

**DONNER SUMMIT PUBLIC UTILITY DISTRICT**

**Financial Statements**

**June 30, 2007**

**(With Independent Auditor's Report Thereon)**

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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June 30, 2007

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# **GIBSON & COMPANY, INC.**

## **CERTIFIED PUBLIC ACCOUNTANT**

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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, 2007, 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.

As more fully described in Note 12 to the financial statements, the District is currently seeking recovery of \$62,400 for services provided where the funds were directed to another governmental agency. This amount is recognized in these statements. The ultimate disposition of this recovery is unknown at this time.

In our opinion, except for the effects of such adjustments, if any, as might be determined to be necessary in the future, as discussed in the preceding paragraph and in Note 12, 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, 2007, 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 November 5, 2007, 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 the 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.

The management's discussion and analysis on pages 5 through 8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

GIBSON & COMPANY, INC.  
CERTIFIED PUBLIC ACCOUNTANT  
*Gibson & Company, Inc.*  
*Certified Public Accountant*

November 5, 2007  
Sacramento, California

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2007

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, 2007.

**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, 2007

**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 <u>Business-Type Activities</u>
Current and other assets	\$ 1,051
Capital assets	5,252
Total Assets	<u>6,303</u>
Long-term debt outstanding	3,055
Other liabilities	931
Total Liabilities	<u>3,986</u>
Net Assets	
Invested in property and equipment, net of related debt	2,291
Restricted for debt payment	137
Restricted for future projects	313
Unrestricted	(424)
Total Net Assets	<u>\$ 2,317</u>

Changes in Net Assets (In Thousands)

Program revenue	\$ 1,720
General revenues	
Property tax	146
Interest and other	44
Contributed capital	910
Total revenues	<u>2,820</u>
Expenses	<u>2,022</u>
Increase (Decrease) in net assets	<u>\$ 798</u>

(Continued)

# DONNER SUMMIT PUBLIC UTILITY DISTRICT

## Management's Discussion and Analysis

For the Year Ended June 30, 2007

### **FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2006/07**

- The District's assets exceeded liabilities at the close of the fiscal year by \$2,317,177. This represents the net assets (value) of the District as of June 30, 2007.
- 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 \$527,506, total revenues exceeded expenses by \$797,904, indicating that the District exceeded expectations by approximately \$1,325,410 for the current fiscal year. As the District's financial position continues to strengthen over the next several years, Management anticipates that it will begin budgeting and funding future reserves so as to maintain constant growth of the fund balance.
- The District paid off long-term debt of \$124,846 during the current fiscal year.
- The District's utility service revenues exceeded the prior year by approximately \$370,801.
- The District's utility service expenses increased by \$366,244 from June 30, 2006 to June 30, 2007.
- The District received \$909,517 of capital contributions during the current fiscal year.
- The District purchased \$2,108,362 of capital improvements during the current fiscal year.
- Effective July 1, 2006 Truckee Fire Protection District (TFPD) annexed the fire service area of Donner Summit Public Service District (DSPUD). DSPUD will also transfer to TFPD all fire service resources, revenues (earned after July 1, 2006), and responsibilities to TFPD.

### **NEXT YEAR BUDGET AND RATES**

The Board of Directors adopted the Districts 2007/08 budget on June 19, 2007. The District's rates were reviewed by the Board of Directors and will be adjusted during 2007/08 to provide for continued growth and financial stability of the District.

### **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, 2007 and the District's financial condition as of June 30, 2007. 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, 2007

Assets

		Primary Government
		Business-Type Activities
<b>Current Assets</b>		
Cash (Note 2)	\$	660,829
Restricted cash (Note 2)		124,201
Investments (Note 2)		2,833
Total Cash and Cash Equivalents		787,863
Accounts receivable		117,004
Allowance for doubtful accounts		(1,634)
Net accounts receivable		115,370
Taxes receivable		11,967
Other receivable		86,041
Capital improvements reimbursement receivable		46,436
Prepaid expenses		3,542
Total Current Assets		1,051,219
<b>Noncurrent Assets</b>		
Property and equipment, net (Note 3)		5,251,843
Total Noncurrent Assets		5,251,843
 Total Assets	 \$	 <u><u>6,303,062</u></u>

See the accompanying notes to the financial statements



DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Assets

June 30, 2007

Liabilities and Net Assets

	<u>Primary Government Business-Type Activities</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 97,068
Accrued expenses	93,388
Interest payable	52,753
Deferred income	687,735
Current portion of long-term debt (Note 4)	<u>131,908</u>
Total Current Liabilities	1,062,852
Noncurrent Liabilities	
Long-term debt (Note 4)	<u>2,923,033</u>
Total Noncurrent Liabilities	<u>2,923,033</u>
Total Liabilities	3,985,885
Net Assets	
Invested in property and equipment, net of related debt	2,290,980
Restricted:	
Restricted for debt payment (Note 9)	137,480
Restricted for future projects (Note 10)	<u>312,950</u>
Total Restricted	450,430
Unrestricted	<u>(424,233)</u>
Total Net Assets	<u>2,317,177</u>
Total Liabilities and Net Assets	<u>\$ 6,303,062</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2007

	<u>Primary Government</u> <u>Business-Type Activities</u>
Program Revenue	
Water fees	\$ 276,764
Sewer fees	<u>1,443,647</u>
Total Program Revenue	1,720,411
Expenses	
Salaries	215,037
Employee benefits	84,527
Board expense	16,393
Professional fees	478,310
Equipment maintenance and repair	55,491
Operating supplies	9,408
Vehicle maintenance and repair	12,785
Facility maintenance and repair	49,820
Dues and subscriptions	3,250
Fees, permits and certifications	17,215
Training and education	2,506
Insurance	52,421
Office supplies	15,002
Utilities, communications and telemetry	171,918
Other expenses	512
Chemicals and lab supplies	114,187
Small tools and rental	8,402
Sludge removal	5,460
Depreciation	527,506
Interest	178,617
Amortization land lease	<u>3,280</u>
Total Expenses	\$ <u>2,022,047</u>
Net Program Revenue (Expense)	(301,636)

(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, 2007

	<u>Primary Government Business-Type Activities</u>
Net Program Revenue (Expense)	(301,636)
General Revenues	
Property tax	145,953
Interest	19,591
Other	<u>24,479</u>
Total General Revenues	190,023
Contributed capital	<u>909,517</u>
Increase (Decrease) in Net Assets	797,904
Net Assets – Beginning of Year (Note 11)	<u>1,519,273</u>
Net Assets – End of Year	<u>\$ 2,317,177</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2007

	<u>Primary Government Business-Type Activities</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 1,843,795
Cash payments to suppliers for goods and services	(1,169,691)
Cash payments to employees for services	(232,704)
Other receipts	14,514
Net Cash Provided by Operating Activities	455,914
 Cash Flows From Non-Capital Financing Activities:	
Receipt of property taxes	147,905
Net Cash Provided By Non-Capital Financing Activities	147,905
 Cash Flows From Capital and Related Financing Activities:	
Contributed capital	1,121,917
Repayment of long-term debt	(124,846)
Interest paid on long-term debt	(180,968)
Net Cash Provided By Capital and Related Financing Activities	816,103
 Cash Flows From Investing Activities:	
Purchase of capital assets	(2,108,362)
Interest received on cash and investments	19,591
Net Cash Used By Investing Activities	(2,088,771)
Net Increase (Decrease) In Cash	(668,849)
Cash and Cash Equivalents - Beginning of Year	1,456,712
Cash and Cash Equivalents - End of Year	\$ 787,863

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2007

	Primary Government Business-Type Activities
Reconciliation of Increase in Net Assets to Net Cash Provided by operating activities:	
Increase (decrease) in net assets	\$ 797,904
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Depreciation	527,506
Non-operating revenue	(1,075,061)
Non-operating expenses	178,617
(Increase) decrease in:	
Accounts receivable, net	173,634
Other receivable	(9,965)
Prepaid expenses	57,479
Increase (decrease) in:	
Accounts payable	(69,722)
Accrued expenses	(74,228)
Deferred income	(50,250)
	(341,990)
Total adjustments	
Net Cash Provided By Operating Activities	\$ 455,914

See the accompanying notes to the financial statements

# DONNER SUMMIT PUBLIC UTILITY DISTRICT

## Notes to the Financial Statements

June 30, 2007

### (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 accompanied by a total column.

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, 2007

(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, 2007

(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.

Fixed assets are recorded in their respective fund. Depreciation of all exhaustible fixed 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

Deferred Income

Deferred income consists of cash deposits made by customers in exchange for the right to future sewer connections for Equivalent Dwelling Units (EDUs), as well as 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, 2007

(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, 2007 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, 2007, all cash and investments held by the District are considered to be cash equivalents.

(2) CASH AND INVESTMENTS

A summary of cash and investments held by the District at June 30, 2007 is as follows:

Cash on hand	\$	300
Cash on deposit at banks		660,529
Cash on deposit at banks - restricted		124,201
Investments		2,833
	\$	<u>787,863</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2007

(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>	<u>Market Value</u>
State of California Local Agency Investment Fund	\$ 2,833	2,832

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2007

(3) PROPERTY AND EQUIPMENT

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

	Balance June 30, 2006	Additions	Deletions	Transfers	Balance June 30, 2007
Land	\$ 72,623	-0-	-0-	-0-	72,623
Sewage collection, treatment and disposal facilities	9,721,402	1,960,841	-0-	2,080,704	13,762,947
Sewage equipment	2,099	-0-	-0-	-0-	2,099
Water treatment and distribution facilities	2,182,667	3,200	-0-	68,368	2,254,235
Water equipment	288,960	-0-	-0-	-0-	288,960
Water and sewage equipment	240,389	-0-	2,305	-0-	238,084
Vehicles	49,790	26,935	18,796	-0-	57,929
Office furniture and equipment	48,021	7,923	705	-0-	55,239
Construction in process	2,199,811	109,463	-0-	(2,149,072 )	160,202
Total Property and Equipment	14,805,762	<u>2,108,362</u>	<u>21,806</u>	<u>-0-</u>	16,892,318
Accumulated Depreciation	<u>11,134,775</u>	<u>527,506</u>	<u>21,806</u>	<u>-0-</u>	<u>11,640,475</u>
Net Book Value	<u>\$ 3,670,987</u>				<u>5,251,843</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2007

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

Long-term debt as of June 30, 2007, is summarized as follows:

1971 General Obligation Bonds; interest at 5.75% payable on December 1 and June 1; principal payable in annual redemptions from \$16,000 to \$20,000; final payment due June 1, 2011.	\$ 75,000
1971 General Obligation Bonds; interest at 5.75% payable on December 1 and June 1; principal payable in annual redemptions from \$15,000 to \$18,000; final payment due June 1, 2011.	70,000
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.	165,828
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.	1,199,826
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.	<u>1,544,287</u>
Total Long-Term Debt	3,054,941
Less Current Portion of Long-Term Debt	<u>131,908</u>
Long-Term Debt Net of Current Portion	<u><u>\$ 2,923,033</u></u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2007

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

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

Net Long-Term Debt - Beginning of Year	\$ 3,179,787
Repayment of Long-Term Debt	<u>(124,846)</u>
 Net Long-Term Debt - End of Year	 <u>\$ 3,054,941</u>

The annual requirements to amortize District long-term debt as of June 30, 2007 is as follows:

Year Ending June 30	Principal	Interest	Total
2008	\$ 131,908	168,124	300,032
2009	137,257	160,763	298,020
2010	144,903	153,104	298,007
2011	151,863	145,016	296,879
2012	120,155	136,539	256,694
2013 through 2017	708,130	575,343	1,283,473
2018 through 2022	859,249	360,377	1,219,626
2023 through 2027	801,476	99,666	901,142
	<u>\$ 3,054,941</u>	<u>1,798,932</u>	<u>4,853,873</u>

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

(5) 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, 2007 was \$2,085,464.

The proceeds of taxes limitation adopted by the District for the year ended June 30, 2008 is \$2,181,603.

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.

# DONNER SUMMIT PUBLIC UTILITY DISTRICT

## Notes to the Financial Statements

June 30, 2007

### (6) 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, 2007, was \$206,812 and total payroll was \$233,831. The plan contribution for the year ended June 30, 2007 was \$9,644, all of which was funded by participant forfeitures. Accordingly, no expense is 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 \$15,000 (\$20,000 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.

### (7) 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.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2007

(7) RISK MANAGEMENT (Continued)

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.

(8) LEASE AND RENTAL COMMITMENTS

The District leases office equipment under operating leases. Future minimum lease payments at June 30, 2007, are as follows:

<u>Year Ending June 30</u>	
2008	\$ 5,573
2009	5,431
2010	3,869
2011	<u>3,224</u>
	<u>\$ 18,097</u>

Total rent expense was \$5,573 for the year ended June 30, 2006.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2007

(9) 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.

(10) RESTRICTED NET ASSETS - FUTURE PROJECTS

A portion of the net asset balance is restricted by law for new projects. These net assets are increased by connection fees paid by customers and reduced as the District expends funds for expansion projects.

(11) AFFECT OF TRANSFER ON NET ASSETS

Effective July 1, 2006 Truckee Fire Protection District (TFPD) annexed the fire service area of Donner Summit Public Utility District (DSPUD). DSPUD also transferred to TFPD all fire service resources, future revenues, and responsibilities.

Accordingly all assets (except property and equipment) and liabilities were transferred as of this date from the District's former Government Activity to the District's Business-Type Activity. A summary of those assets and liabilities and the resulting effect on the Business-Type Activity's net assets:

Assets:	
Cash	\$ 60,315
Accounts receivable (net)	67,935
Taxes receivable	8,561
Other receivable	76,076
Prepaid expenses	4,307
Liabilities:	
Accounts payable	(35,147)
Accrued expenses	<u>(96,279)</u>
Net Assets Transferred	85,768
Net Assets - Business-Type Activities (Before Transfer)	<u>1,433,505</u>
Net Assets - Business-Type Activities (After Transfer)	<u>\$ 1,519,273</u>



DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2007

(12) DISPUTED REVENUE PAYMENT – NEVADA COUNTY SERVICE AREA NO. 31

During the prior fiscal year, the District became aware that certain payments totaling \$62,400 due from the County of Nevada related to fire services provided by the District to County Service Area No. 31 were instead paid to another governmental agency. The District is currently working with the other governmental agency and the County of Nevada to recover those funds. These payments are due the District's fire service, which as indicated in Note 11 was annexed by Truckee Fire Protection District. Although the status of the recovery of these funds is currently undeterminable, the revenue related to this item is included in the District's financial statements.

(13) 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

Fund Financial Statements

Balance Sheet

June 30, 2007

Assets

	<u>Primary Government Proprietary Fund</u>
Current Assets	
Cash	\$ 660,829
Restricted cash	124,201
Investments	<u>2,833</u>
Total Cash and Cash Equivalents	787,863
Accounts receivable	117,004
Allowance for doubtful accounts	<u>(1,634)</u>
Net accounts receivable	115,370
Taxes receivable	11,967
Other receivable	86,041
Capital improvements reimbursement receivable	46,436
Prepaid expenses	<u>3,542</u>
Total Current Assets	1,051,219
Noncurrent Assets	
Property and equipment, net	<u>5,251,843</u>
Total Noncurrent Assets	<u>5,251,843</u>
Total Assets	<u>\$ 6,303,062</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2007

Liabilities and Fund Balances

	<u>Primary Government Proprietary Fund</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 97,068
Accrued expenses	93,388
Interest payable	52,753
Deferred income	687,735
Current portion of long-term debt	131,908
Total Current Liabilities	<u>1,062,852</u>
Noncurrent Liabilities	
Long-term debt	<u>2,923,033</u>
Total Noncurrent Liabilities	<u>2,923,033</u>
Total Liabilities	3,985,885
Fund Balances	
Invested in property and equipment, net of related debt	2,290,980
Restricted:	
Restricted for debt payment	137,480
Restricted for future projects	312,950
Total Restricted	<u>450,430</u>
Unrestricted	<u>(424,233)</u>
Total Fund Balances	<u>2,317,177</u>
Total Liabilities and Fund Balances	<u>\$ 6,303,062</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, 2007

	Original and Final Budget	Actual	Budget Variance (Over) Under
Program Revenue			
Water fees	\$ 297,450	276,764	20,686
Sewer fees	1,107,542	1,443,647	(336,105)
	1,404,992	1,720,411	(315,419)
Expenses			
Salaries	234,509	215,037	19,472
Employee benefits	89,551	84,527	5,024
Board expense	17,120	16,393	727
Professional fees	378,709	478,310	(99,601)
Equipment maintenance and repair	34,485	55,491	(21,006)
Operating supplies	2,250	9,408	(7,158)
Vehicle maintenance and repair	16,000	12,785	3,215
Facility maintenance and repair	38,250	49,820	(11,570)
Dues and subscriptions	3,480	3,250	230
Fees, permits and certifications	49,234	17,215	32,019
Training and education	2,800	2,506	294
Insurance	51,500	52,421	(921)
Office supplies	4,500	15,002	(10,502)
Utilities, communications and telemetry	174,775	171,918	2,857
Other expenses	-0-	512	(512)
Chemicals and lab supplies	118,351	114,187	4,164
Small tools and rental	1,501	8,402	(6,901)
Inflow and infiltration	15,000	-0-	15,000
Sludge removal	4,000	5,460	(1,460)

(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, 2007

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Expenses (Continued)			
Depreciation	\$ -0-	527,506	(527,506)
Interest	175,092	178,617	(3,525)
Amortization Land Lease	-0-	3,280	(3,280)
Total Expenses	<u>1,411,107</u>	<u>2,022,047</u>	<u>(610,940)</u>
Operating Income (Loss)	(6,115)	(301,636)	295,521
General Revenues			
Property tax	158,245	145,953	12,292
Interest	1,600	19,591	(17,991)
Other	<u>11,000</u>	<u>24,479</u>	<u>(13,479)</u>
Total General Revenues	170,845	190,023	(19,178)
Contributed capital	<u>-0-</u>	<u>909,517</u>	<u>(909,517)</u>
Increase (Decrease) in Fund Balance	<u>\$ 164,730</u>	797,904	<u>(633,174)</u>
Fund Balance – Beginning of Year		<u>1,519,273</u>	
Fund Balance – End of Year		<u>\$ 2,317,177</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, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 5, 2007. The report on the financial statements was qualified because the financial statements include a receivable where the collectability is unknown. 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

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Member Private Companies Practice Section,  
A.I.C.P.A. Division for C.P.A. Firms

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.

We noted certain matters that we reported to management of Donner Summit Public Utility District, in a separate letter dated November 5, 2007.

This report is intended solely for the information and use of the 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*

November 5, 2007  
Sacramento, California