract each April, based on an index (e.g., a 3.00% increase in 2014). The Alternate Daily Cover disposal fee at Lockwood fluctuated throughout 2014, with an overall increase of 10.13 percent. The landfill disposal costs and tonnage do not include disposal costs and tonnages for other "dump fee" services, such as for e-Waste, Freon, tires, tire recycling, and other materials processing and disposal.

**Table 4**  
**FY 2014 Landfill Disposal Tonnage and Costs**

Landfill	ADC Cost / Ton	ADC Tonnage	ADC Costs	MSW / C&D Cost / Ton	MSW / C&D Tonnage <sup>a</sup>	MSW / C&D Costs
Lockwood	\$10.37-11.42	4,571.04	\$49,431.71	\$16.01, 16.49 <sup>b</sup>	42,360.27	\$683,256.53
Carson City	0.00	5,515.61	0.00	24.00	4,931.83	118,363.92
Total		10,086.65	\$49,431.71		47,292.10	\$801,620.45
		<b>Tons: 57,378.75</b>			<b>Costs: \$851,052.16</b>	

<sup>a</sup> STR disposes of MSW and C&D at Lockwood Landfill and C&D only at Carson City landfill.

<sup>b</sup> Per STR's contract with Lockwood landfill, the annual tipping fee increased to \$16.49 in April 2014.

In projecting landfill dump fees, STR accounted for changes in both tonnage and tipping fees. STR provided documentation from landfills to support the tonnages and tipping fees used in their projections. We did not make adjustments to STR's projection of 2015 landfill disposal costs.

#### Impact(s):

- No adjustment.

### Office Salaries

STR estimated office salaries to increase by \$16,707, or 1.71 percent, between 2013 and 2014. STR projected office salary expenses of \$1,023,933 for 2015, representing a 2.86 percent increase for 2015. This projected increase accounts for projected wage and benefit changes as follows:

- CPI of 2.70 percent for wages and salaries, payroll taxes, and employee benefits
- Health insurance expense increase of 7.51 percent from 2014 to 2015
- Workers' compensation expense decrease of 20.69 percent since the last quarter of 2014.

STR projected a pension expense increase, based on 6.5 percent of labor costs for qualifying employees in 2015, compared with 4.5 percent of labor costs for qualifying employees in 2014 (where qualifying employees must work at least 1,000 hours). We escalated wages and salaries, payroll taxes, and employee benefits, by the annual CPI change of 2.69 percent, as described above. This adjustment reduced projected office salaries by \$33 for 2015.

We allowed the pension expense, based on 5.5 percent of total labor costs, for 2015. This adjustment reduced projected office salaries by \$7,172 for 2015.

Impact(s):

- Decrease Office Salaries expenses by \$7,205 in FY 2015.

## **General and Administrative Costs**

### Cost of Goods Sold

STR estimated cost of goods sold to decrease by approximately \$81,448, or 7.06 percent, between 2013 and 2014. This estimated decrease is based on the year-to-date 2014 trend. STR projected cost of goods sold to remain unchanged in 2015, reflecting no change in projected recycling sales revenue between 2014 and 2015. We did not make adjustments to STR's projection of 2015 cost of goods sold.

### Advertising, Postage, Utilities, Licenses and Fees

STR escalated advertising, postage, utilities, and licenses and fees using year-to-date 2014 trends. STR projected 2015 costs based on applying a 2.70 percent increase to estimated 2014 costs. STR projected these costs at approximately \$511,504 for 2015.

We escalated the advertising, postage, utilities, and licenses and fees, by the annual CPI change of 2.69 percent, as described above. This adjustment reduced projected 2015 expenses by **\$49**.

### Professional Fees

STR estimated professional fees to decrease by 8.94 percent, between 2013 and 2014, based on year-to-date expenditures. STR projected professional fees to remain unchanged between 2014 and 2015, at \$320,923. We found this projection reasonable.

### Bad Debt

STR estimated bad debts to decrease by \$11,678, or 7.06 percent, between 2013 and 2014. This estimated decrease is based on the year-to-date 2014 trend for the City of South Lake Tahoe and El Dorado County, in addition to a \$16,916 write-off for El Dorado County accounts for which STR is unable to lien. STR estimated a total of \$27,494 in bad debt expense in 2014. STR projected bad debt of \$12,976 in 2015, a reduction by \$14,518 from 2014. We found that this bad debt figure reasonable.

### General Insurance

STR estimated general insurance expenses to decrease by approximately \$37,197, or 19.70 percent, between 2013 and 2014. This decrease is based on the year-to-date 2014 trend. STR projected total general insurance expenses of \$164,186 for 2015, representing an 8.30 percent increase from 2014.

STR provided general insurance documentation pertaining to the increased costs. In total, general insurance is expected to increase by 9.42 percent for STR and related parties, though increases among related parties are higher than those of STR. We did not make adjustments to 2015 general insurance costs.

Gain (Loss) Sale of Equipment

STR estimated a gain on the sale of equipment for 2014 based on year-to-date 2014 sales, with no additional sales of equipment planned for the final quarter. This gain for 2014 totals \$218,909. This gain represents a reduction in general and administrative costs. STR projected \$0 in gains/losses from sale of equipment in 2015.

In 2014, STR sold a piece of property, resulting in a gain of \$171,083.55. STR did not depreciate the value of this property during its nine years of ownership, (the net book value at the time of the sale equaled the acquired value). As the asset was not depreciated by STR over the nine years of ownership, rate payers effectively did not incur an expense associated with depreciation of the property.

We projected 2015 sales of equipment using the three-year average gain on sale of equipment, excluding the 2014 sale of property noted above. This three-year average gain on sales of equipment equaled \$42,323. We reduced general and administrative costs for this sale of equipment expense figure of **\$42,323** for 2015.

STR provided the details for gains/losses on sale of assets for fiscal years 2013 and 2014. **Table 5** provides a summary of gains/losses on sale of assets for each of these fiscal years.

**Table 5**  
**STR Gain/Loss on Disposal**  
**Estimated FY 2013 and 2014 (based on transactions through 3/31/14)\***

ID	Description	In Service Date	Acquired Value	Net Book Value	Proceeds	Gain / (Loss)
<b>FY 2013</b>						
0204	Cat Forklift	05/22/95	37,343.00	0.00	250.00	250.00
0235	2 PC'S W/ Printers	03/01/96	\$4,289.35	\$71.48	\$0.00	\$(71.48)
0273	Intel Personal Computer	11/12/96	1,898.28	31.62	0.00	(31.62)
0288	P/C Systems-2	07/15/97	6,339.70	105.66	0.00	(105.66)
0380	2001 Peterbilt Tractor	07/05/00	82,770.00	0.00	10,000.00	10,000.00
0399	2002 Peterbilt Tractor	05/08/01	82,837.00	0.00	18,000.00	18,000.00
0424	2002 Chevrolet Pickup #2	04/11/02	47,169.47	214.45	7,000.00	6,785.55
0508	2005 Cadillac Escalade	06/28/05	60,435.08	0.00	14,509.00	14,509.00
0536	2007 Chevrolet Tahoe #3	12/18/06	49,115.21	0.00	14,000.00	14,000.00
0543	2007 Used Freightliner Tractor #51	05/21/07	80,273.75	0.00	5,000.00	5,000.00
0544	2007 Used Freightliner Tractor #52	05/21/07	80,273.75	0.00	5,000.00	5,000.00
0555	ENGINE- 1991 Peterbilt Tractor #53	01/21/08	22,926.55	382.10	7,500.00	7,117.90
0566	Caravan Camper Shell	09/24/08	3,447.20	459.63	500.00	40.37
0619	Engine Repairs- Injectors	05/28/10	5,699.35	2,849.67	-	(2,849.67)
<b>FY 2013 Total</b>			<b>\$947,118.64</b>	<b>\$4,114.61</b>	<b>\$ 81,759.00</b>	<b>\$77,644.39</b>
<b>FY 2014</b>						
0168	1994 Peterbilt Tractor	09/01/93	76,623.00	0.00	10,000.00	10,000.00
0625	1995 Peterbilt Tractor #59	10/21/94	77,430.00	0.00	10,000.00	10,000.00
0468	2121 Eloise - SLT, CA (land) <sup>4</sup>	10/08/03	143,052.45	143,052.45	314,136.00	171,083.55
0542	2007 Freightliner Tractor #48	05/21/07	104,248.13	0.00	5,000.00	5,000.00
0551	2008 Chevrolet Pickup #6	03/01/08	\$49,032.18	\$0.00	\$14,500.00	\$14,500.00
0572	Engine #57- 1994 Peterbilt Tractor	01/22/09	25,120.07	1,674.69	10,000.00	8,325.31
<b>2014 Total</b>			<b>\$614,842.73</b>	<b>\$144,727.14</b>	<b>\$363,636.00</b>	<b>\$218,908.86</b>

\* Table does not include disposed assets without a realized gain or loss (i.e., assets with a \$0 gain/(loss)).

<sup>4</sup> Removed from gain on sale of assets calculation.

Fuel

STR estimated fuel costs to increase by \$40,307, or 6.53 percent, between 2013 and 2014. This increase is based on the year-to-date 2014 trend. STR projected fuel costs to decrease by \$23,672, or 3.59 percent, for 2015. STR projected fuel costs to decrease in 2015, based on the change in diesel fuel price between the first three quarters of FY 2013 and first three quarters of FY 2014.

Our approach for fuel was based on the weighted average change in fuel costs, including both diesel and bio-diesel fuel, rather than STR's use of diesel fuel alone. Our calculation used the 3.59 percent diesel fuel cost decrease (noted above) for 90.9 percent of the costs, and a 9.73 percent bio-diesel fuel cost decrease for 9.1 percent of the fuel costs. This resulted in a weighted average reduction in fuel costs of 4.15 percent for 2015. This adjustment decreased fuel costs by **\$3,617**.

Hazardous Materials Cost

STR estimated a hazardous materials cost increase of \$27,984, or 16.73 percent, between 2013 and 2014. This increase is based on the year-to-date 2014 trend. STR projected a hazardous materials cost increase in 2015, based on the same 16.73 percent change from 2013 to 2014. STR projected hazardous materials costs of \$227,951 for 2015, representing a \$32,665 increase from 2014.

STR provided supplemental data, which included 2014 actual expenditures and a year over year comparison of first quarter (7/1 to 9/30) hazardous materials costs, for FY 2014 and FY 2015. Hazardous materials costs increased by 9.03 percent between the first quarter of 2014 and 2015. We applied a 9.03 percent increase to the actual 2014 hazardous materials costs (\$189,352) to project 2015 costs (\$206,451). This adjustment reduced projected 2015 hazardous materials costs by **\$21,500**.

Impact(s):

- Decrease General and Administrative expenses by \$67,489 in 2015.

**MRF Principal and Interest Payments (El Dorado County)**

STR projected El Dorado County's portion of MRF principal and interest payments of \$17,984 for 2015. The MRF debt financing is through a Union Bank term loan of \$2 million. STR estimated that approximately 38.3 percent of the term loan is related to the MRF. STR allocated 38.3 percent of financing costs, to MRF principal and interest payments. STR then determined El Dorado County's portion of MRF principal and interest payments, based on the 2013 collection revenue allocation percentage (19.61 percent). We found this approach to determining the MRF principal and interest cost for El Dorado County reasonable.

Impact(s):

- No adjustment.

**RRF Principal and Interest Payments (El Dorado County)**

STR projected El Dorado County's portion of 2015 RRF principal and interest payments to equal \$249,539. The RRF debt financing is through a California Pollution Control Financing Authority (CPCFA) 2008 Bond of \$16.615 million. STR determined El Dorado County's portion of RRF principal and interest payments, based on the 2013 total collection revenue allocation percentage (19.61 percent). We found this approach to determining the RRF principal and interest cost for El Dorado County reasonable.

Impact(s):

- No adjustment.

**Other Interest Expenses (El Dorado County)**

Other interest expenses include interest on debt used to finance STR operations, excluding the MRF/RRF building financing. STR projected other interest expenses of \$51,454 for 2015. STR then determined El Dorado County's portion of other interest expenses, based on the 2013 total collection revenue allocation percentage (19.61 percent). STR included other interest expenses of \$10,092, for El Dorado County's portion, under allowable operating costs. We found this approach reasonable.

Impact(s):

- No adjustment.

**Operating Profit**

In accordance with the Manual, for the City of South Lake Tahoe and Douglas County, a profit is allowed based on a sliding scale which varies with STR's recovery percentage; and for El Dorado County, a profit is allowed, based on a targeted operating ratio ranging between 87 and 91 percent. In a base year, for El Dorado County, if STR's projected profit falls outside the 87 to 91 percent range without a rate change, STR is allowed an 89 percent operating ratio for the base year calculation.

In the Application, STR used an 87 percent operating ratio for the City of South Lake Tahoe and Douglas County, and an 89 percent operating ratio for El Dorado County. STR provided Waste Facility Diversion Summary Reports, which included monthly tons diverted through six (6) operations: (1) MRF floor sort, (2) MRF line sort, (3) RRF, (4) alternate daily cover (ADC), (5) recycle center, and (6) direct export. Based on its diversion reports, STR's recovery rate was 64 percent for 2014.

We calculated operating profit, based on our adjustments to the projected 2015 allowable operating costs. We decreased operating profits by \$15,368 in 2015.

Impact(s):

- Decrease Operating Profits by \$15,368 in 2015.

**Pass-Through Costs****MRF Principal Payments (City and Douglas)**

STR projected the City of South Lake Tahoe and Douglas County's portion of MRF principal payments of \$61,619 for 2015. The MRF debt financing is through a Union Bank term loan of \$2 million. STR estimated that approximately 38.3 percent of the term loan is related to the MRF. For the Union Bank term loan, STR projected principal payments based on loan balances. STR allocated 38.3 percent of financing costs, to MRF principal payments. STR then determined the City of South Lake Tahoe and Douglas County's portion of MRF principal payments, based on the 2013 collection revenue allocation percentage (80.39 percent).

Impact(s):

- No adjustment.

**RRF Principal Payments (City and Douglas)**

STR projected the City of South Lake Tahoe and Douglas County's portion of RRF principal payments of \$763,705 in 2015. The RRF debt financing is through a CPCFA 2008 Bond of \$16.615 million. For the bond financing, STR projected principal payments based on bond balances. STR allocated 100 percent of financing costs, to RRF principal payments. STR then determined the City of South Lake Tahoe and Douglas County's portion of RRF principal payments, based on the 2013 total collection revenue allocation percentage (80.39 percent).

Impact(s):

- No adjustment.

**MRF and RRF Interest Expenses (City and Douglas)**

STR projected the City of South Lake Tahoe and Douglas County's portion of MRF and RRF interest payments of \$271,367 for 2015. The MRF debt financing is through a Union Bank term loan of \$2 million. STR estimated that approximately 38.3 percent of the term loan is related to the MRF. The RRF debt financing is through the CPCFA 2008 Bond of \$16.615 million. STR determined the City of South Lake Tahoe and Douglas County's portion of MRF and RRF interest payments, based on the 2013 collection revenue allocation percentage (80.39 percent).

Impact(s):

- No adjustment.

**Other Interest Expenses (City and Douglas)**

Other interest expenses are interest on debt used to finance STR operations, excluding the MRF/RRF building financing. Financed assets include trucks and excavator. STR projected other interest expenses of \$51,454 for 2015. STR then determined the City of South Lake Tahoe and Douglas County's portion of other interest expenses, based on the 2013 total collection revenue allocation percentage (80.39 percent). STR included other interest expenses of \$41,363, for the City of South Lake Tahoe and Douglas County's portion, under pass-through costs.

Impact(s):

- No adjustment.

**RRF Fund Credit**

STR included a RRF fund credit to JPA jurisdiction ratepayers, to account for excess rate revenues collected during the construction of the RRF. On March 2, 2012, the JPA approved a RRF fund credit of \$4,722,285, with a six (6) year payback period, applied in base years. The credit amount was determined by dividing the credit of \$4,722,285 by six years, resulting in fund credit amounts of \$787,048.

The Application included a total 2015 RRF fund credit of \$787,047, based on a total RRF revenue balance and a six (6) year payback period. STR used the 2013 collection revenue allocation percentages for allocation between the City of South Lake Tahoe and Douglas County and El Dorado County.

Impact(s):

- No adjustment.



### Recycling Revenue Bonus

In accordance with the Manual, STR is allowed a recycling revenue bonus, which is tied to STR's diversion levels. For 2015, STR is allowed a 25 percent recycling revenue share, by achieving a minimum diversion rate of 40 percent; and a 50 percent recycling revenue share, by achieving a minimum diversion rate of 47 percent.

Based on the Monthly Waste Facility Diversion Summary Report, STR's recovery rate was 63.90 percent in Rate Year 2014. **Table 6**, below, provides a summary of diverted tonnage. STR is allowed a 50 percent of recycling revenue share for 2015, based on FY 2014 diversion tonnage.

**Table 6**  
**FY 2014 Facility Diversion Summary**  
**South Lake Tahoe Waste Management Authority**

	Diversion, by Facility or Type					Diversion	Disposal
	MRF	RRF	ADC	Recycle Center	Direct Export		
<b>Tonnage</b>	3,422	8,293	9,703	1,102	60,584	83,104	46,947
<b>Percent</b>	4.12%	9.98%	11.68%	1.32%	72.90%		
<b>Total Diversion</b>						<b>63.90%</b>	<b>36.10%</b>

STR projected a recycling revenue bonus of \$344,390 for 2015. We projected the recycling revenue bonus of \$351,031. We increased the recycling revenue bonus based on the projected recycling material sales (based on the findings above related to revenues). This adjustment increased the projected pass-through costs by \$6,641 for 2015.

#### Impact(s):

- Increase Recycling Revenue Bonus by \$6,641 in FY 2015.

### Franchise Fees

STR calculated and allocated projected franchise fees, based on 2015 projected collection revenues and transfer fees, multiplied by franchise fee rates. The Manual allocates franchise fees based on gross residential, commercial, and recycling revenues. The City of South Lake Tahoe and El Dorado County receive five (5) percent of gross revenues and Douglas County receives three (3) percent. Below, we list the revenue sources used for Member Agency franchise fee calculations:

- City of South Lake Tahoe, 5 percent of the following:
  - City residential collection revenues
  - City commercial collection revenues
  - Transfer station and RRF revenues
- El Dorado County, 5 percent of the following:
  - County residential collection revenues
  - County commercial collection revenues
- Douglas County, 3 percent of the following:
  - County residential collection revenues
  - County commercial collection revenues



Recycling material sales revenues, which include MRF and recycling sales revenues, are not included in franchise fee calculations. STR projected franchise fees of \$636,307 for 2015, including franchise fees of \$519,484 for the City of South Lake Tahoe and Douglas County, and franchise fees of \$116,823 for El Dorado County.

We projected a minor adjustment to franchise fees (based on other adjustments noted above). We projected total franchise fees of \$520,204 for the City of South Lake Tahoe and Douglas County, and \$116,821 for El Dorado County.

Impact(s):

- Increase Franchise Fees by \$718 in 2015.

## 5. Recommended Rate Change

As a result of the detailed review of the Application, and as shown in Attachment B, we calculated a 2.88 percent rate increase for the City of South Lake Tahoe and Douglas County; and a 2.66 percent rate increase for El Dorado County, assuming an implementation date of January 1, 2015. These rate increases will cover the following revenue shortfalls:

- A \$321,924 revenue shortfall for the City of South Lake Tahoe and Douglas County, equivalent to a 2.88 percent rate increase for Base Year 2015
- A \$71,947 revenue shortfall for El Dorado County, equivalent to a 2.66 percent rate increase for Base Year 2015.

Accounting for the aforementioned adjustments, Crowe recommended increases are shown in **Table 7**, on the following page.

\* \* \* \* \*

We appreciate the contribution of JPA management and your input and direction on this rate setting project. We also thank STR management for its timely responses to our data requests. If you have any questions regarding this report, please call Erik Nylund at (415) 230-4963, or email [erik.nylund@crowhorwath.com](mailto:erik.nylund@crowhorwath.com).

Very truly yours,  
Crowe Horwath LLP

**Table 7**  
**Residential Rates with 2.88 Percent Rate Increase for the City of South Lake Tahoe and Douglas County and 2.66 percent Rate Increase for El Dorado County**  
**Base Year 2015 (January 1, 2015)**

Service	Current Rate (Per Customer, Per Month)	Recommended Rate (Per Customer, Per Month, with the Recommended Increase)	Rate Increase (Per Customer, Per Month)
<b>City of South Lake Tahoe</b>			
Unlimited service	\$25.40	\$26.13	\$0.73
Mandated pickup per 32-gallon can/bag	5.42	5.58	0.16
Mandated pickup per cubic yard	36.3	37.35	1.05
Qualified senior rate	21.58	22.20	0.62
House service – 1 can	29.09	29.93	0.84
House service – 2 cans	32.78	33.72	0.94
House service – 3 cans	36.47	37.52	1.05
Residential – All other services	-	-	-
<b>Douglas County</b>			
1, 32-gallon can	\$16.95	\$17.44	\$0.49
2, 32-gallon cans	32.64	33.58	0.94
3, 32-gallon cans	49.78	51.21	1.43
4, 32-gallon cans	65.46	67.34	1.88
One extra 32-gallon can	4.26	4.38	0.12
On-call 32-gallon can billed monthly/arrears	-	-	-
Per cubic yard	27.39	\$28.18	\$0.79
1, 45-gallon can	20.56	21.15	0.59
2, 45-gallon can	39.52	40.66	1.14
3, 45-gallon can	60.23	61.96	1.73
One extra 45-gallon can	5.18	5.33	0.15
On-call 45-gallon can billed monthly/arrears	-	-	-
Residential – All other services	78.21	80.46	2.25
<b>El Dorado County</b>			
Unlimited service	\$29.20	\$29.98	\$0.78
Mandated pickup per 32-gallon can/bag	6.12	6.28	0.16
Mandated pickup per cubic yard	35.02	35.95	0.93
Qualified senior rate	25.89	26.58	0.69
House service per can	3.70	3.80	0.10
Residential – All other services	-	-	-

**Attachment A: South Tahoe Refuse Base Year 2015 Rate Application and Audited Financial Statements**



SOUTH TAHOE REFUSE CO., INC.

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May 27, 2014

Nancy McDermid, Chair  
Norma Santiago, Board Member  
JoAnn Conner, Board Member  
South Lake Tahoe Basin Waste Management Authority  
1901 Airport Road  
South Lake Tahoe CA 96150

VIA EMAIL (Hard Copy to Be Mailed)

Dear Board Members:

Enclosed is our management representation letter and 2015 base year rate application.

We have calculated our rate adjustment based on the Solid Waste Rate Setting Policies and Procedures Manual effective March 30, 2012. We have calculated a rate increase effective January 1, 2015 of 3.71% for the City of South Lake Tahoe and Douglas County and a 3.48% increase for El Dorado County. The variance in these rates is primarily attributable to profit calculations.

We have forecasted revenues to increase slightly at approximately 1.95% compared to FY2014 and 2.66% compared to FY2013. This is caused by increased transfer station and commercial revenues slightly offset by recycling revenue decrease. We have continued our efforts to reduce costs while increasing diversion. Specifically, we have reduced our dump fees by approximately 6% primarily due to our enhanced greenwaste recycling efforts facilitated by the new RRF facility. Furthermore, we have reduced our repairs and maintenance costs by 21% due to the newer transfer fleet. Workers compensation has also decreased significantly at approximately 21% based on our continued safety efforts resulting in a reduced experience modification factor.

In regards to cost allocations and methodologies on page 1-14 of the rate guide, we have made the following assumptions. While we have done a different profit calculation for El Dorado County as dictated under the rate guide, for purposes of allocating the different JPA jurisdictions, we have followed the historical methodology of allocating costs based total collection revenue percentages for all categories. This generally allows the rate increase for each jurisdiction to be roughly the same percentage increase. No attempt has

been made to allocate actual costs to either a specific franchise area or different service types within a franchise area. Such allocations typically cause greater rate increases in rural versus urban franchise areas as well as a greater increase in residential versus commercial customer types.

Additionally, we have prepared an alternative to the rate application which could mitigate exposure to floating rates and gain predictability in debt service costs through the use of an interest rate swap. Attached is a presentation from Bank of America outlining their interest rate risk management proposal. This would reduce the current rate request by approximately 1.60% to 1.85%. We look forward to exploring this option with you.

Management reviews and accepts responsibility of the rate application. The application is based upon management's judgment of the most likely set of conditions and course of action. All significant relevant information has been made available. Assumptions are reasonable and accurate.

Sincerely yours,

  
\_\_\_\_\_  
Jeffrey R. Tillman

This signature provides a certification of the franchise hauler that the application is complete, accurate, and consistent with the instructions provided in the rate manual.

Enclosures:

- 2015 Base Year Rate Application, pages 1-3
- Proposed rate schedule for residential and commercial accounts excluding city surcharges and infrequent services (included on pages 1 and 3 of the 2015 Base Year Rate Application)
- June 30, 2013 Audited Financial Statements
- Support documentation (Due to the volume of calculations we have provided an electronic copy only since hard copy would not be practical)
- Reconciliation of the rate application to the audited financial statements (included within the support documentation above)
- Bank of America Interest Rate Risk Management Proposal

## Base Year Rate Application

**Summary**

**Rate Change**

1. Percent: Rate Change Requested (City of South Lake Tahoe and Douglas County) 3.71%  
 Percent: Rate Change Requested (El Dorado County) 3.48%

**Residential Rate Schedule**

Rate Schedule (per customer, per month)	Current Rate	Rate Adjustment	New Rate
(1) (1)			
2. City of South Lake Tahoe			
2.1. Unlimited service	\$ 25.40	\$ 0.94	\$ 26.34
2.2. Mandated pickup per 32-galbn can/bag	5.42	0.20	5.62
2.3. Mandated pickup per cubic yard	36.30	1.35	37.65
2.4. Qualified senior rate	21.58	0.80	22.38
2.5. House service - 1 can	29.09	1.08	30.17
2.6. House service - 2 cans	32.78	1.22	34.00
2.7. House service - 3 cans	36.47	1.35	37.82
2.8. Residential - All other services	-	-	-
3. Douglas County			
3.1. 1, 32-gallon can	\$ 16.95	\$ 0.63	\$ 17.58
3.2. 2, 32-gallon cans	32.64	1.21	33.85
3.3. 3, 32-gallon cans	49.78	1.85	51.63
3.4. 4, 32-gallon cans	65.46	2.43	67.89
3.5. One extra 32-gallon can	4.26	0.16	4.42
3.6. On-call 32-gallon can billed monthly/arrears	-	-	-
3.7. Per cubic yard	27.39	1.02	28.41
3.8. 1, 45-gallon can	20.56	0.76	21.32
3.9. 2, 45-gallon cans	39.52	1.47	40.99
3.10. 3, 45-gallon cans	60.23	2.23	62.46
3.11. One extra 45-gallon can	5.18	0.19	5.37
3.12. On-call 45-gallon can billed monthly/arrears	-	-	-
3.13. Residential - All other services	78.21	2.90	81.11
4. El Dorado County			
4.1. Unlimited service	\$ 29.20	\$ 1.02	\$ 30.22
4.2. Mandated pickup per 32-galbn can/bag	6.12	0.21	6.33
4.3. Mandated pickup per cubic yard	35.02	1.22	36.24
4.4. Qualified senior rate	25.89	0.90	26.79
4.5. House service per can	3.70	0.13	3.83
4.6. Residential - All other services	-	-	-

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the South Lake Tahoe Basin Waste Management Authority.

Name: Jeffery R. Tillman

Title: President

Signature: 

Date: 5/27/14

(1) Rate does not include the street sweeping (\$0.25), the nuisance abatement (\$0.25), or the clean community surcharges (\$0.40)

Fiscal Year: 2015

**EL DORADO COUNTY**  
**RECEIVED** Page 1 of 3

MAY 30 2014

**ENVIRONMENTAL  
MANAGEMENT**



## Base Year Rate Application

### Financial Information for All Three Jurisdictions

	Actual Audited	Estimated	Projected	
	Prior Year All Three Jurisdictions 6/30/2013	Current Year All Three Jurisdictions 6/30/2014	City of SLT and Douglas County 6/30/2015	Base Year El Dorado County 6/30/2015
<b>Section I--Allowable Operating Costs</b>				
5. Direct Labor	\$ 5,235,780	\$ 5,525,553	\$ 4,585,475	\$ 1,118,774
6. Equipment Costs and Facility Costs	1,224,309	1,173,355	923,845	225,402
7. Landfill Disposal Costs	1,154,816	1,042,302	870,595	212,410
8. Office Salaries	978,717	995,424	823,109	200,824
9. General and Administrative Costs	3,825,707	3,568,647	2,998,326	734,392
10. MRF Principal and Interest Payments (El Dorado County)	18,084	17,594	0	17,984
11. RRF Principal and Interest Payments (El Dorado County)	219,344	237,623	0	249,539
Other Interest Expenses	9,976	9,718	0	10,092
12. Total Allowable Operating Costs	\$ 12,666,733	\$ 12,570,214	\$ 10,201,350	\$ 2,769,417
<b>Section II--Allowable Operating Profit</b>				
13. Operating Ratio	87.00%	87.00%	87.00%	89.00%
14. Allowable Operating Profit	\$ 1,892,730	\$ 1,878,308	\$ 1,524,340	\$ 342,287
<b>Section III--Pass Through Costs without Franchise Fees</b>				
15. MRF Principal Payments (City and Douglas)	\$61,619	\$61,619	\$61,619	\$0
16. RRF Principal Payments (City and Douglas)	723,510	723,510	763,705	0
17. MRF and RRF Interest Expenses (City and Douglas)	188,193	261,116	271,367	0
Other Interest Expenses	40,695	39,832	41,363	0
RRF Fund Credit	0	0	-632,707	-154,340
19. Recycling Revenue Bonus	404,720	351,217	284,160	60,230
20. Total Pass Through Costs	\$1,416,937	\$1,437,293	\$789,506	-\$94,110
<b>Section IV--Revenue Requirement without Franchise Fees</b>				
21. Total Allowable Operating Costs (Line 12) plus Allowable Operating Profit (Line 14) plus Total Pass Through Costs (Line 20)	\$ 15,978,400	\$ 15,885,815	\$ 12,515,196	\$ 3,017,594
<b>Section V--Revenues without Rate Change in Base Year</b>				
Residential Revenues:	Current Rate/Month	Months	Projected Accounts	Total
City of South Lake Tahoe				
22. Unlimited service	\$ 25.40	12	13,549	\$ 4,129,735
23. Mandated pickup per 32-gallon can/bag	5.42	12	0	0
24. Mandated pickup per cubic yard	36.30	12	0	0
25. Qualified senior rate	21.58	12	67	17,350
26. House service - 1 can	29.09	12	5	1,745
27. House service - 2 cans	32.78	12	1	993
28. House service - 3 cans	36.47	12	0	0
29. Residential - All other services	-	12	0	0
Douglas County				
30. 1, 32-gallon can	\$ 16.95	12	1,247	\$ 253,640
31. 2, 32-gallon cans	32.64	12	259	101,445
32. 3, 32-gallon cans	49.78	12	15	8,960
33. 4, 32-gallon cans	65.46	12	4	3,142
34. One extra 32-gallon can	4.26	12	0	0
35. On-call 32-gallon can billed monthly/arrears	-	12	0	0
36. Per cubic yard	27.39	12	0	0
37. 1, 45-gallon can	20.56	12	328	80,924
38. 2, 45-gallon cans	39.52	12	53	25,135
39. 3, 45-gallon cans	60.29	12	1	723
40. One extra 45-gallon can	5.18	12	0	0
41. On-call 45-gallon can billed monthly/arrears	-	12	0	0
42. Residential - All other services	78.21	12	1	939
El Dorado County				
43. Unlimited service	\$ 29.20	12	6,074	\$ 2,128,330
44. Mandated pickup per 32-gallon can/bag	6.12	12	0	0
45. Mandated pickup per cubic yard	35.02	12	0	0
46. Qualified senior rate	25.89	12	27	8,388
47. House service per can	3.70	12	5	222
48. Residential - All other services	-	12	0	0
49. Residential Revenues Subtotal				\$ 4,624,132
50. Less: Allowance for Uncollectible Residential Accounts				(6,510)
51. Total Residential Revenues (without Rate Change in Base Year)	\$ 6,697,744	\$ 6,738,400	\$ 4,617,622	\$ 2,133,069
52. Commercial Revenues				\$ 5,024,923
53. Less: Allowance for Uncollectible Commercial Accounts				(1,627)
54. Total Commercial Revenues (without Rate Change in Base Year)	\$ 5,005,089	\$ 5,112,145	\$ 5,023,296	\$ 198,511
55. Transfer Station and RRF Revenues (AND FCRESTRY, FED, STATE CONTRACTS)	1,590,625	1,736,487	1,538,722	375,421
56. Recycled Material Sales	1,962,572	1,774,118	1,440,823	333,294
57. Total Revenues (Lines 51 + 54 + 55 + 56)	\$ 15,256,030	\$ 15,361,150	\$ 12,620,463	\$ 3,040,295
<b>Section VI--Net Shortfall (Surplus)</b>				
58. Net Shortfall (Surplus) without Franchise Fees (Line 21 - Line 57)	\$ 722,370	\$ 524,665	\$ (105,267)	\$ (22,701)
59. Residential and Commercial Franchise Fees	\$ 620,503	\$ 621,869	\$ 519,484	\$ 116,823
60. Net Shortfall (Surplus) with Franchise Fees (Lines 58 + 59)	\$ 1,342,873	\$ 1,146,534	\$ 414,217	\$ 94,122
<b>Section VII--Percent Change in Rates</b>				
61. Total Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change (Line 51 + 54 + 55)			\$ 11,179,640	\$ 2,707,001
62. Percent Change in Existing Residential/Commercial/Transfer Station/RRF Rates (Line 60 - Line 61)			3.71%	3.48%



## Base Year Rate Application

**Operating Information**

	Prior Year	Current Year	Percent Change	Base Year Projected Information		Percent Change
	Audited Information All Three Jurisdictions	Estimated Information All Three Jurisdictions		City of SLT and Douglas County	El Dorado County	
<b>Section VIII--Operating Data</b>						
63. Residential Accounts	18,252	18,251	-0.01%	12,033	6,080	-0.73%
64. Multi-family Accounts	3,459	3,491	0.93%	3,497	26	0.92%
65. Commercial Accounts	870	881	1.26%	826	55	0.02%
66. Total Accounts	22,581	22,623	0.19%	16,356	6,161	-0.47%
67. Residential Refuse Tons	25,379.8	21,045.6	-17.08%	18,963.0	2,959.5	4.17%
68. Residential Recycling Tons	40,189.2	33,326.0	-17.08%	29,059.5	4,535.3	0.81%
69. Residential Yard Waste Tons	3,025.0	2,508.4	-17.08%	3,228.8	503.9	48.81%
70. Commercial Refuse Tons	29,318.0	23,354.4	-20.34%	21,043.3	3,284.2	4.17%
71. Commercial Recycling Tons	46,425.5	36,982.0	-20.34%	32,247.5	5,032.8	0.81%
Commercial Yard Waste Tons	3,494.4	2,783.6	-20.34%	3,583.0	559.2	48.81%
72. "Free" Drop Boxes Provided (Monthly)	5	3	%	3	0	0.02%
73. "Free" Bins Provided	38	38	%	38	0	0.02%

**Section IX--Change in Commercial Rates**

74. 2 Yard Bin--Once per Week			%			%
75. 3 Yard Bin--Once per Week			%			%
76. 4 Yard Bin--Once per Week			%			%
77. 5 Yard Bin--Once per Week			%			%
78. 6 Yard Bin--Once per Week			%			%
City - per cubic yard	28.55	29.35	2.80%	30.44	0.00	3.71%
Douglas - per cubic yard	24.23	24.89	2.72%	25.81	0.00	3.70%
El Dorado - per cubic yard	34.07	35.02	2.79%	0.00	36.24	3.48%
City - compacted per cubic yard	40.07	41.18	2.77%	42.71	0.00	3.72%
Douglas - compacted per cubic yard	31.31	32.16	2.71%	33.35	0.00	3.70%
El Dorado - compacted per cubic yard	45.61	46.88	2.78%	0.00	48.51	3.48%
City - per 32 gal can/bag	3.93	4.04	2.80%	4.19	0.00	3.71%
Douglas - per 32 gal can/bag	3.81	3.91	2.62%	4.06	0.00	3.84%
El Dorado - per 32 gal can/bag	5.95	6.12	2.86%	0.00	6.33	3.43%

SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)  
FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012  
AND FOR THE YEARS THEN ENDED



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Jeff Vathayanon, CPA  
Paul Tibma, CPA  
Roger Williams, CPA  
Jason Reecy, CPA/ABV

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Stockholders  
South Tahoe Refuse Co., Inc.  
South Lake Tahoe, California

We have audited the accompanying balance sheets of South Tahoe Refuse Co., a division of South Tahoe Refuse Co., Inc. (a California S corporation) as of June 30, 2013 and 2012, and the related statements of income and retained earnings, and cash flows for the years 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 the 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Tahoe Refuse Co. as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*VT Williams & Associates, LLP*

Carson City, Nevada  
October 28, 2013

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

**BALANCE SHEETS**

**JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 3,533,993	\$ 3,206,226
Certificate of deposit	86,450	86,176
Accounts receivable:		
Trade, net	1,063,392	1,105,683
Other	146,220	153,398
Inventory	118,248	107,978
Prepaid expenses	208,881	203,670
Due from officers/stockholders	45,112	39,594
Receivables from related parties	269,664	195,010
Advance to related parties	1,072,147	727,931
Deposits	<u>33,252</u>	<u>18,357</u>
<b>TOTAL CURRENT ASSETS</b>	<u>6,577,359</u>	<u>5,844,023</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>17,096,377</u>	<u>16,437,333</u>
<b>OTHER ASSETS:</b>		
Receivables from related parties, net of current portion	158,567	186,428
Bond issuance costs, net	323,651	336,727
Cash, bond proceeds - restricted	<u>618,995</u>	<u>1,996,926</u>
<b>TOTAL OTHER ASSETS</b>	<u>1,101,213</u>	<u>2,520,081</u>
<b>TOTAL ASSETS</b>	<u>\$24,774,949</u>	<u>\$24,801,437</u>

See accompanying notes to financial statements.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

**BALANCE SHEETS**

**JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable, trade	\$ 300,910	\$ 283,607
Accrued expenses	884,729	911,306
Deferred income	571,199	561,140
Stockholder distributions payable	200,000	-
Current portion of capital lease obligations	31,383	28,544
Current portion of long-term debt	1,111,205	1,331,961
Current portion of notes payable to related party	62,607	58,990
TOTAL CURRENT LIABILITIES	<u>3,162,033</u>	<u>3,175,548</u>
LONG-TERM OBLIGATIONS, net of current portion:		
Capitalized lease obligations	27,316	58,703
Line of credit	928,689	1,019,619
Long-term debt	11,837,862	12,570,000
Notes payable to related party	416,176	478,780
TOTAL LONG-TERM OBLIGATIONS	<u>13,210,043</u>	<u>14,227,102</u>
DEFERRED TAX LIABILITY	<u>33,900</u>	<u>26,800</u>
TOTAL LIABILITIES	<u>16,405,976</u>	<u>17,429,450</u>
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS' EQUITY:		
Common stock, \$100 par value; authorized 2,000 shares; 180 shares issued and outstanding	18,000	18,000
Additional paid-in capital	407,000	407,000
Retained earnings	7,943,973	6,946,987
TOTAL STOCKHOLDERS' EQUITY	<u>8,368,973</u>	<u>7,371,987</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$24,774,949</u>	<u>\$24,801,437</u>

See accompanying notes to financial statements.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

**STATEMENTS OF INCOME AND RETAINED EARNINGS**

**YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES	\$ 15,403,934	\$ 15,081,467
EXPENSES:		
Operating	11,358,942	10,966,394
Administrative	2,178,980	2,359,124
TOTAL EXPENSES	<u>13,547,922</u>	<u>13,325,518</u>
OPERATING INCOME	<u>1,856,012</u>	<u>1,755,949</u>
OTHER INCOME (EXPENSES):		
Gain on disposition of assets, net	77,644	1,000
Interest income	10,046	13,365
Interest expense	(318,252)	(338,175)
Miscellaneous income	800	-
TOTAL OTHER INCOME (EXPENSES)	<u>(229,762)</u>	<u>(323,810)</u>
INCOME BEFORE STATE INCOME TAXES	<u>1,626,250</u>	<u>1,432,139</u>
PROVISION FOR STATE INCOME TAXES	<u>22,264</u>	<u>14,991</u>
NET INCOME	1,603,986	1,417,148
RETAINED EARNINGS, BEGINNING OF PERIOD	6,946,987	5,955,208
DISTRIBUTIONS	<u>(607,000)</u>	<u>(425,369)</u>
RETAINED EARNINGS, END OF PERIOD	<u>\$ 7,943,973</u>	<u>\$ 6,946,987</u>

See accompanying notes to financial statements.



**SOUTH TAHOE REFUSE CO.  
 (A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,603,986	\$ 1,417,148
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	969,447	917,016
Amortization	40,434	40,434
Gain on disposition of assets	(77,644)	(1,000)
Bad debt	39,172	67,332
Deferred tax liability	7,100	4,500
Interest income on restricted cash	(647)	(2,034)
Change in operating assets and liabilities:		
Certificate of deposit	(274)	(237)
Accounts receivable, trade	3,119	(3,764)
Accounts receivable, other	7,178	(98,844)
Inventory	(10,270)	15,434
Prepaid expenses and deposits	(20,106)	32,023
Accounts payable	17,303	57,197
Accrued expenses	(26,577)	(18,853)
Deferred income	10,059	29,250
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,562,280</u>	<u>2,455,602</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net collection (advance) on receivables from related parties	(46,793)	(80,957)
Net collection (advance) on receivables from ARD and SDS	(344,216)	22,287
Capital expenditures	(1,601,266)	(250,379)
Cash proceeds from the sale of equipment	82,476	1,000
Net collection (advance) on due from officers/stockholders	(5,518)	11,753
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,915,317)</u>	<u>(296,296)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Deposits from restricted cash	1,378,578	145,802
Principal payments on capital leases	(28,548)	(25,965)
Principal payments on long-term debt and line of credit	(1,203,239)	(1,514,868)
Principal payments on notes payable to related party	(58,987)	(53,839)
Distributions	(407,000)	(425,369)
NET CASH USED BY FINANCING ACTIVITIES	<u>(319,196)</u>	<u>(1,874,239)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	327,767	285,067
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,206,226</u>	<u>2,921,159</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,533,993</u>	<u>\$ 3,206,226</u>

See accompanying notes to financial statements.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****STATEMENTS OF CASH FLOWS****YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
SUPPLEMENTARY CASH FLOW INFORMATION:		
Cash paid during the year:		
Interest	\$ 319,232	\$ 344,977
Taxes	\$ 22,681	\$ 4,867
Noncash investing and financing transaction:		
Equipment acquired through long-term debts	\$ 59,415	\$ -
Accrued stockholder distributions	\$ 200,000	\$ -

See accompanying notes to financial statements.

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**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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## NOTE 1 – ORGANIZATION

General – South Tahoe Refuse Co. (the “Company”) is a division of South Tahoe Refuse Co., Inc. and provides collection of refuse, garbage and similarly related items and transports the material to disposal sites in certain areas and operates a materials recovery facility. The Company owns and operates three franchises and provides services to the following franchised areas: El Dorado County, California; City of South Lake Tahoe, California; and Douglas County, Nevada. Rates for services are set on an annual basis for the franchised areas by the respective Board or Council upon conclusion of public notice or hearing.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the Company have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents For the purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of 3 months or less to be cash equivalents.

Accounts and Other Receivable – Trade accounts receivable and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements. Accounts and other receivable from related parties are considered fully collectable and no valuation allowances are provided for.

Inventory – The Company records inventory which consists of recyclable products. Inventory is valued at market price which is lower of cost or market.

Property and Equipment – Property and equipment are carried at cost, including capitalized interest cost incurred during the period of asset construction, less accumulated depreciation and amortization. Leased equipment under capital leases is amortized using the straight-line method over the lives of the respective leases or over the service lives of the assets for those leases which substantially transfer ownership.

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Buildings and improvements	5 – 40 years
Equipment	3 – 10 years

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Equipment under capital leases	5 years
Leaschold improvements	10 – 40 years
Material recovery facilities and equipment	5 – 40 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Interest incurred during construction of long-lived assets are capitalized to the basis of the property and depreciated over the life of the asset.

Deferred Income The Company bills residential accounts in three cycles for billing purposes. Each cycle is billed three months in advance. As a result, after each billing cycle, the Company has one month of unearned income in one cycle and two months of unearned income in another cycle which is reflected as deferred income.

Revenue Recognition Revenues are generated from the fees charged for waste collection and the sale of recycled commodities. The fees charged for the services are generally defined in the service agreements and vary based on contract specific terms such as frequency of service, weight, volume and the general market factors influencing the region's rates. The Company generally recognizes revenue as services are performed or products are delivered. For example, revenue typically is recognized as waste is collected and recycled commodities are delivered.

Impairment of Long-Lived Assets – The carrying value of long-lived assets is reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. To date, no such impairment has been indicated. The cash flow estimates contain management's best estimates, using appropriate and customary assumptions and projections at the time.

Leases – Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the lease properties at the beginning of the respective lease terms. Such assets are amortized over their estimated useful lives or over the term of the lease, whichever is shorter. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

401(k) Plan – With an effective date of January 1, 1998, employees of the Company may participate in the Company sponsored 401(k) plan, whereby the employees may elect to make contributions pursuant to a salary reduction agreement upon meeting age and length-of-service requirements. The employees can elect to defer up to the IRS maximum limit of their annual compensation. The Company does not make a matching contribution to this 401(k) plan. Effective December 31, 2012, the 401(k) plan was merged into the Pension plan.

Pension Plan – A non-contributory defined contribution pension plan was established by the Company in 1972. Participants are employees with 1,000 hours and one year of employment with the Company. The Company contributes discretionary percentage of participants' annual compensation. The contribution percentage is 4.5% for the calendar years 2013 and 2012 and 3% for the calendar year 2011. Pension costs were \$169,565 and \$131,324 for the years ended June 30, 2013 and 2012, respectively, of which \$35,920 and \$60,468 were payable as of June 30, 2013 and 2012, respectively.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The Company accounts for income taxes in accordance with the FASB Accounting Standards of Codification ("ASC") 740, *Income Taxes* (formerly referenced as SFAS No. 109, *Accounting for Income Taxes*). ASC 740 requires that deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. The differences relate primarily to depreciation (differences in methods used for financial statement and income tax purposes), and the expense recognition for the litigation settlement (deductible for financial statement purposes, but not for income tax purposes).

Because certain tax positions taken in the Company's tax return may be subject to challenge by the taxing authorities upon examination, the Company annually reviews and considers its tax positions. Furthermore, the Company's 2010, 2011 and 2012 income tax returns filed with the federal government are subject to examination. The 2009, 2010, 2011 and 2012 income tax returns filed with the State of California are subject to examination.

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code (and comparable state regulations) to be an "S" Corporation. Under Subchapter S provisions, the stockholders of an "S" Corporation are taxed on their proportionate share of the Company's net taxable income or loss.



**SOUTH TAHOE REFUSE CO.  
 (A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**
**NOTES TO FINANCIAL STATEMENTS**
**JUNE 30, 2013 AND 2012**
**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Therefore, no provision or liability for federal income taxes will be recognized in future periods, and no assets or liabilities for the future effects of federal income taxes are included on the balance sheets at June 30, 2013 and 2012. The franchise tax laws of the State of California provide for a tax at the reduced rate of 1.5% for "S" Corporations. Accordingly, the Company has included in the "provision for income taxes," on the statements of income and retained earnings, estimates of the state income taxes currently due, and has recognized the future effects of state income tax as deferred tax liability on the balance sheets.

Advertising – Advertising costs are expensed as incurred. Advertising expense was \$34,311 and \$39,810 for the years ended June 30, 2013 and 2012, respectively.

Reclassification – Certain amounts in the prior year balance sheet and cash flow statement have been reclassified for comparative purposes to conform to the presentation in the current year balance sheet and cash flow statement.

**NOTE 3 – CERTIFICATE OF DEPOSIT**

The Company holds a certificate of deposit ("CD") with an original maturity of 7 months. As of June 30, 2013, the CD held had an annual yield interest percentage of 0.17% with a maturity date of October 27, 2013.

**NOTE 4 – TRADE ACCOUNTS RECEIVABLE**

Trade accounts receivable consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Trade receivables	\$ 1,066,738	\$ 1,109,128
Trade receivables - related parties	<u>21,854</u>	<u>21,755</u>
Trade accounts receivable	1,088,592	1,130,883
Less: allowance for doubtful accounts	<u>25,200</u>	<u>25,200</u>
Trade accounts receivable, net	<u>\$ 1,063,392</u>	<u>\$ 1,105,683</u>

**SOUTH TAHOE REFUSE CO.  
 (A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**
**NOTES TO FINANCIAL STATEMENTS**
**JUNE 30, 2013 AND 2012**
**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,208,474	\$ 1,208,474
Building and improvements	5,144,948	5,121,866
Equipment	6,778,609	6,140,016
Equipment under capital leases	191,503	191,503
Leasehold improvements	31,327	31,327
Material recovery facility and equipment	4,184,774	4,159,149
Resource recovery facility and equipment	9,170,348	9,144,086
Truck parking facility	<u>3,563,623</u>	<u>3,563,623</u>
Property and equipment	30,273,606	29,560,044
Less: accumulated depreciation	13,019,923	12,992,762
Less: accumulated amortization	<u>157,306</u>	<u>129,949</u>
Property and equipment, net	<u>\$ 17,096,377</u>	<u>\$ 16,437,333</u>

**NOTE 6 – BOND ISSUANCE COSTS**

Bond issuance costs at June 30:

	<u>2013</u>	<u>2012</u>
Bond issuance costs	\$ 392,300	\$ 392,300
Less: accumulated amortization	<u>68,649</u>	<u>55,573</u>
Bond issuance costs, net	<u>\$ 323,651</u>	<u>\$ 336,727</u>

The bond issuance costs are capitalized and amortized over the term of the bonds. Annual amortization amount of \$13,076 is expensed until March 2038 or the bond is fully paid off. The amortization period of the deferred costs remaining at June 30, 2013 was 297 months.



**SOUTH TAHOE REFUSE CO.  
 (A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**
**NOTES TO FINANCIAL STATEMENTS**
**JUNE 30, 2013 AND 2012**


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**NOTE 7 – FRANCHISE AGREEMENTS**

The Company has franchise agreements with three municipalities it serves: El Dorado County, California; City of South Lake Tahoe, California; and Douglas County, Nevada. The terms of the respective franchise agreements are effective through December 31, 2023, December 31, 2028, and December 31, 2028, respectively.

Generally these agreements provide for Company payments of three to five percent of gross cash collections derived from the municipal area as a franchise fee. For the years ended June 30, 2013 and 2012, total franchise fee expense was \$620,503 and \$573,616, respectively. The City of South Lake Tahoe municipality accounts for approximately 64% and 64%, El Dorado County accounts for approximately 17% and 18%, and Douglas County accounts for approximately 19% and 18% of gross cash collections, for the years ended June 30, 2013 and 2012, respectively.

**NOTE 8 – CAPITALIZED LEASE OBLIGATIONS**

The Company leases a vehicle with lease term through October 2014. The obligation under capital lease has been recorded at the present value of the future minimum lease payments, discounted at interest rate of 9.51%.

The following is a schedule of future minimum lease payments under the capital lease with the present value of the minimum lease payments as of June 30, 2013:

<u>Year Ending June 30,</u>		
2014	\$	35,622
2015		<u>28,056</u>
Total minimum lease payments		63,678
Less: amount representing interest		<u>4,979</u>
Present value of minimum lease payments		58,699
Less: current portion		<u>31,383</u>
Capitalized lease obligations, less current portion	\$	<u><u>27,316</u></u>

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013 AND 2012**

NOTE 9 – LONG-TERM OBLIGATIONS

	<u>2013</u>	<u>2012</u>
Long-term debt is summarized as follows:		
Note payable, California Pollution Control Financing Authority, original amount of \$16,615,000, interest at a variable rate not to exceed 12.0% (0.11% at June 30, 2013) paid monthly, principal due in variable annual installments maturing April 2038.	\$ 11,745,000	\$ 12,645,000
Note payable, collateralized by equipment, due in monthly installments of \$880, including interest at 2.9% per annum, due March 2013.	-	6,961
Note payable, collateralized by equipment, due in monthly installments of \$1,094, including interest at 3.94% per annum, due December 2017.	54,067	-
Note payable, Union Bank, original amount of \$2,000,000, secured by substantially all of the Company's assets, interest at a variable rate (3.25% at June 30, 2013), due in monthly installments of \$16,667 plus interest, maturing April 2015.	<u>1,150,000</u>	<u>1,350,000</u>
Total long-term debt	12,949,067	14,001,961
Less: current portion	<u>1,111,205</u>	<u>1,331,961</u>
Long-term debt, net of current portion	<u>\$ 11,837,862</u>	<u>\$ 12,670,000</u>
	<u>2013</u>	<u>2012</u>

Note payable to related parties is summarized as follows:

Note payable to stockholders, unsecured, payable in monthly installments of \$5,000, including interest at 7.00% per annum, due November 2022.	\$ 415,250	\$ 445,040
Note payable to stockholders, unsecured, payable in monthly installments of \$1,172, including interest at 7.00% per annum, due June 2015.	26,178	38,563

**SOUTH TAHOE REFUSE CO.  
 (A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**
**NOTES TO FINANCIAL STATEMENTS**
**JUNE 30, 2013 AND 2012**
**NOTE 9 – LONG-TERM OBLIGATIONS – (CONTINUED)**

Note payable to a stockholder, unsecured, payable in monthly installments of \$1,673, including interest at 7.00% per annum, due June 2015.	37,355	54,167
Total notes payable to related parties	478,783	537,770
Less: current portion	62,607	58,990
Note payable to related parties, net of current portion	<u>\$ 416,176</u>	<u>\$ 478,780</u>

The following is a schedule by year of the maturities of long-term debt, including line of credit, as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>
2014	\$ 1,173,812
2015	2,907,470
2016	998,850
2017	1,001,992
2018	1,098,715
Thereafter	<u>7,175,700</u>
Total	<u>\$ 14,356,539</u>

**NOTE 10 – CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY LOAN**

On April 1, 2008, the Company entered into a loan agreement with the California Pollution Control Financing Authority (the "Authority"), a public instrumentality and political subdivision of the State of California. The total principal amount borrowed was \$16,615,000 and the use of the principal is restricted to financing or refinancing the loan costs, the construction of a new resource recovery facility, the construction of improvements to an existing material recovery facility and the acquisition of equipment for the collection, processing and transfer of solid waste, and the construction of a vehicle parking and maintenance facility, to be located in El Dorado County, California (the "Project"). To fund the \$16,615,000 loan, the Authority issued California Pollution Control Financing Authority Variable Rate Demand Solid Waste Disposal Revenue Bonds (South Tahoe Refuse Co. Project) Series 2008A (the "Bonds").

In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured, and to secure the payment of the

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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**NOTE 10 – CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY LOAN –  
(CONTINUED)**

principal thereof and of the interest and premium, if any, thereon, the Authority has executed an indenture, dated as of April 1, 2008, with The Bank of New York Trust Company, N.A, as trustee (the "Trustee"). Pursuant to the indenture, the revenue received under the loan agreement described above will be applied to the Bond principal redemption and interest payments as they become due.

To facilitate the above, the Company has entered into a letter of credit agreement (the "Agreement") dated April 9, 2008, with Union Bank (the "Bank") in favor of the Trustee, for an initial stated amount of \$16,860,811, which has been reduced to \$11,918,762 as of June 30, 2013. The letter of credit is available to be drawn upon to provide funds for the Bond principal redemption and interest payments when due and payable. Subsequently, there was an amendment to the Agreement to provide for a revolving line of credit with a limitation of the aggregate principal amount of the letter of credit and outstanding revolving borrowings of \$18,250,000 which has been reduced to \$13,632,500 as of June 30, 2013. As of June 30, 2013, there was \$928,689 of outstanding borrowing on the revolving line of credit. The Agreement requires monthly payments of interest at a variable interest rate (1.36% at June 30, 2013) and principal payment due on April 8, 2015. Interest is accrued on all outstanding principal advances from the date of the advance until repayment.

The Agreement grants the Bank a first priority deed of trust encumbering the real property and all improvements, and pledges the equipment, accounts receivable and other assets not otherwise encumbered, that are owned by the Company. In addition, the agreement with the Bank contains certain restrictions and covenants, including but not limited to, leverage and fixed charge coverage ratio requirements, distributions and allowable annual capital expenditures limitations. At June 30, 2013, the Company was in compliance with the covenants. The stockholders (Carol Sesser, Jeffery Tillman, John Tillman, John Marchini and Gloria Lehman), the James D. Sesser and Carol I. Sesser 1988 Trust, the Marchini Family Revocable Living Trust, and the Lehman Family 2002 Trust are the guarantors of the long-term debt and letter of credit agreements with the Bank.

**NOTE 11 – RESTRICTED CASH**

Pursuant to the financing agreements with the Authority discussed in Note 10 above, the proceeds of the loan are restricted to specific uses for the acquisition, construction, equipping, rehabilitation, improvement and installation of the Project, other facilities and real and personal property deemed necessary for the operation of the Project. These funds, referred to as the Project Fund, are held by the Bank, in the form of money market funds and are recorded at market value which, at June 30, 2013 and 2012 was equal to their cost.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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**NOTE 12 – OPERATING LEASES**

The Company leases office equipment, with lease terms expiring through April 2018. At June 30, 2013, future minimum rental payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 8,565
2015	8,565
2016	4,617
2017	4,617
2018	<u>3,848</u>
Total	<u>\$ 30,212</u>

The total rent expense incurred by the Company on various non-related party operating leases was approximately \$7,522 and \$7,248 for the years ended June 30, 2013 and 2012, respectively.

**NOTE 13 – TRANSACTIONS WITH RELATED PARTIES**

The Company engaged in several related party transactions during the years ended June 30, 2013 and 2012, as follows:

With Douglas Disposal, Inc. (“DDI”) (a sister corporation with common stockholders and management):

- Received rental revenue totaling \$22,248 and \$22,248 for the years ended June 30, 2013 and 2012, respectively, which included facilities and equipment rent (all on month-to-month operating leases).
- Accounts receivable at June 30, 2013 and 2012 of \$30,003 and \$26,071, respectively, for liability insurance costs paid by the Company.
- Receivable of \$145,711 and \$94,109 at June 30, 2013 and 2012, respectively, for self-insurance costs paid/payable by the Company.
- Trade accounts receivable of \$1,854 and \$1,854 for the years ended June 30 2013 and 2012, respectively, resulting from various expense reimbursements and rent due.
- The advance balance receivable from DDI of \$2,000 and \$-0- at June 30, 2013 and 2012, respectively.

**SOUTH TAHOE REFUSE CO.  
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## NOTE 13 – TRANSACTIONS WITH RELATED PARTIES – (CONTINUED)

- The Company entered into a note receivable agreement with DDI dated June 15, 2010 in the amount of \$186,612. The agreement states that the note is receivable in monthly installments of \$1,500, including interest at 4.0% maturing October 2023. The note receivable balance was \$153,090 and \$164,713 at June 30, 2013 and 2012, respectively. Interest earned for the years ended June 30, 2013 and 2012 was \$6,378 and \$6,832, respectively.

With Tahoe Basin Container Service, Inc. (“TBC”) (a sister corporation with common stockholders and management):

- Incurred equipment and facilities rent expense of \$30,876 and \$30,876 in 2013 and 2012, respectively, on month-to-month operating leases, and contract labor totaling \$261,473 and \$262,666 for the years ended June 30, 2013 and 2012, respectively.
- Accounts receivable at June 30, 2013 and 2012 of \$24,541 and \$19,515, respectively, for liability insurance costs paid by the Company.
- Receivable of \$39,269 and \$24,564 at June 30, 2013 and 2012, respectively, for self-insurance costs paid/payable by the Company.
- Accounts receivable at June 30, 2013 and 2012 of \$927 and \$927, respectively, resulting from various expense reimbursements and rent due.
- Trade accounts receivable at June 30, 2013 and 2012 of \$19,073 and \$18,974, respectively, for dump fees.
- Accounts payable due at June 30, 2013 and 2012 of \$22,306 and \$22,846, respectively, for container rental.
- Received rental revenue totaling \$11,124 and \$11,124 for the years ended June 30, 2013 and 2012, respectively, which included facilities, vehicle, and equipment rent (all on month-to-month operating leases).
- Revenue for the years ended June 30, 2013 and 2012 includes dump transfer fees of \$222,639 and \$196,627, respectively.

With American River Disposal Service (“ARD”) (another division of South Tahoe Refuse Co., Inc.):

- Received equipment and facilities rent revenue of \$54,300 and \$52,440 for the years ended June 30, 2013 and 2012, respectively, on month-to-month operating leases.



**SOUTH TAHOE REFUSE CO.  
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## NOTE 13 – TRANSACTIONS WITH RELATED PARTIES – (CONTINUED)

- Received dump fee revenue of \$185,122 and \$171,524 for the years ended June 30, 2013 and 2012, respectively.
- Amount of advance to ARD as of June 30, 2013 and 2012 of \$78,097 and \$18,927, respectively, for various expense reimbursements.
- Accounts receivable from ARD at June 30, 2013 and 2012 of \$25,731 and \$20,452, respectively, for dump fees and rent expenses.

With Sierra Disposal Service ("SDS") (another division of South Tahoe Refuse Co., Inc.):

- Received office equipment rent revenue of \$14,832 and \$14,832 in 2013 and 2012, respectively, on month-to-month operating leases.
- Amount of advance to SDS as of June 30, 2013 and 2012 of \$994,050 and \$709,004, respectively, for various expense reimbursements.
- Accounts receivable from SDS at June 30, 2013 and 2012 of \$1,236 and \$1,236, respectively, for rent expenses.

With stockholders:

- The Company entered into a consolidated note agreement dated February 1, 2004 with a stockholder in the amount of \$146,964. The note is payable to the stockholder in monthly installments of \$1,673 including interest at 7.00% per annum, maturing June 2015. The note payable balance was \$37,355 and \$54,167 at June 30, 2013 and 2012, respectively. Interest expense was \$3,259 and \$4,392 for the years ended June 30, 2013 and 2012, respectively.
- The Company entered into a consolidated note agreement dated February 1, 2004 with a stockholder in the amount of \$102,985. The note is payable to the stockholder in monthly installments of \$1,172 including interest at 7.00% per annum, maturing June 2015. The note payable balance was \$26,178 and \$38,563 at June 30, 2013 and 2012, respectively. During the year ended June 30, 2013, this note was inherited by his heirs who are also stockholders of the Company. Interest expense was \$2,284 and \$3,078 for the years ended June 30, 2013 and 2012, respectively.

**SOUTH TAHOE REFUSE CO.  
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## NOTE 13 – TRANSACTIONS WITH RELATED PARTIES – (CONTINUED)

- The Company entered into an installment sale note agreement dated July 31, 2003 with a stockholder in the amount of \$652,502, which was resulted from a purchase of a real property by the Company. The modification agreement was entered effective February 1, 2004, and the note is currently payable in monthly installments of \$5,000 including interest at 7.00% per annum, maturing November 2022. The note payable balance was \$415,250 and \$445,038 at June 30, 2013 and 2012, respectively. During the year ended June 30, 2013, this note was inherited by his heirs who are also stockholders of the Company. Interest expense was \$30,209, and \$32,217 for the years ended June 30, 2013 and 2012, respectively.

## NOTE 14 – SELF-INSURANCE

The Company joined together with TBC and DDI (companies with similar ownership) to form a group medical self-insurance pool. A third-party administrator processes payments for the group medical claims. Claims payment is for both those claims covered by the self-insurance pool and those covered by an excess loss reinsurance company. The third party administrator also bills, processes, and remits all payments for excess loss reinsurance premiums and various administration service vendors, and maintains all eligibility records. The excess loss insurance is acquired through commercial companies for specific claims in excess of \$60,000 per eligible participant per year. To keep the monthly premiums as low as possible, the Company has also opted to assume an additional annual \$75,000 Aggregating Specific Deductible Option. This option represents the accumulation of all losses eligible for specific excess coverage above the specific level for one or more claimants. No reimbursement for specific claims is made until this corridor has also been satisfied.

Additionally, Aggregate excess-loss insurance is also purchased in order to limit the overall annual claims exposure to the group. If paid claims exceed the annual aggregate deductible of \$2,171,836, then the amount in excess of the deductible will be reimbursed to the group at the end of the contract period. The Company pays the third-party administrator for its pro-rata share of claims incurred as well as the premiums on the excess loss insurance.

## NOTE 15 – COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments under previous and existing garbage collection and disposal contracts and contingent liabilities arising from threatened and pending litigation.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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**NOTE 15 – COMMITMENTS AND CONTINGENCIES – (CONTINUED)**

Meyers Landfill Litigation – The Company has been notified by the United States Department of Agriculture (DOA) that a landfill site, located in El Dorado County, California, operated by various entities, has been contaminated and is requesting that various entities, including the Company, pay for the cost of cleanup. The nature and extent of the contamination are not presently known. Due to the complexities and unknowns of the contamination problem, management of the Company and its legal counsel are not able to estimate the amount or range of possible loss.

El Dorado County filed a lawsuit in Federal Court in Sacramento against the Company and others. El Dorado County had made a settlement demand to the Company in the amount of \$5,451,285. The Company made an offer to El Dorado County to settle the litigation by the Company paying the county the sum of \$1,250,000 payable in forty-eight equal quarterly installments. El Dorado County subsequently rejected this proposal.

The Company offered to settle a portion of the litigation directly with the U.S. Forest Service, which involves the placement of an impermeable cap over the landfill. During the year ended June 30, 2010, the Company was able to settle with the U.S. Forest Service for \$1,000,000 as a first-stage clean-up cost. The Company still faces the possibility of having to contribute to the costs of cleaning up the groundwater contamination beneath the landfill. All parties involved are hopeful that once the cap is in place, which will prevent future leakage, that through natural attenuation, the groundwater contamination will correct itself. If it does not, then the Company faces the future possibility of contributing to the costs of correcting the groundwater contamination. The Company and its legal counsel are not able to estimate the amount or range of possible loss.

Environmental Risks – The Company is subject to extensive and evolving federal, state and local environmental, health, safety and transportation laws and regulations. Under these current laws and regulations, the Company may be subject to liability for any environmental damage that its collection and disposal operations may cause to neighboring landowners or residents, particularly as a result of the contamination of soil, groundwater or surface water, and especially drinking water, including damage resulting from conditions existing prior to the liability for any off-site environmental contamination caused by pollutants or hazardous substances whose transportation, or disposal was arranged by the Company. Additionally, the Company may be liable for any contamination from neighboring facilities. Any substantial liability for environmental damage incurred by the Company could have a material adverse effect on the Company's financial condition, results of operations, or cash flows. As of June 30, 2013, the Company is not aware of any such environmental liabilities other than the Meyers Landfill lawsuit discussed above.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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**NOTE 15 – COMMITMENTS AND CONTINGENCIES – (CONTINUED)**

In addition, due to the numerous complex rules, orders and interpretations governing environmental protection, health, safety, land use, zoning, transportation and related matters, among other things, the Company's operations may incur additional unanticipated costs. The costs of complying with these regulations could have a material adverse effect on the Company's financial condition, results of operations, or cash flows. Such conditions include, but are not limited to, the following:

- Limitations on siting and constructing new waste disposal, transfer or processing facilities or expanding existing facilities;
- Limitations, regulations or levies on collection and disposal prices, rates and volumes;
- Limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste, or;
- Mandates regarding the disposal of solid waste.

The Company has a liability insurance policy covering up to \$5,000,000 liability for environmental damages. As of June 30, 2013, the Company is not aware of any such additional unanticipated costs.

**NOTE 16 – INCOME TAXES**

The income tax provision consists of the following for the years ended June 30:

<u>Provision for Income Taxes</u>	<u>2013</u>	<u>2012</u>
Current state tax expense	\$ 15,164	\$ 10,491
Deferred state tax expense(benefit)	<u>7,100</u>	<u>4,500</u>
Total provision for income taxes	<u>\$ 22,264</u>	<u>\$ 14,991</u>

The income tax provision differs from the expense that would result from applying California statutory rates to income before income taxes because certain permanent differences such as meals and entertainment, and other non-deductible items that are not tax deductible.

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012**

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**NOTE 17 – CONCENTRATION OF CREDIT RISK**

The Company grants credit to customers, substantially all of whom are local businesses and local residents in certain California and Nevada municipalities located at Lake Tahoe where it serves under franchise agreements. Since virtually all of the Company's revenues are from the Lake Tahoe area, the Company has a concentration of credit risk in this geographical area.

**NOTE 18 – CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS**

The Company maintains cash, cash equivalent, and restricted cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Company ("FDIC") for up to \$250,000. In addition, effective December 31, 2010, the FDIC temporarily insures all non-interest bearing transaction accounts through December 31, 2012. At June 30, 2013 and 2012, the Company's uninsured cash, cash equivalents, and restricted cash balance was approximately \$3,701,588 and \$3,349,262, respectively.

**NOTE 19 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated by the management through the date of the auditors' report, which is the date the financial statements were available to be issued. No significant events have occurred from June 30, 2013 through the date of issuance.

SUPPLEMENTARY INFORMATION








Certified Public Accountants

Jeff Vathayanon, CPA  
Paul Tibma, CPA  
Roger Williams, CPA  
Jason Reecy, CPA/ABV

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors and Stockholders  
South Tahoe Refuse Co., Inc.  
South Lake Tahoe, California

We have audited the financial statements of South Tahoe Refuse Co., a division of South Tahoe Refuse Co., Inc. as of and for the years ended June 30, 2013 and 2012, and our report thereon dated October 28, 2013, which expressed an unqualified opinion on those financial statements, appears on page 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operating revenues, operating expenses, and administrative expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
October 28, 2013

**SOUTH TAHOE REFUSE CO.  
(A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

**SCHEDULES OF OPERATING REVENUES**

**YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES:</b>		
CA - City residential	\$ 4,121,657	\$ 3,901,702
CA - City commercial	2,812,161	2,717,111
CA - El Dorado residential	2,110,597	2,001,771
CA - El Dorado commercial	184,679	177,696
CA - transfer fees	1,404,269	1,283,518
CA - resource recovery fees	17,990	23,992
CA - rent income	123,796	125,177
CA - miscellaneous	1,860	1,860
<b>TOTAL CALIFORNIA</b>	<u><b>10,777,009</b></u>	<u><b>10,232,827</b></u>
NV - residential	465,490	454,704
NV - commercial	2,008,249	1,831,521
NV - miscellaneous	22,248	22,248
<b>TOTAL NEVADA</b>	<u><b>2,495,987</b></u>	<u><b>2,308,473</b></u>
Forestry, federal and state contracts	168,366	165,266
Material recovery facility	399,583	571,171
Recycling sales	1,562,989	1,803,730
<b>TOTAL OTHER OPERATING REVENUES</b>	<u><b>2,130,938</b></u>	<u><b>2,540,167</b></u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>\$ 15,403,934</b></u>	<u><b>\$ 15,081,467</b></u>

See Independent Auditors' Report on Supplemental Information.

**SOUTH TAHOE REFUSE CO.  
 (A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**

**SCHEDULES OF OPERATING EXPENSES**

**YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING EXPENSES:</b>		
Contract labor	\$ 273,729	\$ 268,767
Cost of sales, material recovery facility	18,680	13,250
Cost of sales, recycling	1,134,453	1,117,099
Depreciation and amortization	935,857	875,037
Dump fees	1,154,816	1,204,453
Franchise fees	620,503	573,616
Fuel	617,253	598,499
Hazardous waste	167,302	175,650
Insurance	1,523,922	1,606,875
Labor	2,968,376	2,829,835
Miscellaneous	2,218	1,420
Officers' salaries	435,441	426,759
Other taxes and licenses	79,089	77,164
Payroll taxes	285,624	284,606
Pension benefits	140,426	104,077
Rent	55,372	57,216
Repairs	601,167	468,819
Supplies	154,810	116,621
Utilities	189,904	166,631
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 11,358,942</u></b>	<b><u>\$ 10,966,394</u></b>

See Independent Auditors' Report on Supplemental Information.

**SOUTH TAHOE REFUSE CO.  
 (A DIVISION OF SOUTH TAHOE REFUSE CO., INC.)**
**SCHEDULES OF ADMINISTRATIVE EXPENSES**
**YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ADMINISTRATIVE EXPENSES:		
Advertising	\$ 34,311	\$ 39,810
Bad debt	39,172	67,332
Contract labor	14,650	25,458
Depreciation	60,948	69,337
Amortization	13,076	13,076
Donations	38,635	34,922
Dues and subscriptions	11,257	13,991
Education	1,748	1,159
Employee benefits	14,285	16,425
Insurance	252,675	375,426
Miscellaneous	27,305	21,122
Office	147,165	135,845
Officers' salaries	332,591	325,924
Other salaries	362,119	361,361
Other taxes and licenses	207,145	210,244
Payroll taxes	60,863	49,761
Pension benefits	29,139	27,247
Professional fees	352,276	412,360
Rent	9,271	8,389
Repairs	48,950	36,503
Travel and entertainment	6,244	6,974
Utilities	115,155	106,458
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 2,178,980</u>	<u>\$ 2,359,124</u>

See Independent Auditors' Report on Supplemental Information.

**Attachment B: Recommended Adjustments to Base Year 2015 Rate Application**

**Attachment B-1  
South Tahoe Refuse Company, Inc.  
Recommended Adjustments to Fiscal Year 2015 Rate Application**

	FY 2015 Base Year Projection			Crowe Horwath Adjustments			Adjusted Amount		
	City of SLT and Douglas County	El Dorado County	All Member Agencies	City of SLT and Douglas County	El Dorado County	All Member Agencies	City of SLT and Douglas County	El Dorado County	All Member Agencies
<b>Allowable Operating Expenses</b>									
Direct Labor	\$ 4,585,475	\$ 1,118,774	\$ 5,704,249	\$ (31,765)	\$ (25,635)	\$ (57,400)	\$ 4,553,710	\$ 1,113,139	\$ 5,666,849
Equipment Costs and Facility Costs	923,845	225,402	1,149,247	-	-	-	923,845	225,402	1,149,247
Landfill Disposal Costs	703,595	212,410	1,083,005	-	-	-	703,595	212,410	1,083,005
Office Salaries	823,109	200,824	1,023,933	(5,792)	(1,413)	(7,205)	817,317	199,411	1,016,728
General and Administrative Costs	2,996,326	734,392	3,730,718	(54,252)	(13,237)	(67,489)	2,941,824	721,155	3,662,979
RRF Principal and Interest Payments (El Dorado County)	-	17,984	17,984	-	-	-	-	17,984	17,984
RRF Principal and Interest Payments (El Dorado County)	-	249,539	249,539	-	-	-	-	249,539	249,539
Other Interest Expenses	-	10,092	10,092	-	-	-	-	10,092	10,092
Total Operating Expenses	\$ 10,201,350	\$ 2,769,417	\$ 12,970,767	\$ (86,757)	\$ (20,880)	\$ (107,637)	\$ 10,114,593	\$ 2,748,537	\$ 12,863,130
<b>Allowable Operating Profit</b>									
Operating Ratio	87%	89%	89%	0%	0%	0%	87%	89%	89%
Allowable Operating Profit	\$ 1,524,340	\$ 342,287	\$ 1,866,627	\$ (12,788)	\$ (2,580)	\$ (15,368)	\$ 1,511,552	\$ 339,707	\$ 1,851,259
<b>Pass-Through Costs without Franchise Fees</b>									
RRF Principal Payments (City and Douglas)	\$ 61,619	\$ -	\$ 61,619	\$ -	\$ -	\$ -	\$ 61,619	\$ -	\$ 61,619
RRF Principal Payments (City and Douglas)	763,705	-	763,705	-	-	-	763,705	-	763,705
RRF and RRF Interest Expenses (City and Douglas)	271,367	-	271,367	-	-	-	271,367	-	271,367
Other Interest Expenses	41,363	-	41,363	-	-	-	41,363	-	41,363
RRF Fund Credit	(632,707)	(154,340)	(787,047)	(1)	1	-	(632,708)	(154,339)	(787,047)
Recycling Revenue Bonus	284,160	60,230	344,390	5,355	1,286	6,641	289,515	61,516	351,031
Total Pass-through Expenses	\$ 785,507	\$ (94,110)	\$ 691,397	\$ 5,354	\$ 1,287	\$ 6,641	\$ 794,861	\$ (32,823)	\$ 762,038
<b>Revenue Requirement without Franchise Fees</b>	\$ 12,515,197	\$ 3,017,594	\$ 15,532,791	\$ (93,013)	\$ (22,173)	\$ (115,186)	\$ 12,422,184	\$ 2,995,421	\$ 15,417,605
<b>Revenues</b>									
Residential Revenues Subtotal	\$ 4,624,132	\$ 2,136,940	\$ 6,761,072	\$ -	\$ -	\$ -	\$ 4,624,132	\$ 2,136,940	\$ 6,761,072
Less: Allowance for Uncollectible Residential Accounts	(6,510)	(3,871)	(10,381)	(625)	(372)	(997)	(7,135)	(4,243)	(11,378)
Total Residential Revenues (without Rate Change in Base Year)	\$ 4,617,622	\$ 2,133,069	\$ 6,750,691	\$ (625)	\$ (372)	\$ (997)	\$ 4,616,997	\$ 2,132,697	\$ 6,749,694
Commercial Revenues	\$ 5,024,923	\$ 199,479	\$ 5,224,402	\$ 0	\$ 0	\$ 0	\$ 5,024,923	\$ 199,479	\$ 5,224,402
Less: Allowance for Uncollectible Commercial Accounts	(1,627)	(968)	(2,595)	625	372	997	(1,002)	(595)	(1,598)
Total Commercial Revenues (without Rate Change in Base Year)	\$ 5,023,296	\$ 198,511	\$ 5,221,807	\$ 625	\$ 372	\$ 997	\$ 5,023,921	\$ 198,883	\$ 5,222,804
Transfer Station and RRF Revenues (AND FORESTRY, FED, STATE CONTRACTS)	\$ 1,538,722	\$ 375,421	\$ 1,914,143	\$ 298	\$ 73	\$ 371	\$ 1,539,021	\$ 375,494	\$ 1,914,514
Recycled Material Sales	1,440,823	333,294	1,774,117	(298)	(73)	(371)	1,440,525	333,221	1,773,746
Total Revenues	\$ 12,620,463	\$ 3,040,295	\$ 15,660,758	\$ 1	\$ (6)	\$ 1	\$ 12,620,464	\$ 3,040,295	\$ 15,660,758
<b>Net Shortfall (Surplus) without Franchise Fees</b>	\$ (105,266)	\$ (22,701)	\$ (127,967)	\$ (93,014)	\$ (22,173)	\$ (115,187)	\$ (198,280)	\$ (44,874)	\$ (243,154)
<b>Residential and Commercial Franchise Fees</b>	\$ 519,484	\$ 116,823	\$ 636,307	\$ 720	\$ (2,00)	\$ 718	\$ 520,204	\$ 116,821	\$ 637,025
<b>Net Shortfall (Surplus) with Franchise Fees</b>	\$ 414,218	\$ 94,122	\$ 508,340	\$ (92,294)	\$ (22,175)	\$ (114,469)	\$ 321,924	\$ 71,947	\$ 393,871
<b>Total Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change</b>	\$ 11,779,640	\$ 2,707,001	\$ 13,986,641	\$ 299	\$ 73	\$ 371	\$ 11,779,938	\$ 2,707,074	\$ 13,687,012
<b>Percent Change in Existing Residential/Commercial/Transfer Station/RRF Rates</b>	3.71%	3.48%	3.66%	-0.83%	-0.82%	-0.82%	2.88%	2.66%	2.84%



**Attachment C: Crowe Rate Model with Adjustments**

### Base Year Rate Application

**Financial Information for All Three Jurisdictions**

	Actual Audited Prior Year All Three Jurisdictions 9/30/2013	Estimated Current Year All Three Jurisdictions 6/30/2014	Projected Base Year City of SLT and Douglas County 6/30/2015	El Dorado County 6/30/2015
<b>Section I--Allowable Operating Costs</b>				
5 Direct Labor	\$ 5,235,780	\$ 5,525,553	\$ 4,559,940	\$ 1,112,544
6 Equipment Costs and Facility Costs	1,224,309	1,173,356	923,845	225,402
7 Landfill Disposal Costs	1,154,816	1,042,302	870,595	212,410
8 Office Salaries	978,717	995,424	817,317	199,411
9 General and Administrative Costs	3,825,707	3,541,159	2,944,074	721,155
10 MRF Principal and Interest Payments (El Dorado County)	18,084	17,594	0	17,984
11 RRF Principal and Interest Payments (El Dorado County)	219,344	237,623	0	249,539
Other Interest Expenses	9,976	9,716	0	10,092
12 <b>Total Allowable Operating Costs</b>	<b>\$ 12,666,733</b>	<b>\$ 12,542,720</b>	<b>\$ 10,115,771</b>	<b>\$ 2,748,537</b>
<b>Section II--Allowable Operating Profit</b>				
13 Operating Ratio	87.00%	87.00%	87.00%	89.00%
14 Allowable Operating Profit	\$ 1,892,730	\$ 1,874,200	\$ 1,511,552	\$ 339,707
<b>Section III--Pass Through Costs without Franchise Fees</b>				
15 MRF Principal Payments (City and Douglas)	\$61,619	\$61,619	\$61,619	\$0
16 RRF Principal Payments (City and Douglas)	723,510	723,510	763,705	0
17 MRF and RRF Interest Expenses (City and Douglas)	188,193	261,116	271,367	0
Other Interest Expenses	40,895	39,832	41,363	0
18 RRF Fund Credit	0	0	-632,708	-154,339
19 Recycling Revenue Bonus	404,720	351,031	289,515	61,516
20 <b>Total Pass Through Costs</b>	<b>\$ 1,418,937</b>	<b>\$ 1,437,108</b>	<b>\$ 734,861</b>	<b>-\$ 92,823</b>
<b>Section IV--Revenue Requirement without Franchise Fees</b>				
21 Total Allowable Operating Costs (Line 12) plus Allowable Operating Profit (Line 14) plus Total Pass Through Costs (Line 20)	\$ 15,978,400	\$ 15,854,027	\$ 12,422,184	\$ 2,995,421
<b>Section V--Revenues without Rate Change in Base Year</b>				
Residential Revenues	Current Rate/Month	Months	Projected Accounts	Total
City of South Lake Tahoe				
22 Unlimited service	\$ 25.40	12	13,549	\$ 4,129,735
23 Mandated pickup per 32-gallon can/bag	-	12	0	0
24 Mandated pickup per cubic yard	36.30	12	0	0
25 Qualified senior rate	21.58	12	67	17,350
26 House service - 1 can	29.09	12	5	1,745
27 House service - 2 cans	32.78	12	1	393
28 House service - 3 cans	36.47	12	0	0
29 Residential - All other services		12		
Douglas County				
30 1, 32-gallon can	\$ 16.95	12	1,247	\$ 253,640
31 2, 32-gallon cans	32.64	12	259	101,445
32 3, 32-gallon cans	49.78	12	15	8,960
33 4, 32-gallon cans	65.46	12	4	3,142
34 One extra 32-gallon can (also the seasonal service rate)	4.26	12	0	0
35 On-call 32-gallon can billed monthly/arrears	-	12	0 # pickups	0
36 Per cubic yard	27.38	12	0	0
37 1, 45-gallon can	20.56	12	328	80,924
38 2, 45-gallon cans	39.52	12	53	25,135
39 3, 45-gallon cans	60.23	12	1	723
40 One extra 45-gallon can (also the seasonal service rate)	5.18	12	0	0
41 On-call 45-gallon can billed monthly/arrears	-	12	0 # pickups	0
42 Residential - All other services	\$ 78.21	12	1	939
El Dorado County				
43 Unlimited service	\$ 29.20	12	6,074	\$ 2,128,330
44 Mandated pickup per 32-gallon can/bag	6.12	12	0	0
45 Mandated pickup per cubic yard	35.02	12	0	0
46 Qualified senior rate	25.89	12	27	6,388
47 House service per can	3.70	12	5	222
48 Residential - All other services	\$ 0.00	12	0	0
49 Residential Revenues Subtotal				\$ 4,624,132
50 Less: Allowance for Uncollectible Residential Accounts				(7,135)
51 Total Residential Revenues (without Rate Change in Base Year)	\$ 6,697,744	\$ 6,714,290	\$ 4,616,997	\$ 2,132,697
Commercial Revenues				
52 Commercial Revenues				\$ 5,024,923
53 Less: Allowance for Uncollectible Commercial Accounts				(1,002)
54 Total Commercial Revenues (without Rate Change in Base Year)	\$ 5,005,089	\$ 5,108,761	\$ 5,023,921	\$ 196,883
55 Transfer Station and RRF Revenues (AND FORESTRY, FED, STATE CONTRACTS)	1,590,625	1,736,859	1,539,021	375,494
56 Recycled Material Sales	1,962,572	1,773,746	1,440,525	333,221
57 <b>Total Revenues (Lines 51 + 54 + 55 + 56)</b>	<b>\$ 15,256,030</b>	<b>\$ 15,333,656</b>	<b>\$ 12,620,464</b>	<b>\$ 3,040,295</b>
<b>Section V--Net Shortfall (Surplus)</b>				
58 Net Shortfall (Surplus) without Franchise Fees Line 21 - Line 57)	\$ 722,370	\$ 520,371	\$ (198,280)	\$ (44,874)
59 Residential and Commercial Franchise Fees	\$ 620,503	\$ 621,868	\$ 520,204	\$ 116,821
60 Net Shortfall (Surplus) with Franchise Fees (Lines 58 + 59)	\$ 1,342,873	\$ 1,142,239	\$ 321,924	\$ 71,947
<b>Section VII--Percent Change in Rates</b>				
61 Total Residential, Commercial, Transfer Station, and RRF Revenues Prior to Rate Change (Line 51 + 54 + 55)			\$ 11,179,938	\$ 2,707,074
62 Percent Change in Existing Residential/Commercial/Transfer Station/RRF Rates (Line 60 - Line 61)			2.88%	2.66%