

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Financial Statements

June 30, 2005

(With Independent Auditor's Report Thereon)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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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 governmental activities and the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2005, 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. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the business-type activities of Donner Summit Public Utility District, as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof 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 June 20, 2006, 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 and budgetary comparison information on pages 5 through 8, pages 31 through 32, and pages 34 through 35 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

June 20, 2006
Sacramento, California

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2005

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, 2005.

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 "Governmental Activities" of the Fire and Rescue operations, and "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, Statements of Activity – Budget and Actual, and various reconciling statements.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2005

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		Total
	Governmental Activities	Business-Type Activities	
Current and other assets	\$ 504	128	632
Capital assets	577	2,794	3,371
Total Assets	1,081	2,922	4,003
Long-term debt outstanding	-0-	830	830
Other liabilities	169	1,160	1,329
Total Liabilities	169	1,990	2,159
 Net Assets			
Invested in property and equipment, net of related debt	577	1,762	2,339
Restricted for debt payment	-0-	18	18
Unrestricted	335	(848)	(513)
Total Net Assets	\$ 912	932	1,844

Changes in Net Assets (In Thousands)

Program revenue	\$ 595	1,194	1,789
General revenues			
Property tax	104	69	173
Grants	104	-0-	104
Other	2	61	63
Total revenues	805	1,324	2,129
Expenses	852	1,696	2,548
Increase (Decrease) in net assets	\$ (47)	(372)	(419)

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2005

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004/05

- The District's assets exceeded liabilities at the close of the fiscal year by \$1,843,425. This represents the net assets (value) of the District as of June 30, 2005.
- 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 \$592,558, total expenses exceeded revenues by \$418,569, indicating that the District exceeded expectations by approximately \$173,989 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.
- Obligations for future EDU connections were revalued from \$751,050 to \$701,050 during the current fiscal year resulting in an unexpected deferred revenue adjustment of \$50,000.
- The District paid off long-term debt of \$189,408 during the current fiscal year.
- The District's total revenues increased by \$181,376 from June 30, 2004 to June 30, 2005.
- The District's total expenses decreased by \$77,807 from June 30, 2004 to June 30, 2005.
- The District's service revenues exceeded the prior year by approximately \$202,186.
- The District purchased \$397,093 of capital improvements during the current fiscal year.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2005

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004/05 (CONTINUED)

- The District earned grant revenues from FEMA of \$104,386 during the current fiscal year for the purchase of firefighting equipment and personal protective equipment.
- The District retained General Management and Accounting services on a consulting basis during the current fiscal year, thereby reducing Salary expense and increasing Professional Fees nearly proportionately.
- Due to the implementation of GASB#34, the District no longer expenses Capital Outlay in the District's proprietary fund. Rather, all capital acquisitions are recorded as Assets on the District's Statement of Net Assets, and appropriate depreciation of those assets is recorded as Depreciation Expense. Accordingly, Capital Outlay Expense is zero in the current fiscal year, and Depreciation expense decreased \$4,376 between June 30, 2004 and June 30, 2005.
- Effective July 1, 2006 Truckee Fire Protection District (TFPD) will annex the fire service area of Donner Summit Public Service District (DSPUD). DSPUD will also transfer to TFPD all fire service resources, revenues, and responsibilities to TFPD. The Governmental Fund reported on in this financial statement is the fire service area

NEXT YEAR BUDGET AND RATES

The Board of Directors adopted the District's 2005/06 budget on July 20, 2005. The District's rates were reviewed by the Board of Directors and will be adjusted during 2005/06 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, 2005 and the District's financial condition as of June 30, 2005. 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, 2005

Assets

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Current Assets			
Cash (Note 2)	\$ 410,103	1,999	412,102
Restricted cash (Note 2)	-0-	1,168	1,168
Investments (Note 2)	2,607	-0-	2,607
Accounts receivable	121,265	116,489	237,754
Allowance for doubtful accounts	(42,443)	(6,283)	(48,726)
Net accounts receivable	78,822	110,206	189,028
Taxes receivable	7,824	4,213	12,037
Prepaid expenses	4,324	9,527	13,851
Total Current Assets	503,680	127,113	630,793
Noncurrent Assets			
Deferred finance charges	-0-	530	530
Property and equipment, net (Note 3)	576,909	2,794,344	3,371,253
Total Noncurrent Assets	576,909	2,794,874	3,371,783
 Total Assets	 \$ 1,080,589	 2,921,987	 4,002,576

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Assets

June 30, 2005

Liabilities and Net Assets

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Liabilities			
Current Liabilities			
Accounts payable	\$ 36,119	102,262	138,381
Accrued expenses	119,998	128,243	248,241
Interest payable	-0-	24,875	24,875
Deferred income	13,069	701,528	714,597
Current portion of long-term debt (Note 4)	-0-	203,130	203,130
Total Current Liabilities	169,186	1,160,038	1,329,224
Noncurrent Liabilities			
Long-term debt (Note 4)	-0-	829,927	829,927
Total Noncurrent Liabilities	-0-	829,927	829,927
Total Liabilities	169,186	1,989,965	2,159,151
Net Assets			
Invested in property and equipment, net of related debt	576,909	1,761,287	2,338,196
Restricted for debt payment (Note 10)	-0-	18,263	18,263
Unrestricted	334,494	(847,528)	(513,034)
Total Net Assets	911,403	932,022	1,843,425
Total Liabilities and Net Assets	\$ 1,080,589	2,921,987	4,002,576

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2005

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Program Revenue			
County service area fee	\$ 164,161	-0-	164,161
Fire and rescue service	8,980	-0-	8,980
Ambulance service	421,416	-0-	421,416
Water fees	-0-	228,809	228,809
Sewer fees	-0-	965,346	965,346
Total Program Revenue	594,557	1,194,155	1,788,712
Expenses			
Salaries	337,314	182,871	520,185
Employee benefits	142,093	132,573	274,666
Board expense	-0-	17,851	17,851
Professional fees	89,237	293,438	382,675
Equipment maintenance and repair	5,412	13,035	18,447
Operating supplies	14,017	13,723	27,740
Vehicle maintenance and repair	24,326	15,449	39,775
Facility maintenance and repair	8,141	62,061	70,202
Other maintenance and operations	10,831	-0-	10,831
Dues and subscriptions	610	1,943	2,553
Fees, permits and certifications	5,226	10,415	15,641
Training and education	6,113	3,063	9,176
Insurance	32,025	10,712	42,737
Office supplies	2,393	14,099	16,492
Utilities, communications and telemetry	3,978	153,778	157,756
Bad debt	-0-	162,210	162,210
Other expenses	4,722	-0-	4,722
Chemicals and lab supplies	-0-	82,737	82,737
Small tools and rental	-0-	7,803	7,803

(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, 2005

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Expenses (Continued)			
Inflow and infiltration	\$ -0-	544	544
Sludge removal	-0-	1,006	1,006
Depreciation	76,602	515,956	592,558
Interest	-0-	85,437	85,437
Amortization land lease	-0-	4,375	4,375
Administrative support fee	88,652	(88,652)	-0-
Total Expenses	<u>851,692</u>	<u>1,696,427</u>	<u>2,548,119</u>
Net Program Revenue (Expense)	(257,135)	(502,272)	(759,407)
General Revenues			
Property tax	104,217	69,637	173,854
Grants	104,386	-0-	104,386
Interest	658	644	1,302
Other	796	60,500	61,296
Total General Revenues	<u>210,057</u>	<u>130,781</u>	<u>340,838</u>
Increase (Decrease) in Net Assets	(47,078)	(371,491)	(418,569)
Net Assets – Beginning of Year (Note 2)	<u>958,481</u>	<u>1,303,513</u>	<u>2,261,994</u>
Net Assets – End of Year	<u>\$ 911,403</u>	<u>932,022</u>	<u>1,843,425</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2005

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Cash Flows from Operating Activities:			
Cash receipts from customers	\$ 588,254	1,160,872	1,749,126
Cash payments to suppliers for goods and services	(332,374)	(824,993)	(1,157,367)
Cash payments to employees for services	(439,452)	(94,219)	(533,671)
Other receipts	796	63,073	63,869
Net Cash Provided (Used) by Operating Activities	(182,776)	304,733	121,957
Cash Flows From Non-Capital Financing Activities:			
Receipt of property taxes	106,832	69,542	176,374
Net Cash Provided By Non-Capital Financing Activities	106,832	69,542	176,374
Cash Flows From Capital and Related Financing Activities:			
Grants received	116,568	-0-	116,568
Insurance proceeds	-0-	177,917	177,917
Repayment of long-term debt	-0-	(189,408)	(189,408)
Interest paid on long-term debt	-0-	(86,314)	(86,314)
Net Cash Provided (Used) By Capital and Related Financing Activities	116,568	(97,805)	18,763
Cash Flows From Investing Activities:			
Purchase of capital assets	(115,985)	(281,108)	(397,093)
Interest received on cash and investments	658	644	1,302
Net Cash Provided (Used) By Investing Activities	(115,327)	(280,464)	(395,791)
Net Increase (Decrease) In Cash	(74,703)	(3,994)	(78,697)
Cash and Cash Equivalents - Beginning of Year	487,413	7,161	494,574
Cash and Cash Equivalents - End of Year	\$ 412,710	3,167	415,877

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2005

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided (Used) by operating activities:			
Increase (decrease) in net assets	\$ (47,078)	(371,491)	(418,569)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	76,602	515,956	592,558
Non-operating revenue	(209,261)	(70,281)	(279,542)
Non-operating expenses	-0-	112,631	112,631
(Increase) decrease in:			
Accounts receivable, net	(6,303)	151,627	145,324
Other receivable	-0-	29,873	29,873
Prepaid expenses	1,231	6,431	7,662
Increase (decrease) in:			
Accounts payable	4,043	(24,288)	(20,245)
Accrued expenses	(2,010)	4,275	2,265
Deferred income	-0-	(50,000)	(50,000)
	(135,698)	676,224	540,526
Total adjustments			
Net Cash Provided (Used) By Operating Activities	\$ (182,776)	304,733	121,957

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(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, sewer, fire, ambulance, and rescue services.

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

Basis of Accounting/Measurement Focus

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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 governmental and 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.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

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.

Governmental Fund

The Governmental Fund Financial Statements includes a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental fund. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements

Governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenses and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and service fees. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund

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

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund (Continued)

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.

Deferred Financing Charges

Deferred financing charges consist of bank loan issuance costs and are amortized over the term of the obligation using the straight-line method.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(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 includes 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, 2005

(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, 2005 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, 2005, 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, 2005 is as follows:

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Cash on deposit at banks	\$ 410,103	1,999	412,102
Cash on deposit at banks - restricted	-0-	1,168	1,168
Investments	2,607	-0-	2,607
	\$ 412,710	3,167	415,877

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(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	\$ <u>2,607</u>	<u>2,601</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(3) PROPERTY AND EQUIPMENT

A summary of governmental activities property and equipment is presented below:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Fire equipment	\$ 815,167	115,985	-0-	931,152
Ambulance equipment	203,924	-0-	-0-	203,924
Construction in progress	47,271	-0-	-0-	47,271
Total Property and Equipment	1,066,362	<u>115,985</u>	<u>-0-</u>	1,182,347
Accumulated Depreciation	528,836	<u>76,602</u>	<u>-0-</u>	605,438
Net Book Value	<u>\$ 537,526</u>			<u>576,909</u>

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

	Balance June 30, 2004	Additions	Deletions	Transfers	Balance June 30, 2005
Land	\$ 72,623	-0-	-0-	-0-	72,623
Sewage collection, treatment and disposal facilities	9,677,429	39,843	-0-	-0-	9,717,272
Sewage equipment	2,099	-0-	-0-	-0-	2,099
Water treatment and distribution facilities	2,155,432	-0-	-0-	-0-	2,155,432
Water equipment	291,320	-0-	-0-	-0-	291,320
Water and sewage equipment	231,605	-0-	-0-	8,784	240,389
Vehicles	64,835	-0-	-0-	-0-	64,835
Office furniture and equipment	51,474	-0-	-0-	-0-	51,474
Construction in process	798,912	63,348	13,910	(8,784)	839,566
Total Property and Equipment	13,345,729	<u>103,191</u>	<u>13,910</u>	<u>-0-</u>	13,435,010
Accumulated Depreciation	10,124,710	<u>515,956</u>	<u>-0-</u>	<u>-0-</u>	10,640,666
Net Book Value	<u>\$ 3,221,019</u>				<u>2,794,344</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

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

Long-term debt as of June 30, 2005, 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.	\$ 109,000
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.	102,000
Notes payable; interest from 6.85% to 6.95% payable on September 1 and March 1; principal payable in annual redemptions from \$125,000 to \$135,000; final payment due September 1, 2005.	135,001
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.	187,487
Loan payable to Municipal Service Group, Inc., collateralized by sewer and water revenues; interest at 5.62%; interest and principal payable in annual installments of \$52,721 on November 1; final payment due November 1, 2018.	<u>501,783</u>
Total Long-Term Debt	1,035,271
Less: Difference resulting from reacquisition price and net carrying amount of defeased 1985 Sewer Revenue Bonds	<u>(2,214)</u>
Net Long-Term Debt	1,033,057
Less Current Portion of Long-Term Debt	<u>203,130</u>
Long-Term Debt Net of Current Portion	<u>\$ 829,927</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(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	\$ 1,209,181
Repayment of Long-Term Debt	(189,408)
Amortization of defeased 1985 Sewer Revenue Bonds	<u>13,284</u>
Net Long-Term Debt - End of Year	<u>\$ 1,033,057</u>

Principal payments due over the next five years and thereafter are as follows:

<u>Year Ending June 30</u>	
2006	\$ 203,130
2007	69,951
2008	73,869
2009	75,889
2010	80,015
2011-2015	289,112
2016-2019	<u>243,305</u>
	<u>\$ 1,035,271</u>

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

In prior years, the District defeased the 1985 Sewer Revenue Bonds by placing the proceeds of new notes payable in a trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On September 1, 1995, the District redeemed all outstanding bonds.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(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, 2005 was \$1,907,081.

The proceeds of taxes limitation adopted by the District for the year ended June 30, 2006 is \$1,995,469.

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.

(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 is 4% of the annual compensation for all qualified employees. Covered payroll for the year ended June 30, 2005, was \$525,128 and total payroll was \$578,539. The plan expense for the year ended June 30, 2005 was \$21,005.

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 \$13,000 (\$16,000 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, 2005

(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.

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, 2005

(8) LEASE AND RENTAL COMMITMENTS

The District leases office equipment and land for its facilities under operating leases and special use permits. Future minimum lease payments at June 30, 2005, are as follows:

<u>Year Ending June 30</u>		
2006	\$	5,996
2007		<u>252</u>
	\$	<u>6,248</u>

Total rent expense was \$4,375 for the year ended June 30, 2005. The fees for the special use permits are subject to adjustments to place the charges on a basis commensurate with the value of use authorized by the permits.

(9) COMMITMENTS

The District has been ordered to meet certain waste discharge requirements mandated by the California Regional Water Quality Control Board by June 2007. Total cost of compliance with these regulations is estimated to be at least \$2 million.

Compliance with these regulations will be met through a multi-phase project schedule. Phases one and two of the project have been completed for \$719,040 and the project is currently in the testing and data collection stage.

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

(10) RESTRICTED NET ASSETS

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

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2005

(11) SUBSEQUENT EVENTS

Effective July 1, 2006 Truckee Fire Protection District (TFPD) will annex the fire service area of Donner Summit Public Service District (DSPUD). DSPUD will also transfer to TFPD all fire service resources, revenues, and responsibilities. The Governmental Fund reported on in this financial statement is the fire service area

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2005

Assets

	Primary Government	
	Governmental Fund	Proprietary Fund
Current Assets		
Cash (Note 4)	\$ 410,103	1,999
Restricted cash (Note 4)	-0-	1,168
Investments (Note 4)	2,607	-0-
Accounts receivable (Note 3)	43,352	116,489
Allowance for doubtful accounts	-0-	(6,283)
Net accounts receivable	43,352	110,206
Taxes receivable	7,824	4,213
Prepaid expenses	4,324	9,527
Total Current Assets	468,210	127,113
Noncurrent Assets		
Deferred finance charges	-0-	530
Property and equipment, net (Note 6)	-0-	2,794,344
Total Noncurrent Assets	-0-	2,794,874
 Total Assets	\$ 468,210	2,921,987

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2005

Liabilities and Fund Balances

	Primary Government	
	Governmental Fund	Proprietary Fund
Liabilities		
Current Liabilities		
Accounts payable	\$ 36,119	102,262
Accrued expenses	119,998	128,243
Interest payable	-0-	24,875
Deferred income	13,069	701,528
Current portion of long-term debt (Note 7)	-0-	203,130
Total Current Liabilities	169,186	1,160,038
Noncurrent Liabilities		
Long-term debt (Note 7)	-0-	829,927
Total Noncurrent Liabilities	-0-	829,927
Total Liabilities	169,186	1,989,965
Fund Balances		
Invested in property and equipment, net of related debt	-0-	1,761,287
Restricted for debt payment (Note 12)	-0-	18,263
Unrestricted	299,024	(847,528)
Total Fund Balances	299,024	932,022
Total Liabilities and Fund Balances	\$ 468,210	2,921,987

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets

June 30, 2005

Fund balance of governmental fund	\$	299,024
Amounts reported for governmental activities in the statement of net assets are different because:		
Accounts receivable that the District does not expect to collect within 60 days of the end of the fiscal year are not available as current financial resources and are therefore not reported in the Governmental Fund Balance Sheet		
		35,470
Property and Equipment used in governmental activities are not financial resources and therefore are not reported in governmental funds:		
Fire equipment	\$	931,152
Ambulance equipment		203,924
Construction in progress		47,271
Less accumulation depreciation		<u>(605,438)</u>
Net Book Value		<u>576,909</u>
Net assets of governmental activities	\$	<u><u>911,403</u></u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Governmental Fund

For the Year Ended June 30, 2005

	Original and Final Budget	Actual	Budget Variance (Over) Under
Program Revenue			
County service area fee	\$ 198,000	164,161	(33,839)
Fire and rescue service	20,000	8,980	(11,020)
Ambulance service	420,000	418,580	(1,420)
Total Program Revenue	638,000	591,721	(46,279)
Expenditures			
Salaries	371,640	337,314	34,326
Employee benefits	118,500	142,093	(23,593)
Professional fees	176,696	89,237	87,459
Maintenance and operations:			
Equipment maintenance and repair		5,412	
Operating supplies		14,017	
Vehicle maintenance and repair		24,326	
Facility maintenance and repair		8,141	
Other		10,831	
Total maintenance and operations	206,300	62,727	143,573
Other Operating Expenses:			
Dues and subscriptions		610	
Fees, permits and certifications		5,226	
Training and education		6,113	
Insurance		32,025	
Office supplies		2,393	
Utilities, communications and telemetry		3,978	

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Governmental Fund

For the Year Ended June 30, 2005

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Expenses (Continued)			
Other Operating Expenses: (Continued)			
Other	\$	<u>4,722</u>	
Total other operating expenses	45,600	55,067	(9,467)
Administrative Support Fee	88,652	88,652	-0-
Capital Outlays	<u>-0-</u>	<u>115,985</u>	<u>(115,985)</u>
Total Expenditures	<u>1,007,388</u>	<u>891,075</u>	<u>116,313</u>
Net Program Revenue (Expenditures)	(369,388)	(299,354)	70,034
General Revenues			
Property tax	102,000	104,217	2,217
Grants	130,000	104,386	(25,614)
Interest	-0-	658	658
Other	<u>2,000</u>	<u>796</u>	<u>(1,204)</u>
Total General Revenues	<u>234,000</u>	<u>210,057</u>	<u>(23,943)</u>
Increase (Decrease) in Fund Balance	\$ <u>(135,388)</u>	(89,297)	<u>46,091</u>
Fund Balance – Beginning of Year		<u>388,321</u>	
Fund Balance – End of Year		\$ <u><u>299,024</u></u>	

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of the Governmental Fund to the Statement of Activities

For the Year Ended June 30, 2005

Increase (Decrease) in fund balance – governmental fund	\$	(89,297)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental fund reports capital outlay for property and equipment as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Plus – Capital Outlays		115,985
Less – current year depreciation expense		(76,602)
Revenue timing differences result in less revenue in government-wide statements		<u>2,836</u>
Increase (Decrease) in net assets of governmental activities	\$	<u>(47,078)</u>

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, 2005

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Program Revenue			
Water fees	\$ 225,246	228,809	3,563
Sewer fees	<u>983,668</u>	<u>965,346</u>	<u>(18,322)</u>
Total Program Revenue	1,208,914	1,194,155	(14,759)
Expenses			
Salaries	290,395	182,871	107,524
Employee benefits	126,332	132,573	(6,241)
Board expense	17,632	17,851	(219)
Professional fees	272,095	293,438	(21,343)
Equipment maintenance and repair	16,000	13,035	2,965
Operating supplies	1,600	13,723	(12,123)
Vehicle maintenance and repair	13,200	15,449	(2,249)
Facility maintenance and repair	10,000	62,061	(52,061)
Dues and subscriptions	2,260	1,943	317
Fees, permits and certifications	45,914	10,415	35,499
Training and education	5,000	3,063	1,937
Insurance	40,000	10,712	29,288
Office supplies	8,176	14,099	(5,923)
Utilities, communications and telemetry	153,612	153,778	(166)
Bad debt	-0-	162,210	(162,210)
Chemicals and lab supplies	38,222	82,737	(44,515)
Small tools and rental	12,691	7,803	4,888
Inflow and infiltration	15,000	544	14,456
Sludge removal	4,000	1,006	2,994

(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, 2005

	Original and Final Budget	Actual	Budget Variance (Over) Under
Expenses (Continued)			
Depreciation	\$ -0-	515,956	(515,956)
Interest	85,000	85,437	(437)
Amortization Land Lease	7,750	4,375	3,375
Fixed Asset Acquisition	75,032	-0-	75,032
Administrative Support Fee	(88,652)	(88,652)	-0-
Total Expenses	1,151,259	1,696,427	(545,168)
Operating Income (Loss)	57,655	(502,272)	(559,927)
General Revenues			
Property tax	63,198	69,637	6,439
Interest	1,000	644	(356)
Other	52,228	60,500	8,272
Total General Revenues	116,426	130,781	14,355
Increase (Decrease) in Fund Balance	\$ 174,081	(371,491)	545,572
Fund Balance – Beginning of Year		1,303,513	
Fund Balance – End of Year		\$ 932,022	

See the accompanying notes to the financial statements

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

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BONNIE SANCHEZ, ACCT.

**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 governmental activities and the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 20, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 June 20, 2006.

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

June 20, 2006
Sacramento, California