

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Financial Statements

June 30, 2013

(With Independent Auditor's Report Thereon)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Table of Contents

June 30, 2013

	<u>Page</u>
Independent Auditor's Report	3 - 5
Management's Discussion and Analysis	6 - 9
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	10 - 11
Statement of Activities and Changes in Net Position	12 - 13
Statement of Cash Flows	14 - 15
Notes to the Financial Statements	16 - 29
Fund Financial Statements	
Balance Sheet	30 - 31
Statement of Revenues, Expenses, and Changes in Fund Net Position - Budget and Actual - Proprietary Fund	32 - 33
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	34 - 35
Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133	36 - 38
Schedule of Expenditures of Federal Awards	39
Notes to the Schedule of Expenditures of Federal Awards	40
Schedule of Findings and Questioned Costs	41

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Donner Summit Public Utility District

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the 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 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 opinions.

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, 2013, and the respective changes in the financial position and cash flows thereof and the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-6 and 30-31 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2013, 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 in considering the District's internal control over financial reporting and compliance.

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

Gibson & Company, Inc.
Certified Public Accountant

October 10, 2013
Sacramento, California

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2013

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, 2013.

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 Position, Statement of Activities and Changes in Net Position, 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. In addition, the Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 is included, as well as the Notes to Schedule of Expenditures of Federal Awards and the Schedule of Findings and Questioned Costs.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Net Position (In Thousands)

	Primary Government	
	Business-Type	
	Activities	
	June 30, 2013	June 30, 2012
Current and other assets	\$ 3,615	1,410
Capital assets	13,574	7,636
Other Assets	126	131
Total Assets	<u>17,315</u>	<u>9,177</u>
Long-term debt outstanding	6,952	3,532
Other liabilities	1,822	1,683
Total Liabilities	<u>8,774</u>	<u>5,215</u>
Net Position		
Net investment in capital assets	6,594	2,991
Restricted for debt payment	18	137
Unrestricted	1,929	834
Total Net Position	<u>\$ 8,541</u>	<u>3,962</u>

Changes in Net Position (In Thousands)

Program revenue	\$ 3,158	2,723
General revenues		
Property tax	405	118
Interest and other	29	33
Contributed capital	3,281	886
Total revenues	<u>6,873</u>	<u>3,760</u>
Expenses	2,294	2,238
Increase (Decrease) in net position	<u>\$ 4,579</u>	<u>1,522</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2013

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2012/13

- The District's assets exceeded liabilities at the close of the fiscal year by \$8,541,425. This represents the net position (value) of the District as of June 30, 2013.
- 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 net position is expected to decrease by the amount of depreciation expense. Total depreciation expense for the current fiscal year was \$355,144, and total revenues exceeded expenses by \$4,579,418, indicating that the District exceeded expectations by approximately \$4,934,562 for the current fiscal year. The District anticipates it will continue to make 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 and/or refinanced long-term debt and capital leases of \$3,613,026 during the current fiscal year.
- The District received \$6,867,823 under loan programs from the State of California Water Resource Control Board, including amounts used to refinance outstanding loans.
- The District repaid \$966,616 due 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 \$1,079,769 (this included one-time items totaling \$1,005,145).
- The District's utility service expenses increased by \$55,776 from June 30, 2012 to June 30, 2013.
- The District received \$3,281,092 of capital contributions during the current fiscal year.
- The District purchased \$6,296,078 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 \$9 million has already been expended.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2013

NEXT YEAR BUDGET AND RATES

The Board of Directors adopted the District's 2013/14 budget on May 21, 2013. The District's rates were reviewed by the Board of Directors and may be adjusted during 2013/14 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, 2013 and the District's financial condition as of June 30, 2013. 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 Position

June 30, 2013

Assets

	Primary Government <u>Business-Type Activities</u>
Current Assets	
Cash (Note 2)	\$ 2,801,780
Investments (Note 2)	3,118
Total Cash and Cash Equivalents	<u>2,804,898</u>
Accounts receivable	77,439
Allowance for doubtful accounts	(1,000)
Net accounts receivable	<u>76,439</u>
Taxes receivable	13,150
Other receivable	5,941
Capital improvements reimbursement receivable	649,885
Prepaid expenses	64,252
Total Current Assets	<u>3,614,565</u>
Noncurrent Assets	
Capital assets, net (Note 3)	13,573,897
Prepaid finance costs	126,428
Total Noncurrent Assets	<u>13,700,325</u>
 Total Assets	 <u>\$ 17,314,890</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Position

June 30, 2013

Liabilities and Net Position

	Primary Government <u>Business-Type Activities</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 1,005,222
Retainage payable	469,316
Accrued expenses	141,659
Interest payable	86,154
Deposits Held	2,000
Unearned income collected	89,150
Current portion of capital lease (Note 5)	13,447
Current portion of long-term debt (Note 4)	14,728
Total Current Liabilities	<u>1,821,676</u>
Noncurrent Liabilities	
Capital lease (Note 5)	30,684
Long-term debt (Note 4)	6,921,105
Total Noncurrent Liabilities	<u>6,951,789</u>
Total Liabilities	8,773,465
Net Position	
Net investment in capital assets	6,593,933
Restricted:	
Restricted for debt payment (Note 10)	18,265
Unrestricted	<u>1,929,227</u>
Total Net Position	<u>8,541,425</u>
Total Liabilities and Net Position	<u>\$ 17,314,890</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Future Wastewater Treatment</u>	<u>Primary Government Business-Type Activities</u>
Program Revenue				
Service fees	\$ 399,289	1,715,258	1,131,885	3,246,432
Service fee adjustments	(88,456)	-0-	-0-	(88,456)
Total Program Revenue	310,833	1,715,258	1,131,885	3,157,976
Expenses				
Salaries	148,528	497,919	-0-	646,447
Employee benefits	58,476	199,680	-0-	258,156
Board expense	4,263	13,499	-0-	17,762
Professional fees	25,396	58,098	-0-	83,494
Equipment maintenance and repair	7,034	35,717	-0-	42,751
Operating supplies	1,377	8,760	-0-	10,137
Vehicle maintenance and repair	4,986	23,986	-0-	28,972
Facility maintenance and repair	14,595	55,260	-0-	69,855
Dues and subscriptions	1,366	3,246	-0-	4,612
Fees, permits and certifications	10,030	19,581	-0-	29,611
Training and education	358	1,703	-0-	2,061
Travel	173	205	-0-	378
Insurance	12,587	43,833	-0-	56,420
Office supplies	2,017	7,305	-0-	9,322
Utilities, communications and telemetry	16,302	154,659	-0-	170,961
Chemicals and lab supplies	19,775	201,161	-0-	220,936
Small tools and rental	977	4,485	-0-	5,462
Inflow and infiltration	-0-	9,551	-0-	9,551
Sludge removal	-0-	10,060	-0-	10,060
Depreciation	69,819	285,325	-0-	355,144
Interest	3,977	237,417	-0-	241,394
Land lease	-0-	20,250	-0-	20,250
Total Expenses	402,036	1,891,700	-0-	2,293,736
Net Program Revenue (Expense)	(91,203)	(176,442)	1,131,885	864,240

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Future Wastewater Treatment</u>	<u>Primary Government Business-Type Activities</u>
Net Program Revenue (Expense)	\$ (91,203)	(176,442)	1,131,885	864,240
General Revenues				
Property tax	26,269	92,180	286,961	405,410
Interest	280	888	-0-	1,168
Gain on disposal of capital assets	1,627	5,152	-0-	6,779
Other	<u>4,778</u>	<u>15,951</u>	<u>-0-</u>	<u>20,729</u>
Total General Revenues	32,954	114,171	286,961	434,086
Contributed capital	<u>822,285</u>	<u>2,458,807</u>	<u>-0-</u>	<u>3,281,092</u>
Increase in Net Position	<u>764,036</u>	<u>2,396,536</u>	<u>1,418,846</u>	4,579,418
Net Position – Beginning of Year				<u>3,962,007</u>
Net Position – End of Year				\$ <u>8,541,425</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2013

	Primary Government Business-Type Activities
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 3,085,163
Cash payments to suppliers for goods and services	(1,141,803)
Cash payments to employees for services	(634,300)
Other receipts	20,729
Net Cash Provided by Operating Activities	1,329,789
Cash Flows From Non-Capital Financing Activities:	
Receipt of property taxes	400,597
Net Cash Provided By Non-Capital Financing Activities	400,597
Cash Flows From Capital and Related Financing Activities:	
Proceeds from long-term debt	5,603,368
Contributed capital	2,723,857
Repayment of long-term debt	(2,301,836)
Repayment of short-term debt	(966,616)
Interest paid on long-term debt	(253,872)
Net Cash Provided By Capital and Related Financing Activities	4,804,901
Cash Flows From Investing Activities:	
Purchase of capital assets	(4,914,408)
Proceeds from disposal of capital assets	9,711
Interest received on cash and investments	1,168
Net Cash Used By Investing Activities	(4,903,529)
Net Increase In Cash	1,631,758
Cash and Cash Equivalents - Beginning of Year	1,173,140
Cash and Cash Equivalents - End of Year	\$ 2,804,898

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2013

	Primary Government Business-Type Activities
Reconciliation of Increase in Net Position to Net Cash Provided by operating activities:	
Increase in net position	\$ 4,579,418
Adjustments to reconcile increase in net position to net cash provided by operating activities:	
Depreciation	355,144
Gain on disposal of capital assets	(6,779)
Non-operating revenue	(3,687,670)
Non-operating expenses	241,394
(Increase) decrease in:	
Accounts receivable, net	41,848
Other receivable	523
Prepaid expenses	(53,302)
Increase (decrease) in:	
Accounts payable	(38,722)
Accrued expenses	12,596
Deposits held	2,000
Unearned income collected	(116,661)
	(3,249,629)
Total adjustments	
Net Cash Provided By Operating Activities	\$ 1,329,789

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

(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 Position, a Statement of Activities and Changes in Net Position 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 Position. The Statement of Activities presents changes in net position. 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, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund

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

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 Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. 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 Position

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

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets having an extended useful life are capitalized as capital assets at cost.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital 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 capital asset accounts.

Capital assets are recorded in their respective fund. Depreciation of all exhaustible capital assets 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

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, 2013

(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, 2013 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, 2013, 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 10, 2013, 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, 2013 is as follows:

Cash on hand	\$	300
Cash on deposit at banks		2,801,480
Investments		3,118
	\$	<u>2,804,898</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

(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>3,118</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

(3) CAPITAL ASSETS

A summary of business-type activities capital assets is presented below:

	Balance June 30, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
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	710,000	-0-	-0-	3,213,039
Water equipment	288,960	-0-	-0-	-0-	288,960
Water and sewage equipment	277,530	-0-	-0-	-0-	277,530
Vehicles	67,416	15,278	10,350	117,837	190,181
Vehicles under capital lease	117,837	46,734	-0-	(117,837)	46,734
Office furniture and equipment	24,717	-0-	-0-	-0-	24,717
Construction in process	3,502,974	5,524,066	-0-	-0-	9,027,040
Total Capital Assets	<u>20,963,942</u>	<u>6,296,078</u>	<u>10,350</u>	<u>-0-</u>	<u>27,249,670</u>
Accumulated Depreciation	<u>13,328,047</u>	<u>355,144</u>	<u>7,418</u>	<u>-0-</u>	<u>13,675,773</u>
Net Book Value	<u>\$ 7,635,895</u>				<u>13,573,897</u>

Interest cost capitalized during the year ended June 30, 2013 was \$27,823. Total interest cost incurred by the District was \$269,217.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

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

Long-term debt as of June 30, 2013, 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. \$ 89,056

State of California Water Resources Control Board loan;
collateralized by net revenues of the District; interest at
2.2%; interest and principal payable in annual
installments of \$354,038 based on June 30, 2013 balance
(but will be \$817,758 if loan is fully funded) beginning 1
year after completion of construction, but not later than
December 1, 2015; final payment due December 1, 2041. 6,846,777

Total Long-Term Debt 6,935,833

Less Current Portion of Long-Term Debt 14,728

Long-Term Debt Net of Current Portion \$ 6,921,105

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

(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	\$ 3,658,978
New Long-Term Debt	6,867,823
Repayment of Long-Term Debt	<u>(3,590,968)</u>
 Long-Term Debt - End of Year	 <u>\$ 6,935,833</u>

The annual requirements to amortize District long-term debt as of June 30, 2013 is as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 14,728	3,538	18,266
2015	15,344	2,921	18,265
2016	15,987	356,317	372,304
2017	110,967	261,337	372,304
2018	222,837	149,466	372,303
2019 through 2023	1,106,239	673,125	1,779,364
2024 through 2028	1,223,377	546,813	1,770,190
2029 through 2033	1,364,001	406,189	1,770,190
2034 through 2038	1,520,790	249,400	1,770,190
2039 through 2042	1,341,563	74,589	1,416,152
	<u>\$ 6,935,833</u>	<u>2,723,695</u>	<u>9,659,528</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, 2013

(5) CAPITAL LEASE-BUSINESS-TYPE ACTIVITIES

Lease payable to Ford Credit, collateralized by vehicles;
interest at 6.15%; payable in monthly installments of
\$1,418; final payment due May 2016 \$ 44,131

Total Capital Lease 44,131

Less Current Portion of Capital Lease 13,447

Capital Lease Net of Current Portion \$ 30,684

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

Capital Lease – Beginning of Year	\$ 19,454
New Capital Lease	46,734
Repayment of Capital Lease	<u>(22,057)</u>

Capital Lease – End of Year \$ 44,131

Future minimum payments under the capital lease are as follows:

Year Ending June 30	Amount
2015	\$ 15,594
2016	17,012
2017	15,594

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

(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, 2013 was \$2,484,937.

The proceeds of taxes limitation adopted by the District for the year ended June 30, 2014 is \$2,617,881.

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 District can amend the plan at any time. The contribution ranges from 4% to 6% of the annual compensation for all qualified employees. Covered payroll for the year ended June 30, 2013, was \$486,611 and total payroll was \$693,955. The plan contribution for the year ended June 30, 2013 was \$25,289, 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 \$17,500 (\$23,000 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, 2013

(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, 2013

(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, 2013, are as follows:

<u>Year Ending June 30</u>	
2014	\$ 8,670
2015	4,451
2016	3,064
2017	<u>561</u>
	<u>\$ 16,746</u>

Total rent expense was \$24,908 for the year ended June 30, 2013.

(10) RESTRICTED NET POSITION - DEBT PAYMENT

A portion of the net position balance has been restricted in accordance with provisions of the debt due to the State of California Department of Water Resources. The Department of Water Resources provision requires the District to maintain an amount equal to two semi-annual loan payments 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, 2013

(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, \$9 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 contributed capital in the Statement of Activities and Changes in Net Position.

(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 \$16,073,401. As of June 30, 2013, \$6,846,776 has been drawn on this agreement, leaving \$9,226,625 available for future needs. Funds can be drawn under this agreement through June 2015. Interest accrues at an interest rate of 2.2% per annum. Repayment will be made in 27 annual payments, with the final payment due December 2041.

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

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2013

(15) CASH FLOW INFORMATION

During the fiscal year, the District obtained a new loan where the proceeds were used, in part, to retire an existing loan. This non-cash transaction affecting only Capital and Related Financing Activities totaled \$1,311,190.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2013

Assets

	Primary Government Proprietary Fund
Current Assets	
Cash	\$ 2,801,780
Investments	3,118
Total Cash and Cash Equivalents	2,804,898
Accounts receivable	77,439
Allowance for doubtful accounts	(1,000)
Net accounts receivable	76,439
Taxes receivable	13,150
Other receivable	5,941
Capital improvements reimbursement receivable	649,885
Prepaid expenses	64,252
Total Current Assets	3,614,565
Noncurrent Assets	
Capital assets, net	13,573,897
Prepaid finance costs	126,428
Total Noncurrent Assets	13,700,325
 Total Assets	 \$ 17,314,890

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2013

Liabilities and Fund Balances

	Primary Government Proprietary Fund
Liabilities	
Current Liabilities	
Accounts payable	\$ 1,005,222
Retainage payable	469,316
Accrued expenses	141,659
Interest payable	86,154
Deposits held	2,000
Unearned income collected	89,150
Current portion of capital lease	13,447
Current portion of long-term debt	14,728
Total Current Liabilities	1,821,676
Noncurrent Liabilities	
Capital lease	30,684
Long-term debt	6,921,105
Total Noncurrent Liabilities	6,951,789
Total Liabilities	8,773,465
Fund Balances	
Net investment in capital assets	6,593,933
Restricted:	
Restricted for debt payment	18,265
Unrestricted	1,929,227
Total Fund Balances	8,541,425
Total Liabilities and Fund Balances	\$ 17,314,890

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Budget Variance (Over) Under
Program Revenue			
Service fees	\$ 2,098,295	3,246,432	(1,148,137)
Service fee adjustments	-0-	(88,456)	88,456
	2,098,295	3,157,976	(1,059,681)
Expenses			
Salaries	678,981	646,447	32,534
Employee benefits	207,528	258,156	(50,628)
Board expense	19,862	17,762	2,100
Professional fees	92,340	83,494	8,846
Equipment maintenance and repair	40,800	42,751	(1,951)
Operating supplies	7,140	10,137	(2,997)
Vehicle maintenance and repair	39,700	28,972	10,728
Facility maintenance and repair	40,800	69,855	(29,055)
Dues and subscriptions	5,396	4,612	784
Fees, permits and certifications	48,461	29,611	18,850
Training and education	3,698	2,061	1,637
Travel	-0-	378	(378)
Insurance	61,200	56,420	4,780
Office supplies	3,825	9,322	(5,497)
Utilities, communications and telemetry	214,549	170,961	43,588
Chemicals and lab supplies	230,153	220,936	9,217
Small tools and rental	2,754	5,462	(2,708)
Inflow and infiltration	15,000	9,551	5,449
Sludge removal	7,000	10,060	(3,060)
Depreciation	-0-	355,144	(355,144)
Interest	135,917	241,394	(105,477)
Amortization Land Lease	22,479	20,250	2,229
Total Expenses	1,877,583	2,293,736	(416,153)
Operating Income (Loss)	220,712	864,240	(643,528)

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

For the Year Ended June 30, 2013

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Operating Income (Loss)	\$ 220,712	864,240	(643,528)
General Revenues			
Property tax	113,142	405,410	(292,268)
Interest	-0-	1,168	(1,168)
Gain on disposal of capital assets	-0-	6,779	(6,779)
Other	<u>35,300</u>	<u>20,729</u>	<u>14,571</u>
Total General Revenues	148,442	434,086	(285,644)
Contributed capital	<u>-0-</u>	<u>3,281,092</u>	<u>(3,281,092)</u>
Increase (Decrease) in Fund Balance	<u>\$ 369,154</u>	4,579,418	<u>(4,210,264)</u>
Fund Balance – Beginning of Year		<u>3,962,007</u>	
Fund Balance – End of Year		<u>\$ 8,541,425</u>	

See the accompanying notes to the financial statements

GIBSON & COMPANY, INC.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 10, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

Gibson & Company, Inc.
Certified Public Accountant

October 10, 2013
Sacramento, California

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

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THERESA McLENDON, ADMIN.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Donner Summit Public Utility District

Report on Compliance for Each Major Federal Program

We have audited Donner Summit Public Utility District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Donner Summit Public Utility District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

Gibson & Company, Inc.
Certified Public Accountant

October 10, 2013
Sacramento, California

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency			
Pass-through program from:			
State of California State Water Resources Control Board Capitalization Grants for Clean Water State Revolving Funds	66.458	12-805-550-0	\$ <u>796,628</u>
Total U.S. Environmental Protection Agency			<u>796,628</u>
Total expenditures of federal awards			<u>\$ 796,628</u>

See accompanying notes to schedule of expenditures of federal awards.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

NOTE A – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Donner Summit Public Utility District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – LOAN OUTSTANDING

The federal award provided by the State of California State Water Resources Control Board (as a pass-through from the U.S. Environmental Protection Agency) is in the form of a loan to the District. Under the terms of the loan agreement, no payments are due on the loan until one year after completion of construction of the future wastewater treatment plant. Accordingly, the entire grant awarded in the amount of \$796,628 is included as an outstanding loan in the financial statements. This amount in addition to amounts due to the State of California under the same loan agreement.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Reportable condition(s) identified that are not considered to be material weakness(es)?
None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Reportable condition(s) identified that are not considered to be material weakness(es)?
None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section
510(a) of Circular A-133? No

Major programs:

CFDA Number(s)

Name of Federal Program or Cluster

66.458

Capitalization Grants For Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

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THERESA McLENDON, ADMIN.

October 10, 2013

To the 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 for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standard, Government Auditing Standards, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting polices were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. At June 30, 2013, there were no significant sensitive estimates affecting the financial statements. We evaluated the key factors and assumptions used to develop the less sensitive estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 10, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the directors, management, and others within the District and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to be of service to you and would like to express our appreciation to the individuals at the District who assisted in our services. We look forward to a continued relationship with the District.

Very truly yours,

GIBSON & COMPANY, INC.



Michael V. Gibson

Certified Public Accountant