

# Tahoe City Public Utility District

Tahoe City, California

*Basic Financial Statements*

*For the year ended December 31, 2011*

**C&L**  
Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants



**Tahoe City Public Utility District**  
**Basic Financial Statements**  
**For the year ended December 31, 2011**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of the Tahoe City Public Utility District  
Tahoe City, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Tahoe City Public Utility District (District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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, the business-type activities, and each major fund of the District, as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors  
of the Tahoe City Public Utility District  
Tahoe City, California  
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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information on pages 3 through 10 and 66 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Francisco, California  
May 17, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Tahoe City Public Utility District (the District) was founded in 1938 to provide some of the governmental needs of the residents of Tahoe City. It is the oldest local government in the Tahoe Basin and was formed initially to provide public water service to the local community. Established under the State of California's Public Utility District Act, the founders of the District chose a form of government that could provide multiple types of services. The District provides sewer collection and transportation and water production and distribution services; parks facilities and recreation services are provided for the entire area of the District. It operates and maintains 19 miles of bike trails, parks, beaches, a boat launching facility, campground and the Tahoe City downtown sidewalks. In addition, the District sponsors numerous recreation programs, operates the Rideout community center and rents community buildings for the benefit of residents and visitors.

Water service is provided in five separate systems and serves approximately half of the homes and businesses in the District.

- Water customers - 4,088
- Sewer customers - 7,636
- Parks and Recreation customers - over 500,000

The boundaries of the District lie within both Placer and El Dorado Counties, extending from Emerald Bay to Dollar Hill, and along the Truckee River to the Nevada County line. The service area is very large, encompassing over 31 square miles. The District is governed by a five person elected Board of Directors. These Directors determine the policies and set the agenda for the District. The Board appoints a General Manager who oversees the day to day operations of the District. In addition, the Board forms special citizen advisory committees when complicated issues need more community outreach or focused study. Under the direction of General Manager Cindy Gustafson, 41 full time employees and 30 seasonal employees provide the listed services. Employees serve in four departments: Utilities; Parks & Recreation; Engineering; and Governance and Support Services. Tahoe City Public Utility District is on a calendar-year (January 1 - December 31) budget cycle and each year the Board of Directors adopts an operating and capital budget. The District uses property tax, user fees, grants and interest income to provide its services.

The following discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

## HIGHLIGHTS

### FINANCIAL HIGHLIGHTS

- The District authorized the issuance of Taxable Pension Obligation Refunding Bonds, Series 2011 in the amount of \$2,280,000 for the purpose of funding the District's side fund with respect to pension benefits saving approximately \$365,000 in pension costs over eight years.
- Total District debt increased to \$6.6 million at December 31, 2011. This is due to a combination of adding the Taxable Pension Obligation Refunding Bond mentioned above and paying down debt by \$802,018.
- The District has reserves at December 31, 2011 of: \$3,287,347 for long-term capital replacement, \$1,562,653 for the property tax reserve – water, \$750,000 for emergencies, and \$250,000 for annual cash flow fluctuation requirements.
- The District has a total balance of \$647,508 in the California Employers' Retiree Benefit Trust at December 31, 2011 to partially fund other post-employment benefits.
- During 2011 the District received approximately \$2.6 million in capital grants of which \$302,000 were Federal grants to improve its water system infrastructure for improved firefighting support.

### OPERATIONAL HIGHLIGHTS

- The District spent \$5.1 million on capital assets.
- Combined operating revenue exceeded budget by \$148,300 largely due to unbudgeted water revenue from Lake Forest customers.
- Operating expenses were better compared to budget by \$465,500 after being adjusted for special consulting fees not expended. This cost savings is largely due to managing insurance cost and the savings from the Pension Refunding Bonds.
- Received \$71,000 rate stabilization fund insurance refund check. This is the fourth year in row that the District has received a refund check.
- The District was one of the sponsoring organizations for the 15<sup>th</sup> annual Lake Tahoe Summit hosted by U.S. Senator Dianne Feinstein. The theme of the Lake Tahoe summit centered on "Stewardship and Sustainability in Challenging Fiscal Times".
- The District has substantially completed the over \$12,000,000 grant-funded Lakeside Trail through downtown Tahoe City with substantial completion scheduled during the spring of 2012.



- Working closely with California Department of Transportation, the District has entered into the design phase of the Homewood Bike Trail. This significant project is estimated to cost \$2.1 million and will take several years to complete.
- In conjunction with the Tahoe Regional Planning Agency and Tahoe Resource Conservation District, the District continued a Quagga Mussel (invasive species) inspection program at the Lake Forest Boat Ramp.
- Key District positions for the Treasurer, District Clerk, and Director of Resource Development and Community Relations were replaced or filled during the year.
- The District continues to make significant infrastructure investments in the Lake Forest Water Company water service area as the District finalizes Phase 1 of the Lake Forest System Replacement project and begins the design of Phase 2. Significant grant funding has been secured to support the project.
- During 2011 the District began the process of acquiring a key parcel of land (The Tahoe City Golf Course) located in the core area of Tahoe City. This acquisition will conclude early in 2012.
- The District is involved in the West Commons Planning Process that will attempt to address community concerns ensuring that the West side of town is an integral part of the Tahoe City community.

#### **USE OF THESE FINANCIAL STATEMENTS**

During 2004 the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and related later accounting standards. The most significant effects of these accounting pronouncements are the inclusion of a Management's Discussion and Analysis section, consolidated accrual-based Statements of Net Assets and Activities, and reconciliations of these presentations to the traditional fund accounting statements the District continues to prepare. An explanation of each of the statements and the information they report follows.

## STATEMENT OF NET ASSETS

The Statement of Net Assets presents the District's consolidated assets, liabilities and the difference between them, known as net assets, at December 31, 2011. This important information regarding financial position is detailed on an accrual basis using an economic resources measurement focus. The level of net assets is one way to measure the District's financial health. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other considerations, such as changes in the condition of the District's extensive water, sewer and park facilities infrastructure, the funding status of employee benefit plans, and growth in property tax revenues versus service commitments, must also be considered to assess the overall health of the District.

## STATEMENT OF ACTIVITIES

The Statement of Activities focuses on both the gross and net cost of various functions making up the District's governmental and business-type services, which are supported by charges for services, grants and contributions, property taxes and other revenues. This statement summarizes and simplifies the user's analysis of the total costs and tax subsidy levels of the services offered by the District. All information is prepared on an accrual basis using the economic resources measurement focus. The District first calculated and recorded accumulated depreciation for its governmental activities as of January 1, 2004 and has included depreciation expense in the 2011 information.

Governmental activities consist of parks and recreation operations, which are paid for by property taxes, user fees, and capital and operating grants and donations. It is very important to understand that capital grants are included as revenues in the year earned based on project design and construction expenditures and may far exceed depreciation expense in a particular year. Due to the restricted nature of these grants, this cash is not available for general operations. Depreciation expense on the related long-lived assets will be presented over many future years, while all of the capital grant revenue was recognized during design and construction.

Business-type activities reflect private sector-type operations, such as water and sewer services and the related engineering department. User fees are typically charged to cover all or most of the costs of operation, including depreciation. The District usually covers cash operating costs with user fees but subsidizes capital expenditures with general property tax transfers from the governmental operation due to the low customer density of its service area and the high costs of environmental compliance in the Lake Tahoe Basin.

## FUND FINANCIAL STATEMENTS

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on the major funds comprising the District, with the traditional account group information no longer included. The statements for the General and Debt Service Governmental Funds are prepared on a modified accrual basis using the current financial resources measurement focus. The emphasis is on current year sources of funds and their uses. Long-term assets and liabilities are not presented; the focus is placed on how operations are funded. Reconciliations between the Governmental Funds Balance Sheet and the Governmental Activities in the Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds and the Governmental Activities in the Statement of Activities are presented to highlight differences between the two accounting methodologies used.

The Proprietary Fund Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets are prepared using the same accounting methodology as the government-wide statements. Thus, the only reconciling item is to eliminate water service charges from the Proprietary Fund to the Governmental Funds in the government-wide statements. A Statement of Cash Flows is also presented for the Proprietary Fund, and is useful for understanding the underlying cash movements in the District's water and sewer operations.

## FINANCIAL ANALYSIS

### NET ASSETS

The following table summarizes the District's net assets as of December 31, 2011 and December 31, 2010.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets:</b>						
Cash and investments	\$ 551	\$ 819	\$ 5,740,224	\$ 4,980,029	\$ 5,740,775	\$ 4,980,848
Cash and investments - restricted	64,874	51	-	-	64,874	51
Receivables	233,941	1,855,599	1,105,958	626,010	3,645,369	2,481,609
Other current assets	45,268	(64,658)	398,356	187,017	443,624	122,359
Total current assets	365,014	1,791,811	7,244,538	5,793,056	9,894,642	7,584,867
Investments - restricted	-	-	65,000	65,000	65,000	65,000
Facility upgrade receivables	-	-	52,444	54,645	52,444	54,645
Other postemployment benefits, net	-	-	318,212	306,507	318,212	306,507
Net Pension Asset	-	-	2,154,033	-	2,154,033	-
Net capital assets	2,052,796	23,473,282	28,192,269	27,326,790	53,145,065	50,800,072
Total assets	7,602,900	25,265,093	38,026,496	33,545,998	65,629,396	58,811,091
<b>Liabilities:</b>						
Payables and accruals	975,410	459,474	772,592	667,826	1,748,002	1,127,300
Unearned revenue	31,824	210,187	97,932	68,506	129,756	278,693
Long-term debt - current	908,088	634,423	31,778	42,002	939,866	676,425
Total current liabilities	1,915,322	1,304,084	902,302	778,334	2,817,624	2,082,418
Long-term debt - noncurrent	527,4854	4,028,536	335,540	367,318	5,610,394	4,395,854
Total liabilities	7,190,176	5,332,620	1,237,842	1,145,652	8,428,018	6,478,272
<b>Net assets:</b>						
Invested in capital assets, net of debt	18,769,956	18,810,323	26,824,951	26,917,470	45,594,907	45,727,793
Restricted	-	-	65,000	65,000	65,000	65,000
Unrestricted	1,642,768	1,122,150	9,898,703	5,417,876	11,541,471	6,540,026
Total net assets	\$ 20,412,724	\$ 19,932,473	\$ 36,788,654	\$ 32,400,346	\$ 57,201,378	\$ 52,332,819

The District's total net assets increased from \$52,332,819 at December 31, 2010 to \$57,201,378 at December 31, 2011. The total increase of \$4,868,559 consists largely of a \$2,344,993 increase in capital assets funded by capital grants and reducing long term debt by \$802,018. Overall, long term debt increased by a net of \$1,477,981 due to the new \$2,280,000 financing to refund certain pension benefits to CalPERS and normal payments for long term debt. Receivables increased \$1,163,760 primarily due to higher grant receivables for the Lakeside Trail and the fire protection grants.

## ACTIVITIES

The following table summarizes the District's Statement of Activities information for the years ended December 31, 2011 and December 31, 2010.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Expenses:						
Direct expenses	\$ 3,790,864	\$ 3,496,118	\$ 5,384,700	\$ 5,206,329	\$ 9,175,564	\$ 8,702,447
Indirect expenses	679,712	639,589	1,331,925	1,215,621	2,011,637	1,855,210
Total expenses	4,470,576	4,135,707	6,716,625	6,421,950	11,187,201	10,557,657
Program Revenues:						
Charges for services	504,867	467,704	7,066,619	6,443,276	7,571,486	6,910,980
Operating grants and contributions	374,326	297,996	314,735	61,218	689,061	359,214
Capital grants and contributions	2,194,414	1,157,357	400,000	541,489	2,594,414	1,698,846
Total program revenues	3,073,607	1,923,057	7,781,354	7,045,983	10,854,961	8,969,040
Net revenue (expense)	(1,396,969)	(2,212,650)	1,064,729	624,033	(332,240)	(1,588,617)
General Revenues:						
Property taxes	5,114,287	5,217,858	44,526	64,457	5,158,813	5,282,315
Investment earnings	5,356	6,153	36,632	27,086	41,988	33,239
Transfers	(3,242,422)	(1,950,000)	3,242,422	1,950,000	0	0
Total general revenues and transfers	1,877,221	3,274,011	3,323,580	2,041,543	5,200,801	5,315,554
Change in net assets	\$ 480,251	\$ 1,061,361	\$ 4,388,308	\$ 2,665,576	\$ 4,868,561	\$ 3,726,937

Government-wide direct expenses increased \$473,117, of which approximately \$292,000 is related to wages and employee benefits up from last year. The remaining is a result of a heavy snow year and increased cost in repairs and maintenance. Indirect expenses increased in 2011 is a result of cost to finance certain pension benefits that include onetime issuance cost and on-going interest expense.

Charges for services increased as the District implemented the third year of a five year plan to raise water and sewer rates to fund a higher level of future capital projects in these areas. Operating and capital grants and contributions increased \$1,225,415 due to receiving more operating grant monies for maintaining county facilities, the construction on Lakeside Trail phase 7, new Federal grants to improve water infrastructure, and grant funds to rebuild aging water infrastructure.

Property tax revenue decreased \$123,502 due to fewer real estate transactions and property appreciation leading to lower assessed values. Investment earnings increased due to moving investments out of the Local Government Investment Pool to the County's Treasurer's Investment Pool. The District made significant transfers during 2011 and 2010 from its General Fund to its Proprietary Water and Sewer Fund to help fund current capital projects, reserves for future capital projects and for the net pension asset.

#### FUND STATEMENTS

The fund statement variances have been explained with the preceding analysis of the Statements of Net Assets and Activities.

#### BUDGET COMPARISON

Parks and recreation fees were within \$431 of budget. Other Revenue is better to budget due to unanticipated snow removal grant to support the AMGEN Tour of California bike event, fees from Tahoe Regional Planning Agency to offset cost incurred due to the inspection program at the Lake Forest Boat Ramp, and increased operating Placer County grant revenue to support parks facilities. Property tax revenues were relatively on target to budget and differ by \$3,077. Capital grant revenue was \$2,836,946 less than budget, because the capital outlays on Lakeside Trail and Homewood Bike Trail needed to earn the grant revenue were delayed compared to an aggressive budget plan. Overall Public Works - Parks direct expenses were \$42,700 below budget due to less spending for repairs and maintenance, lower utilities, insurance, and administration cost. However, snow removal costs were more than double the budget due to the extraordinarily long winter and amount of snow received. Recreation direct expenses were \$7,601 below budget due to small equipment, insurance, other purchased services and administration coming in under budget. The District transferred \$3,242,422 to the Proprietary Water and Sewer Fund during 2011 based on final results of which \$2,242,422 pertained to the Pension Refunding Bond.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### CAPITAL ASSETS

In 2011, the District spent \$5.1 million on capital items for the benefit of the community. During the four years prior to 2005 District-funded capital was limited due to the large debt service payments required by the 1993 COP issue. It was understood at the time of the \$9,985,000 COP issuance that capital spending would be pulled forward into the years immediately following the issuance and be greatly reduced in the later years prior to final repayment. This has been true of District water and sewer capital spending. However, the District has been able to secure significant capital grants to improve environmental protection and public access to Lake Tahoe. Thus, the District was able to proceed with projects such as Commons Beach, various phases of an off-highway bike and pedestrian trail link through Tahoe City known as the Lakeside Trail, the Upper Sequoia bike trail crossing, the Wildlife Conservation Board Lake Forest boat ramp, the Truckee River Outlet park plaza, Heritage Plaza, and a new mobile stage when it did not have its own funding to advance these projects. Other projects such as the Homewood Bike Trail, one mile of unsafe bike trail, is set to begin the design phase and the District is positioned to seek other grant opportunities to help fund this project.

Beginning in 2005 the District was able to fund an increased level of water and sewer capital projects including a new Highlands water tank, a new Harbor Master sewer pump station, the installation of residential water meters, and a number of water line replacements. During this period it became apparent to the District that a more significant level of water and sewer capital projects would be necessary going forward to meet ever more stringent regulatory requirements and maintain service levels. This led the Board of Directors to raise water and sewer rates to fund larger capital budgets in future years. Another major capital project underway is the Lake Forest water system which is currently in litigation and will be resolved in 2012. Significant grant funding sources have been indentified to pay for this project.

The following table presents the District's more significant capital additions during 2011 and 2010.

	Additions to Capital Assets	
	2011	2010
Governmental Activities		
Lakeside Trail through Tahoe City	\$2,196,328	\$927,764
Homewood Bike Trail	157,467	56,672
Boats for sailing program	23,035	15,410
Erosion control projects	22,205	13,619
Highlands Community Center restroom remodel	-	58,211
Tahoe City Golf Course Purchase	67,084	-
Cameras and security system	60,709	-
Playground equipment	-	64,912
Vehicles and Equipment	100,119	44,753
West Commons Design	41,089	-
Other projects	157,210	160,915
Total governmental activities	2,825,246	1,342,256
Business-type Activities		
McKinney Estates interconnection	605,441	104,271
Residential water meter installations	-	13,811
Condominium water meter	30	823
Tahoe Tavern booster & well rehabilitation	44,819	1,152,771
Lower Tahoe Tavern Heights improvements	122,220	717,207
Highlands fire hydrants	107,937	253,318
Harbor Master building	57,787	-
Lake Forest water acquisition & improvements	910,604	612,181
Observation/Edgewater	96,606	-
Fuel Tank project and software	53,412	-
Manhole Rehabilitation	48,616	-
Back-up generator & replacements	18,542	53,764
Vehicles & mobile equipment	96,422	52,387
Other projects	134,982	69,653
Total business-type activities	2,297,419	3,030,186
Total TCPUD	\$5,122,665	\$4,372,442



At December 31, 2011 the District utilized \$34,851,373 of gross depreciable capital assets at historical cost, consisting primarily of recreational facilities, in its Governmental Activities, and \$62,127,106 of gross depreciable capital assets at historical cost, consisting primarily of water and sewer plants, in its Business-type Activities. On such a large infrastructure base, the District's long-term capital replacement designations of \$450,000 in the General Fund and \$2,837,347 in the Proprietary Fund can only be considered a small down payment on eventual replacements and rehabilitations. The District anticipates that capital grants, especially for recreational facilities, may be available in the future for a portion of these replacement and rehabilitation needs. However, the District anticipates that it will need to finance a portion of its replacement and rehabilitation costs in the intermediate-term, and secure additional revenue streams through voter-approved debt or significantly higher water and sewer rates to fund major replacement and rehabilitation costs in the long-term. To address this situation, the Board of Directors commissioned a comprehensive water and sewer rate study and adjusted rates as described below.

After working with HDR Engineering, Inc. on a water and sewer rate study for 1½ years and holding numerous public meetings, the District Board of Directors voted at their November 24, 2008 meeting to change water and sewer rates effective April 1, 2009, and set a Public Protest Hearing for February 25, 2009. The rates are scheduled to increase over a 5 year period to fund capital projects, eliminate the use of general property taxes in sewer operations, increase reserves, and fund normal increases in water and sewer operations and maintenance expenses. Most residential sewer customers would see their quarterly rates increase from \$52.96 to a maximum of \$143.79 during the 5 year period. Most residential water customers would see their monthly base rate increase from \$43.76 to a maximum of \$55.00 during the 5 year period, and would begin paying for water consumption April 1, 2009 with a conservation-oriented tiered rate structure which becomes increasingly expensive over 5 years, particularly for large users. After the February 25, 2009 Public Protest Hearing, the protests were tabulated. Since protests were received from 21% of sewer customers and 29% of water customers versus the Proposition 218 threshold of 50% +1, new maximum rates were set for the next 5 years.

The Board of Directors committed to annually review actual capital and operating costs, and grant funding and revenues versus the assumptions in the rate study before finalizing rates each year. The April 1, 2009 water rates were actually set approximately 3% below the noticed rates and sewer rates were set 2% below the noticed rates based on cost savings and additional other revenues. The April 1, 2010 water and sewer rates equaled the noticed rates while the April 1, 2011 were set below the noticed rates. The \$55 rate was scheduled to begin last April 2011 but due to capital grants received and reduced operating cost assumptions the District was able to keep it at \$52/month. The April 1, 2012 residential water base rate has been set at \$55/month; the same as the noticed rate. Commercial water rates were softened in a similar manner, while all consumption-based rates have been implemented as noticed at the time of the protest hearing. The April 1, 2012 residential sewer rates have been set at \$95.25/quarter versus an initially noticed rate of \$121.86/quarter with a similar reduction in commercial rates.

The 2012 District budget includes a \$46.8 million 5 year capital plan of which \$11 million in capital grants are indentified. The capital plan calls for \$26 million for water, \$11 million for sewer, \$8.5 million for Parks, and \$1.3 million for vehicles. The District could not fund this level of capital improvements without the new water and sewer rate structure and grant funding.

#### DEBT ADMINISTRATION

As of December 31, 2011, the District had total long-term debt outstanding of \$6.6 million. The net \$1.5 million increase during the year resulted from making regularly scheduled principal payments with new borrowing. The new Pension Refunding borrowing took place midyear and was used to refund certain pension benefits to the CalPERS. Due to a strong cash position and relatively low capital grant activity during 2011, the District did not renew the Plumas Bank line of credit.

The District has been approached by the customers or owners of several private water companies seeking to be acquired. In all cases significant capital upgrades would be required to bring these water systems into compliance with District standards. It is often difficult for these systems to obtain financing for upgrades due to their small size. It is probable the District will use its borrowing capacity over the next decade to finance upgrades to water systems it acquires and be repaid by special assessments from these new water customers.

On June 4, 2010, the District filed an action in the Superior Court of the State of California, County of Placer. The action seeks to acquire a water system (the Lake Forest System) owned by the defendant, Tahoe Park Water Company, through eminent domain. On January 14, 2011, the District was granted possession of the Lake Forest System. The District is now operating the Lake Forest System while the eminent domain proceeding continues. The District fully expects to resolve this issue in 2012.

The District's share of unfunded pension liabilities increased sharply following the stock market collapse of 2008. While separate information is not available from CalPERS regarding the District's share of unfunded liabilities of the pension risk pool it participates in, the funded ratio of the entire pool declined from 85% at June 30, 2008 to 62.6% at June 30, 2010. The District has already negotiated for employees to contribute a larger share of required pension contributions and addressed the CalPERS investment committee regarding their portfolio allocation. The District has paid off its almost \$2.3 million side fund liability which was established at the time the District's plan was rolled into a multi-agency risk pool and is in addition to the unfunded liabilities of the risk pool.

With the recent March 14, 2011 action by the CalPERS Board of Administration lowering the long-term investment return from 7.75% to 7.5% the District Board of Directors will be considering a variety of additional potential steps including a higher level of employee contributions and the introduction of a second-tier plan with less generous benefits for new hires to migrate the increase cost.

## **ECONOMIC FACTORS AND THE 2012 BUDGET**

Property taxes are a significant source of revenue for the District. This revenue source has grown relatively rapidly due to average annual growth in assessed values of approximately 6.4% over the last 10 years. Under California property tax law, assessed value growth is capped at 2%, but when real estate is sold, it is assessed for the new owner based on the purchase price. The national and local residential real estate markets have definitely slowed, and the number of local real estate transactions has remained low during the last few years compared to prior years. The District's 2012 budget is flat (.18%) in general property tax revenue for 2012 to the 2011 budget and slightly (.4%) greater than the 2011 actual. This follows suite with an actual increase of .2% in 2011/12 assessed valuation to 2010/2011. The State of California continues to experience large budget deficits and may take actions which adversely impact the District's revenues or expenses. In light of current economic conditions, the District continues to closely monitor all costs.

The District's 2012 budget was adopted by the Board of Directors on November 18, 2011 and amended January 20, 2012 for water and sewer rates. It contains net revenue increases from the 2011 budget of 8.1% for water operations, including a 5.7% growth in base residential rates and 0% growth in the tiered water rates. The 2012 budget includes an 11.5% increase in net revenue for sewer operations, including a 9% increase in sewer rates starting April 1, 2012. The 2012 budget compared to the 2011 budget reflects a decrease in operating expenses by 3.4%. Actual operating expenses over the last five years increased 4.6% from 2007 to 2011. The 2011 actual operating expense increased 9.7% over 2010 actual. The 2012 Budget reflects this trend which is largely due to employee cost and additional facility maintenance cost which is offset by operating grants.

The 2012 capital budget is \$8.0 million with \$3.3 million indentified for capital grants for net of \$4.7 million in District funded capital. The District has budgeted to fund this capital program with internally-generated funds and general property tax.

## **SUMMARY**

The District's overall financial health and flexibility have continued to improve during 2011. The District invested over \$5.1 million in parks, water and sewer infrastructure capital projects, with an emphasis on completing the Lakeside trails, water supply and projects to improve firefighting support. Based on a comprehensive rate study by HDR Engineering, Inc., the District has passed a 5-year rate increase, which will allow it to fund necessary water and sewer infrastructure projects, increase reserves, eliminate the funding of sewer operating and maintenance costs from general property taxes, and cover normal increases in operations and maintenance expenses. The District implemented the third year of these increases starting April 1, 2011.

## **FINANCIAL CONTACT**

The District's financial statements are designed to present users (citizens, taxpayers, customers, vendors and creditors) with a general overview of the District's finances and to demonstrate financial accountability. If you have questions about this report or need additional financial information, please contact the District's Treasurer at 221 Fairway Drive, P.O. Box 5249, Tahoe City, California 96145 or call 530-583-3796 x20.

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# BASIC FINANCIAL

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**GOVERNMENT-WIDE**

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**Tahoe City Public Utility District**  
**Statement of Net Assets**  
**December 31, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 551	\$ 5,740,224	\$ 5,740,775
Restricted cash and investments	64,874	-	64,874
Receivables:			
Accounts	-	314,011	314,011
Interest	-	2,797	2,797
Taxes	606,651	-	606,651
Grants	1,866,486	714,735	2,581,221
Other	66,274	74,415	140,689
Short-term internal balances	-	319,381	319,381
Prepaid items and other assets	45,268	78,975	124,244
<b>Total current assets</b>	<b>2,650,104</b>	<b>7,244,538</b>	<b>9,894,642</b>
Noncurrent assets:			
Restricted cash and investments	-	65,000	65,000
Facility improvement receivables	-	52,444	52,444
Other postemployment benefits, net	-	318,212	318,212
Net pension asset	-	2,154,033	2,154,033
Capital assets:			
Non-depreciable	5,813,663	4,267,548	10,081,211
Depreciable, net	19,139,133	23,924,721	43,063,854
<b>Total capital assets, net</b>	<b>24,952,796</b>	<b>28,192,269</b>	<b>53,145,065</b>
<b>Total noncurrent assets</b>	<b>24,952,796</b>	<b>30,781,958</b>	<b>55,734,754</b>
<b>Total assets</b>	<b>27,602,900</b>	<b>38,026,496</b>	<b>65,629,396</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	265,240	363,667	628,907
Accrued payroll and benefits payable	42,615	136,589	179,204
Employee medical reimbursement payable	8,315	-	8,315
Interest payable	37,676	-	37,676
Deposits payable	7,235	62,055	69,290
Other liabilities	127,967	16,682	144,649
Unearned revenue	31,824	97,932	129,756
Compensated absences due within one year	166,981	193,599	360,580
Short-term internal balances	319,381	-	319,381
Long-term debt due within one year	908,088	31,778	939,866
<b>Total current liabilities</b>	<b>1,915,322</b>	<b>902,302</b>	<b>2,817,624</b>
Noncurrent liabilities:			
Long-term debt due in more than one year	5,274,854	335,540	5,610,394
<b>Total liabilities</b>	<b>7,190,176</b>	<b>1,237,842</b>	<b>8,428,018</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	18,769,956	26,824,951	45,594,907
Restricted for:			
Guarantee permit and payment performance	-	65,000	65,000
<b>Total restricted</b>	<b>-</b>	<b>65,000</b>	<b>65,000</b>
Unrestricted	1,642,768	9,898,703	11,541,471
<b>Total net assets</b>	<b>\$ 20,412,724</b>	<b>\$ 36,788,654</b>	<b>\$ 57,201,378</b>

See accompanying Notes to Basic Financial Statements.

**Tahoe City Public Utility District**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended December 31, 2011**

Functions / Programs	Direct Expenses	Indirect Expenses	Charges for Services	Program Revenues	
				Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>					
<b>Governmental activities:</b>					
Public works - Parks	\$ 2,913,881	\$ 452,566	\$ 238,060	\$ 321,985	\$ 2,168,317
Recreation	698,488	227,146	266,806	52,341	26,097
Interest on long-term debt (unallocated)	178,496	-	-	-	-
Total governmental activities	3,790,864	679,712	504,867	374,326	2,194,414
<b>Business-type activities:</b>					
Water	2,679,087	675,181	3,801,695	314,735	400,000
Sewer	2,705,614	656,745	3,264,923	-	-
Total business-type activities	5,384,700	1,331,925	7,066,619	314,735	400,000
<b>Total primary government</b>	<b>\$ 9,175,564</b>	<b>\$ 2,011,637</b>	<b>\$ 7,571,485</b>	<b>\$ 689,060</b>	<b>\$ 2,594,414</b>

**General Revenues:**

Property taxes

Investment earnings

**Transfers**

**Total general revenues and transfers**

**Change in net assets**

**Net assets - beginning of year**

**Net assets - end of year**

Net (Expense) Revenue  
and Changes in Net Assets

Total	Governmental Activities	Business-Type Activities	Total
\$ 2,728,362	\$ (638,085)	\$ -	\$ (638,085)
345,244	(580,389)	-	(580,389)
-	(178,496)	-	(178,496)
3,073,606	(1,396,970)	-	(1,396,970)
4,516,430	-	1,162,163	1,162,163
3,264,923	-	(97,435)	(97,435)
7,781,353	-	1,064,728	1,064,728
\$ 10,854,960	(1,396,970)	1,064,728	(332,242)

5,114,287	44,526	5,158,813
5,356	36,632	41,988
(3,242,422)	3,242,422	-
1,877,221	3,323,580	5,200,801
480,251	4,388,308	4,868,559
19,932,473	32,400,346	52,332,819
\$ 20,412,724	\$ 36,788,654	\$ 57,201,378

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# FUND FINANCIAL STATEMENTS

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## MAJOR GOVERNMENTAL FUNDS

*General Fund* - The General Fund is used for all general revenues and related expenditures of the District not specifically levied or collected for other District funds. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

*Debt Service Fund* - This fund accounts for resources accumulated to pay principal and interest due on the District's Non-Enterprise Long-Term Debt obligations.

**Tahoe City Public Utility District**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2011**

	General	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 551	\$ -	\$ 551
Restricted cash	64,874	-	64,874
Receivables:			
Accounts	-	-	-
Taxes	606,651	-	606,651
Grants	1,866,486	-	1,866,486
Other	66,274	-	66,274
Due from other funds		8,368	8,368
Prepaid items and other assets	45,268	-	45,268
<b>Total assets</b>	<b>\$ 2,650,104</b>	<b>\$ 8,368</b>	<b>\$ 2,658,472</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 265,240	\$ -	\$ 265,240
Accrued payroll and benefits payable	42,615	-	42,615
Employee medical reimbursement payable	8,315	-	8,315
Deposits payable	7,235	-	7,235
Other liabilities	127,967	-	127,967
Due to other funds	377,177	-	377,177
Unearned revenue	23,456	8,368	31,824
<b>Total liabilities</b>	<b>852,005</b>	<b>8,368</b>	<b>860,373</b>
<b>Fund Balances:</b>			
Non-Spendable	45,268	-	45,268
Assigned			
Long-term capital replacement	450,000	-	450,000
Unassigned fund balance			
General Fund	1,302,831	-	1,302,831
<b>Total fund balances</b>	<b>1,798,099</b>	<b>-</b>	<b>1,798,099</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,650,104</b>	<b>\$ 8,368</b>	<b>\$ 2,658,472</b>

See accompanying Notes to Basic Financial Statements.

**Tahoe City Public Utility District**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**For the year ended December 31, 2011**

<b>Total Fund Balances - Governmental Funds</b>	<u>\$ 1,798,099</u>
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Amounts reported for governmental activities in the Statement of Net Assets were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Capital assets were adjusted as follows:

Non-depreciable	5,813,663
Depreciable, net	<u>19,139,133</u>
Total capital assets, net	<u>24,952,796</u>

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds Balance Sheet.	<u>(37,676)</u>
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Water charges from the Proprietary Fund to the Governmental Funds must be eliminated in the Government-Wide Statements resulting in a change to short-term internal balances	<u>49,428</u>
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Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Compensated absences - due within one year	(166,981)
Long-term debt - due within one year	(908,088)
Long-term debt - due in more than one year	<u>(5,274,854)</u>
Total long-term liabilities	<u>(6,349,923)</u>

<b>Total Net Assets of Governmental Activities</b>	<u><u>\$ 20,412,724</u></u>
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**Tahoe City Public Utility District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended December 31, 2011**

	General	Debt Service	Total Governmental Funds
<b>REVENUES:</b>			
Fees	\$ 498,272	\$ -	\$ 498,272
Property taxes	4,172,889	941,398	5,114,287
Interest	5,356	-	5,356
Grants	2,469,981	-	2,469,981
Other	98,828	-	98,828
<b>Total revenues</b>	<b>7,245,326</b>	<b>941,398</b>	<b>8,186,724</b>
<b>EXPENDITURES:</b>			
Current:			
Public works - Parks	2,091,189	-	2,091,189
Recreation	729,913	-	729,913
Other operating	121,859	-	121,859
Capital outlay	2,825,246	-	2,825,246
Debt service:			
Principal	-	760,017	760,017
Interest	-	181,381	181,381
<b>Total expenditures</b>	<b>5,768,207</b>	<b>941,398</b>	<b>6,709,605</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>1,477,119</b>	<b>-</b>	<b>1,477,119</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from the sale of assets	6,525	-	6,525
Proceeds from bonds	2,280,000	-	2,280,000
Transfers out to other funds	(3,242,422)	-	(3,242,422)
<b>Total other financing sources (uses)</b>	<b>(955,897)</b>	<b>-</b>	<b>(955,897)</b>
<b>Net change in fund balances</b>	<b>521,222</b>	<b>-</b>	<b>521,222</b>
<b>FUND BALANCES:</b>			
Beginning of year	1,276,877	-	1,276,877
End of year	<b>\$ 1,798,099</b>	<b>\$ -</b>	<b>\$ 1,798,099</b>

See accompanying Notes to Basic Financial Statements.



**Tahoe City Public Utility District**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the year ended December 31, 2011**

**Net Change in Fund Balances - Governmental Funds** \$ 521,222

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 2,825,246

Disposal of capital assets was reported in the Government-Wide Statement of Activities and Changes in net Assets, but they did not require the use of current financial resources. Therefore, not reported in the Governmental Funds. (9,167)

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds. (1,336,565)

Water charges from the Proprietary Fund to the Governmental Funds must be eliminated in the Government-Wide Statements resulting in a decrease in direct expenses. 2,795

Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets. 760,017

Bond Proceeds must be eliminated since it is not considered other funding sources for the Governmental Activities Statement (2,280,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds

Change in compensated absences (6,183)  
Change in accrued interest 2,886

**Change in Net Assets of Governmental Activities** \$ 480,251

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## PROPRIETARY FUND

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*Water and Sewer Fund* - This fund accounts for the operation, maintenance, and development of the District's water production and distribution system, sewage collection and transportation system, and supporting engineering functions.

**Tahoe City Public Utility District**  
**Statement of Net Assets**  
**Proprietary Fund**  
**December 31, 2011**

	Water and Sewer Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalent	\$ 5,740,224
Receivables:	
Accounts	314,011
Grants	714,735
Interest	2,797
Other	74,415
Due from other funds	377,177
Prepaid items and other assets	78,975
Total current assets	7,302,334
Noncurrent assets:	
Restricted cash and cash equivalent	65,000
Facility improvement receivables	52,444
Other postemployment benefits, net	318,212
Net pension assets	2,154,033
Capital assets:	
Non-depreciable assets	4,267,548
Depreciable assets, net	23,924,721
Total capital assets, net	28,192,269
Total noncurrent assets	30,781,958
Total assets	38,084,292
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	363,667
Accrued payroll and benefits payable	136,589
Due to other funds	8,368
Deposits payable	62,055
Other liabilities	16,682
Unearned revenue	97,932
Compensated absences	193,599
Long-term debt - due within one year	31,778
Total current liabilities	910,670
Noncurrent liabilities:	
Long-term debt - due in more than one year	335,540
Total noncurrent liabilities	335,540
Total liabilities	1,246,210
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	26,824,951
Restricted for:	
Guarantees of permit performance	65,000
Unrestricted (Note 9)	9,948,131
Total net assets	36,838,082
Elimination of water services charged to the governmental funds	49,428
Net assets of business-type activities	\$ 36,788,654

**Tahoe City Public Utility District**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Fund**  
**For the year ended December 31, 2011**

	<u>Water and Sewer Fund</u>
<b>OPERATING REVENUES:</b>	
Service and inspection fees	\$ 6,917,183
Connection fees	19,607
Penalties and discounts	60,196
Grant revenue	12,391
Other	51,017
<b>Total operating revenues</b>	<u>7,060,394</u>
<b>OPERATING EXPENSES:</b>	
Personnel	2,658,534
Operations	2,602,216
Depreciation	1,431,940
<b>Total operating expenses</b>	<u>6,692,691</u>
<b>OPERATING INCOME</b>	<u>367,703</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Property taxes	65,937
Interest income	36,632
Interest expense	(23,935)
<b>Total nonoperating revenues (expenses)</b>	<u>78,634</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	446,337
Capital contributions	702,344
Transfers in from other funds	3,242,422
<b>Change in net assets</b>	<u>4,391,103</u>
<b>NET ASSETS:</b>	
Beginning of year	32,446,979
End of year	<u>\$ 36,838,082</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS:</b>	
Change in net assets for propriety fund	\$ 4,391,103
Elimination of water services charged to the governmental funds	2,795
<b>Change in net assets for business-type activities</b>	<u>\$ 4,388,308</u>

See accompanying Notes to Basic Financial Statements.

**Tahoe City Public Utility District**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the year ended December 31, 2011**

	Water and Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 6,904,536
Payments to suppliers	(3,168,857)
Payments to employees	(4,128,195)
Internal activity - receipts from other funds	(216,164)
Other receipts	(316,203)
<b>Net cash provided by operating activities</b>	<b>(924,882)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Property taxes received	65,937
Transfers in	3,242,422
<b>Net cash provided by noncapital financing activities</b>	<b>3,308,359</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(2,297,419)
Grants received	702,344
Principal payments on long-term debt	(42,003)
Interest paid on long-term debt	(23,935)
<b>Net cash used by capital and related financing activities</b>	<b>(1,661,013)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received	37,731
<b>Net cash provided by investing activities</b>	<b>37,731</b>
<b>Net increase in cash and cash equivalents</b>	<b>760,195</b>
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	5,045,029
End of year	<u>\$ 5,805,224</u>
<b>CASH AND CASH EQUIVALENTS</b>	
Cash and cash equivalents	\$ 5,740,224
Restricted cash and cash equivalents	65,000
<b>Total cash and cash equivalents</b>	<u>\$ 5,805,224</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 367,703
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,431,940
Changes in assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	(44,644)
Grants receivable	(415,906)
Other receivable	(20,496)
Facilities improvement receivables	2,201
Due from/to other funds	(224,532)
Prepaid items and other assets	2,030
Other post employment benefits	(2,165,738)
Increase (Decrease) in:	
Accounts payable	48,156
Accrued payroll and benefits	41,345
Deposits payable	(17,724)
Other liabilities	(6,947)
Unearned revenue	29,426
Compensated absences	48,304
<b>Net cash provided by operating activities</b>	<u>\$ (924,882)</u>

See accompanying Notes to Basic Financial Statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

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**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Tahoe City Public Utility District (District) was incorporated on December 20, 1938 as a California Special District and is governed by an elected Board of Directors (Board) consisting of five members. The District's administrative functions are controlled by an appointed District general manager. The District provides the following services to the community: water and sewer services, recreation programs, maintenance of parks, beaches, bike trails, sidewalks and street lighting, and use of community buildings.

**A. Reporting Entity**

The financial reporting entity consists of the District (the primary government) and its component unit, which is discussed below. Component units are legally separate organizations for which the Board of Directors is financially accountable, or other organizations whose nature and significant relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete.

As required by Generally Accepted Accounting Principles (GAAP), these basic financial statements present the District and its component unit for which the District is considered to be financially accountable. The District had no discretely presented component units. Blended component units, although legally separate entities are, in substance, part of the District's operations and data from these units are combined with data of the District. The following entity is deemed to be a blended component unit:

The Tahoe City Public Utility District Public Facilities Financing Corporation (Corporation) was formed on January 29, 1993 as a nonprofit public benefit corporation to provide assistance to the District by financing the acquisition, construction and installation of public facilities, to acquire real and personal property on behalf of the District, and to borrow the necessary funds to pay the cost of such activities including refinancing. The Corporation has a December 31 year-end and had no assets, liabilities, or activity as of and for the year ended December 31, 2011.

**B. Basis of Accounting and Measurement Focus**

The District's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

**Government-Wide Financial Statements**

The District's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets.



**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Government-Wide Financial Statements, Continued**

The Government-Wide Financial 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, 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 they are earned while expenses are recognized in the period in which the liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Certain types of transactions reported as program revenues for the District are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. The following interfund activities have been eliminated:

- Due to/from
- Transfers in/out

The District applies all applicable GASB pronouncements (including all National Council on Governmental Accounting (NCGA) Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure.

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all governmental funds. 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. The District has presented all funds as major funds.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements, Continued**

All 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, Expenditures 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. Revenues are recorded when received in cash, except that revenues subject to accrual (generally received up to 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, grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

**Proprietary Fund Financial Statements**

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for the proprietary fund.

The District's only propriety fund is an enterprise fund which accounts for the District's water and sewer activities and supporting engineering functions.

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 noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present 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 water and sewer operations and supporting engineering functions of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

**Use of Restricted/Unrestricted Resources**

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy is to apply restricted resources first.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Description of District Funds**

The District reported all its funds as major funds in the accompanying financial statements as follows:

**Governmental Funds:**

The General Fund - The General Fund is used for all general revenues and the related expenditures of the District not specifically levied or collected for other District funds. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

Debt Service Fund - This fund accounts for resources accumulated to pay principal and interest due on the District's general long-term debt associated with equipment and facilities financed by the District.

**Proprietary Fund:**

Water and Sewer Enterprise Fund - This fund accounts for the operation, maintenance, and development of the District's water production and distribution system, sewage collection and transportation system, and supporting engineering functions.

**C. Cash, Cash Equivalents and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**C. Cash, Cash Equivalents and Investments, Continued**

The District is also a voluntary participant in the Placer County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County. The City reports its investment in the County Pool at the fair value amount provided by the County. The investment of money on deposit is limited to those investments specified by California Government Code Section 53601 and 53635. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

For purposes of the statement of cash flows of the proprietary funds types, cash and cash equivalents include all investments, as the District operates an internal cash management pool which maintains the general characteristics of a demand deposit account.

**D. Restricted Cash and Investments**

Restricted cash and investments are comprised of certificates of deposit which guarantee performance of construction permit provisions and an employee medical reimbursement account for which the District acts as trustee.

**E. Capital Assets**

The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Cost includes direct labor and benefits, outside services, and materials and transportation. Interest incurred in the enterprise fund during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Capital Assets, Continued*

	Years
Water and sewer plant	10-40
Recreational facilities	10-20
Building	40
Equipment	3-20
Vehicles	4-13

In 2010, the District adopted the newly effective GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provision be classified as capital assets. It also defines intangible assets and provides guidance regarding the timing and types of costs to be capitalized. The District has elected to not retroactively report its intangible assets, which include easements and water rights. There was no impact on the financial statements for adopting this statement.

*F. Interest Payable*

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund activities and business-type activities.

In the fund financial statements, propriety fund types recognize interest payable when the liability is incurred. Governmental funds recognize interest expense when paid.

*G. Unearned Revenue*

In the Government-Wide Financial Statements and Proprietary Fund Financial Statements, unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the Government-Wide Financial Statements are grants received but not yet earned, prepaid charges for services, and principal and interest received in advance from property taxpayers for debt service requirements.

In the Fund Financial Statements, unearned revenue is recorded when revenue has not yet been earned or when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. At December 31, 2011, all deferred revenues in the Fund Financial Statements represent revenues that were not earned at year-end. Therefore, all of the deferred revenues in the Fund Financial Statements were reported as unearned revenue in the Government-Wide Financial Statements.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**II. Long-Term Debt**

Government-Wide and Proprietary Fund Financial Statements - Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Governmental Fund Financial Statements - The fund financial statements do not present long-term debt but it is presented in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

**I. Compensated Absences**

Compensated absences comprise portions of vacation leave which are accrued as earned but not yet used by District employees. Compensated absences expense is charged to the various departments as the expense is incurred. The liability for compensated absences incurred in the proprietary fund is recorded in the fund and in the business-type activities of the government-wide financial statements. The liability incurred by governmental funds is recorded as part of governmental activities in the government-wide financial statements as these liabilities are not current and are not recorded in the funds. The General Fund is used to liquidate the liability for compensated absences of the governmental funds.

**J. Property Tax**

Placer and El Dorado Counties assess properties and bill, collect, and distribute property taxes to the District. Secured and unsecured property taxes are levied on August 31 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the District in the year they are assessed provided they become available as defined above.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**K. Net Assets**

**Government-Wide Financial Statements**

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets" as defined above.

**Fund Financial Statements**

The District's Board adopted Resolution 11-39 for the Classification of the Fund Balances as required by Governmental Accounting Standards Board 54 and adoption of the General Fund Reserve Policy.

Beginning in fiscal year 2011, the District has reclassified fund balances into the following five Categories to comply with the Governmental Accounting Standards Board Statement (GASB) No. 54, Fund Balance and Governmental Fund Types. Fund balance is defined as the difference between assets and liabilities.

**Nonspendable** fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances include inventory and prepaid items.

**Restricted** fund balances will exist when constraints are placed on the use of those resources that are either externally imposed or imposed by law. In general most reserve funds will fall into this category.

**Committed** fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the District's Board of Directors.

**Assigned** fund balances will be amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted, nor committed. The intent can be made by either the governing body itself or a body or official to which the governing body has delegated the authority to the General Manager.

**Unassigned** fund balances will represent those funds that have not been assigned, committed, restricted or considered nonspendable. The general fund will be the only fund that will report unassigned fund balance, unless a deficit fund balance resulting from overspending in other funds exist. Fund balance in other funds will either be assigned, committed, restricted or nonspendable unless the fund reports a deficit.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**L. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

**M. New Pronouncements**

In 2011, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions - This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB Statement No. 59, Financial Instruments Omnibus - This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

**2. CASH AND INVESTMENTS**

The District pools cash from all sources and all funds, except Restricted Cash, so that it can be invested at the maximum yield, consistent with safety and liquidity, while allowing individual funds to make expenditures at any time.

Investment income is allocated among funds on the basis of average month-end cash and investment balances of the respective funds. However, since most of the investments are carried in the enterprise fund, the majority of investment income is also recorded in that fund.

Cash and investments maturing in three months or less at the time of purchase are considered to be cash and cash equivalents for purposes of measuring cash flows.

**A. Cash Deposits**

The carrying amounts of the District's operating cash deposits were \$650,417 at December 31, 2011. Bank balances were \$854,136, the total amount of which was insured and/or collateralized with securities held by the pledging financial institutions in the District's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.



**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**A. Cash Deposits, Continued**

The fair value of pledged securities must equal at least 110% of the cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits. This collateral is held by the institution but is considered to be held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

**B. Investments**

Under the provisions of the District's investment policy, and in accordance with California Government Code, the following investments are authorized:

- United States Treasury Bills, Bonds, and Notes
- Obligations issued by Agencies of the United States Government
- Certificate of Deposit and other evidences of deposit at banks and savings and loan associations
- California Local Agency Investment Fund
- Placer County Treasury Investment Pool Fund

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California.

The District's investments with LAIF at December 31, 2011, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations), small business loans, or credit card receivables.

As of December 31, 2011, the District had \$3,080,167 invested in LAIF and \$2,009,340 invested in Placer County Treasurer. LAIF had invested 4.7% of the pool investment funds in Structured Notes and Asset-Backed Securities. Fair value of LAIF was calculated by applying a factor of 1.001651997 to total investments held by LAIF. At December 31, 2011, the LAIF balance did not reflect an amortized cost of \$3,085 which approximates the fair market value.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**C. Summary of Cash & Investments**

The following is a summary of cash and investments at December 31, 2011:

	Government-Wide Statement of Net Assets		
	Governmental Activities	Business-Type Activities	Total
Operating cash deposits	\$ -	\$ 650,417	\$ 650,417
Imprest and other	551	300	851
Investments		5,089,507	5,089,507
Total cash and investments	551	5,740,224	5,740,775
Current - Restricted cash and investments	64,874		64,874
Noncurrent-Restricted cash and investments		65,000	65,000
Total All	\$ 65,425	\$ 5,805,224	\$ 5,870,649

**D. Risks, Continued**

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At December 31, 2011, the total amount of the District's investments and restricted investments was deposited with LAIF and Placer County Treasurer Investment Pool which is available to the District on demand or invested in bank certificates of deposit maturing in less than one year. As a result, the District was not significantly exposed to interest rate risk.

*Credit Risk.* At December 31, 2011, the District's investments which were invested in LAIF and Placer County Treasurer were not rated. The fair value of the District position in LAIF and Placer County Treasurer is materially equivalent to the value of the pool shares.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the District's securities is held by a third-party custodian.

**E. Restricted Cash and Investments**

Restricted cash and investments for the District amounted to \$129,874. This amount breaks out as follows: \$50,000 held in escrow for land purchase, \$3,681 for sign work, \$65,000 was invested in certificates of deposit as required by agreements with the Tahoe Regional Planning Agency and the California Water Quality Control Board. The certificates of deposit cannot be released from restricted without the approval of the listed agencies. The remainder of the funds, in the amount of \$11,193, was in the District's Section 125 medical reimbursement account which is restricted for the sole use of the District's employees.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**3. INTERFUND TRANSACTIONS**

*A. Due to/due from other funds*

Short term interfund loans between funds at December 31, 2011 were as follows:

		Due to from other funds		
		Water and Sewer	General Fund	Total
Due from other funds	Debt Service	\$ 8,368	\$ -	\$ 8,368
	Water and Sewer	-	377,177	377,177
		<u>\$ 8,368</u>	<u>\$ 377,177</u>	<u>\$ 385,545</u>

The amounts due to the Water and Sewer Enterprise Fund represent the residual balance of normal operating transfers.

*B. Transfers In and Out*

		Transfers in from other funds	
		Water and Sewer Enterprise Fund	
Transfer out to other funds	General fund	\$ 3,242,422	
		<u>\$ 3,242,422</u>	

The transfer out to the Water and Sewer Enterprise fund was primarily to provide funding for current year capital projects, designate additional reserves for future capital projects, and funding for the District Pension Net Asset.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**4. CAPITAL ASSETS**

**A. Government-Wide Financial Statements**

At December 31, 2011, the District's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Land	\$ 1,817,381	\$ -	\$ 1,817,381
Construction in progress	3,996,282	4,267,548	8,263,830
<b>Total non-depreciable assets</b>	<b>5,813,663</b>	<b>4,267,548</b>	<b>10,081,211</b>
Depreciable assets:			
Water and sewer plant	-	56,088,070	56,088,070
Recreational facilities	30,856,260	-	30,856,260
Office building and equipment	3,583,671	4,596,288	8,179,959
Vehicles	411,442	1,442,748	1,854,190
<b>Total depreciable assets</b>	<b>34,851,373</b>	<b>62,127,106</b>	<b>96,978,479</b>
Less accumulated depreciation:			
Water and sewer plant	-	(35,430,471)	(35,430,471)
Recreational facilities	(13,857,615)	-	(13,857,615)
Office building and equipment	(1,634,993)	(2,007,004)	(3,641,997)
Vehicles	(219,632)	(764,910)	(984,542)
<b>Total accumulated depreciation</b>	<b>(15,712,240)</b>	<b>(38,202,385)</b>	<b>(53,914,625)</b>
<b>Net depreciable assets</b>	<b>19,139,133</b>	<b>23,924,721</b>	<b>43,063,854</b>
<b>Total capital assets, net</b>	<b>\$ 24,952,796</b>	<b>\$ 28,192,269</b>	<b>\$ 53,145,065</b>

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**4. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

The following is a summary of changes in the capital assets for governmental activities during the fiscal year:

Governmental Activities	Balance as of January 1, 2011	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2011
Capital assets, not being depreciated:					
Land	\$ 1,817,381	\$ -	\$ -	\$ -	\$ 1,817,381
Construction in progress	1,729,241	2,617,071		(350,030)	3,996,282
<b>Total capital assets, not being depreciated</b>	<b>3,546,622</b>	<b>2,617,071</b>	<b>-</b>	<b>(350,030)</b>	<b>5,813,663</b>
Capital assets, being depreciated:					
Recreational facilities	30,499,139	7,091		350,030	30,856,260
Office building and equipment	3,429,292	180,673	(26,294)		3,583,671
Vehicles	391,031	20,411			411,442
<b>Total capital assets, being depreciated</b>	<b>34,319,462</b>	<b>208,175</b>	<b>(26,294)</b>	<b>350,030</b>	<b>34,851,373</b>
Less accumulated depreciation for:					
Recreational facilities	(12,664,872)	(1,192,743)			(13,857,615)
Office building and equipment	(1,537,191)	(114,930)	17,127		(1,634,994)
Vehicles	(190,739)	(28,892)			(219,631)
<b>Total accumulated depreciation</b>	<b>(14,392,802)</b>	<b>(1,336,565)</b>	<b>17,127</b>	<b>-</b>	<b>(15,712,240)</b>
<b>Net capital assets being depreciated</b>	<b>19,926,660</b>	<b>(1,128,390)</b>	<b>(9,167)</b>	<b>350,030</b>	<b>19,139,133</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 23,473,282</b>	<b>\$ 1,488,681</b>	<b>\$ (9,167)</b>	<b>\$ -</b>	<b>\$ 24,952,796</b>

Depreciation expense for capital assets during the year ended December 31, 2011 was charged to the different activities as follows:

Public works - parks	\$ 1,292,123
Recreation	44,442
<b>Total</b>	<b>\$ 1,336,565</b>

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**4. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

The following is a summary of changes in the capital assets for business-type activities during the fiscal year:

Business-Type Activities	Balance as of January 1, 2011	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2011
Capital assets, not being depreciated:					
Construction in progress	\$ 3,860,590	\$ 2,051,969		\$ (1,645,011)	\$ 4,267,548
Total capital assets, not being depreciated	3,860,590	2,051,969	-	(1,645,011)	4,267,548
Capital assets, being depreciated:					
Water and sewer plant	54,440,325	2,734		1,645,011	56,088,070
Equipment	4,490,654	105,635			4,596,289
Vehicles	1,305,666	137,081			1,442,747
Total capital assets, being depreciated	60,236,645	245,450	-	1,645,011	62,127,106
Less accumulated depreciation for:					
Water and sewer plant	(34,239,669)	(1,190,802)			(35,430,471)
Equipment	(1,876,311)	(130,693)			(2,007,004)
Vehicles	(654,465)	(110,445)			(764,910)
Total accumulated depreciation	(36,770,445)	(1,431,940)	-	-	(38,202,385)
Net capital assets being depreciated	23,466,200	(1,186,490)	-	1,645,011	23,924,721
Business-type activities capital assets, net	\$ 27,326,790	\$ 865,479	\$ -	\$ -	\$ 28,192,269

Depreciation expense for capital assets for December 31, 2011 was charged to the different activities as follows:

Water	\$ 686,638
Sewer	745,302
Total	<u>\$ 1,431,940</u>

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**5. UNEARNED REVENUE**

*Government-Wide Financial Statements*

At December 31, 2011, there were no differences between unearned revenues in the Government-Wide Financial Statements and the Fund Financial Statements. All amounts represent revenues that had been collected or billed, but not yet earned, as follows:

	Governmental		Business-Type	
	Activities		Activities	
	Governmental Funds	Total	Enterprise Fund	
	General Fund	Governmental Activities	Water Sewer Fund	Total
Portable stage repairs	\$ 561	\$ 561	\$ -	\$ 561
Homewood bike trail grant	22,895	22,895	-	22,895
Parks debt collection	8,368	8,368	-	8,368
Water system studies grant	-	-	97,932	97,932
<b>Total</b>	<b>\$ 31,824</b>	<b>\$ 31,824</b>	<b>\$ 97,932</b>	<b>\$ 129,756</b>

**6. LONG TERM DEBT**

The following is a summary of long-term debt transactions for the year ended December 31, 2011:

	Maturity Date	Interest Rate	Balance January 1, 2011	Additions	Retirements	Balance December 31, 2011	Current Portion	Due in More than One Year
<b>Governmental Activities</b>								
Sidewalk Improvement Bonds	2019	6.02%	\$ 112,618	\$ -	\$ (12,513)	\$ 100,105	\$ 12,513	\$ 87,592
Bank of America Loan - 2003	2013	3.58%	691,697	-	(269,338)	422,359	279,067	143,292
Bank of America Loan - 2004	2014	4.50%	240,931	-	(65,052)	175,879	68,013	107,866
Zions Bank Loan	2017	4.30%	1,486,539	-	(186,243)	1,300,296	194,336	1,105,960
State Water Resources Control Board	2028	1.80%	2,131,174	-	(101,278)	2,029,896	103,104	1,926,792
Taxable Pension Obligation Refunding Bonds	2019	4.05%	-	2,280,000	(125,593)	2,154,407	251,055	1,903,352
<b>Total Governmental activities</b>			<b>\$ 4,662,959</b>	<b>\$ 2,280,000</b>	<b>\$ (760,017)</b>	<b>\$ 6,182,942</b>	<b>\$ 908,088</b>	<b>\$ 5,274,854</b>
<b>Business-Type Activities</b>								
2001 Refunding Bonds								
Series A	2011	5.75%	\$ 12,063	\$ -	\$ (12,063)	\$ -	\$ -	\$ -
Series C	2021	6.05%	397,257	-	(29,939)	367,318	31,778	335,540
<b>Total Business-type activities</b>			<b>\$ 409,320</b>	<b>\$ -</b>	<b>\$ (42,002)</b>	<b>\$ 367,318</b>	<b>\$ 31,778</b>	<b>\$ 335,540</b>

802,019 ✓

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**6. LONG TERM DEBT, Continued**

Future principal and interest payments on all long-term debt were as follows at December 31, 2011:

For the Year Ending 12/31	Governmental Activities			
	Sidewalk Improvement Bonds		Bank of America Loans	
	Principal	Interest	Principal	Interest
2012	\$ 12,513	\$ 2,003	\$ 598,134	\$ 103,276
2013	12,513	1,753	475,776	79,777
2014	12,513	1,502	308,885	63,229
2015	12,513	1,252	283,315	51,212
2016	12,513	1,002	294,964	27,434
2017-2019	37,540	1,502	791,571	44,747
	<u>\$ 100,105</u>	<u>\$ 9,014</u>	<u>\$ 2,752,645</u>	<u>\$ 369,675</u>

For the Year Ending 12/31	Governmental Activities			
	Zions Bank Loan		State Water Resources Control Board	
	Principal	Interest	Principal	Interest
2012	\$ 194,336	\$ 53,846	\$ 103,104	\$ 36,599
2013	202,783	45,399	104,963	34,740
2014	211,596	36,586	106,856	32,848
2015	220,792	27,390	108,783	30,921
2016	230,389	17,794	110,744	28,960
2017-2020	240,400	7,780	463,306	95,508
2021-2025	-	-	627,700	70,817
2026-2028	-	-	404,440	14,671
	<u>\$ 1,300,296</u>	<u>\$ 188,795</u>	<u>\$ 2,029,896</u>	<u>\$ 345,064</u>

For the Year Ending 12/31	Business-Type Activities	
	2001 Refunding Bonds	
	Principal	Interest
2011	\$ 31,778	\$ 21,749
2012	33,730	19,798
2013	35,801	17,726
2014	38,000	15,527
2015	40,334	13,194
2016-2020	187,675	26,434
	<u>\$ 367,318</u>	<u>\$ 114,428</u>



**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**6. LONG TERM DEBT, Continued**

*Governmental Activities*

Sidewalk Improvement Bonds - The District issued \$212,723 of original principal amount Sidewalk Improvement Bonds, with an initial interest rate of 5.75%, on December 27, 2001 to finance the design, engineering, easement acquisition and other costs for the Tahoe City downtown sidewalk project. The interest rate adjusts every five years to a rate equal to 115% of the Five Year Advance Fixed Rate as quoted on such date by the Seattle Federal Home Loan Bank. The interest is payable semi-annually on March 2 and September 2 of each year. The District is empowered and is obligated to levy ad valorem taxes, without limitation as to rate or amount upon certain property subject to taxation within the District (downtown properties which benefit from the project) for the payment of interest and principal on the Bonds. The Bonds are subject to optional and mandatory early redemption provisions. The Bonds' principal payments are payable annually on September 2, in the amount of \$12,513.

Bank of America Loan - 2003 - The District entered into a 10 year financing in the amount of \$2,434,000 with LaSalle Bank National Association (subsequently acquired by Banc of America Leasing), with an interest rate of 3.58%, on May 29, 2003 to finance the redemption of the 1993 Series A Certificates of Participation and the acquisition or construction of water and sewer equipment and projects. The principal and interest payments are payable semi-annually on November 29 and May 29, and the District may prepay all outstanding principal and accrued interest on any payment date. The source of principal and interest payments for this loan is general property tax revenues.

Bank of America Loan - 2004 - The District entered into a 10 year financing in the amount of \$600,000 with LaSalle Bank National Association (subsequently acquired by Banc of America Leasing), with an interest rate of 4.5%, on June 30, 2004 to finance water and sewer improvement projects. The principal and interest payments are payable semi-annually on June 30 and December 31, and may be prepaid in full on the payment dates. The source of principal and interest payments for this loan is general property tax revenues.

Zions Bank Loan - The District completed a \$2,000,000 financing on August 1, 2007 with Zions First National Bank to fund sewer and water capital projects. This 10 year financing bears interest at 4.3% and requires semi-annual principal and interest payments on February 1 and August 1. This transaction is not subject to prepayment. The source of principal and interest payments for this loan is general property tax revenues.

Taxable Pension Obligation Refunding Bonds 2011 - The District entered into an 8 year financing in the amount of \$2,280,000 with Bank of America with an interest rate of 4.05% on June 21, 2011 to refund certain pension benefits to the California Public Employees' Retirement System (CalPERS). The principal and interest payments are payable quarterly on March 15, June 15, September 15, and December 15, and the District may prepay all outstanding principal and accrued interest on any payment date. The source of principal and interest payments for this loan is general property tax revenues.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**6. LONG TERM DEBT, Continued**

*Governmental Activities, Continued*

State Water Resources Control Board (State Revolving Fund) Financing - The District signed Installment Sales Agreement No. C-06-4779-110 with the California State Water Resources Control Board (SWRCB) on March 21, 2008 for the partial financing of the Harbor Master Sewer Pump Station in Tahoe City. During 2008, the TCPUD received a total of \$2,328,382 in reimbursement of construction costs incurred on the new sewer pump station. The District selected the SWRCB's zero interest option, which required a local cost matching of \$465,688 and obligates the TCPUD to pay a total of \$2,794,070 over the 20 year term of the financing. The District will make 20 annual payments of \$139,703 through September 30, 2028 resulting in an effective interest rate of 1.803%. The source of principal and interest payments for this loan is general property tax revenues.

*Business-Type Activities*

2001 Refunding Bonds, Series A, B and C - On December 27, 2001, the District issued \$179,730, \$878,624 and \$602,994 of the 2001 Refunding Bonds, Series A, B and C, respectively, with an initial interest of 5.75%, to refund State Loans 4, 5 and 6. The interest rate for Series C adjusts every five years to a rate equal to 115% of the Five Year Advance Fixed Rate as quoted on such date by the Seattle Federal Home Loan Bank. The District is obligated to levy ad valorem taxes or other revenues, without limitation as to rate or amount upon certain property subject to taxation within the District for the payment of interest and principal of the 2001 Limited Obligation Refunding Bonds. The principal and interest payments are payable semi-annually on July 1 and January 1 of each year.

**7. PLEDGES OF FUTURE REVENUES**

As disclosed in Footnote 6, Long Term Debt, the District has pledged future general property tax revenues to the repayment of the loans listed below:

	Annual Principal & Interest	Percentage of 2011 General Property Tax Pledged
<b>Governmental Activities</b>		
Bank of America Loan - 2003	\$ 291,712	5.7%
Bank of America Loan - 2004	75,170	1.5%
Zions Bank Loan	248,182	4.8%
State Water Resources Control Board	139,703	2.7%
Taxable Pension Obligation Refunding Bonds	167,343	3.3%
Unpledged General Property Tax Revenues	4,217,416	82.1%
Total 2011 General Property Tax Revenues	\$ 5,139,526	100.0%

The Sidewalk Improvement Bonds and Series A 2001 Refunding Bonds are payable from specific voter approved ad valorem property tax assessments.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**7. PLEDGES OF FUTURE REVENUES, Continued**

The Series B 2001 Refunding Bonds were payable from specific voter approved ad valorem property tax assessments and supplemental user fees from water customers in a certain area.

The Series C 2001 Refunding Bonds are partially payable from supplemental user fees from water customers in a certain area. All three series of the 2001 Refunding Bonds constitute absolute and unconditional obligations of the District payable from all available funds of the District, including ad valorem assessments collectible through El Dorado and Placer Counties in the same manner as permitted for State Loans 4, 5, and 6 (which these bonds refunded); provided, however, no specific source of revenues or other funds of the District are pledged other than such ad valorem assessments, nor is the District obligated to levy or pledge any form of taxation to make payments of principal and interest on the Bonds.

**8. COMPENSATED ABSENCES**

Compensated absences balances and activity for the year ended December 31, 2011 were as follows:

	Balance			Balance	
	January 1, 2010	Additions	Retirements	December 31, 2011	Due within One Year
Governmental Activities	\$ 160,798	\$ 150,883	\$ (144,700)	\$ 166,981	\$ 166,981
Business-Type Activities	145,295	178,135	(129,831)	193,599	193,599
<b>Total</b>	<b>\$ 306,093</b>	<b>\$ 329,018</b>	<b>\$ (274,531)</b>	<b>\$ 360,580</b>	<b>\$ 360,580</b>

The General Fund is used to liquidate the majority of the liability for compensated absences recorded in governmental activities, and the Water and Sewer fund is used to liquidate the liabilities recorded in business-type activities. All of the compensated absences balances represent vacation and compensated time that are due within one year.

**9. FUND BALANCES / NET ASSETS**

The District's Board adopted Resolution 11-39 for the Classification of the Fund Balances as required by Governmental Accounting Standards Board 54 and adoption of the General Fund Reserve Policy.

The following General Fund balance at December 31, 2011 is as follows. Non-spendable consists of prepaid items and inventory. The District has assigned \$450,000 in the General Fund for the long-term replacement of capital assets within the District Parks.

<b>General Fund Balance</b>	
Non-Spendable	\$ 45,268
Assigned	
Long-term capital replacement	450,000
Unassigned fund balance	1,302,831
<b>Total Fund Balance General Fund</b>	<b>\$ 1,798,099</b>

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**9. FUND BALANCES / NET ASSETS, Continued**

The District designated the unrestricted net assets of the proprietary fund at December 31, 2011 as follows:

Designated for:	
Long-term capital replacement	\$ 2,837,347
Property tax reserve - water	1,562,653
Cash flow requirements	250,000
Emergencies	750,000
Total designated net assets - proprietary activities	5,400,000
Undesignated	4,548,131
Total	\$ 9,948,131

**10. PENSION PLANS**

The District has a defined benefit retirement plan, the Miscellaneous Plan of Tahoe City Public Utility District (Plan). The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries.

*Plan Description.* The District contributes to the California Public Employees Retirement System (PERS); a cost sharing multiple-employer defined benefit pension plan. Since the District has less than 100 employees it is required to participate in a risk pool. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District resolution. Copies of the PERS annual financial report may be obtained from their executive offices at 400 P Street, Sacramento, CA 95814.

*Funding Policy.* Participants are required to contribute 8% of their annual covered compensation to the Plan. Pursuant to labor contracts and policies, the District paid 8% through 6/30/2011 and beginning July 1, 2011, employees made a contribution of 1% of the required 8%. During the fiscal year the District paid \$246,719 and the employees paid \$15,090 of the required 8% contribution. The District is also required to contribute at an actuarially determined rate; the current rate is 14.762% of annual covered compensation for miscellaneous employees. The contribution requirements of plan members and the District are established and may be amended by PERS.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**10. PENSION PLANS, Continued**

Annual Pension Costs. The District's annual pension cost of \$589,521 was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.55% to 14.45% depending upon age, service, and type of employment, and (c) 3.00% for inflation compounded annually. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period at June 30, 2010 was 19 years for miscellaneous employees for prior and current service unfunded liability.

**Three-Year Trend Information for PERS**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 673,081	100.0%	\$ -
2010	\$ 668,034	100.0%	\$ -
2011	\$ 589,521	100.0%	\$ -

Funding Status as of the Most Recent Actuarial Date. The District retirement plans for miscellaneous employees are part of the CalPERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the District's miscellaneous employees is no longer available or disclosed.

Net Pension Asset. In fiscal year 2011, the District prepaid its unfunded PERS side fund in the amount of \$2,242,000. In 2003 CALPERS combined the retirement plans for all public agencies with "small" plans to reduce the volatility of employer contribution rates. CalPERS also created for each member agency a so-called Side Fund to amortize each agency's June 30, 2003 unfunded liability over a fixed term at a fixed interest rate. The PERS side fund represents the District's Specific liability was that assumed by the District at the time of this CALPERS pooling process. This prepayment has been recorded on the Statement of Net Assets as a Net Pension Asset.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**10. PENSION PLANS, Continued**

In accordance with GASB Statement No. 27, the net pension asset will be amortized using the same amortization methodology utilized by PERS to calculate the Annual Required Contribution (ARC) each year. A summary of the methodology used is as follows:

Amortization Method	Level Percent of Payroll
Average Remaining Period (as of 12/31/2011)	7.5 years
Investment Rate of Return	7.75% (net of administrative expenses)
Payroll Growth	3.25%

Interest on the Net Pension Asset (NPA) is calculated as a percentage of the NPA's balance at the beginning of each year based on the investment rate of return stated above and is added to the balance of the NPA for that year.

A summary of the changes to the NPA for the year ended December 31, 2011 is as follows:

	Balance as of January 1, 2011	Additions	Deletions	Balance as of December 31, 2011
Business-Type Activities	\$ 2,242,422	\$ 86,894	(\$175,283)	\$ 2,154,033

**11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Plan Description - TCPUD administers a single-employer defined benefit healthcare plan (the Retiree Health Plan) which provides lifetime fixed monthly payments for a portion of medical premiums and full dental and vision coverage for eligible retirees and their dependents. The majority of participants are covered through the District's PERS group health insurance plan, and all receive benefits from the TCPUD's self-administered dental and vision plans. Benefit provisions are established through negotiations among the District and the International Union of Operating Engineers Stationary Local No. 39 (Union) representing classified employees and an informal bargaining group representing managers, supervisors, and professional employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy - Contribution requirements are also negotiated among the District, the Union, and the informal bargaining group. The TCPUD currently contributes monthly maximums toward medical premiums of \$610.19 for a retiree with 2 or more dependents, \$477.54 for a retiree with 1 dependent, and \$238.77 for an individual retiree. The District pays the full cost of dental and vision benefits for eligible retirees and their dependents. Employees with less than 20 years of TCPUD service at retirement receive fractions of the monthly maximums for medical premiums described above based on years of service. During 2011, the District paid \$117,508 toward retiree medical premiums and \$34,647 for retiree dental and vision claims, which amounted to \$152,155, as contributions to OPEB. TCPUD also placed \$94,404 into the California Employers' Retiree Benefit Trust, to be applied towards the OPEB obligation. This provided \$247,559 as total contributions in 2011.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued**

Annual OPEB Cost and Net OPEB Obligation - The District's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC) which is included in the proprietary fund. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period of thirty years. The following table shows the components of TCPUD's annual OPEB cost for the year, the amount actually contributed to the plan through deposits to the California Employers' Retiree Benefit Trust and premiums and claims paid, and changes in the District's net OPEB asset for the Retiree Health Plan:

Annual required contribution	\$	232,501
Interest adjustment		3,353
Annual OPEB Expense		235,854
Contribution made		247,559
Increase in net OPEB asset		11,705
Net OPEB Asset - beginning of year		306,507
Net OPEB Asset - end of year	\$	318,212

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Retiree Health Plan, and the net OPEB asset for the fiscal year ended December 3, 2011 and the last two previous fiscal years are as follows:

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2009	\$ 236,552	222.0%	\$ 288,366
2010	\$ 215,902	108.0%	\$ 306,507
2011	\$ 235,854	105.0%	\$ 318,212

Funded Status and Funding Progress - As of December 31, 2011, the actuarial accrued liability for benefits was \$2,612,347, of which \$647,508 was funded in the California Employers' Retiree Benefit Trust. The covered payroll (annual payroll of active employees covered by the plan) was \$3,295,547, and the ratio of the unfunded actuarial liability to the covered payroll was 59.6%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued**

*Methods and Assumptions* - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The funding method used is entry age normal cost. Plan assets are valued at fair value at December 31, 2011. The discount rate used is 7.75%. Salary increases are assumed to equal 3.25% per year. Mortality, turnover, and retirement rates are taken from CalPERS tables for employees in the District's retirement plan. Healthcare costs are projected based on the District's fixed contribution and dental and vision costs are projected to increase 4.5% per year. The unfunded actuarial liability is being amortized on a level dollar, closed basis over 30 years. The remaining amortization period at December 31, 2011 was 28 years.

**12. RISK MANAGEMENT**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA-JPIA) for the operation of common risk management and insurance programs. The program covers workers' compensation, property, liability, errors and omissions and public employee dishonesty insurance. The ACWA-JPIA is governed by an Executive Board consisting of representatives from member districts. The Executive Board controls the operations of the ACWA-JPIA, including selection of management and approval of operating budgets.

The following is a summary of financial information for ACWA-JPIA as of the latest date for which such audited information is available:

	<u>September 30, 2011</u>
Total assets	\$ 126,769,966
Total liabilities	79,457,922
Total net assets	47,312,044
Total operating revenues	28,149,474
Total operating expenses	26,286,230

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. For workers' compensation, property, liability, errors and omissions and public employee dishonesty insurance, the District has joined together with other special districts within the State to form the ACWA-JPIA.



**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**12. RISK MANAGEMENT, Continued**

ACWA-JPIA provides coverage for up to a maximum of \$2,000,000 for each workers' compensation claim, \$50,000 for each property claim, and \$1,000,000 for each general liability claim. ACWA-JPIA also purchases excess coverage from commercial insurers for up to the statutory limits for each workers' compensation claim, \$100,000,000 for each property claim and \$60,000,000 for each general liability claim. The property insurance coverage contains deductibles of \$2,500 for each occurrence. The District also has a retention level of \$25,000 for auto and general liability insurance. None of the District's claims have exceeded insured amounts for the prior three years.

The District pays premiums to the ACWA-JPIA for general liability and property insurance based upon actuarial calculations and pays workers' compensation insurance based upon actual payroll classified into rate categories pursuant to the rules published by the California Workers' Compensation Insurance Rating Bureau. The ACWA-JPIA agrees to pay all amounts legally required by California workers compensation laws. The ACWA-JPIA is self-sustaining through member premiums, and in the event of significant claims might have to increase deposit requirements from its members. The District would be required to pay these amounts prior to terminating participation in ACWA-JPIA.

During fiscal 2011, the District did not significantly reduce its insurance coverage from the prior year. Furthermore, settlements have not exceeded insurance coverage for the past three fiscal years.

**13. CONTINGENCIES AND LITIGATION**

From time to time, the District is involved in litigation, claims and assessments incidental to its operations. Further, the District may be advised of unasserted possible claims and assessments that may be probable of assertion. As a general policy, the District defends matters in which it is a named defendant and, for insurable losses, maintains insurance to protect against adverse judgments, claims or assessments. In the opinion of the District, although the adequacy of existing insurance coverage or the outcome of legal proceedings cannot be predicted with certainty, the ultimate liability associated with any claims or litigation in which the District is currently involved will not materially affect the District's financial condition.

**14. COMMITMENTS**

The District has entered into contracts for construction with remaining commitments of approximately \$787,220 at December 31, 2011.

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

**15. RELATED PARTY TRANSACTIONS**

The District has procured engineering services from firms in and around the Lake Tahoe area for many years. Auerbach Engineering Corporation and predecessor firms have bid frequently and provided services to the District for the past 28 years. During fiscal year 2008, the District's General Manager married the owner of Auerbach Engineering Corporation (AEC). To prevent any conflict of interest, the Board of Directors developed certain procedures. The General Manager would not engage in the selection process of contract awards that involve AEC. The Board also created an Engineering Consultant Selection Committee consisting of Directors and staff, to evaluate engineering consultants with the final selection to be made by the Board. The District presented these procedures to the California Attorney General's Office and has received a letter stating if these procedures are followed no applicable laws will be violated.

For fiscal year 2011, the District has contracted with Auerbach Engineering Corporation for the following projects and provided payments in the amounts as follows:

<u>Project Name</u>	<u>Amount</u>
Woodview to 4 Seasons Tank Line	\$ 18,246
Lower McKinney Water Line Replacement	35,388
Woodview-Woodhill Water Main Construction	4,336
Lower Tahoe Tavern Heights Distribution Improvements	13,396
Observation/Edgewater Pressure Reducing Valve Station	9,114
Lake Forest Improvements District	59,435
Old Dollar Point Pump Station/Pressure Reducing Valve Modication	68
Chamberlands Water Line Replacement Gruse St to Flick Avenue	5,384
Harbor Master Pump Station	285
Highlands Park Tahoe Regional Planning Association	7,320
Tahoe Regional Planning Association Best Management Practices Project	1,225
Wildlife Conervation Board Boat Ramp Fish Habitat Phase 1A	1,258
Lakeside Trail Phase V	29,218
Lakeside Trail Phase VI	29,158
Lakeside Trail/Station 51 Wetlands Restoration	28,532
Squaw Valley Bike Trail - Erosion Control Project	3,630
Lower McKinney Water Line Replacement Contruction	14,060
Lower Tahoe Tavern Heights Distribution Improvements Construction	219
Observation/Edgewater Pressure Reducing Valve Station Contruction	5,563
Lake Forest Water Sewer Replacement Phase I Contruction	51,061
Lakeside Trail 5 - Contruction	85,303
Lakeside Trail 6 - Contruction	54,851
Lakeside Trail 7 - Contruction	61,014
Total	<u>\$ 518,064</u>

**Tahoe City Public Utility District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended December 31, 2011**

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**16. SUBSEQUENT EVENTS**

On June 4, 2010, the District filed an action in the Superior Court of the State of California, County of Placer. The action seeks to acquire a water system (the Lake Forest System) owned by the defendant, Tahoe Park Water Company, through eminent domain. On January 14, 2011, the District was granted possession, but not ownership, of the Lake Forest System. The District is now operating the Lake Forest System while the eminent domain proceeding continues. On October 26, 2011, the parties entered in to a stipulation to resolve the case through binding arbitration, which is currently scheduled to be conducted on May 8 -10, and May 15 - 17, 2012. It is possible additional days may be required beyond the six days. Upon conclusion of the arbitration proceedings a ruling from the arbitrator is forthcoming and can take up to 30 days.

On August 10, 2011, the District Board of Directors entered into negotiations to purchase the properties known as Tahoe City Golf Course providing for time for the District to conduct appropriate due diligence, identification of potential partners, and community outreach. As of April 3, 2012, the District has purchased the Tahoe City Golf Course and entered into a lease with Duncan Golf Management to operate the Tahoe City Golf Course for an annual guaranteed minimum lease payment.

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**Tahoe City Public Utility District  
Required Supplementary Information  
For the year ended December 31, 2011**

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**BUDGETS AND BUDGETARY ACCOUNTING**

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. The District Manager submits to the Board of Directors a proposed budget for the fiscal year beginning January 1. The budget includes proposed expenditures and the means of financing them.
2. The Board of Directors reviews the proposed budget at specially scheduled meetings which are open to the public. The Board of Directors also conducts a public hearing on the proposed budget to obtain comments from interested citizens.
3. Prior to January 1, the budget is legally adopted through a passage of a motion.
4. Actual revenues and expenditures are compared to budgeted amounts monthly as a management control device for all budgeted funds. The District monitors capital expenditures by comparison with specific project appropriation accounts. Expenditures cannot legally exceed appropriations by department.
5. The budgets are prepared on a basis consistent with Generally Accepted Accounting Principles and the accounting for each fund.

**Tahoe City Public Utility District  
 Required Supplementary Information, Continued  
 For the year ended December 31, 2011**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Fees	\$ 498,613	\$ 498,613	\$ 498,272	\$ (341)
Property taxes	4,379,863	4,379,863	4,172,889	(206,974)
Interest	3,000	3,000	5,356	2,356
Grants	3,604,948	3,604,948	2,469,981	(1,134,967)
Other	3,150	3,150	98,828	95,678
<b>Total revenues</b>	<b>8,489,574</b>	<b>8,489,574</b>	<b>7,245,326</b>	<b>(1,244,248)</b>
<b>EXPENDITURES:</b>				
Current:				
Public works - Parks	2,145,924	2,145,924	2,091,189	54,735
Recreation	710,247	710,247	729,913	(19,666)
Other operating	75,000	75,000	121,859	(46,859)
Capital outlay	4,018,948	4,018,948	2,825,246	1,193,702
<b>Total expenditures</b>	<b>6,950,119</b>	<b>6,950,119</b>	<b>5,768,207</b>	<b>1,181,912</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,539,455</b>	<b>1,539,455</b>	<b>1,477,119</b>	<b>(62,336)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sales of asset	10,000	10,000	6,525	(3,475)
Issuance of long term debt	-	-	2,280,000	2,280,000
Transfers out to other funds	(1,217,973)	(1,217,973)	(3,242,422)	(2,024,449)
<b>Total other financing sources (uses)</b>	<b>(1,207,973)</b>	<b>(1,207,973)</b>	<b>(955,897)</b>	<b>252,076</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 331,482</b>	<b>\$ 331,482</b>	<b>521,222</b>	<b>\$ 189,740</b>
<b>FUND BALANCES:</b>				
Beginning of year			1,276,877	
End of year			\$ 1,798,099	

**Tahoe City Public Utility District**  
**Required Supplementary Information, Continued**  
**For the year ended December 31, 2011**

**RETIREE HEALTH PLAN (OPEB) - SCHEDULE OF FUNDING PROGRESS**

The Schedule of Funding Progress for the Retiree Health Plan is presented below. Since the District adopted and implemented GASB 45 on January 1, 2009, only three of the three valuations of information normally presented are available.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age Normal (B)	Unfunded (Overfunded) AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2009	\$ 407,672	\$ 2,205,084	\$ 1,797,412	18.5%	\$ 3,103,064	57.9%
12/31/2010	560,694	2,323,483	1,762,789	24.1%	3,203,913	55.0%
12/31/2011	647,508	2,612,347	1,964,839	24.8%	3,295,547	59.6%