

Tahoe City Public Utility District

Tahoe City, California

*Basic Financial Statements
Together with Independent Auditors' Report*

For the year ended December 31, 2009

Tahoe City Public Utility District
Basic Financial Statements
For the year ended December 31, 2009

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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, business-type activities, each major fund, and other remaining aggregate information of the Tahoe City Public Utility District (District), as of and for the year ended December 31, 2009, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the District as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2010, 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 grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Directors
of the Tahoe City Public Utility District
Tahoe City, California
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As described in Note 1 to the basic financial statements, the District adopted Statements of Governmental Accounting Standards Board No. 45, *Accounting and Financial Reporting by Employer for Post Employment Benefits Other Than Pension Plans*, No. 52, *Land and Other Real Estate Held as Investment by Endowments*, No. 55, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Capricci & Carlson

Irvine, California
April 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Tahoe City Public Utility District (TCPUD or District) provides sewer collection and transportation service to 7,466 customers and water production and distribution service to 3,947 customers on the western side of Lake Tahoe. The District also operates and maintains 19 miles of bike trails, parks, beaches, a boat launching facility, campground, and the Tahoe City downtown sidewalks. In addition, the TCPUD sponsors numerous recreation programs and rents community buildings for the benefit of residents and visitors.

The following discussion and analysis of the TCPUD's financial performance provides an overview of the District's financial activities for the year ended December 31, 2009. Please read it in conjunction with the TCPUD's financial statements, which follow this section.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Total TCPUD debt decreased to \$5.8 million at December 31, 2009 by tightly controlling operating expenses and capital expenditures.
- The District has reserves at December 31, 2009 of: \$2,262,951 for long-term capital replacement, \$1,087,049 for a new property tax reserve - water, \$750,000 for emergencies, and \$250,000 for annual cash flow fluctuation requirements.
- The TCPUD deposited \$400,000 in the California Employers' Retiree Benefit Trust during the fourth quarter of 2009.
- The District is participating in the California Statewide Communities Development Authority Proposition 1A Securitization Program which will result in the TCPUD receiving the 8% of its property tax borrowed by the State of California on the normal dates at no cost to the District.

OPERATIONAL HIGHLIGHTS

- The District initiated water usage billing to approximately 2,800 single family residences early in 2009 on newly designed monthly billing statements.
- The TCPUD completed metering of condominium developments during 2009 to fulfill a state mandate. Billing of condominium water usage will begin in early 2010.
- Working with the local Fire Protection Districts, the TCPUD treated more than 75 acres of its properties to reduce forest fuels and the threat of catastrophic fire primarily with grant funding.
- In conjunction with the Tahoe Regional Planning Agency and Tahoe Resource Conservation District, the TCPUD implemented a Quagga Mussel (invasive specie) inspection program at the Lake Forest Boat Ramp.

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 new accounting pronouncements are the inclusion of a Management's Discussion and Analysis section, new consolidated, accrual-based Statements of Net Assets and Activities, and reconciliations of these new 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, 2009. 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 TCPUD'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 TCPUD'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 TCPUD first calculated and recorded accumulated depreciation for its governmental activities as of January 1, 2004, and has included depreciation expense in the 2009 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 TCPUD usually covers cash operating costs with user fees, but subsidizes capital expenditures with 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 TCPUD, 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 Activities in the Statement of Net Assets and the Governmental Funds Balance Sheet and the Governmental Activities in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds 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, no reconciliations are required. A Statement of Cash Flows is also presented for the Proprietary Fund, and is useful for understanding the underlying cash situation of the District's water and sewer operations.

FINANCIAL ANALYSIS

NET ASSETS

The following table summarizes the TCPUD's net assets as of December 31, 2009 and December 31, 2008.

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets:						
Cash and investments	\$ 911	\$ 4,247	\$ 4,355,819	\$ 2,914,515	\$ 4,356,730	\$ 2,918,762
Cash and investments - restricted	3,218	6,597	-0-	-0-	3,218	6,597
Receivables	1,401,857	1,195,809	249,969	221,209	1,651,826	1,417,018
Other current assets	(30,587)	124,329	194,387	41,296	163,800	165,625
Total current assets	1,375,399	1,330,982	4,800,175	3,177,020	6,175,574	4,508,002
Investments - restricted	-0-	-0-	65,000	83,592	65,000	83,592
Facility upgrade receivables	-0-	-0-	56,742	-0-	56,742	-0-
Other postemployment benefits, net	-0-	-0-	288,366	-0-	288,366	-0-
Net capital assets	23,444,722	24,499,196	25,701,222	25,870,956	49,145,944	50,370,152
Total assets	24,820,121	25,830,178	30,911,505	29,131,568	55,731,626	54,961,746
Liabilities:						
Payables and accruals	342,400	473,573	564,939	585,004	907,339	1,058,577
Unearned revenue	254,004	172,508	86,928	36,846	340,932	209,354
Long-term debt - current	612,652	591,685	115,547	171,525	728,199	763,210
Total current liabilities	1,209,056	1,237,766	767,414	793,375	1,976,470	2,031,141
Unearned revenue	76,994	-0-	-0-	50,355	76,994	50,355
Long-term debt - noncurrent	4,662,959	5,275,611	409,321	524,868	5,072,280	5,800,479
Total liabilities	5,949,009	6,513,377	1,176,735	1,368,598	7,125,744	7,881,975
Net assets:						
Invested in capital assets, net of debt	18,169,111	18,631,900	25,176,354	25,174,563	43,345,465	43,806,463
Restricted	-0-	-0-	65,000	83,592	65,000	83,592
Unrestricted	702,001	684,901	4,493,416	2,504,815	5,195,417	3,189,716
Total net assets	\$ 18,871,112	\$ 19,316,801	\$ 29,734,770	\$ 27,762,970	\$ 48,605,882	\$ 47,079,771

The TCPUD's total net assets increased from \$47,079,771 at December 31, 2008 to \$48,605,882 at December 31, 2009. The total increase of \$1,526,111 consists of a \$2,005,701 increase in unrestricted net assets, partially offset by an \$18,592 reduction in use tax payment guarantees under restricted net assets, and a \$460,998 decrease in Invested in capital assets, net of debt. Total Invested in capital assets, net of debt decreased due to a \$462,789 drop in governmental activities Invested in capital assets, net of debt as depreciation of \$1,324,990 far exceeded the \$270,516 of capital expenditures in a year when projects were being designed rather than constructed, and debt reductions of \$591,685 since there were no new borrowings. Receivables increased \$234,808 primarily due to higher property tax receivables, since \$203,263 of receivables to be collected from the California Communities Proposition 1A financing in May 2010 have been recorded as receivables and unearned revenue at December 31, 2009. A new account, Other postemployment benefits, net, has been added in 2009 to record that the District is ahead of the minimum required funding on its \$2,205,084 actuarial accrued liability for retiree health benefits. The net effect of these changes was a \$1,437,968 increase in cash and investments which has been designated by the Board of Directors to fund increased water and sewer capital projects in 2010 and later years.

ACTIVITIES

The following table summarizes the TCPUD's Statement of Activities information for the years ended December 31, 2009 and December 31, 2008.

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Expenses:						
Direct expenses	\$ 3,617,796	\$ 3,657,408	\$ 5,175,953	\$ 5,479,235	\$ 8,793,749	\$ 9,136,643
Indirect expenses	533,826	609,917	1,210,126	1,263,237	1,743,952	1,873,154
Total expenses	4,151,622	4,267,325	6,386,079	6,742,472	10,537,701	11,009,797
Program Revenues:						
Charges for services	471,928	462,159	5,472,264	4,897,218	5,944,192	5,359,377
Operating grants and contributions	366,644	310,358	-0-	28,000	366,644	338,358
Capital grants and contributions	60,519	217,104	136,185	-0-	196,704	217,104
Total program revenues	899,091	989,621	5,608,449	4,925,218	6,507,540	5,914,839
Net revenue (expense)	(3,252,531)	(3,277,704)	(777,630)	(1,817,254)	(4,030,161)	(5,094,958)
General Revenues:						
Property taxes	5,397,897	5,110,741	104,095	104,095	5,501,992	5,214,836
Investment earnings	8,945	13,178	45,335	71,830	54,280	85,008
Transfers	(2,600,000)	(3,150,000)	2,600,000	3,150,000	-0-	-0-
Total general revenues and transfers	2,806,842	1,973,919	2,749,430	3,325,925	5,556,272	5,299,844
Change in net assets	\$ (445,689)	\$(1,303,785)	\$ 1,971,800	\$ 1,508,671	\$ 1,526,111	\$ 204,886

Governmental Activities direct expenses decreased \$39,612 as expenses were reduced in virtually all categories with the exception of fire fuels reductions at park properties (a large portion of which was funded by operating grants) and increased utilities for water at all facilities and the start of utilities expenses at the new Rideout community center. Business-type Activities direct expenses decreased \$303,282 due to less repairs and maintenance for equipment failures, less electricity for water production as customers repaired leaks and conserved water, and lower consulting fees for rate work and private water company acquisition consulting began being capitalized in 2009. Indirect expense decreased due to the timing of audit billings, lower dependent medical expense for Directors, a two month health premium holiday from CalPERS, a large insurance refund for favorable prior years' claims experience and reduced consulting.

Charges for services increased for water and sewer in April 2009 based on extensive work with an outside engineering firm regarding funding a higher level of future capital projects in these areas. Consumption billing for single family residences was also introduced during 2009. Property tax revenue growth was 5.5% which was lower than recent years due to less real estate transactions and property appreciation. Investment earnings decreased due to significantly lower interest rates in 2009. The TCPUD made significant transfers during 2009 and 2008 from its General Fund to its Proprietary water and sewer fund to help fund current capital projects and reserves for future capital projects.

FUND STATEMENTS

The majority of the fund statement variances have been explained with the preceding analysis of the Statements of Net Assets and Activities. The remaining Governmental Funds changes consist of a \$1,318,104 decrease in debt service principal payments which is primarily due to the 2008 repayment of the Plumas Bank credit line which was used for bridge financing on the State Revolving Fund loan. The \$1,434,287 transfer in to the Debt Service Fund from the General Fund in 2008 was to transfer funds received from the State Revolving Fund financing to repay the bridge financing provided by the Plumas Bank credit line.

The Board of Directors designated an additional \$1,212,951 for long-term capital replacement and established a new Property tax reserve - water of \$1,087,049 to recognize the share of non-District water customers' property tax transferred to fund water capital and reserves in the Proprietary water and sewer fund.

BUDGET COMPARISON

Property tax revenues in the General Fund exceeded budget by \$101,174, since property tax revenue was budgeted conservatively due to the economic slowdown and potential for a loss of revenue to the state. Actual grant revenues \$3,667,612 lower than budget are directly related to grant capital outlays being \$3,650,984 less than budget. Delays in the design of the remaining Lakeside Trail and Homewood bike trail sections resulted in lower spending and grant reimbursements. The District transferred \$2,600,000 to the Proprietary water and sewer fund during 2009 based on final results.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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 very true of District water and sewer capital spending. However, the TCPUD has been able to secure very 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.

The following table presents the TCPUD's more significant capital additions during 2009 and 2008.

	Additions to Capital Assets	
	2009	2008
Governmental Activities		
Lakeside Trail through Tahoe City	\$ 172,987	\$ 162,796
Homewood Bike Trail	5,325	11,326
Boats for sailing program	25,681	-0-
Erosion control projects	2,045	32,626
Heritage Plaza	-0-	12,374
Vehicles	40,582	64,924
Other projects	23,896	90,203
Total governmental activities	270,516	374,249
Business-type Activities		
Harbor Master sewer pump station	4,048	274,501
Residential water meter installations	19,354	1,409,844
Condominium water meter installations	646,106	-0-
Tahoe Tavern booster & well rehabilitation	153,419	-0-
Lower Tahoe Tavern Heights improvements	90,481	-0-
Highlands fire hydrants	50,621	-0-
Silvertip Drive water line replacement	36,176	130,717
Blackwood Creek sewer pump station flood protection	-0-	157,611
Back-up generator replacements	56,363	90,876
Vehicles & mobile equipment	51,533	68,888
Other projects	136,823	74,800
Total business-type activities	1,244,924	2,207,237
Total TCPUD	\$ 1,515,440	\$ 2,581,486

At December 31, 2009 the TCPUD utilized \$34,115,568 of gross, depreciable capital assets at historical cost, consisting primarily of recreation facilities, in its Governmental Activities, and \$58,002,689 of gross, depreciable capital assets at historical cost, consisting primarily of water and sewer plant, in its Business-type Activities. On such a large infrastructure base, the District's long-term capital replacement designations of \$50,000 in the General Fund and \$2,212,951 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 recreation facilities, may be available in the future for a portion of these replacement and rehabilitation needs. However, the TCPUD 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 TCPUD 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. Residential sewer customers would see their quarterly rates increase from \$52.96 to a maximum of \$143.79 during the 5 year period. 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 2010 TCPUD budget includes a 5 year capital plan with \$27 million of District funded capital including \$17 million for water projects and \$7.5 million for sewer projects. The District could not fund this level of capital improvements without the new rate structure.

DEBT ADMINISTRATION

As of December 31, 2009, the TCPUD had total long-term debt outstanding of \$5.8 million. The \$.8 million decrease during the year resulted from making regularly scheduled principal payments with no new borrowing. Due to relatively low capital grant activity during 2009, the District did not renew the Plumas Bank line of credit. The TCPUD does not currently anticipate opening this facility in 2010 to provide funding secured by grant receivables.

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 TCPUD standards. It is often difficult for these systems to obtain financing for upgrades, because of their small size. It is probable that 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.

ECONOMIC FACTORS AND THE 2010 BUDGET

Property taxes are a significant source of revenue for the TCPUD. This revenue source has grown relatively rapidly due to average annual growth in assessed values of approximately 9% 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 decreased during 2009 from prior years. The District has budgeted an increase in general property revenue of 2% for 2010. In addition, the State of California is experiencing large budget deficits and may take actions which adversely impact the District's revenues or expenses. During 2009 the state borrowed 8% of the TCPUD's property tax revenues, but worked with the counties, cities and special districts to neutralize the impact of this action through the California Communities Proposition 1A bond sale program. In light of current economic conditions, the District continues to closely monitor all costs.

The District's 2010 budget was adopted by the Board of Directors on November 20, 2009. It contains net revenue increases from the 2009 budget of 5.4% for water operations, including the start of consumption billing for condominium units, a 6.4% growth in base residential rates and continued growth in the tiered water rates to encourage conservation. Actual 2009 water operations revenue growth was below budget due to customers repairing leaks, a wet spring, less visitors and lower connection, construction and operating grant revenue. The 2010 budget includes a 21.9% increase in net revenue for sewer operations, including a 27.5% increase in sewer rates starting April 1, 2010. After holding operating costs flat for 3 years, the TCPUD budgeted an increase of 6% in 2010 to support master planning consulting, a staff member for geographic information system development, higher parks utilities at the Rideout community center and other facilities and increased Federal lobbying for grants. The 2010 budget includes \$4.5 million of District funded capital projects, including \$4.1 million for water and sewer projects. The TCPUD has budgeted to fund this capital program with internally generated funds, a new borrowing and reserves.

SUMMARY

The TCPUD's overall financial health and flexibility have continued to improve during 2009. The District invested approximately \$1.2 million in water and sewer infrastructure capital projects, including completing the metering of all condominium developments. Based on a comprehensive rate study by HDR Engineering, Inc., the TCPUD has passed 5 year rate increases 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. During 2009 the TCPUD negotiated new two year labor agreements with its full-time hourly and management and supervisory personnel which include no cost of living increase in 2010, a 1% employee pension contribution beginning July 1, 2011 and a sharing of the cost savings when employees opt out of the District's health plans.

FINANCIAL CONTACT

The TCPUD'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 STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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Tahoe City Public Utility District
Statement of Net Assets
December 31, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 911	\$ 4,355,819	\$ 4,356,730
Restricted cash and investments	3,218	-	3,218
Receivables:			
Accounts	106,107	159,937	266,044
Interest	-	4,919	4,919
Taxes	1,072,792	-	1,072,792
Grants	220,375	34,548	254,923
Other	2,583	50,565	53,148
Short-term internal balances	(89,111)	89,111	-
Prepaid items and other assets	58,524	105,276	163,800
Total current assets	<u>1,375,399</u>	<u>4,800,175</u>	<u>6,175,574</u>
Noncurrent assets:			
Restricted cash and investments	-	65,000	65,000
Facility improvement receivables	-	56,742	56,742
Other postemployment benefits, net	-	288,366	288,366
Capital assets:			
Non-depreciable	2,533,611	3,124,407	5,658,018
Depreciable, net	20,911,111	22,576,815	43,487,926
Total capital assets, net	<u>23,444,722</u>	<u>25,701,222</u>	<u>49,145,944</u>
Total noncurrent assets	<u>23,444,722</u>	<u>26,111,330</u>	<u>49,556,052</u>
Total assets	<u>24,820,121</u>	<u>30,911,505</u>	<u>55,731,626</u>
LIABILITIES			
Current liabilities:			
Accounts payable	127,844	153,789	281,633
Accrued payroll and benefits payable	25,469	143,764	169,233
Employee medical reimbursement payable	3,218	-	3,218
Interest payable	45,234	-	45,234
Deposits payable	10,585	111,425	122,010
Other liabilities	3,383	19,278	22,661
Unearned revenue	254,004	86,928	340,932
Compensated absences-due within one year	126,667	136,683	263,350
Long-term debt-due within one year	612,652	115,547	728,199
Total current liabilities	<u>1,209,056</u>	<u>767,414</u>	<u>1,976,470</u>
Noncurrent liabilities:			
Unearned revenue	76,994	-	76,994
Long-term debt-due in more than one year	4,662,959	409,321	5,072,280
Total liabilities	<u>5,949,009</u>	<u>1,176,735</u>	<u>7,125,744</u>
NET ASSETS			
Invested in capital assets, net of related debt	18,169,111	25,176,354	43,345,465
Restricted for:			
Guarantee permit and payment performance	-	65,000	65,000
Total restricted	<u>-</u>	<u>65,000</u>	<u>65,000</u>
Unrestricted	702,001	4,493,416	5,195,417
Total net assets	<u>\$ 18,871,112</u>	<u>\$ 29,734,770</u>	<u>\$ 48,605,882</u>

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, 2009

Functions / Programs	Direct Expenses	Indirect Expenses	Charges for Services	Program Revenues		Total
				Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:						
Governmental activities:						
Public works - Parks	\$ 2,814,116	\$ 351,482	\$ 201,623	\$ 331,572	\$ 60,519	\$ 593,714
Recreation	624,310	182,344	270,305	35,072	-	305,377
Interest on long-term debt (unallocated)	179,370	-	-	-	-	-
Total governmental activities	3,617,796	533,826	471,928	366,644	60,519	899,091
Business-type activities:						
Water	2,631,299	607,171	3,149,273	-	136,185	3,285,458
Sewer	2,544,654	602,955	2,322,991	-	-	2,322,991
Total business-type activities	5,175,953	1,210,126	5,472,264	-	136,185	5,608,449
Total primary government	\$ 8,793,749	\$ 1,743,952	\$ 5,944,192	\$ 366,644	\$ 196,704	\$ 6,507,540

General Revenues and Transfers:

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

Governmental Activities	Business-Type Activities	Total
\$ (2,571,884)	\$ -	\$ (2,571,884)
(501,277)	-	(501,277)
(179,370)	-	(179,370)
(3,252,531)	-	(3,252,531)
-	46,988	46,988
-	(824,618)	(824,618)
-	(777,630)	(777,630)
(3,252,531)	(777,630)	(4,030,161)
5,397,897	104,095	5,501,992
8,945	45,335	54,280
(2,600,000)	2,600,000	-
2,806,842	2,749,430	5,556,272
(445,689)	1,971,800	1,526,111
19,316,801	27,762,970	47,079,771
\$ 18,871,112	\$ 29,734,770	\$ 48,605,882

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FUND FINANCIAL STATEMENTS

GASB Statement No. 34 revised the format of the fund financial statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types. The practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

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, 2009

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash	\$ 911	\$ -	\$ 911
Restricted cash	3,218	-	3,218
Receivables:			
Accounts	106,107	-	106,107
Taxes	1,072,792	-	1,072,792
Grants	220,375	-	220,375
Other	-	2,583	2,583
Prepaid items and other assets	58,524	-	58,524
Total assets	\$ 1,461,927	\$ 2,583	\$ 1,464,510
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 127,844	\$ -	\$ 127,844
Accrued payroll and benefits payable	25,469	-	25,469
Employee medical reimbursement payable	3,218	-	3,218
Deposits payable	10,585	-	10,585
Other liabilities	3,383	-	3,383
Due to other funds	86,528	2,583	89,111
Unearned revenue	330,998	-	330,998
Total liabilities	588,025	2,583	590,608
Fund Balances:			
Unreserved, designated reported in:			
General Fund:			
Long-term capital replacement	50,000	-	50,000
Unreserved and undesignated:			
General Fund	823,902	-	823,902
Total fund balances	873,902	-	873,902
Total liabilities and fund balances	\$ 1,461,927	\$ 2,583	\$ 1,464,510

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
December 31, 2009

Total Fund Balances - Governmental Funds \$ 873,902

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	2,533,611
Depreciable, net	<u>20,911,111</u>
Total capital assets, net	<u>23,444,722</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>(45,234)</u>
--	-----------------

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	(126,667)
Long-term debt - due within one year	(612,652)
Long-term debt - due in more than one year	<u>(4,662,959)</u>
Total long-term liabilities	<u>(5,402,278)</u>

Total Net Assets of Governmental Activities \$ 18,871,112

Tahoe City Public Utility District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2009

	General	Debt Service	Total Governmental Funds
REVENUES:			
Fees	\$ 471,928	\$ -	\$ 471,928
Property taxes	4,622,337	775,560	5,397,897
Interest	8,945	-	8,945
Grants	395,497	-	395,497
Other	31,666	-	31,666
Total revenues	5,530,373	775,560	6,305,933
EXPENDITURES:			
Current:			
Public works - Parks	1,823,687	-	1,823,687
Recreation	740,912	-	740,912
Other operating	67,423	-	67,423
Capital outlay	270,516	-	270,516
Debt service:			
Principal	-	591,685	591,685
Interest and fiscal charges	-	183,875	183,875
Total expenditures	2,902,538	775,560	3,678,098
REVENUES OVER (UNDER) EXPENDITURES	2,627,835	-	2,627,835
OTHER FINANCING SOURCES (USES):			
Transfers out to other funds	(2,600,000)	-	(2,600,000)
Total other financing sources (uses)	(2,600,000)	-	(2,600,000)
Net change in fund balances	27,835	-	27,835
FUND BALANCES:			
Beginning of year	846,067	-	846,067
End of year	\$ 873,902	\$ -	\$ 873,902

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, 2009

Net Change in Fund Balances - Governmental Funds \$ 27,835

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. 270,516

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. (1,324,990)

Payment for vacation used was an expenditure in the governmental funds, but earned, unused vacation is a liability in the Government-Wide Statement of Net Assets. (15,240)

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. 591,685

Accrued interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, accrued interest expense was not reported as expenditures in the governmental funds. 4,505

Change in Net Assets of Governmental Activities \$ (445,689)

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PROPRIETARY FUND

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, 2009

ASSETS	Water and Sewer Fund
Current assets:	
Cash and investments	\$ 4,355,819
Receivables:	
Accounts	159,937
Grants	34,548
Interest	4,919
Other	50,565
Due from other funds	89,111
Prepaid items and other assets	105,276
Total current assets	4,800,175
Noncurrent assets:	
Restricted cash and investments	65,000
Facility improvement receivables	56,742
Other postemployment benefits, net	288,366
Capital assets:	
Non-depreciable assets	3,124,407
Depreciable assets, net	22,576,815
Total capital assets, net	25,701,222
Total noncurrent assets	26,111,330
Total assets	30,911,505
LIABILITIES	
Current liabilities:	
Accounts payable	153,789
Accrued payroll and benefits payable	143,764
Deposits payable	111,425
Other liabilities	19,278
Unearned revenue	86,928
Compensated absences	136,683
Long-term debt	115,547
Total current liabilities	767,414
Noncurrent liabilities:	
Long-term debt	409,321
Total noncurrent liabilities	409,321
Total liabilities	1,176,735
NET ASSETS	
Invested in capital assets, net of related debt	25,176,354
Restricted for:	
Guarantees of permit performance	65,000
Unrestricted:	
Designated for:	
Long-term capital replacement	2,212,951
Property tax reserve - water	1,087,049
Cash flow requirements	250,000
Emergencies	750,000
Undesignated	193,416
Total net assets	\$ 29,734,770

See accompanying Notes to Basic Financial Statements.

Tahoe City Public Utility District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the year ended December 31, 2009

	Water and Sewer Fund
OPERATING REVENUES:	
Service and inspection fees	\$ 5,300,599
Connection fees	53,825
Penalties and discounts	36,785
Other	73,705
Total operating revenues	5,464,914
OPERATING EXPENSES:	
Personnel	2,707,271
Operations	2,231,484
Depreciation	1,414,658
Flood expense - FEMA, net	(6,283)
Total operating expenses	6,347,130
OPERATING INCOME (LOSS)	(882,216)
NONOPERATING REVENUES (EXPENSES):	
Property taxes	104,095
Interest income	45,335
Grant revenue	77,609
Proceeds from sales of capital assets	7,350
Other revenue - contributed revenue property	58,576
Interest expense	(38,949)
Total nonoperating revenues (expenses)	254,016
INCOME (LOSS) BEFORE TRANSFERS	(628,200)
OPERATING TRANSFERS:	
Transfers in from other funds	2,600,000
Total operating transfers	2,600,000
Change in net assets	1,971,800
NET ASSETS:	
Beginning of year	27,762,970
End of year	\$ 29,734,770

See accompanying Notes to Basic Financial Statements.

Tahoe City Public Utility District
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2009

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 5,337,397
Payments to suppliers	(2,207,794)
Payments to employees	(3,058,113)
Internal activity - receipts from other funds	2,458,579
Other receipts	51,186
Net cash provided (used) by operating activities	2,581,255
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	104,095
Net cash provided by noncapital financing activities	104,095
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,244,924)
Proceeds from sales of capital assets	7,350
Grants received	77,609
Capital contribution	58,576
Principal payments on long-term debt	(171,525)
Interest paid on long-term debt	(38,949)
Net cash provided (used) by capital and related financing activities	(1,311,863)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest receivable	3,890
Investment income	45,335
Net cash provided by investing activities	49,225
Net increase (decrease) in cash and cash equivalents	1,422,712
CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS:	
Beginning of year	2,998,107
End of year	<u>\$ 4,420,819</u>
CASH AND INVESTMENTS:	
Cash and investments	\$ 4,355,819
Restricted cash and investments	65,000
Total cash and investments	\$ 4,420,819
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (882,216)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,414,658
Transfers in	2,600,000
Changes in assets and liabilities:	
Accounts receivable	(17,027)
Grants receivable	(34,548)
Other receivable	18,925
Facilities improvement receivables	(56,742)
Due from/to other funds	(141,421)
Prepaid items and other assets	(11,670)
Accounts payable	23,690
Accrued payroll and benefits	(47,648)
Deposits payable	8,481
Other liabilities	10,240
Unearned revenue	(273)
Other post employment benefits, net	(288,366)
Compensated absences	(14,828)
Net cash provided (used) by operating activities	\$ 2,581,255

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Tahoe City Public Utility District
Notes to Basic Financial Statements
For the year ended December 31, 2009

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 reported as 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 activity in fiscal year 2009.

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. Fiduciary Activities of the District are not included in these statements.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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.

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. The District applies all applicable FASB Statements and Interpretations issued after November 30, 1989 except those that conflict with or contradict GASB pronouncements.

Governmental Fund 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, 2009

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.

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 all proprietary funds.

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 presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the 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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, outside services, materials and transportation, and employee fringe benefits. 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:

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

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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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. The District had no deferred revenues that were deferred due to unavailability of funds.

H. 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 shown 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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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

Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund equity be segregated, or identify the portion of the fund equity not available for future expenditures.

Designations of fund balances of the governmental funds and net assets of the enterprise fund represent tentative management plans that are subject to change.

L. Use of Restricted/Unrestricted Net Assets

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. 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.

N. New Pronouncements

In 2009, the District adopted new accounting standards in order to conform to the following GASB Statements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pension Plans* – This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investment by Endowments* – This Statement establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* – The Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature.
- GASB Statement No. 56, *Codification of Accounting* – This Statement incorporates accounting and financial guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments.

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. Investments are carried at fair value.

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 liquid assets for purposes of measuring cash flows.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits

The carrying amounts of the District's cash deposits were \$329,886 at December 31, 2009. Bank balances before reconciling items were \$431,806, 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.

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's investments are carried at fair value as required by generally accepted accounting principles of the United States. The District adjusts the carrying value of its investments to reflect their fair market value at each fiscal year-end, and it includes the effects of these adjustments in investment income for that fiscal year.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

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, 2009, 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, 2009, the District had \$4,026,844 invested in LAIF, which had invested 8.17% of the pool investment funds in Structured Notes and Asset-Backed Securities. At December 31, 2009, the LAIF balance was recorded at amortized cost, which approximates the fair market value.

C. Summary of Cash & Investments

The following is a summary of cash and investments at December 31, 2009:

	Government-Wide Statement of Net Assets		
	Governmental Activities	Business-Type Activities	Total
Cash and investments	\$ 911	\$ 4,355,819	\$ 4,356,730
Restricted cash and investments	3,218	65,000	68,218
Total cash and investments	<u>\$ 4,129</u>	<u>\$ 4,420,819</u>	<u>\$ 4,424,948</u>

Cash and investments:	
Cash deposits	\$ 329,886
Investments (Local Agency Investment Fund)	4,026,844
Restricted cash and investments	68,218
Total cash and investments	<u>\$ 4,424,948</u>

D. Risks

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, 2009, the total amount of the District's investments and restricted investments was deposited with LAIF 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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

Credit Risk. At December 31, 2009, the District's investments which were invested in LAIF were not rated. The fair value of the District position in LAIF 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 \$68,218. Of this amount, \$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 \$3,218, was in the District's Section 125 medical reimbursement account which is restricted for the sole use of the District's employees.

3. INTERFUND TRANSACTIONS

A. Due to/due from other funds

Short term interfund loans between funds at December 31, 2009 were as follows:

		Due from other funds	
		Water and Sewer Enterprise Fund	
Due to other funds	General Fund	\$	86,528
	Debt Service Fund		2,583
	Total	\$	89,111

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

3. INTERFUND TRANSACTIONS, Continued

B. Transfers In and Out

		Transfer in from other funds
		Water and Sewer Enterprise Fund
Transfer out to other funds	General Fund	2,600,000
	Total	\$ 2,600,000

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

4. CAPITAL ASSETS

A. Government-Wide Financial Statements

At December 31, 2009, the District's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Land	\$ 1,671,381	\$ -	\$ 1,671,381
Construction in progress	862,230	3,124,407	3,986,637
Total non-depreciable assets	<u>2,533,611</u>	<u>3,124,407</u>	<u>5,658,018</u>
Depreciable assets:			
Water and sewer plant	-	54,445,001	54,445,001
Recreational facilities	30,352,333	-	30,352,333
Office building and equipment	3,359,492	2,278,163	5,637,655
Vehicles	403,743	1,279,525	1,683,268
Total depreciable assets	<u>34,115,568</u>	<u>58,002,689</u>	<u>92,118,257</u>
Less accumulated depreciation:			
Water and sewer plant	-	(33,059,721)	(33,059,721)
Recreational facilities	(11,489,762)	-	(11,489,762)
Office building and equipment	(1,493,063)	(1,791,879)	(3,284,942)
Vehicles	(221,632)	(574,274)	(795,906)
Total accumulated depreciation	<u>(13,204,457)</u>	<u>(35,425,874)</u>	<u>(48,630,331)</u>
Net depreciable assets	<u>20,911,111</u>	<u>22,576,815</u>	<u>43,487,926</u>
Total capital assets, net	<u>\$ 23,444,722</u>	<u>\$ 25,701,222</u>	<u>\$ 49,145,944</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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, 2009	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2009
Capital assets, not being depreciated:					
Land	\$ 1,671,381	\$ -	\$ -	\$ -	\$ 1,671,381
Construction in progress	680,943	181,287	-	-	862,230
Total capital assets, not being depreciated	<u>2,352,324</u>	<u>181,287</u>	<u>-</u>	<u>-</u>	<u>2,533,611</u>
Capital assets, being depreciated:					
Recreational facilities	30,352,333	-	-	-	30,352,333
Office building and equipment	3,310,845	48,647	-	-	3,359,492
Vehicles	363,161	40,582	-	-	403,743
Total capital assets, being depreciated	<u>34,026,339</u>	<u>89,229</u>	<u>-</u>	<u>-</u>	<u>34,115,568</u>
Less accumulated depreciation for:					
Recreational facilities	(10,293,058)	(1,196,704)	-	-	(11,489,762)
Office building and equipment	(1,387,548)	(105,515)	-	-	(1,493,063)
Vehicles	(198,861)	(22,771)	-	-	(221,632)
Total accumulated depreciation	<u>(11,879,467)</u>	<u>(1,324,990)</u>	<u>-</u>	<u>-</u>	<u>(13,204,457)</u>
Net capital assets being depreciated	<u>22,146,872</u>	<u>(1,235,761)</u>	<u>-</u>	<u>-</u>	<u>20,911,111</u>
Governmental activities capital assets, net	<u>\$ 24,499,196</u>	<u>\$ (1,054,474)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,444,722</u>

Depreciation expense for capital assets during the year ended December 31, 2009 was charged to the different activities as follows:

Public works - parks	\$ 1,273,114
Recreation	<u>51,876</u>
Total	<u>\$ 1,324,990</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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, 2009	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2009
Capital assets, not being depreciated:					
Construction in progress	\$ 2,172,176	\$ 1,111,278	\$ -	\$ (159,047)	\$ 3,124,407
Total capital assets, not being depreciated	<u>2,172,176</u>	<u>1,111,278</u>	<u>-</u>	<u>(159,047)</u>	<u>3,124,407</u>
Capital assets, being depreciated:					
Water and sewer plant	54,233,450	52,504	-	159,047	54,445,001
Equipment	2,199,191	78,972	-	-	2,278,163
Vehicles	1,320,798	2,170	(43,443)	-	1,279,525
Total capital assets, being depreciated	<u>57,753,439</u>	<u>133,646</u>	<u>(43,443)</u>	<u>159,047</u>	<u>58,002,689</u>
Less accumulated depreciation for:					
Water and sewer plant	(31,816,206)	(1,243,515)	-	-	(33,059,721)
Equipment	(1,724,923)	(66,956)	-	-	(1,791,879)
Vehicles	(513,530)	(104,187)	43,443	-	(574,274)
Total accumulated depreciation	<u>(34,054,659)</u>	<u>(1,414,658)</u>	<u>43,443</u>	<u>-</u>	<u>(35,425,874)</u>
Net capital assets being depreciated	<u>23,698,780</u>	<u>(1,281,012)</u>	<u>-</u>	<u>159,047</u>	<u>22,576,815</u>
Business-type activities capital assets, net	<u>\$ 25,870,956</u>	<u>\$ (169,734)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,701,222</u>

Depreciation expense for capital assets for December 31, 2009 was charged to the different activities as follows:

Water	\$ 672,869
Sewer	<u>741,789</u>
Total	<u>\$ 1,414,658</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

5. UNEARNED REVENUE

Government-Wide Financial Statements

At December 31, 2009, there were no differences between unearned revenues in the Government-Wide Financial Statements and the Fund Financial Statements. All amounts represent revenues that had not yet been earned, as follows:

	Governmental Activities		Total Governmental Activities	Business-Type Activities	Total
	Governmental Funds			Enterprise Fund	
	General Fund	Debt Service Fund		Water Sewer Fund	
Property tax revenue	\$ 203,263	\$ -	\$ 203,263	\$ -	\$ 203,263
Portable stage repairs	741	-	741	-	741
Homewood bike trail grant	126,994	-	126,994	-	126,994
Water system studies grant	-	-	-	49,000	49,000
Rubicon water system debt collections	-	-	-	24,708	24,708
Water system debt collections	-	-	-	13,220	13,220
Total	\$ 330,998	\$ -	\$ 330,998	\$ 86,928	\$ 417,926

6. LONG TERM DEBT

The following is a summary of long-term debt transactions for the year ended December 31, 2009:

	Maturity Date	Interest Rate	Balance January 1, 2009	Additions	Retirements	Balance December 31, 2009	Current Portion	Due in More than One Year
Governmental Activities								
Sidewalk Improvement Bonds	2019	6.02%	\$ 137,644	\$ -	\$ (12,513)	\$ 125,131	\$ 12,513	\$ 112,618
Bank of America Loan - 2003	2013	3.58%	1,202,533	-	(250,888)	951,645	259,948	691,697
Bank of America Loan - 2004	2014	4.50%	362,664	-	(59,512)	303,152	62,221	240,931
Zions Bank Loan	2017	4.30%	1,836,073	-	(171,049)	1,665,024	178,485	1,486,539
State Water Resources Control Board	2028	1.80%	2,328,382	-	(97,723)	2,230,659	99,485	2,131,174
Total Governmental activities			\$ 5,867,296	\$ -	\$ (591,685)	\$ 5,275,611	\$ 612,652	\$ 4,662,959
Business-Type Activities								
2001 Refunding Bonds								
Series A	2011	5.75%	\$ 57,034	\$ -	\$ (21,848)	\$ 35,186	\$ 23,123	12,063
Series B	2010	5.75%	187,319	-	(123,102)	64,217	64,217	-
Series C	2021	6.05%	452,040	-	(26,575)	425,465	28,207	397,258
Total Business-type activities			\$ 696,393	\$ -	\$ (171,525)	\$ 524,868	\$ 115,547	\$ 409,321

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

6. LONG TERM DEBT, Continued

Future principal and interest payments on all long-term debt were as follows at December 31, 2009:

For the Year Ending 12/31	Governmental Activities			
	Sidewalk Improvement Bonds		Bank of America Loans	
	Principal	Interest	Principal	Interest
2010	\$ 12,513	\$ 7,527	\$ 322,169	\$ 44,713
2011	12,513	6,774	334,390	32,491
2012	12,513	6,021	347,080	19,803
2013	12,513	5,269	214,398	6,628
2014	12,513	4,516	36,760	827
2015-2019	62,566	11,290	-	-
	<u>\$ 125,131</u>	<u>\$ 41,397</u>	<u>\$ 1,254,797</u>	<u>\$ 104,462</u>

For the Year Ending 12/31	Governmental Activities			
	Zions Bank Loan		State Water Resources Control Board	
	Principal	Interest	Principal	Interest
2010	\$ 178,485	\$ 69,698	\$ 99,485	\$ 40,219
2011	186,242	61,940	101,278	38,425
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
2015-2019	691,582	52,965	563,883	134,634
2020-2024	-	-	616,584	81,934
2025-2028	-	-	534,506	24,308
	<u>\$ 1,665,024</u>	<u>\$ 320,434</u>	<u>\$ 2,230,659</u>	<u>\$ 423,707</u>

For the Year Ending 12/31	Business-Type Activities	
	2001 Refunding Bonds	
	Principal	Interest
2010	\$ 115,547	\$ 28,861
2011	42,001	23,935
2012	31,778	21,749
2013	33,730	19,798
2014	35,801	17,726
2015-2019	214,816	52,821
2020-2021	51,195	2,334
	<u>\$ 524,868</u>	<u>\$ 167,224</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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 2009 General Property Tax Pledged
Governmental Activities		
Bank of America Loan - 2003	\$ 291,712	5.4%
Bank of America Loan - 2004	75,170	1.4%
Zions Bank Loan	248,182	4.6%
State Water Resources Control Board	139,703	2.6%
Unpledged General Property Tax Revenues	4,643,130	86.0%
Total 2009 General Property Tax Revenues	<u>\$ 5,397,897</u>	<u>100.0%</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

7. PLEDGES OF FUTURE REVENUES, Continued

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

The Series B 2001 Refunding Bonds are 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, 2009 were as follows:

	Balance January 1, 2009	Additions	Retirements	Balance December 31, 2009	Due within One Year
Governmental Activities	\$ 111,427	\$ 130,483	\$ (115,243)	\$ 126,667	\$ 126,667
Business-Type Activities	151,511	146,623	(161,451)	136,683	136,683
Total	\$ 262,938	\$ 277,106	\$ (276,694)	\$ 263,350	\$ 263,350

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

The following reservations and designations were recorded in the fund financial statements:

Designated for long-term capital replacement of \$2,212,951 in the Water and Sewer Fund and \$50,000 in the General Fund is for the replacement of sewer and water, and parks capital assets.

In 2009 the Board of Directors designated a new Property tax reserve – water, of \$1,087,049 to recognize the share of non-District water customers’ property tax transferred to fund water capital and reserves.

Designated for cash flow requirements of \$250,000 is to fund seasonal working capital needs.

Designated for emergencies of \$750,000 is to provide liquidity for the District to deal with an emergency such as a natural disaster, major equipment failure, or uninsured adverse litigation outcome.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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 pays the employee contribution which totaled \$254,174 for fiscal year 2009. The District is also required to contribute at an actuarially determined rate; the current rate is 20.702% of annual covered compensation for miscellaneous employees. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Costs. The District's annual pension cost of \$673,081 was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2007 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 3.25% 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, 2007 was 17 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
2007	\$ 667,307	100.0%	\$ -
2008	669,639	100.0%	-
2009	673,081	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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pension*, on January 1, 2009.

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 \$598.23 for a retiree with 2 or more dependents, \$468.15 for a retiree with 1 dependent, and \$234.09 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 are currently scheduled to receive fractions of the monthly maximums for medical premiums described above based on years of service. During 2009, the District paid \$107,033 toward retiree medical premiums and \$17,885 for retiree dental and vision claims, which amounted to \$124,918, as contributions to OPEB. TCPUD also placed \$400,000 into the California Employers' Retiree Benefit Trust, to be applied towards the OPEB obligation. This provided \$524,918 as total contributions in 2009.

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). 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	\$ 227,862
Interest adjustment	8,690
Annual OPEB expense	<u>\$ 236,552</u>
Contribution made	<u>524,918</u>
Increase in net OPEB asset	\$ 288,366
Net OPEB Asset - beginning of year	-
Net OPEB Asset - end of year	<u><u>\$ 288,366</u></u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

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 year ended December 31, 2009 are as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset</u>
2009	\$ 236,552	222%	\$ 288,366

Funded Status and Funding Progress - As of December 31, 2009, the actuarial accrued liability for benefits was \$2,205,084, of which \$407,672 was funded in the California Employers' Retiree Benefit Trust. The covered payroll (annual payroll of active employees covered by the plan) was \$3,103,064, and the ratio of the unfunded actuarial liability to the covered payroll was 58%.

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. In future years the schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, will present 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.

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 market value at December 31, 2009. The discount rate used is 4.5% if unfunded and 7.75% if funded. 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 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, 2009 was 29 years.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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, 2009</u>
Total assets	\$ 124,067,027
Total liabilities	83,993,363
Total net assets	40,073,664
Total operating revenues	21,082,354
Total operating expenses	25,663,970

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.

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 2009, 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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

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 no contracts for construction with remaining commitments at December 31, 2009.

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 27 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 came up with 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 laws will be broken.

For fiscal year 2009, 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>
Lakeside Trail Final Design	\$ 236,187
Highlands XC Community Center	5,002
WCB Floating Docks Permits	517
Blackwood Creek PS Flood Protection	1,008
Lower Tahoe Tavern Heights Distribution	74,723
Lake Forest Water Improvement District	35,309
Grove St Pump Station Relocation	2,916
Total	<u><u>\$ 355,662</u></u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2009

16. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$406,526.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds (Prop 1A Bonds) to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The District participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

**REQUIRED
SUPPLEMENTARY INFORMATION**

**Tahoe City Public Utility District
Required Supplementary Information
For the year ended December 31, 2009**

1. BUDGETS AND BUDGETARY ACCOUNTING

By State law, the District's governing board must adopt a budget prior to the beginning of each fiscal year. A public hearing must be conducted to receive comments prior to adoption.

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 major object account.

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, 2009

2. BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fees	\$ 468,106	\$ 468,106	\$ 471,928	\$ 3,822
Property taxes	4,521,163	4,521,163	4,622,337	101,174
Interest	10,000	10,000	8,945	(1,055)
Grants	4,063,109	4,063,109	395,497	(3,667,612)
Other	40,943	40,943	31,666	(9,277)
Total revenues	9,103,321	9,103,321	5,530,373	(3,572,948)
EXPENDITURES:				
Current:				
Public works - Parks	1,875,488	1,875,488	1,823,687	51,801
Recreation	814,761	814,761	740,912	73,849
Other operating	65,000	65,000	67,423	(2,423)
Capital outlay	3,921,500	3,921,500	270,516	3,650,984
Total expenditures	6,676,749	6,676,749	2,902,538	3,774,211
REVENUES OVER (UNDER) EXPENDITURES	2,426,572	2,426,572	2,627,835	201,263
OTHER FINANCING SOURCES (USES):				
Proceeds from sales of assets	1,000	1,000	-	(1,000)
Issuance of long-term debt	-	-	-	-
Transfers out to other funds	(1,500,000)	(1,500,000)	(2,600,000)	(1,100,000)
Total other financing sources (uses)	(1,499,000)	(1,499,000)	(2,600,000)	(1,101,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ 927,572	\$ 927,572	27,835	\$ (899,737)
FUND BALANCES:				
Beginning of year			846,067	
End of year			<u>\$ 873,902</u>	

3. DEFINED PENSION PLAN

The District retirement plan for miscellaneous employees is 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 for the schedule of the funding progress for the District's miscellaneous employees is no longer available nor disclosed.

Tahoe City Public Utility District
Required Supplementary Information, Continued
For the year ended December 31, 2009

4. RETIREE HEALTH PLAN

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 one year of the three years of information normally presented is 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%

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

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

We have audited the basic financial statements of the Tahoe City Public Utility District (District), as of and for the year ended December 31, 2009, and have issued our report thereon dated April 23, 2010. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors of the District, others within the District, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Irvine, California
April 23, 2010