

Tahoe City Public Utility District

Tahoe City, California

Basic Financial Statements

For the year ended December 31, 2010

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

Tahoe City Public Utility District
Basic Financial Statements
For the year ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Tahoe City Public Utility District (District), as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund of the District as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 55 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
May 11, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Tahoe City Public Utility District (TCPUD or District) provides sewer collection and transportation service to 7,504 customers and water production and distribution service to 3,980 customers on the western side of Lake Tahoe. The District also operates and maintains 19 miles of bike trails, numerous parks, beaches, fields, a boat launching facility, campground, and the Tahoe City downtown sidewalks. In addition, the TCPUD sponsors numerous recreation programs, operates the Rideout community center 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, 2010. Please read it in conjunction with the TCPUD's financial statements, which follow this section.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Total TCPUD debt decreased to \$5.1 million at December 31, 2010 by tightly controlling operating expenses and capital expenditures.
- The District has total reserves at December 31, 2010 of \$5,850,000, consisting of \$3,287,347 for long-term capital replacement, \$1,562,653 for the property tax reserve - water, \$750,000 for emergencies, and \$250,000 for annual cash flow fluctuation requirements.
- The TCPUD has a total balance of \$560,694 in the California Employers' Retiree Benefit Trust at December 31, 2010 to partially fund other post-employment benefits.
- During 2010 the District received over \$500,000 of Federal grants to improve its water system infrastructure for improved firefighting support.

OPERATIONAL HIGHLIGHTS

- The District initiated water usage billing to approximately 1,100 condominium units early in 2010 to fulfill a state mandate.
- Working with the local Fire Protection Districts and paid for primarily with grant funding, the TCPUD treated an additional 25 acres of its properties to reduce forest fuels and the threat of catastrophic fire.
- The District started construction of phase 7 of the Lakeside Trail through downtown Tahoe City with completion scheduled during 2011.
- In conjunction with the Tahoe Regional Planning Agency and Tahoe Resource Conservation District, the TCPUD continued a Quagga Mussel (invasive species) 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 accounting pronouncements are the inclusion of a Management’s Discussion and Analysis section, consolidated, accrual-based Statements of Net Assets and Activities, and reconciliations of these presentations to the traditional fund accounting statements the District continues to prepare. An explanation of each of the statements and the information they report follows.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the District’s consolidated assets, liabilities and the difference between them, known as net assets, at December 31, 2010. 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 2010 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 Funds Balance Sheet and the Governmental Activities in the Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds and the Governmental Activities in the Statement of Activities are presented to highlight differences between the two accounting methodologies used.

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

FINANCIAL ANALYSIS

NET ASSETS

The following table summarizes the TCPUD's net assets as of December 31, 2010 and December 31, 2009.

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Cash and investments	\$ 819	\$ 911	\$ 4,980,029	\$ 4,355,819	\$ 4,980,848	\$ 4,356,730
Cash and investments - restricted	51	3,218	-0-	-0-	51	3,218
Receivables	1,855,599	1,401,857	626,010	249,969	2,481,609	1,651,826
Other current assets	(64,658)	(30,587)	187,017	194,387	122,359	163,800
Total current assets	1,791,811	1,375,399	5,793,056	4,800,175	7,584,867	6,175,574
Investments - restricted	-0-	-0-	65,000	65,000	65,000	65,000
Facility upgrade receivables	-0-	-0-	54,645	56,742	54,645	56,742
Other postemployment benefits, net	-0-	-0-	306,507	288,366	306,507	288,366
Net capital assets	23,473,282	23,444,722	27,326,790	25,701,222	50,800,072	49,145,944
Total assets	25,265,093	24,820,121	33,545,998	30,911,505	58,811,091	55,731,626
Liabilities:						
Payables and accruals	459,474	342,400	667,826	564,939	1,127,300	907,339
Unearned revenue	210,187	254,004	68,506	86,928	278,693	340,932
Long-term debt - current	634,423	612,652	42,002	115,547	676,425	728,199
Total current liabilities	1,304,084	1,209,056	778,334	767,414	2,082,418	1,976,470
Unearned revenue	-0-	76,994	-0-	-0-	-0-	76,994
Long-term debt - noncurrent	4,028,536	4,662,959	367,318	409,321	4,395,854	5,072,280
Total liabilities	5,332,620	5,949,009	1,145,652	1,176,735	6,478,272	7,125,744
Net assets:						
Invested in capital assets, net of debt	18,810,323	18,169,111	26,917,470	25,176,354	45,727,793	43,345,465
Restricted	-0-	-0-	65,000	65,000	65,000	65,000
Unrestricted	1,122,150	702,001	5,417,876	4,493,416	6,540,026	5,195,417
Total net assets	\$ 19,932,473	\$ 18,871,112	\$ 32,400,346	\$ 29,734,770	\$ 52,332,819	\$ 48,605,882

The TCPUD's total net assets increased from \$48,605,882 at December 31, 2009 to \$52,332,819 at December 31, 2010. The total increase of \$3,726,937 consists of a \$2,382,328 increase in Invested in capital assets, net of debt, and a \$1,344,609 increase in unrestricted net assets. Total invested in capital assets, net of debt jumped due to significant water infrastructure capital projects to improve fire protection and a \$728,200 decrease in outstanding debt. Receivables increased \$829,783 primarily due to higher grant receivables for the Lakeside Trail and fire protection grants, partially offset by lower property tax receivables since 2009 included receivables from the California Communities Proposition 1A financing. By increasing capital grants and water and sewer rates while tightly controlling operating expenses and capital expenditures, the District was able to reduce debt while increasing cash and investments. These changes resulted in an increase in unrestricted net assets which has been designated by the Board of Directors to fund increased water, parks and sewer capital projects in 2011 and later years.

ACTIVITIES

The following table summarizes the TCPUD's Statement of Activities information for the years ended December 31, 2010 and December 31, 2009.

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Expenses:						
Direct expenses	\$ 3,496,118	\$ 3,617,796	\$ 5,206,329	\$ 5,175,953	\$ 8,702,447	\$ 8,793,749
Indirect expenses	639,589	533,826	1,215,621	1,210,126	1,855,210	1,743,952
Total expenses	4,135,707	4,151,622	6,421,950	6,386,079	10,557,657	10,537,701
Program Revenues:						
Charges for services	467,704	471,928	6,443,276	5,472,264	6,910,980	5,944,192
Operating grants and contributions	297,996	366,644	61,218	-0-	359,214	366,644
Capital grants and contributions	1,157,357	60,519	541,489	136,185	1,698,846	196,704
Total program revenues	1,923,057	899,091	7,045,983	5,608,449	8,969,040	6,507,540
Net revenue (expense)	(2,212,650)	(3,252,531)	624,033	(777,630)	(1,588,617)	(4,030,161)
General Revenues:						
Property taxes	5,217,858	5,397,897	64,457	104,095	5,282,315	5,501,992
Investment earnings	6,153	8,945	27,086	45,335	33,239	54,280
Transfers	(1,950,000)	(2,600,000)	1,950,000	2,600,000	-0-	-0-
Total general revenues and transfers	3,274,011	2,806,842	2,041,543	2,749,430	5,315,554	5,556,272
Change in net assets	\$ 1,061,361	\$ (445,689)	\$ 2,665,576	\$ 1,971,800	\$ 3,726,937	\$ 1,526,111

Governmental Activities direct expenses decreased \$121,678 as the number of acres treated for fire fuels reductions at park properties (a large portion of which was funded by operating grants which also decreased) was much lower than 2009. Indirect expenses increased in 2010 to retain a Federal lobbyist for one year and to re-establish a dedicated human resources position during the year. Charges for services increased as the District implemented the second year of a five year plan to raise water and sewer rates to fund a higher level of future capital projects in these areas. Capital grants and contributions increased \$1,502,142 due to the start of construction on Lakeside Trail Phase 7 and new Federal grants to improve water infrastructure for enhanced firefighting support.

Property tax revenue decreased \$219,677 due to less real estate transactions and property appreciation, leading to lower assessed values, lower collections in Business-type Activities since debt with a specific approved tax was paid off, and reduced pass-through revenue from the redevelopment agency. Investment earnings decreased due to significantly lower interest rates in 2010. The TCPUD made significant transfers during 2010 and 2009 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 fund statement variances have been explained with the preceding analysis of the Statements of Net Assets and Activities.

BUDGET COMPARISON

Parks and recreation fees were \$112,865 below budget due to an extended winter which significantly reduced spring fees at the boat ramp and campground and the poor economy which resulted in lower than budgeted fees in recreation classes, youth programs and sports programs. Property tax revenues were \$154,434 below budget on lower assessed values and a reduction in pass-through revenue from the redevelopment agency. Capital grant revenue was \$606,292 less than budget, because the capital outlays on Lakeside Trail needed to earn the grant revenue were delayed compared to an aggressive budget plan. Public works - Parks expenses were \$199,508 below budget, primarily due to less spending for repairs and maintenance, lower utilities as the District gains experience in budgeting for the Rideout Community Center, and a lower governance and support services allocation. Recreation expenditures were \$41,550 below budget as staffing changes led to lower benefits expense, reduced class sign-ups resulted in lower instructor payments, and the governance and support services allocation was lower. The District transferred \$1,950,000 to the Proprietary water and sewer fund during 2010 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.

Beginning in 2005 the District was able to fund an increased level of water and sewer capital projects including a new Highlands water tank, a new Harbor Master sewer pump station, the installation of residential water meters, and a number of water line replacements. During this period it became apparent to the TCPUD that a more significant level of water and sewer capital projects would be necessary going forward to meet ever more stringent regulatory requirements and maintain service levels. This led the Board of Directors to raise water and sewer rates to fund larger capital budgets in future years.

The following table presents the TCPUD's more significant capital additions during 2010 and 2009.

	Additions to Capital Assets	
	2010	2009
Governmental Activities		
Lakeside Trail through Tahoe City	\$ 927,764	\$ 172,987
Homewood Bike Trail	56,672	5,325
Boats for sailing program	15,410	25,681
Erosion control projects	13,619	2,045
Highlands Community Center restroom remodel	58,211	-0-
Playground equipment	64,912	400
Vehicles	44,753	40,582
Other projects	160,915	23,496
Total governmental activities	1,342,256	270,516
Business-type Activities		
McKinney Estates interconnection	104,271	2,533
Residential water meter installations	13,811	19,354
Condominium water meter installations	823	646,106
Tahoe Tavern booster & well rehabilitation	1,152,771	153,419
Lower Tahoe Tavern Heights improvements	717,207	90,481
Highlands fire hydrants	253,318	50,621
Silvertip Drive water line replacement	-0-	36,176
Lake Forest water acquisition & improvements	612,181	84,978
Back-up generator replacements	53,764	56,363
Vehicles & mobile equipment	52,387	51,533
Other projects	69,653	53,360
Total business-type activities	3,030,186	1,244,924
Total TCPUD	\$ 4,372,442	\$ 1,515,440

At December 31, 2010 the TCPUD utilized \$34,319,462 of gross, depreciable capital assets at historical cost, consisting primarily of recreational facilities, in its Governmental Activities, and \$60,236,645 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 \$450,000 in the General Fund and \$2,837,347 in the Proprietary Fund can only be considered a small down payment on eventual replacements and rehabilitations. The District anticipates that capital grants, especially for recreational facilities, may be available in the future for a portion of these replacement and rehabilitation needs. However, the 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 April 1, 2010 water and sewer rates equaled the noticed rates. The April 1, 2011 residential water base rate has been set at \$52/month versus a noticed rate of \$55/month due to capital grants received and reduced operating cost assumptions. Commercial water rates were softened in a similar manner, while all consumption based rates have been implemented as noticed at the time of the protest hearing. The April 1, 2011 residential sewer rates have been set at \$87.39/quarter versus an initially noticed rate of \$103.26/quarter with a similar reduction in commercial rates.

The 2011 TCPUD budget includes a 5 year capital plan with \$28 million of District funded capital including \$17 million for water projects and \$9 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, 2010, the TCPUD had total long-term debt outstanding of \$5.1 million. The \$.7 million decrease during the year resulted from making regularly scheduled principal payments with no new borrowing. Due to a strong cash position and relatively low capital grant activity during 2010, the District did not renew the Plumas Bank line of credit. The TCPUD does not currently anticipate opening this line of credit in 2011 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 new rate revenue and/or special assessments from these new water customers.

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

The TCPUD's share of unfunded pension liabilities increased sharply following the stock market collapse of 2008. While separate information is not available from CalPERS regarding the District's share of unfunded liabilities of the pension risk pool it participates in, the funded ratio of the entire pool declined from 85% at June 30, 2008 to 57.2% at June 30, 2009. The District has already negotiated for employees to contribute a larger share of required pension contributions and addressed the CalPERS investment committee regarding their portfolio allocation. The TCPUD is reviewing options to pay off its approximately \$2.3 million side fund liability which was established at the time the District's plan was rolled into a multi-agency risk pool and is in addition to the unfunded liabilities of the risk pool. The TCPUD is currently assessed interest on the \$2.3 million side fund liability at a rate of 7.75%, making it attractive to issue pension refunding bonds at a lower interest rate. The Board of Directors will be considering a variety of additional potential steps including a higher level of employee contributions and the introduction of a second tier plan with less generous benefits for new hires.

ECONOMIC FACTORS AND THE 2011 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 7.8% over the last 10 years. Under California property tax law, assessed value growth is capped at 2%, but when real estate is sold, it is assessed for the new owner based on the purchase price. The national and local residential real estate markets have definitely slowed, and the number of local real estate transactions has remained low during 2010 compared to prior years. The District has budgeted a decrease in general property tax revenue of 2.2% for 2011, following an actual decline of 3.3% in 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. In light of current economic conditions, the District continues to closely monitor all costs.

The District's 2011 budget was adopted by the Board of Directors on November 19, 2010. It contains net revenue increases from the 2010 budget of 7.6% for water operations, including a 4% growth in base residential rates and continued growth in the tiered water rates to encourage conservation. The 2011 budget includes a 10.9% increase in net revenue for sewer operations, including a 10% increase in sewer rates starting April 1, 2011. The TCPUD has decreased its actual operating expenses over the past 4 years. The 2011 budget includes a 2.2% increase in operating expense from the 2010 budget to fund additional engineering studies of the water and sewer systems. The 2011 budget includes \$3 million of District funded capital projects, including \$2.4 million for water and sewer projects. The TCPUD has budgeted to fund this capital program with internally generated funds.

SUMMARY

The TCPUD's overall financial health and flexibility have continued to improve during 2010. The District invested approximately \$3 million in water and sewer infrastructure capital projects, with an emphasis on water projects to improve firefighting support. 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. The District implemented the second year of these increases starting April 1, 2010.

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.

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, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 819	\$ 4,980,029	\$ 4,980,848
Restricted cash and investments	51	-	51
Receivables:			
Accounts	67,489	269,367	336,856
Interest	-	3,896	3,896
Taxes	623,423	-	623,423
Grants	1,159,701	298,829	1,458,530
Other	4,986	53,918	58,904
Short-term internal balances	(106,012)	106,012	-
Prepaid items and other assets	41,354	81,005	122,359
Total current assets	<u>1,791,811</u>	<u>5,793,056</u>	<u>7,584,867</u>
Noncurrent assets:			
Restricted cash and investments	-	65,000	65,000
Facility improvement receivables	-	54,645	54,645
Other postemployment benefits, net	-	306,507	306,507
Capital assets:			
Non-depreciable	3,546,622	3,860,590	7,407,212
Depreciable, net	19,926,660	23,466,200	43,392,860
Total capital assets, net	<u>23,473,282</u>	<u>27,326,790</u>	<u>50,800,072</u>
Total noncurrent assets	<u>23,473,282</u>	<u>27,752,942</u>	<u>51,226,224</u>
Total assets	<u>25,265,093</u>	<u>33,545,998</u>	<u>58,811,091</u>
LIABILITIES			
Current liabilities:			
Accounts payable	205,552	323,879	529,431
Accrued payroll and benefits payable	38,015	95,244	133,259
Employee medical reimbursement payable	1,715	-	1,715
Interest payable	40,562	-	40,562
Deposits payable	6,385	79,779	86,164
Other liabilities	6,447	23,629	30,076
Unearned revenue	210,187	68,506	278,693
Compensated absences-due within one year	160,798	145,295	306,093
Long-term debt-due within one year	634,423	42,002	676,425
Total current liabilities	<u>1,304,084</u>	<u>778,334</u>	<u>2,082,418</u>
Noncurrent liabilities:			
Long-term debt-due in more than one year	4,028,536	367,318	4,395,854
Total liabilities	<u>5,332,620</u>	<u>1,145,652</u>	<u>6,478,272</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>18,810,323</u>	<u>26,917,470</u>	<u>45,727,793</u>
Restricted for:			
Guarantee permit and payment performance	-	65,000	65,000
Total restricted	<u>-</u>	<u>65,000</u>	<u>65,000</u>
Unrestricted	<u>1,122,150</u>	<u>5,417,876</u>	<u>6,540,026</u>
Total net assets	<u>\$ 19,932,473</u>	<u>\$ 32,400,346</u>	<u>\$ 52,332,819</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, 2010

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	\$ 2,740,442	\$ 436,969	\$ 242,854	\$ 236,336	\$ 1,139,868	\$ 1,619,058
Recreation	598,192	202,620	224,850	61,660	17,489	303,999
Interest on long-term debt (unallocated)	157,484	-	-	-	-	-
Total governmental activities	3,496,118	639,589	467,704	297,996	1,157,357	1,923,057
Business-type activities:						
Water	2,734,394	626,457	3,569,139	44,643	541,489	4,155,271
Sewer	2,471,935	589,164	2,874,137	16,575	-	2,890,712
Total business-type activities	5,206,329	1,215,621	6,443,276	61,218	541,489	7,045,983
Total primary government	\$ 8,702,447	\$ 1,855,210	\$ 6,910,980	\$ 359,214	\$ 1,698,846	\$ 8,969,040

General Revenues:

Property taxes

Investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,558,353)	\$ -	\$ (1,558,353)
(496,813)	-	(496,813)
(157,484)	-	(157,484)
(2,212,650)	-	(2,212,650)
-	794,420	794,420
-	(170,387)	(170,387)
-	624,033	624,033
(2,212,650)	624,033	(1,588,617)
5,217,858	64,457	5,282,315
6,153	27,086	33,239
(1,950,000)	1,950,000	-
3,274,011	2,041,543	5,315,554
1,061,361	2,665,576	3,726,937
18,871,112	29,734,770	48,605,882
\$ 19,932,473	\$ 32,400,346	\$ 52,332,819

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FUND FINANCIAL STATEMENTS

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, 2010

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash	\$ 819	\$ -	\$ 819
Restricted cash	51	-	51
Receivables:			
Accounts	67,489	-	67,489
Taxes	623,423	-	623,423
Grants	1,159,701	-	1,159,701
Other	-	4,986	4,986
Prepaid items and other assets	41,354	-	41,354
Total assets	\$ 1,892,837	\$ 4,986	\$ 1,897,823
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 205,552	\$ -	\$ 205,552
Accrued payroll and benefits payable	38,015	-	38,015
Employee medical reimbursement payable	1,715	-	1,715
Deposits payable	6,385	-	6,385
Other liabilities	6,447	-	6,447
Due to other funds	147,659	4,986	152,645
Unearned revenue	210,187	-	210,187
Total liabilities	615,960	4,986	620,946
Fund Balances:			
Reserved for:			
Prepaid items and other assets	41,354	-	41,354
Unreserved, designated reported in:			
General Fund:			
Long-term capital replacement	450,000	-	450,000
Unreserved and undesignated:			
General Fund	785,523	-	785,523
Total fund balances	1,276,877	-	1,276,877
Total liabilities and fund balances	\$ 1,892,837	\$ 4,986	\$ 1,897,823

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, 2010

Total Fund Balances - Governmental Funds \$ 1,276,877

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	3,546,622
Depreciable, net	<u>19,926,660</u>
Total capital assets, net	<u>23,473,282</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>(40,562)</u>
--	-----------------

Water charges from the Proprietary Fund to the Governmental Funds must be eliminated in the Government-Wide Statements resulting in a change to short-term internal balances	<u>46,633</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	(160,798)
Long-term debt - due within one year	(634,423)
Long-term debt - due in more than one year	<u>(4,028,536)</u>
Total long-term liabilities	<u>(4,823,757)</u>

Total Net Assets of Governmental Activities \$ 19,932,473

See accompanying Notes to Basic Financial Statements.

Tahoe City Public Utility District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2010

	General	Debt Service	Total Governmental Funds
REVENUES:			
Fees	\$ 465,063	\$ -	\$ 465,063
Property taxes	4,443,050	774,808	5,217,858
Interest	6,153	-	6,153
Grants	1,228,833	-	1,228,833
Other	45,520	-	45,520
Total revenues	6,188,619	774,808	6,963,427
EXPENDITURES:			
Current:			
Public works - Parks	1,891,425	-	1,891,425
Recreation	695,214	-	695,214
Other operating	90,389	-	90,389
Capital outlay	1,161,257	-	1,161,257
Debt service:			
Principal	-	612,652	612,652
Interest	-	162,156	162,156
Total expenditures	3,838,285	774,808	4,613,093
REVENUES OVER EXPENDITURES	2,350,334	-	2,350,334
OTHER FINANCING SOURCES (USES):			
Proceeds from the sale of assets	2,641	-	2,641
Transfers out to other funds	(1,950,000)	-	(1,950,000)
Total other financing sources (uses)	(1,947,359)	-	(1,947,359)
Net change in fund balances	402,975	-	402,975
FUND BALANCES:			
Beginning of year	873,902	-	873,902
End of year	\$ 1,276,877	\$ -	\$ 1,276,877

See accompanying Notes to Basic Financial Statements.

Tahoe City Public Utility District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes
in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
For the year ended December 31, 2010

Net Change in Fund Balances - Governmental Funds \$ 402,975

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. 1,161,257

Contribution of easement by an individual for the Lakeside Trail is not reflected in the governmental funds statements as there was no inflow or outflow of economic resources related to this transfer of capital asset. 181,000

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. (1,313,696)

Water charges from the Proprietary Fund to the Governmental Funds must be eliminated in the Government-Wide Statements resulting in a decrease in direct expenses. 46,633

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. 612,652

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

Change in compensated absences	(34,132)
Change in accrued interest	4,672
	4,672

Change in Net Assets of Governmental Activities \$ 1,061,361

See accompanying Notes to Basic Financial Statements.

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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, 2010

ASSETS	Water and Sewer Fund
Current assets:	
Cash and cash equivalent	\$ 4,980,029
Receivables:	
Accounts	269,367
Grants	298,829
Interest	3,896
Other	53,918
Due from other funds	152,645
Prepaid items and other assets	81,005
Total current assets	5,839,689
Noncurrent assets:	
Restricted cash and cash equivalent	65,000
Facility improvement receivables	54,645
Other postemployment benefits, net	306,507
Capital assets:	
Non-depreciable assets	3,860,590
Depreciable assets, net	23,466,200
Total capital assets, net	27,326,790
Total noncurrent assets	27,752,942
Total assets	33,592,631
 LIABILITIES 	
Current liabilities:	
Accounts payable	323,879
Accrued payroll and benefits payable	95,244
Deposits payable	79,779
Other liabilities	23,629
Unearned revenue	68,506
Compensated absences	145,295
Long-term debt - due within one year	42,002
Total current liabilities	778,334
Noncurrent liabilities:	
Long-term debt - due in more than one year	367,318
Total noncurrent liabilities	367,318
Total liabilities	1,145,652
 NET ASSETS 	
Invested in capital assets, net of related debt	26,917,470
Restricted for:	
Guarantees of permit performance	65,000
Unrestricted (Note 9)	5,464,509
Total net assets	32,446,979
Elimination of water services charged to the governmental funds	46,633
Net assets of business-type activities	\$ 32,400,346

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, 2010

	Water and Sewer Fund
OPERATING REVENUES:	
Service and inspection fees	\$ 6,308,710
Connection fees	17,245
Penalties and discounts	51,091
Grant revenue	61,218
Other	107,071
Total operating revenues	6,545,335
OPERATING EXPENSES:	
Personnel	2,525,926
Operations	2,462,544
Depreciation	1,404,618
Total operating expenses	6,393,088
OPERATING INCOME	152,247
NONOPERATING REVENUES (EXPENSES):	
Property taxes	64,457
Interest income	27,086
Proceeds from sales of capital assets	5,792
Interest expense	(28,862)
Total nonoperating revenues (expenses)	68,473
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	220,720
Capital contributions	541,489
Transfers in from other funds	1,950,000
Change in net assets	2,712,209
NET ASSETS:	
Beginning of year	29,734,770
End of year	\$ 32,446,979
RECONCILIATION OF CHANGE IN NET ASSETS:	
Change in net assets for propriety fund	\$ 2,712,209
Elimination of water services charged to the governmental funds	46,633
Change in net assets for business-type activities	\$ 2,665,576

See accompanying Notes to Basic Financial Statements.

Tahoe City Public Utility District
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2010

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 6,277,743
Payments to suppliers	(2,292,454)
Payments to employees	(2,583,975)
Internal activity - receipts from other funds	(63,534)
Other receipts	(128,821)
Net cash provided by operating activities	1,208,959
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	64,457
Transfers in	1,950,000
Net cash provided by noncapital financing activities	2,014,457
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(3,030,186)
Proceeds from sales of capital assets	5,792
Grants received	541,489
Principal payments on long-term debt	(115,548)
Interest paid on long-term debt	(28,862)
Net cash used by capital and related financing activities	(2,627,315)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	28,109
Net cash provided by investing activities	28,109
Net increase in cash and cash equivalents	624,210
CASH AND CASH EQUIVALENTS	
Beginning of year	4,420,819
End of year	<u>\$ 5,045,029</u>
CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	\$ 4,980,029
Restricted cash and cash equivalents	65,000
Total cash and cash equivalents	<u>\$ 5,045,029</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 152,247
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,404,618
Changes in assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	(109,430)
Grants receivable	(264,281)
Other receivable	(3,353)
Facilities improvement receivables	2,097
Due from/to other funds	(63,534)
Prepaid items and other assets	24,271
Other post employment benefits	(18,141)
Increase (Decrease) in:	
Accounts payable	170,090
Accrued payroll and benefits	(48,520)
Deposits payable	(31,646)
Other liabilities	4,351
Unearned revenue	(18,422)
Compensated absences	8,612
Net cash provided by operating activities	<u>\$ 1,208,959</u>

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

The Tahoe City Public Utility District Public Facilities Financing Corporation (Corporation) was formed on January 29, 1993 as a nonprofit public benefit corporation to provide assistance to the District by financing the acquisition, construction and installation of public facilities, to acquire real and personal property on behalf of the District, and to borrow the necessary funds to pay the cost of such activities including refinancing. The Corporation has a December 31 year-end and had no assets, liabilities, or activity as of and for the year ended December 31, 2010.

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, 2010

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.

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, 2010

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 the proprietary fund.

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

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets 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.

Use of Restricted/Unrestricted Resources

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents and Investments, Continued

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

D. Restricted Cash and Investments

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

E. Capital Assets

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

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

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

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

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Interest Payable

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

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

G. Unearned Revenue

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

In the Fund Financial Statements, unearned revenue is recorded when revenue has not yet been earned or when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. At December 31, 2010, all deferred revenues in the Fund Financial Statements represent revenues that were not earned at year-end. Therefore, all of the deferred revenues in the Fund Financial Statements were reported as unearned revenue in the Government-Wide Financial Statements.

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 presented in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Compensated Absences

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

J. Property Tax

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

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

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 represent tentative management plans that are subject to change.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Use of Estimates

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

2. CASH AND INVESTMENTS

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

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

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

A. Cash Deposits

The carrying amounts of the District's cash deposits were \$94,328 at December 31, 2010. Bank balances were \$181,294, 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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

2. CASH AND INVESTMENTS, Continued

B. Investments

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

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

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District's investments with LAIF at December 31, 2010, 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, 2010, the District had \$4,886,520 invested in LAIF, which had invested 3.8% of the pool investment funds in Structured Notes and Asset-Backed Securities. Fair value of LAIF was calculated by applying a factor of 1.001461323 to total investments held by LAIF. At December 31, 2010, 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, 2010:

	Government-Wide Statement of Net Assets		Total
	Governmental Activities	Business-Type Activities	
Cash and investments	\$ 819	\$ 4,980,029	\$ 4,980,848
Restricted cash and investments	51	65,000	65,051
Total cash and investments	<u>\$ 870</u>	<u>\$ 5,045,029</u>	<u>\$ 5,045,899</u>

Cash and investments:	
Cash deposits	\$ 94,328
Investments (Local Agency Investment Fund)	4,886,520
Restricted cash and investments	65,051
Total cash and investments	<u>\$ 5,045,899</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

2. CASH AND INVESTMENTS, Continued

D. Risks, Continued

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At December 31, 2010, 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.

Credit Risk. At December 31, 2010, 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 \$65,051. 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 \$51, 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, 2010 were as follows:

		Due from other funds	
		Water and Sewer Enterprise Fund	
Due to other funds	General Fund	\$	147,659
	Debt Service Fund		4,986
	Total	\$	152,645

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, 2010

3. INTERFUND TRANSACTIONS, Continued

B. Transfers In and Out

		Transfer in from other funds	
		<u>Water and Sewer Enterprise Fund</u>	
Transfer out to other funds	General Fund	1,950,000	
	Total	\$ 1,950,000	

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, 2010, the District's capital assets consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Non-depreciable assets:			
Land	\$ 1,817,381	\$ -	\$ 1,817,381
Construction in progress	1,729,241	3,860,590	5,589,831
Total non-depreciable assets	<u>3,546,622</u>	<u>3,860,590</u>	<u>7,407,212</u>
Depreciable assets:			
Water and sewer plant	-	54,440,325	54,440,325
Recreational facilities	30,499,139	-	30,499,139
Office building and equipment	3,429,292	4,490,654	7,919,946
Vehicles	391,031	1,305,666	1,696,697
Total depreciable assets	<u>34,319,462</u>	<u>60,236,645</u>	<u>94,556,107</u>
Less accumulated depreciation:			
Water and sewer plant	-	(34,239,669)	(34,239,669)
Recreational facilities	(12,664,872)	-	(12,664,872)
Office building and equipment	(1,537,191)	(1,876,311)	(3,413,502)
Vehicles	(190,739)	(654,465)	(845,204)
Total accumulated depreciation	<u>(14,392,802)</u>	<u>(36,770,445)</u>	<u>(51,163,247)</u>
Net depreciable assets	<u>19,926,660</u>	<u>23,466,200</u>	<u>43,392,860</u>
Total capital assets, net	<u>\$ 23,473,282</u>	<u>\$ 27,326,790</u>	<u>\$ 50,800,072</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

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, 2010	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2010
Capital assets, not being depreciated:					
Land	\$ 1,671,381	\$ 146,000	\$ -	\$ -	\$ 1,817,381
Construction in progress	862,230	950,682	-	(83,671)	1,729,241
Total capital assets, not being depreciated	2,533,611	1,096,682	-	(83,671)	3,546,622
Capital assets, being depreciated:					
Recreational facilities	30,352,333	63,535	-	83,271	30,499,139
Office building and equipment	3,359,492	137,286	(67,886)	400	3,429,292
Vehicles	403,743	44,753	(57,465)	-	391,031
Total capital assets, being depreciated	34,115,568	245,574	(125,351)	83,671	34,319,462
Less accumulated depreciation for:					
Recreational facilities	(11,489,762)	(1,175,110)	-	-	(12,664,872)
Office building and equipment	(1,493,063)	(112,014)	67,886	-	(1,537,191)
Vehicles	(221,632)	(26,572)	57,465	-	(190,739)
Total accumulated depreciation	(13,204,457)	(1,313,696)	125,351	-	(14,392,802)
Net capital assets being depreciated	20,911,111	(1,068,122)	-	83,671	19,926,660
Governmental activities capital assets, net	\$ 23,444,722	\$ 28,560	\$ -	\$ -	\$ 23,473,282

Depreciation expense for capital assets during the year ended December 31, 2010 was charged to the different activities as follows:

Public works - parks	\$ 1,268,635
Recreation	45,061
Total	\$ 1,313,696

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

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, 2010	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2010
Capital assets, not being depreciated:					
Construction in progress	\$ 3,124,407	\$ 2,964,922	\$ -	\$ (2,228,739)	\$ 3,860,590
Total capital assets, not being depreciated	3,124,407	2,964,922	-	(2,228,739)	3,860,590
Capital assets, being depreciated:					
Water and sewer plant	54,445,001	-	(24,887)	20,211	54,440,325
Equipment	2,278,163	12,877	(8,914)	2,208,528	4,490,654
Vehicles	1,279,525	52,387	(26,246)	-	1,305,666
Total capital assets, being depreciated	58,002,689	65,264	(60,047)	2,228,739	60,236,645
Less accumulated depreciation for:					
Water and sewer plant	(33,059,721)	(1,194,528)	24,887	(10,307)	(34,239,669)
Equipment	(1,791,879)	(103,653)	8,914	10,307	(1,876,311)
Vehicles	(574,274)	(106,437)	26,246	-	(654,465)
Total accumulated depreciation	(35,425,874)	(1,404,618)	60,047	-	(36,770,445)
Net capital assets being depreciated	22,576,815	(1,339,354)	-	2,228,739	23,466,200
Business-type activities capital assets, net	\$ 25,701,222	\$ 1,625,568	\$ -	\$ -	\$ 27,326,790

Depreciation expense for capital assets for December 31, 2010 was charged to the different activities as follows:

Water	\$ 688,185
Sewer	716,433
Total	\$ 1,404,618

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

5. UNEARNED REVENUE

Government-Wide Financial Statements

At December 31, 2010, there were no differences between unearned revenues in the Government-Wide Financial Statements and the Fund Financial Statements. All amounts represent revenues that had been collected or billed, but not yet earned, as follows:

	Governmental		Business-Type	
	Activities		Activities	
	Governmental Funds	Total	Enterprise Fund	Total
	General Fund	Governmental Activities	Water Sewer Fund	
Portable stage repairs	\$ 561	\$ 561	\$ -	\$ 561
Homewood bike trail grant	152,834	152,834	-	152,834
Lakeside Trail bike trail grant	56,792	56,792	-	56,792
Water system studies grant	-	-	62,932	62,932
Water system debt collections	-	-	5,574	5,574
Total	\$ 210,187	\$ 210,187	\$ 68,506	\$ 278,693

6. LONG TERM DEBT

The following is a summary of long-term debt transactions for the year ended December 31, 2010:

	Maturity Date	Interest Rate	Balance January 1, 2010	Additions	Retirements	Balance December 31, 2010	Current Portion	Due in More than One Year
Governmental Activities								
Sidewalk Improvement Bonds	2019	6.02%	\$ 125,131	\$ -	\$ (12,513)	\$ 112,618	\$ 12,513	\$ 100,105
Bank of America Loan - 2003	2013	3.58%	951,645	-	(259,948)	691,697	269,338	422,359
Bank of America Loan - 2004	2014	4.50%	303,152	-	(62,221)	240,931	65,052	175,879
Zions Bank Loan	2017	4.30%	1,665,024	-	(178,485)	1,486,539	186,242	1,300,297
State Water Resources Control Board	2028	1.80%	2,230,659	-	(99,485)	2,131,174	101,278	2,029,896
Total Governmental activities			\$ 5,275,611	\$ -	\$ (612,652)	\$ 4,662,959	\$ 634,423	\$ 4,028,536
Business-Type Activities								
2001 Refunding Bonds								
Series A	2011	5.75%	\$ 35,186	\$ -	\$ (23,123)	\$ 12,063	\$ 12,063	-
Series B	2010	5.75%	64,217	-	(64,217)	-	-	-
Series C	2021	6.05%	425,465	-	(28,208)	397,257	29,939	367,318
Total Business-type activities			\$ 524,868	\$ -	\$ (115,548)	\$ 409,320	\$ 42,002	\$ 367,318

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

6. LONG TERM DEBT, Continued

Future principal and interest payments on all long-term debt were as follows at December 31, 2010:

For the Year Ending 12/31	Governmental Activities			
	Sidewalk Improvement Bonds		Bank of America Loans	
	Principal	Interest	Principal	Interest
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	12,513	3,763	-	-
2016-2020	50,053	7,527	-	-
	<u>\$ 112,618</u>	<u>\$ 33,870</u>	<u>\$ 932,628</u>	<u>\$ 59,749</u>

For the Year Ending 12/31	Governmental Activities			
	Zions Bank Loan		State Water Resources Control Board	
	Principal	Interest	Principal	Interest
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	220,792	27,390	108,783	30,921
2016-2020	470,790	25,574	574,050	124,468
2021-2025	-	-	627,700	70,817
2026-2029	-	-	404,440	14,670
	<u>\$ 1,486,539</u>	<u>\$ 250,735</u>	<u>\$ 2,131,174</u>	<u>\$ 383,488</u>

For the Year Ending 12/31	Business-Type Activities	
	2001 Refunding Bonds	
	Principal	Interest
2011	\$ 42,002	\$ 23,935
2012	31,778	21,749
2013	33,730	19,798
2014	35,801	17,726
2015	38,000	15,527
2016-2020	228,009	39,628
	<u>\$ 409,320</u>	<u>\$ 138,363</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

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, 2010

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 2010 General Property Tax Pledged
Governmental Activities		
Bank of America Loan - 2003	\$ 291,712	5.6%
Bank of America Loan - 2004	75,170	1.4%
Zions Bank Loan	248,182	4.8%
State Water Resources Control Board	139,703	2.7%
Unpledged General Property Tax Revenues	4,463,091	85.5%
Total 2010 General Property Tax Revenues	<u>\$ 5,217,858</u>	<u>100.0%</u>

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

7. PLEDGES OF FUTURE REVENUES, Continued

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

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

8. COMPENSATED ABSENCES

Compensated absences balances and activity for the year ended December 31, 2010 were as follows:

	Balance			Balance	
	January 1, 2010	Additions	Retirements	December 31, 2010	Due within One Year
Governmental Activities	\$ 126,667	\$ 163,514	\$ (129,383)	\$ 160,798	\$ 160,798
Business-Type Activities	136,683	152,568	(143,956)	145,295	145,295
Total	\$ 263,350	\$ 316,082	\$ (273,339)	\$ 306,093	\$ 306,093

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

9. FUND BALANCES / NET ASSETS

The following reservations and designations have been identified:

The District designated \$450,000 in the General Fund for the long-term replacement of capital assets within the District Parks.

The District designated the unrestricted net assets of the proprietary fund at December 31, 2010 as follows:

Designated for:	
Long-term capital replacement	\$ 2,837,347
Property tax reserve - water	1,562,653
Cash flow requirements	250,000
Emergencies	750,000
Total designated net assets - proprietary activities	5,400,000
Undesignated	64,509
Total	\$ 5,464,509

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

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 \$264,098 for fiscal year 2010. The District is also required to contribute at an actuarially determined rate; the current rate is 20.728% 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 \$668,034 was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2008 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, 2008 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
2008	\$ 669,639	100.0%	\$ -
2009	673,081	100.0%	-
2010	668,034	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, 2010

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy - Contribution requirements are also negotiated among the District, the Union, and the informal bargaining group. The TCPUD currently contributes monthly maximums toward medical premiums of \$598.23 for a retiree with 2 or more dependents, \$468.18 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 receive fractions of the monthly maximums for medical premiums described above based on years of service. During 2010, the District paid \$114,656 toward retiree medical premiums and \$26,387 for retiree dental and vision claims, which amounted to \$141,043, as contributions to OPEB. TCPUD also placed \$93,000 into the California Employers' Retiree Benefit Trust, to be applied towards the OPEB obligation. This provided \$234,043 as total contributions in 2010.

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

Annual required contribution	\$	238,250
Interest adjustment		(22,348)
Annual OPEB expense	\$	215,902
Contribution made		234,043
Increase in net OPEB asset	\$	18,141
Net OPEB Asset - beginning of year		288,366
Net OPEB Asset - end of year	\$	306,507

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

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 years ended December 31, 2009 and December 31, 2010 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
2010	215,902	108%	306,507

Funded Status and Funding Progress - As of December 31, 2010, the actuarial accrued liability for benefits was \$2,323,483, of which \$560,694 was funded in the California Employers' Retiree Benefit Trust. The covered payroll (annual payroll of active employees covered by the plan) was \$3,203,913, and the ratio of the unfunded actuarial liability to the covered payroll was 55%.

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

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, 2010. 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, 2010 was 28 years.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

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, 2010</u>
Total assets	\$ 127,965,405
Total liabilities	83,963,531
Total net assets	44,001,874
Total operating revenues	27,052,089
Total operating expenses	26,009,257

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 2010, 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, 2010

13. CONTINGENCIES AND LITIGATION

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

14. COMMITMENTS

The District has entered into contracts for construction with remaining commitments of approximately \$460,000 at December 31, 2010.

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 developed certain procedures. The General Manager would not engage in the selection process of contract awards that involve AEC. The Board also created an Engineering Consultant Selection Committee consisting of Directors and staff, to evaluate engineering consultants with the final selection to be made by the Board. The District presented these procedures to the California Attorney General's Office and has received a letter stating if these procedures are followed no applicable laws will be violated.

For fiscal year 2010, 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>
Lake Forest Boat Ramp	\$ 1,534
Tahoe Tavern Bster & Well Rehb	365
Woodview to 4 seasons Tnk Line	4,032
Lwr McKinney-Ellis, Meadow WLR	25,162
Woodview-Woodhill Water Main C	5,692
Lower Tahoe Tavern Heights	36,910
Observation/Edgewater PRV Stn	2,550
Lake Forest Water Improvement District	83,891
Harbor Master Pump Station	183
Highlands Park TRPA BMP's	5,924
WCB Boat Rp Fish HabPhase 1A	597
Lakeside Trail Design & Engineering	171,904
Squaw Valley BT-ECP	1,707
Total	\$ 340,451

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2010

16. SUBSEQUENT EVENT - EMINENT DOMAIN PROCEEDING

On June 4, 2010, the District filed an action in the Superior Court of the State of California, County of Placer. The action seeks to acquire a water system (the Lake Forest System) owned by the defendant, Tahoe Park Water Company, through eminent domain. On January 14, 2011, the District was granted possession, but not ownership, of the Lake Forest System. The District is now operating the Lake Forest System while the eminent domain proceeding continues.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

**Tahoe City Public Utility District
Required Supplementary Information
For the year ended December 31, 2010**

BUDGETS AND BUDGETARY ACCOUNTING

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

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

**Tahoe City Public Utility District
Required Supplementary Information
For the year ended December 31, 2010**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fees	\$ 577,928	\$ 577,928	\$ 465,063	\$ (112,865)
Property taxes	4,597,484	4,597,484	4,443,050	(154,434)
Interest	2,000	2,000	6,153	4,153
Grants	1,835,125	1,835,125	1,228,833	(606,292)
Other	32,250	32,250	45,520	13,270
Total revenues	7,044,787	7,044,787	6,188,619	(856,168)
EXPENDITURES:				
Current:				
Public works - Parks	2,090,933	2,090,933	1,891,425	199,508
Recreation	736,764	736,764	695,214	41,550
Other operating	84,000	84,000	90,389	(6,389)
Capital outlay	1,895,960	1,895,960	1,161,257	734,703
Total expenditures	4,807,657	4,807,657	3,838,285	969,372
REVENUES OVER EXPENDITURES	2,237,130	2,237,130	2,350,334	113,204
OTHER FINANCING SOURCES (USES):				
Proceeds from sales of assets	1,000	1,000	2,641	1,641
Transfers out to other funds	(850,000)	(850,000)	(1,950,000)	(1,100,000)
Total other financing sources (uses)	(849,000)	(849,000)	(1,947,359)	(1,098,359)
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 1,388,130	\$ 1,388,130	402,975	\$ (985,155)
FUND BALANCES:				
Beginning of year			873,902	
End of year			\$ 1,276,877	

Tahoe City Public Utility District
Required Supplementary Information, Continued
For the year ended December 31, 2010

RETIREE HEALTH PLAN (OPEB) - SCHEDULE OF FUNDING PROGRESS

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

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