

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Financial Statements

June 30, 2012

(With Independent Auditor's Report Thereon)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Table of Contents

June 30, 2012

	<u>Page</u>
Independent Auditor's Report	3 - 4
Management's Discussion and Analysis	5 - 8
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	9 - 10
Statement of Net Assets	11 - 12
Statement of Activities and Changes in Net Assets	13 - 14
Statement of Cash Flows	
Notes to the Financial Statements	15 - 27
Fund Financial Statements	28 - 29
Balance Sheet	
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Budget and Actual - Proprietary Fund	30 - 31
Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	32 - 33

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Donner Summit Public Utility District

We have audited the accompanying financial statements of the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2012, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Donner Summit Public Utility District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Donner Summit Public Utility District, as of June 30, 2012, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the business-type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 6 and 30 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

Gibson & Company, Inc.
Certified Public Accountant

October 30, 2012
Sacramento, California

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2012

This section of the District's annual financial report is provided as supplementary information to the audited financial statements. It is Management's intention that this information provides the financial statement reader with a brief and concise overview and analysis of the District's financial activities for the fiscal year ended June 30, 2012.

REQUIRED FINANCIAL STATEMENTS

The District's annual report consists of: Management's Discussion and Analysis, Financial Statements, and Notes to the Financial Statements.

The basic financial statements following this discussion are: Statement of Net Assets, Statement of Activities and Changes in Net Assets, and Statement of Cash Flows. The District's basic statements report "Business-Type Activities" of the Water and Sewer operations. Following the basic financial statements are Notes to the Financial Statement that provide accounting methodology and other disclosures related to specifically identified financial statement reporting. The basic financial statements include Fund Financial Statements that consist of Balance Sheets and Statements of Activity – Budget and Actual.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

Our analysis below focuses on the net assets and changes in net assets of the District's governmental and business-type activities.

Net Assets (In Thousands)

	Primary Government	
	Business-Type Activities	
	June 30, 2012	June 30, 2011
Current and other assets	\$ 1,410	1,349
Capital assets	7,636	5,972
Other Assets	131	73
Total Assets	9,177	7,394
Long-term debt outstanding	3,532	3,335
Other liabilities	1,683	1,619
Total Liabilities	5,215	4,954
 Net Assets		
Invested in property and equipment, net of related debt	2,991	2,496
Restricted for debt payment	137	137
Unrestricted	834	(193)
Total Net Assets	\$ 3,962	2,440

Changes in Net Assets (In Thousands)

Program revenue	\$ 2,723	1,847
General revenues		
Property tax	118	145
Interest and other	33	32
Contributed capital	886	330
Total revenues	3,760	2,354
Expenses	2,238	2,165
Increase (Decrease) in net assets	\$ 1,522	189

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2012

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2011/12

- The District's assets exceeded liabilities at the close of the fiscal year by \$3,962,007. This represents the net assets (value) of the District as of June 30, 2012.
- The District budgets and funds current year capital outlays, rather than accrued depreciation. Therefore, to the degree that the District meets its obligations through current operating revenues, the fund balance is expected to decrease by the amount of depreciation expense. Although total depreciation expense for the current fiscal year was \$355,257, total revenues exceeded expenses by \$1,521,725, indicating that the District exceeded expectations by approximately \$1,876,982 for the current fiscal year. In addition, the current year's activities includes \$645,100 of deferred revenue that was recognized as Program Revenue in the current year. The District anticipates it will be making significant investments in facilities in the coming years, followed by several years of significant loan payments. Accordingly, management anticipates that it will be unable to fund future reserves in the foreseeable future.
- The District paid off long-term debt and capital leases of \$140,530 during the current fiscal year.
- The District received \$343,102 under a loan program from the State of California Water Resource Control Board.
- The District received \$966,616 under a short-term loan from the entity who has a service agreement with Donner Summit Public Utility District.
- The District's utility service revenues increased from the prior year by approximately \$230,758 (not including the deferred revenue recognized in the current year as noted above).
- The District's utility service expenses increased by \$91,554 from June 30, 2010 to June 30, 2011.
- The District received \$885,632 of capital contributions during the current fiscal year.
- The District purchased \$2,021,727 of capital improvements during the current fiscal year.
- The District is currently taking action to comply with enhanced waste discharge requirements mandated by the California Regional Water Quality Control Board. The cost of compliance with these regulations is estimated to exceed \$21 million, of which \$3.5 million has already been expended.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2012

NEXT YEAR BUDGET AND RATES

The Board of Directors adopted the District's 2012/13 budget on June 19, 2012. The District's rates were reviewed by the Board of Directors and may be adjusted during 2012/13 to enable the District to continue to comply with enhanced waste discharge requirements mandated by the California Regional Water Quality Control Board.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations for the year ended June 30, 2012 and the District's financial condition as of June 30, 2012. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Donner Summit Public Utility District General Manager, Tom Skjelstad, at P.O. Box 610, Soda Springs, California 95728 or call 530-426-3456.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Assets

June 30, 2012

Assets

	<u>Primary</u> <u>Government</u> <u>Business-Type</u> <u>Activities</u>
Current Assets	
Cash (Note 2)	\$ 1,039,825
Restricted cash (Notes 2 and 10)	130,207
Investments (Note 2)	<u>3,108</u>
Total Cash and Cash Equivalents	1,173,140
Accounts receivable	119,287
Allowance for doubtful accounts	<u>(1,000)</u>
Net accounts receivable	118,287
Taxes receivable	8,337
Other receivable	6,464
Capital improvements reimbursement receivable	92,650
Prepaid expenses	<u>10,950</u>
Total Current Assets	1,409,828
Noncurrent Assets	
Property and equipment, net (Note 3)	7,635,895
Deferred finance costs	<u>130,864</u>
Total Noncurrent Assets	<u>7,766,759</u>
Total Assets	\$ <u><u>9,176,587</u></u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Assets

June 30, 2012

Liabilities and Net Assets

	Primary Government <u>Business-Type Activities</u>
Liabilities	
Current Liabilities	\$ 159,413
Accounts payable	129,063
Accrued expenses	75,245
Interest payable	205,811
Deferred income	966,616
Short-term debt (Note 14)	19,454
Current portion of capital lease (Note 5)	126,798
Current portion of long-term debt (Note 4)	<u>1,682,400</u>
Total Current Liabilities	
Noncurrent Liabilities	<u>3,532,180</u>
Long-term debt (Note 4)	
Total Noncurrent Liabilities	<u>3,532,180</u>
Total Liabilities	5,214,580
Net Assets	
Invested in property and equipment, net of related debt	2,990,847
Restricted:	
Restricted for debt payment (Note 10)	137,480
Unrestricted	<u>833,680</u>
Total Net Assets	<u>3,962,007</u>
Total Liabilities and Net Assets	<u>\$ 9,176,587</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2012

	Water	Sewer	Primary Government Business-Type Activities
Program Revenue			
Service Fees	\$ 387,695	2,335,612	2,723,307
Total Program Revenue	387,695	2,335,612	2,723,307
Expenses			
Salaries	142,859	479,090	621,949
Employee benefits	61,949	211,294	273,243
Board expense	4,945	15,659	20,604
Professional fees	26,862	65,344	92,206
Equipment maintenance and repair	6,121	21,210	27,331
Operating supplies	1,586	7,636	9,222
Vehicle maintenance and repair	4,664	21,214	25,878
Facility maintenance and repair	9,054	76,353	85,407
Dues and subscriptions	1,430	4,306	5,736
Fees, permits and certifications	7,848	36,335	44,183
Training and education	957	2,106	3,063
Travel	436	706	1,142
Insurance	12,661	43,860	56,521
Office supplies	2,471	8,733	11,204
Utilities, communications and telemetry	30,389	166,735	197,124
Chemicals and lab supplies	9,372	187,264	196,636
Small tools and rental	1,393	3,775	5,168
Inflow and infiltration	-0-	10,278	10,278
Sludge removal	-0-	5,030	5,030
Depreciation	70,003	285,254	355,257
Interest	4,569	155,834	160,403
Land lease	-0-	30,375	30,375
Total Expenses	399,569	1,838,391	2,237,960
Net Program Revenue (Expense)	(11,874)	497,221	485,347

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Primary Government Business-Type Activities</u>
Net Program Revenue (Expense)	\$ (11,874)	497,221	485,347
General Revenues			
Property tax	26,886	91,322	118,208
Interest	118	373	491
Gain on disposal of property and equipment	3,344	10,591	13,935
Other	<u>4,347</u>	<u>13,765</u>	<u>18,112</u>
Total General Revenues	34,695	116,051	150,746
Contributed capital	<u>-0-</u>	<u>885,632</u>	<u>885,632</u>
Increase in Net Assets	<u>22,821</u>	<u>1,498,904</u>	1,521,725
Net Assets -- Beginning of Year			<u>2,440,282</u>
Net Assets -- End of Year			<u>\$ 3,962,007</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2012

	Primary Government Business-Type Activities
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 2,026,089
Cash payments to suppliers for goods and services	(923,881)
Cash payments to employees for services	(619,045)
Other receipts	18,112
Net Cash Provided by Operating Activities	501,275
Cash Flows From Non-Capital Financing Activities:	
Receipt of property taxes	118,213
Net Cash Provided By Non-Capital Financing Activities	118,213
Cash Flows From Capital and Related Financing Activities:	
Proceeds from long-term debt	343,102
Proceeds from short-term debt	966,616
Contributed capital	1,117,804
Repayment of long-term debt	(140,530)
Deferred finance costs paid	(57,901)
Interest paid on long-term debt	(137,848)
Net Cash Provided By Capital and Related Financing Activities	2,091,243
Cash Flows From Investing Activities:	
Purchase of property and equipment	(2,355,695)
Proceeds from disposal of property and equipment	16,180
Interest received on cash and investments	491
Net Cash Used By Investing Activities	(2,339,024)
Net Increase In Cash	371,707
Cash and Cash Equivalents - Beginning of Year	801,433
Cash and Cash Equivalents - End of Year	\$ 1,173,140

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2012

	<u>Primary Government</u> <u>Business-Type</u> <u>Activities</u>
Reconciliation of Increase in Net Assets to Net Cash Provided by operating activities:	
Increase in net assets	\$ 1,521,725
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	355,257
Gain on disposal of property and equipment	(13,935)
Non-operating revenue	(1,004,331)
Non-operating expenses	160,403
(Increase) decrease in:	
Accounts receivable, net	(7,627)
Other receivable	18,560
Prepaid expenses	68,296
Increase (decrease) in:	
Accounts payable	84,426
Accrued expenses	8,092
Deferred income	<u>(689,591)</u>
Total adjustments	<u>(1,020,450)</u>
Net Cash Provided By Operating Activities	<u>\$ 501,275</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Donner Summit Public Utility District (the "District") operates under a state charter adopted March 24, 1950. The District operates under a board-manager form of government and provides water and sewer services.

The District's government wide financial statements include the accounts of all operations.

Government-Wide Financial Statements

The District Financial Statements include a Statement of Net Assets, a Statement of Activities and Changes in Net Assets and a Statement of Cash Flows. These statements present summaries of business-type activities for the District.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred.

The District applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinion, and Accounting Research Bulletins of the committee on Accounting Procedure. The District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund

The Proprietary Fund includes a Statement of Net Assets and a Statement of Revenues, Expenses and Changes in Fund Net Assets.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues.

Budgets and Budgetary Accounting

By state law, the District's governing board must adopt a budget prior to the beginning of each fiscal year. The budget must be adopted in a properly noticed meeting.

Actual revenues and expenditures/expenses are compared to budgeted amounts monthly as a management control device for all budgeted funds. The District monitors capital expenditures by comparison to specific project appropriation accounts.

The District prepares its budgets on the cash basis of accounting. The nature and amount of adjustments necessary to reconcile the budget to GAAP are immaterial other than depreciation expense. A budget is prepared for the governmental and business-type activities.

Reserved Net Assets

The District records reserves to indicate that a portion of the net asset balance is legally segregated for a specific future use. Designated net asset balances represent tentative plans for future use of financial resources.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property & Equipment

Property and equipment having an extended useful life are capitalized as property and equipment at cost.

All property and equipment is valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Maintenance and repair costs are charged to expenses as incurred. Replacements and capital improvements over \$2,500 are charged to property and equipment accounts.

Property and equipment is recorded in their respective fund. Depreciation of all exhaustible property and equipment is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Facilities	5-50 years
Vehicles, furniture and equipment	3-25 years

Deferred Income

Deferred income consists of unearned Grant awards and other unearned revenues.

Revenue Recognition – Property Taxes

Placer and Nevada Counties bill property taxes which attach as an enforceable lien on property. Property tax revenues are recognized when they become available. Available revenues include those property tax receivables expected to be collected within sixty days after year end. The Counties allocate property taxes to the District following the alternate method of property tax distribution as stated in California Revenue & Taxation Code Section 4701. Using this method, the Counties allocate to the District their portion of total billed property taxes less an estimated delinquency factor. The Counties then assume all responsibility for collections.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

It is the District's policy to permit employees to accumulate general leave benefits of up to 392 hours, which will be paid to the employee upon separation from District service. This accrual represents the estimated probable future payments attributable to employees' service for all periods prior to June 30, 2012 at their current rate of pay.

Estimates

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

Statement of Cash Flows

For the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2012, all cash and investments held by the District are considered to be cash equivalents.

Subsequent Events

The effect of subsequent events have been evaluated through October 30, 2012, which is the date the financial statements were available to be issued.

(2) CASH AND INVESTMENTS

A summary of cash and investments held by the District at June 30, 2012 is as follows:

Cash on hand	\$	300
Cash on deposit at banks		1,039,525
Cash on deposit at banks - restricted		130,207
Investments		3,108
	\$	<u>1,173,140</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(2) CASH AND INVESTMENTS (CONTINUED)

All cash balances on deposit at banks are entirely insured or collateralized. The California Government Code requires California banks and savings and loans to secure a District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral, as permitted by the State of California, is held in each respective bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged against all of the public deposits it holds.

With the exception of deposit insurance provided by the Federal Deposit Insurance Corporation, this collateralizing process is categorized by GASB Statement No. 3 as being collateralized with securities held by the pledging financial institution or its agent but not in the District's name.

The District has not adopted policies related to credit risk, custodial credit risk, concentration of credit risk, and interest rate risk.

The District's investment in the State investment pool is categorized by GASB Statement No. 3 as Category A investments since these investments are fully insured by the related entity. The investment pool does not release a credit quality.

Investments of the District are summarized as follows:

	<u>Carrying Amount</u>
State of California Local Agency Investment Fund	\$ <u>3,108</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(3) PROPERTY AND EQUIPMENT

A summary of business-type activities property and equipment is presented below:

	Balance June 30, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Land	\$ 72,623	-0-	-0-	-0-	72,623
Sewage collection, treatment and disposal facilities	14,106,747	-0-	-0-	-0-	14,106,747
Sewage equipment	2,099	-0-	-0-	-0-	2,099
Water treatment and distribution facilities	2,503,039	-0-	-0-	-0-	2,503,039
Water equipment	288,960	-0-	-0-	-0-	288,960
Water and sewage equipment	277,530	-0-	-0-	-0-	277,530
Vehicles	72,778	21,573	26,935	-0-	67,416
Vehicles under capital lease	117,837	-0-	-0-	-0-	117,837
Office furniture and equipment	24,717	-0-	-0-	-0-	24,717
Construction in process	1,502,820	2,000,154	-0-	-0-	3,502,974
Total Property and Equipment	18,969,150	<u>2,021,727</u>	<u>26,935</u>	-0-	20,963,942
Accumulated Depreciation	<u>12,997,480</u>	<u>355,257</u>	<u>24,690</u>	-0-	<u>13,328,047</u>
Net Book Value	<u>\$ 5,971,670</u>				<u>7,635,895</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(4) LONG-TERM DEBT-BUSINESS-TYPE ACTIVITIES

Long-term debt as of June 30, 2012, is summarized as follows:

State of California Department of Water Resources loan; collateralized by property and revenues of the District; interest at 4.14%; interest and principal payable in semi-annual installments of \$9,133 on October 1 and April 1; final payment due October 1, 2018.	\$ 103,207
Loan payable to Municipal Service Group, Inc., collateralized by sewer and water revenues; interest at 5.62%; interest and principal payable in semi-annual installments of \$52,570 on September 23 and March 23; final payment due September 23, 2025.	985,553
Loan payable to Municipal Service Group, Inc., collateralized by sewer and water revenues; interest at 5.62%; interest and principal payable in semi-annual installments of \$66,644 on August 15 and February 15; final payment due February 15, 2026.	1,280,075
State of California Water Resources Control Board loan; collateralized by revenues of the District; interest at 2.7% beginning June 9, 2013 (effective rate 1.618%); interest and principal payable in annual installments of \$319,829 beginning on June 9, 2014; final payment due June 9, 2018.	<u>1,290,143</u>
Total Long-Term Debt	3,658,978
Less Current Portion of Long-Term Debt	<u>126,798</u>
Long-Term Debt Net of Current Portion	<u>\$ 3,532,180</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(4) LONG-TERM DEBT-BUSINESS-TYPE ACTIVITIES (CONTINUED)

Changes to the District's Long-Term Debt is as follows:

Long-Term Debt - Beginning of Year	\$ 3,436,028
New Long-Term Debt	343,102
Repayment of Long-Term Debt	<u>(120,152)</u>
Long-Term Debt - End of Year	<u>\$ 3,658,978</u>

The annual requirements to amortize District long-term debt as of June 30, 2012 is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 126,798	129,897	256,695
2014	386,033	190,490	576,523
2015	444,125	132,398	576,523
2016	456,878	119,645	576,523
2017	470,147	106,376	576,523
2018 through 2022	973,513	362,240	1,335,753
2023 through 2026	801,484	99,665	901,149
	<u>\$ 3,658,978</u>	<u>1,140,711</u>	<u>4,799,689</u>

Terms of the above indebtedness provide for, among other things, restrictions on future borrowings and maintenance of certain reserves and financial ratios.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(5) CAPITAL LEASE-BUSINESS-TYPE ACTIVITIES

Lease payable to John Deere Credit, collateralized by loader equipment; interest at 4.25%; payable in monthly installments of \$1,806; final payment due June 2013	\$ <u>19,454</u>
Total Capital Lease	19,454
Less Current Portion of Capital Lease	<u>19,454</u>
Capital Lease Net of Current Portion	<u>\$ -0-</u>

Changes to the District's Capital Lease is as follows:

Capital Lease – Beginning of Year	\$ 39,832
Repayment of Capital Lease	<u>(20,378)</u>
Capital Lease – End of Year	<u>\$ 19,454</u>

Future minimum payments under the capital lease are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2013	\$ 21,675

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(6) PROCEEDS OF TAX LIMITATION

Article XIIB of the California Constitution, as implemented by SB 1352 of 1980, specifies that proceeds of taxes of governmental entities may increase by an amount not to exceed the change in population, and the change in the United States Consumer Price Index or California per capita personal income, whichever is less.

The proceeds of taxes limit for the fiscal year ended June 30, 2012 was \$2,372,255.

The proceeds of taxes limitation adopted by the District for the year ended June 30, 2013 is \$2,484,937.

The District is allowed to assess a property tax rate sufficient to cover its debt service requirements for the general obligation bonds for the business-type activities. These funds are restricted for debt service exclusively.

(7) RETIREMENT PLANS

The District funds a Money Purchase Pension Plan for its employees who have attained age 18, been employed for 12 months and have worked a minimum of 1,000 hours in order to be eligible to participate in the plan. The contribution ranges from 4% to 6% of the annual compensation for all qualified employees. Covered payroll for the year ended June 30, 2012, was \$492,240 and total payroll was \$682,431. The plan contribution for the year ended June 30, 2012 was \$24,021, which was recognized in the current year financial statements.

A 457 Deferred Compensation Plan has also been established by the District with Nationwide Retirement Solutions. Employees who completed ninety days of continuous service may elect to defer compensation up to 100% of their salary or \$17,000 (\$22,500 if employee will have obtained age 50 by the end of the calendar year), whichever is less. This Plan is fully funded with Nationwide Retirement Solutions.

It is the District's position that it has a fiduciary obligation for the due care required of a prudent investor in the management of the plan's resources but is not responsible for any loss due to the investment or failure of investment funds and assets of the plan, nor shall the District be required to replace any loss which may result from such investments.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(8) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of two Joint Powers Authorities for the operation of common risk management and insurance programs. The programs cover workers' compensation, property, liability and employees dishonesty insurance. The Authorities are governed by Executive Boards consisting of representatives from member districts. The Executive Boards control the operations of the Authorities, including selection of management and approval of operating budgets.

The relationship between the District and the Joint Powers Authorities is such that the Authorities are not a component unit of the District for financial reporting purposes.

For workers' compensation insurance, the District has joined together with other special districts within the state to form the Special Districts Workers' Compensation Authority ("SDWCA"). The District pays estimated annual premiums to the SDWCA based upon estimated payroll classified into rate categories pursuant to the rules published by the California Workers' Compensation Insurance Rating Bureau. Actual premium due is determined after the fiscal year end and is based upon actual payroll. The SDWCA is entitled to assess additional premiums or to refund premiums based upon a pro rata allocation of the District's premium paid to total premiums paid. The District is not assessed additional premiums or refunded premiums on an individual basis based upon claims or loss experience. The SDWCA agrees to pay all amounts legally required by California workers' compensation laws. The amounts of settlements have not exceeded coverage provided by SDWCA for the last three fiscal years.

For property, liability and employees dishonesty insurance, the District has joined together with other special districts within the state to form the Special Districts Risk Management Authority ("SDRMA"). The District pays an annual premium to SDRMA for its property, liability and employees dishonesty coverage. The SDRMA is entitled to assess additional premiums or to refund premiums based upon a pro rata allocation of the District's premium paid to total premiums paid. The District is not assessed additional premiums or refunded premiums on an individual basis based upon claims or loss experience. The amounts of settlements have not exceeded coverage provided by SDRMA for the last three fiscal years.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(9) OPERATING LEASE AND RENTAL COMMITMENTS

The District leases office equipment and land for its facilities under operating leases. Future minimum lease payments at June 30, 2012, are as follows:

<u>Year Ending June 30</u>	
2013	\$ 24,598
2014	7,549
2015	3,330
2016	<u>1,943</u>
	<u>\$ 37,420</u>

Total rent expense was \$25,366 for the year ended June 30, 2012.

(10) RESTRICTED NET ASSETS - DEBT PAYMENT

A portion of the net asset balance has been restricted in accordance with provisions of the debts due to the State of California Department of Water Resources and Municipal Services Group, Inc. The Department of Water Resources provision requires the District to maintain an amount equal to two semi-annual loan payments in a reserve account. Each of the Municipal Services Group, Inc. provisions requires the District to maintain an amount equal to one semi-annual loan payment in a reserve account.

(11) LEASE COMMITMENT

The District has a lease agreement with the Truckee Fire Protection District (TFPD) for the District's fire station facility. The lease expires June 30, 2027. TFPD has the option to renew the lease for two 25 year periods. The District receives \$1 per year under the terms of the lease.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2012

(12) COMMITMENTS

The District has been ordered to meet certain waste discharge requirements mandated by the California Regional Water Quality Control Board by April 2014. Total cost of compliance with these regulations is estimated to be \$21.5 million.

Compliance with these regulations will be met through a multi-phase project schedule. The District has begun a project to bring the wastewater treatment plant into compliance with its waste discharge permit. To date, \$3.5 million has been expended on this project.

The neighboring Sierra Lakes County Water District has signed a service agreement with the District. Under the terms of this agreement, Sierra Lakes County Water District will be obligated to pay 44% of the project costs. Contributions made by Sierra Lakes County Water District under this agreement will be recognized as capital project revenue in the Statement of Revenues, Expenses and Changes in Fund Equity.

(13) UNUSED CREDIT FACILITIES

The District has secured a finance agreement with the State Water Resources Control Board's Clean Water State Revolving Fund in the amount of \$1,478,000. As of June 30, 2012, \$1,290,143 has been drawn on this agreement, leaving \$187,857 available for future needs. Funds can be drawn under this agreement through June 2013. At that time, interest will begin to accrue at an interest rate of 2.7% per annum. Repayment will be made in five annual payments, with the final payment due June 2018.

(14) SHORT-TERM DEBT

The District incurred short-term debt during the year to finance construction of the wastewater treatment plant.

Changes to the District's Short-Term Debt is as follows:

Short-Term Debt - Beginning of the Year	\$ -0-
New Short-Term Debt	966,616
Repayment of Short-Term Debt	<u>-0-</u>
Short-Term Debt - End of Year	<u>\$966,616</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2012

Assets

	Primary Government Proprietary Fund
Current Assets	
Cash	\$ 1,039,825
Restricted cash	130,207
Investments	3,108
Total Cash and Cash Equivalents	1,173,140
Accounts receivable	119,287
Allowance for doubtful accounts	(1,000)
Net accounts receivable	118,287
Taxes receivable	8,337
Other receivable	6,464
Capital improvements reimbursement receivable	92,650
Prepaid expenses	10,950
Total Current Assets	1,409,828
Noncurrent Assets	
Property and equipment, net	7,635,895
Deferred finance costs	130,864
Total Noncurrent Assets	7,766,759
Total Assets	\$ 9,176,587

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2012

Liabilities and Fund Balances

	<u>Primary Government</u> <u>Proprietary</u> <u>Fund</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 159,413
Accrued expenses	129,063
Interest payable	75,245
Deferred income	205,811
Short-term debt	966,616
Current portion of capital lease	19,454
Current portion of long-term debt	126,798
Total Current Liabilities	<u>1,682,400</u>
Noncurrent Liabilities	
Long-term debt	<u>3,532,180</u>
Total Noncurrent Liabilities	<u>3,532,180</u>
Total Liabilities	5,214,580
Fund Balances	
Invested in property and equipment, net of related debt	2,990,847
Restricted:	
Restricted for debt payment	137,480
Unrestricted	<u>833,680</u>
Total Fund Balances	<u>3,962,007</u>
Total Liabilities and Fund Balances	<u>\$ 9,176,587</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Budget and Actual
Proprietary Fund

For the Year Ended June 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Program Revenue			
Service fees	\$ 1,924,973	2,723,307	(798,334)
Total Program Revenue	1,924,973	2,723,307	(798,334)
Expenses			
Salaries	679,715	621,949	57,766
Employee benefits	232,106	273,243	(41,137)
Board expense	19,473	20,604	(1,131)
Professional fees	92,000	92,206	(206)
Equipment maintenance and repair	40,000	27,331	12,669
Operating supplies	7,000	9,222	(2,222)
Vehicle maintenance and repair	38,921	25,878	13,043
Facility maintenance and repair	40,000	85,407	(45,407)
Dues and subscriptions	5,290	5,736	(446)
Fees, permits and certifications	47,510	44,183	3,327
Training and education	2,875	3,063	(188)
Travel	750	1,142	(392)
Insurance	60,000	56,521	3,479
Office supplies	3,750	11,204	(7,454)
Utilities, communications and telemetry	208,300	197,124	11,176
Chemicals and lab supplies	227,986	196,636	31,350
Small tools and rental	2,700	5,168	(2,468)
Inflow and infiltration	15,000	10,278	4,722
Sludge removal	7,000	5,030	1,970
Depreciation	-0-	355,257	(355,257)
Interest	117,203	160,403	(43,200)
Amortization Land Lease	22,079	30,375	(8,296)
Total Expenses	<u>1,869,658</u>	<u>2,237,960</u>	<u>(368,302)</u>
Operating Income (Loss)	55,315	485,347	(430,032)

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Budget and Actual
Proprietary Fund

For the Year Ended June 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Operating Income (Loss)	\$ 55,315	485,347	(430,032)
General Revenues			
Property tax	134,501	118,208	16,293
Interest	-0-	491	(491)
Gain on disposal of property and equipment	-0-	13,935	(13,935)
Other	<u>35,300</u>	<u>18,112</u>	<u>17,188</u>
Total General Revenues	169,801	150,746	19,055
Contributed capital	<u>-0-</u>	<u>885,632</u>	<u>(885,632)</u>
Increase (Decrease) in Fund Balance	\$ <u>225,116</u>	1,521,725	<u>(1,296,609)</u>
Fund Balance – Beginning of Year		<u>2,440,282</u>	
Fund Balance – End of Year		\$ <u>3,962,007</u>	

See the accompanying notes to the financial statements

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

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JOSEPH A. JULIO, C.P.A.

THERESA McLENDON, ADMIN.

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

Board of Directors
Donner Summit Public Utility District

We have audited the financial statements of the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

Management of Donner Summit Public Utility District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

Gibson + Company, Inc.
Certified Public Accountant

October 30, 2012
Sacramento, California