

**Tahoe City
Public Utility District**

Tahoe City, California

Annual Financial Report

For the Year Ended

December 31, 2012

With

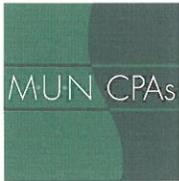
Independent Auditor's Report

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**TAHOE CITY PUBLIC UTILITIES DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of the internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2012, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 19 and 56 through 58 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.

Sacramento, California
April 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

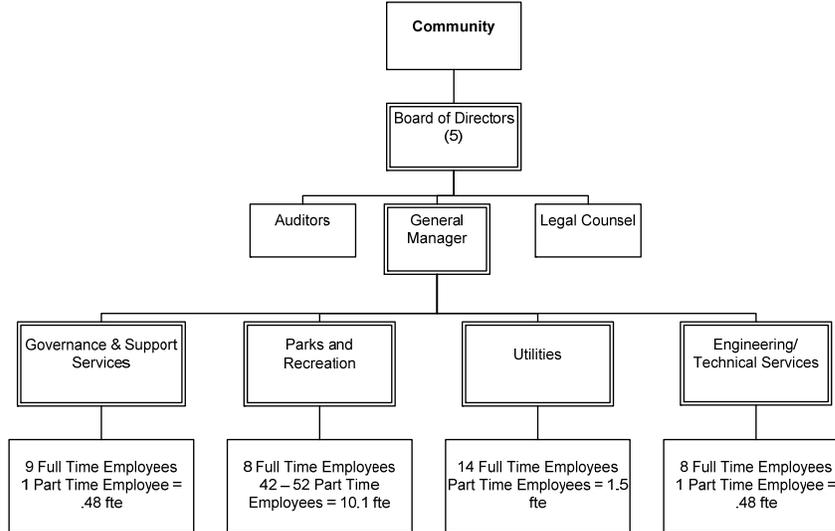
The Tahoe City Public Utility District (TCPUD) was founded in 1938 to provide some of the governmental needs for the residents of Tahoe City. It is the oldest local government in the Tahoe Basin and was formed initially to provide public water service to the local community. Established under the State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

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

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

The boundaries of the TCPUD lie within both Placer and El Dorado Counties, extending from Emerald Bay to Dollar Hill, and along the Truckee River to the Nevada County line. The service area is very large, encompassing over 31 square miles. The TCPUD is governed by a five person elected Board of Directors. These Directors determine the policies and set the agenda for the TCPUD. The Board appoints a General Manager who oversees the day to day operations of the TCPUD. In addition, the Board forms special citizen advisory committees when complicated issues need more community outreach or focused study. Under the direction of General Manager Cindy Gustafson, 39 full time employees and 30 seasonal employees provide the listed services. Employees serve in four departments: Utilities; Parks & Recreation; Engineering; and Governance and Support Services. Tahoe City Public Utility District is on a calendar-year (January 1 - December 31) budget cycle and each year the Board of Directors adopts an operating and capital budget. The TCPUD uses property tax, user fees, grants and interest income to provide its services.

The following is the TCPUD Wide Organizational Chart:



As management of the TCPUD, we offer readers of the TCPUD financial statements this narrative overview and analysis of the financial activities of the TCPUD for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with all information we have furnished in this report.

Financial Highlights

- The TCPUD's assets exceeded the liabilities by \$66,611,583 at the close of the most recent fiscal year. Of this amount, \$10,589,254 represents unrestricted net position, which may be used for the TCPUD's ongoing obligations. It should be noted that \$5,450,000 has been designated for the proprietary fund use for long-term capital replacement, property tax reserve, cash flow requirements, and emergencies. Also, \$450,000 is assigned for General Fund long-term capital replacement.
- As previously mentioned TCPUD has reserves at December 31, 2012 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's net position increased by \$9,410,205 largely due to the investment in capital assets and related grant funding.
- At the end of the year the TCPUD's governmental fund balance reported \$2,320,072, an increase of \$521,973 in comparison with prior year. Approximately 48% of the governmental fund balance is available for spending at the TCPUD's discretion.

- The TCPUD's total outstanding long-term debt decreased by \$942,884. All scheduled debt payments were made on time.
- The TCPUD has a total balance of \$827,949 in the California Employers' Retiree Benefit Trust at December 31, 2012 to partially fund other post-employment benefits.

Operational Highlights

- The TCPUD spent \$9.5 million on capital assets.
- Combined operating revenue exceeded budget by \$192,786 largely due to water consumption revenue due to the dry winter months, Wildlife Conservation Board (WCB) Lake Forest Boat Ramp usage, and water and sewer connection fees.
- During 2012 the TCPUD received approximately \$6.3 million in capital grants of which \$2.0 million were Federal grants to improve its water system infrastructure for firefighting support and water delivery.
- Operating expenses were better to budget by \$293,479 after being adjusted for special consulting fees not expended. The cost savings is largely due to repairs and maintenance of TCPUD equipment and facilities, personnel cost, legal fees, training and travel, and the insurance savings due to the rate stabilization refund for TCPUD's excellent workers' compensation claims history.
- Received \$30,367 rate stabilization fund insurance refund check. This is the fifth year in a row the TCPUD has received a refund check.
- The TCPUD has completed the over \$12,000,000 grant-funded Lakeside Trail through downtown Tahoe City during the spring of 2012.
- Working closely with California Department of Transportation, the TCPUD has entered into the design phase of the Homewood Bike Trail. This significant project is estimated to cost \$2.1 million and will take several years to complete.
- In conjunction with the Tahoe Regional Planning Agency and Tahoe Resource Conservation Board, the TCPUD continued a Quagga Mussel (invasive species) inspection program at the WCB Lake Forest Boat Ramp.
- The TCPUD continues to make significant infrastructure investments in the Lake Forest Water Company water service area as the TCPUD finalized Phase 1 construction of the Lake Forest System Replacement project and is halfway through Phase 2 construction and will be completed in the 2013 summer. Significant grant funding has been secured to support the project in the amount of \$3,700,000.
- April 3, 2012 the TCPUD acquired a key parcel of land (the Tahoe City Golf Course) located in the core area of Tahoe City. Significant funding was secured to purchase the property in the amount of \$3,295,000.

- The TCPUD is involved in the West Commons Planning Process that will attempt to address community concerns ensuring that the West side of town is an integral part of the Tahoe City community.

Overview of the Financial Statements

During 2004 the TCPUD 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 TCPUD continues to prepare. An explanation of each of the statements and the information they report follows.

The discussion and analysis provided here are intended to serve as an introduction to the TCPUD basic financial statements. The TCPUD’s basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes required supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the TCPUD finances in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the TCPUD’s assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the TCPUD is improving or deteriorating.

The *statement of activities* presents information showing how the TCPUD’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the TCPUD that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the TCPUD include general government, parks and recreation, and debt

service fund. The business-type activities of the TCUPD include water, sewer, and engineering activities.

The government-wide financial statements can be found on pages 20 and 21 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The TCPUD, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the TCPUD can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The TCPUD maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

The TCPUD adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 22 - 25 of this report.

Proprietary Funds. The TCPUD maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The TCPUD uses enterprises funds to account for its water, sewer, and engineering departments.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

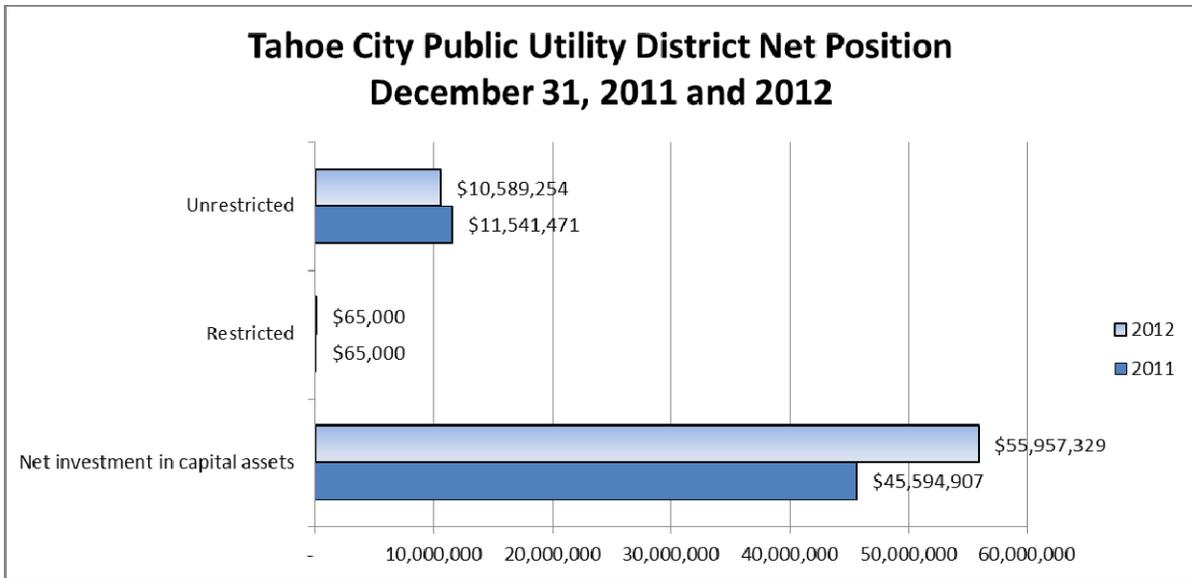
Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the TCPUD progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found on page 58 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the TCPUD, assets and deferred outflows of resources exceeded liabilities by \$66,611,583 at the close of the most recent fiscal year. 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 TCPUD.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Cash and investments	\$ 1,300	\$ 551	\$ 8,143,458	\$ 5,740,224	\$ 8,144,758	\$ 5,740,775
Cash and investments – restricted	16,461	64,874	-	-	16,461	64,874
Receivables	2,839,255	2,539,411	536,681	1,031,543	3,375,936	3,570,954
Other current assets	65,553	45,268	137,503	472,771	203,056	518,039
Total current assets	2,922,569	2,650,104	8,817,642	7,244,538	11,740,211	9,894,642
Investments – restricted	-	-	65,000	65,000	65,000	65,000
Facility upgrade receivables	-	-	46,326	52,444	46,326	52,444
Other postemployment benefits, net	-	-	318,212	318,212	318,212	318,212
Net Pension Asset			1,956,439	2,154,033	1,956,439	2,154,033
Net capital assets	29,484,970	24,952,796	30,176,382	28,192,269	59,661,352	53,145,065
Total assets	32,407,539	27,602,900	41,380,001	38,026,496	73,787,540	65,629,396
Liabilities:						
Payables and accruals	644,748	975,410	717,315	772,592	1,362,063	1,748,002
Unearned revenue	24,817	31,824	181,701	97,932	206,518	129,756
Long-term debt – current	796,035	908,088	38,836	31,778	834,871	939,866
Total current liabilities	1,465,600	1,915,322	937,852	902,302	2,403,452	2,817,624
Long-term debt - noncurrent	4,478,820	5,274,854	293,685	335,540	4,772,505	5,610,394
Total liabilities	5,944,420	7,190,176	1,231,537	1,237,842	7,175,957	8,428,018
Net position:						
Invested in capital assets, net of debt	26,113,468	18,769,956	29,843,861	26,824,951	55,957,329	45,594,907
Restricted	-	-	65,000	65,000	65,000	65,000
Unrestricted	349,651	1,642,768	10,239,603	9,898,703	10,589,254	11,541,471
Total net position	\$ 26,463,119	\$ 20,412,724	\$ 40,148,464	\$ 36,788,654	\$ 66,611,583	\$ 57,201,378

By far, the largest portion of the TCPUD's net position (84%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The TCPUD uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the TCPUD investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



The Statement of Activities and Change in Net Position 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 TCPUD. 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 2012 information.

Governmental Activities. 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 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.

During the current fiscal year, net position for governmental activities increased \$6,050,395 from the prior fiscal year for an ending balance of \$26,463,119. This increase is a result of additional capital contributions for purchased assets. Governmental Activities direct expenses decreased \$6,063. Indirect expenses increased by \$95,814 in 2012 and are a result of amortizing the net pension asset. Property Tax and Capital Grants increased \$134,876 and \$2,151,617 respectively.

Business-type Activities. 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 general property tax transfers from the governmental operation due to the low customer density of its service area and the high costs of environmental compliance in the Lake Tahoe Basin.

For the TCPUD’s business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$40,148,464. The total increase in net position for business-type activities (water and sewer) was \$3,505,299. The decrease is largely attributable to 6% water and 9% sewer rate increases to sustain operations and fund current and future capital and capital contributions for the Lake Forest Water Acquisition and Improvement Project and reduced spending in some areas.

Charges for services increased as the TCPUD implemented the fourth year of a five year plan to raise water and sewer rates to fund a higher level of future capital projects in these areas. Weather also played a part in the increase in charges for services. Capital grants and contributions increased \$1,635,785 due to federal monies secured to rebuild the aging water infrastructure of Lake Forest water system.

Property tax revenue decreased \$24,575 and grant revenue increased by \$1,635,785. Investment earnings increased \$34,272 due to moving investments out of the Local Government Investment Pool to the County’s Treasurer’s Investment Pool to earn a higher interest rate.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Expenses:						
Direct expenses	\$ 3,738,067	\$ 3,790,864	\$ 5,176,797	\$ 5,384,700	\$ 8,914,864	\$ 9,175,564
Indirect expenses	775,526	679,712	1,538,164	1,331,925	2,313,690	2,011,637
Total expenses	4,513,593	4,470,576	6,714,961	6,716,625	11,228,554	11,187,201
Program Revenues:						
Charges for services	601,878	504,867	7,708,584	7,066,619	8,310,462	7,571,486
Operating grants and contributions	367,184	374,326	239,547	314,735	606,731	689,061
Capital grants and contributions	4,346,031	2,194,414	2,035,785	400,000	6,381,816	2,594,414
Total program revenues	5,315,093	3,073,607	9,983,916	7,781,354	15,299,009	10,854,961
Net revenue (expense)	801,500	(1,396,969)	3,268,955	1,064,729	4,070,455	(332,240)
General Revenues:						
Property taxes	5,249,163	5,114,287	19,951	44,526	5,269,114	5,158,813
Investment earnings	(268)	5,356	70,904	36,632	70,636	41,988
Transfers	-	(3,242,422)	-	3,242,422	-	-
Total general revenues and transfers	5,248,895	1,877,221	90,855	3,323,580	5,339,750	5,200,801
Change in net position	\$ 6,050,395	\$ 480,252	\$ 3,359,810	\$ 4,388,309	\$ 9,410,205	\$ 4,868,561

Financial Analysis of Governmental Funds

Governmental Funds. The focus of the TCPUD *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the TCPUD's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the TCPUD itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the TCPUD Board of Directors.

At December 31, 2012, the TCPUD's governmental funds reported combined fund balances of \$2,320,072, an increase of \$521,973 in comparison with the prior year. Approximately 77.8% of this amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form (\$65,553) 2) assigned for particular purposes (\$450,000). The general fund is the chief operating fund of the TCPUD.

General Fund Budgetary Highlights

Parks and Recreation fees were better to budget by \$51,690 which is largely due to the increased usage of the WCB Lake Forest Boat Ramp. Property tax collection exceed budget by \$117,146. Grant revenue exceed budget by \$2,850,615 largely due to capital contribution from local government agencies to purchase the Tahoe City Golf Course in the amount of \$3,295,000.

Overall Public Works - Parks direct expenses were \$183,986 below budget due to less spending for consulting fees, repairs and maintenance, lower utilities, insurance, and administration cost.

Recreation direct expenses were \$135,500 greater than budget largely due to personnel cost. One of the contributing factors to personnel cost overage is vacation buyouts at year end for employee in excess of 320 hours. Another factor has to do with the Recreation Department restructure for the 2013 budget and as a result the Recreation Superintendent position was eliminated. To accomplish the department restructure TCPUD offered an additional retirement service credit to the impacted individual.

Capital Assets and Debt Administration

Capital assets. The TCPUD investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounts to \$59,661,352 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, and park facilities. The total increase in capital assets for the current fiscal year was approximately 12.3%.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 5,251,592	\$ 1,817,381		\$ -	\$ 5,251,592	\$ 1,817,381
Intangible License	150,000	-		-	150,000	-
Buildings	1,591,872	1,013,149	\$158,461	186,398	1,750,333	1,199,547
Property and Equipment	22,029,991	18,125,984	27,414,838	23,738,323	49,444,829	41,864,307
Construction in progress	461,515	3,996,282	2,603,083	4,267,548	3,064,598	8,263,830
Total current assets	\$ 29,484,970	\$ 24,952,796	\$ 30,176,382	\$ 28,192,269	\$ 59,661,352	\$ 53,145,065

In 2012, the TCPUD spent \$9,522,438 million on capital items for the benefit of the community. The two significant projects in 2012 were the purchase of the Tahoe City Golf Course and the Lake Forest Water Acquisition and Improvement Project, both receiving significant outside funding.

The following table presents the TCPUD's more significant capital additions during 2012 and 2011.

	<u>Additions to Capital Assets</u>	
	<u>2011</u>	<u>2012</u>
Governmental Activities		
Tahoe City Golf Course Purchase	\$ 67,084	\$ 4,776,089
Lakeside Trail through Tahoe City	2,196,327	794,276
HVAC and improvements	-	241,424
Rideout gym floor and kitchen	-	132,663
Homewood Bike Trail	157,467	59,036
Erosion control projects	22,205	19,273
Playground equipment	-	16,541
Boats for sailing program	23,035	-
Cameras and security system	60,709	-
West Commons Design	41,089	-
Vehicles and Equipment	100,119	29,711
Other projects	157,312	23,319
Total governmental activities	<u>2,825,348</u>	<u>6,092,332</u>
Business-type Activities		
Lake Forest water acquisition & improvements	910,604	1,590,840
Chanberlands Water Line Replacement	-	346,104
Old Dollar Pt Pump Station/PRV Mod	-	325,300
Rocky Ridge Tank Recoating	-	226,627
Sunnyside Pump and Control upgrade	-	201,655
Tahoma Meadows Mutual Water Company	-	131,947
Placer Co TC Residential Water Quality Improvement	-	113,301
Pump Stations Flow Meters	-	82,349
Manhole Rehabilitation	48,616	30,825
McKinney Estates interconnection	605,441	19,164
Lower Tahoe Tavern Heights improvements	122,220	8,155
Observation/Edgewater	96,606	-
Tahoe Tavern booster & well rehabilitation	44,819	-
Highlands fire hydrants	107,937	-
Harbor Master building modification	57,787	-
Fuel Tank project and software	53,412	-
Back-up generator & replacements	18,542	-
Vehicles & mobile equipment	96,422	244,201
Other projects	135,012	109,638
Total business-type activities	<u>2,297,418</u>	<u>3,430,106</u>
Total TCPUD	<u>\$ 5,122,766</u>	<u>\$ 9,522,438</u>

During the four years prior to 2005 TCPUD-funded capital was limited due to the large debt service payments required by the 1993 COP issue. It was understood at the time of the \$9,985,000 COP issuance that capital spending would be pulled forward into the years immediately following the issuance and be greatly reduced in the later years prior to final repayment. This has been true of TCPUD water and sewer capital spending. However, the TCPUD has been able to secure significant capital grants to improve environmental protection and public access to Lake Tahoe. Thus, the TCPUD 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 (WCB) Lake Forest Boat Ramp, the Truckee River Outlet Park Plaza, Heritage Plaza, and a new mobile stage when it did not have its own funding to advance these projects. Other projects such as the Homewood Bike Trail, to address one mile of unsafe bike trail, is set to begin the design phase and the TCPUD is positioned to seek other grant opportunities to help fund this project.

Beginning in 2005 the TCPUD 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.

At December 31, 2012 the TCPUD utilized \$41,044,259 of gross depreciable capital assets at historical cost, consisting primarily of recreational facilities, in its Governmental Activities, and \$67,103,733 of gross depreciable capital assets at historical cost, consisting primarily of water and sewer plants, in its Business-type Activities. On such a large infrastructure base, the TCPUD'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 TCPUD 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, reduce the use of general property taxes in sewer operations, increase reserves, and fund normal increases in water and sewer operations and maintenance expenses. Most residential sewer customers would see their quarterly rates increase from \$52.96 to a maximum of \$143.79 during the 5 year period. Most residential water customers would see their monthly base rate increase from \$43.76 to a maximum of \$55.00 during the 5 year period, and would begin paying for water consumption April 1, 2009 with a conservation-oriented tiered rate structure which becomes increasingly expensive over 5 years, particularly for large users. After the February 25, 2009 Public Protest Hearing, the protests were tabulated. Since protests were received from 21% of sewer customers and 29% of water customers versus the Proposition 218 threshold of 50% +1, new maximum rates were set for the next 5 years.

The Board of Directors committed to annually review actual capital and operating costs, and grant funding and revenues versus the assumptions in the rate study before finalizing rates each year. The April 1, 2009 water rates were actually set approximately 3% below the noticed rates and sewer rates were set 2% below the noticed rates based on cost savings and additional other revenues. The April 1, 2010 water and sewer rates equaled the noticed rates while the April 1, 2011 rates were set below the noticed rates. The \$55 rate was scheduled to begin last April 2011 but, due to capital grants received and reduced operating cost assumptions, the TCPUD was able to keep it at \$52/month. The April 1, 2012 and 2013 residential water base rate has been set at \$55/month; the same as the noticed rate and is the maximum amount set by Proposition 218. 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, 2013 residential sewer rates have been set at \$103.83/quarter versus an initially noticed rate of \$143.79/quarter with a similar reduction in commercial rates.

The 2013 TCPUD budget includes a \$44,050,087 in its five year capital plan of which \$7,082,103 million in capital grants are indentified. The capital plan calls for \$24,456,933 million for water, \$12,095,958 million for sewer, \$5,837,496 million for Parks, \$1,533, 000 for vehicles, \$119,200 for Governance and Support Services, and \$7,500 for the Engineering Department. The TCPUD could not fund this level of capital improvements without the new water and sewer rate structure and grant funding.

Long-term Debt. At the end of the current fiscal year, the TCPUD had total bonded debt outstanding of \$5,607,376. Of this amount, \$3,283,910 is debt backed by the full faith and credit of the government and \$420,113 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the TCPUD long-term obligations comprises pension-related debt in the amount of \$1,903,353.

Tahoe City Public Utility District Capital Assets
Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$3,283,910	\$3,928,430	\$ -	\$ -	\$3,283,910	\$3,928,430
Special assessment bonds with governmental commitments	87,592	100,105	332,521	367,318	420,113	467,423
Pension related debt	1,903,353	2,154,407	-	-	1,903,353	2,154,407
Total current assets	\$5,274,855	\$6,182,942	\$332,521	\$367,318	\$5,607,376	\$6,550,260

Due to a strong cash position during 2012, the TCPUD did not renew the Plumas Bank line of credit.

The TCPUD 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 due to their small size. It is probable the TCPUD will use its borrowing capacity over the next decade to finance upgrades to water systems it acquires and be repaid by special assessments from these new water customers.

On June 4, 2010, the TCPUD filed an action in the Superior Court of the State of California, County of Placer. The action sought 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 TCPUD was granted possession of the Lake Forest System and on October, 29 2012, through a final order of condemnation, acquired ownership. The TCPUD still awaits the California Public Utilities Commission approval of the transfer of the water facilities. The TCPUD fully expects the CPUC to approve the transfer mid-2013.

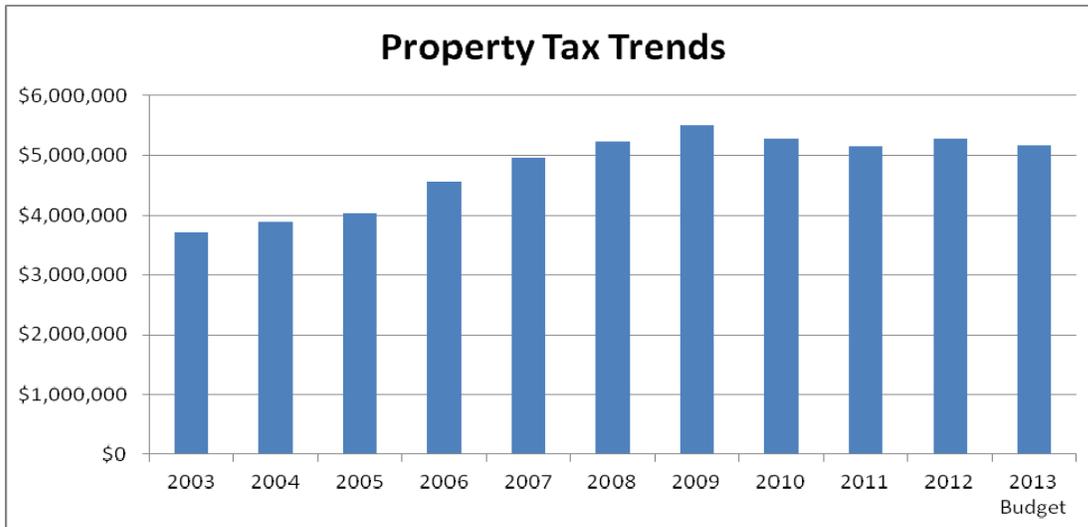
The TCPUD's share of unfunded pension liabilities increased sharply following the stock market collapse of 2008. While separate information is not available from CalPERS regarding the TCPUD's share of unfunded liabilities of the pension risk pool it participates in, the funded ratio of the entire pool declined from 85% at June 30, 2008 to 76.8% at June 30, 2011. The TCPUD 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 has paid off its almost \$2.3 million side fund liability which was established at the time the TCPUD's plan was rolled into a multi-agency risk pool and is in addition to the unfunded liabilities of the risk pool.

On March 14, 2011 action by the CalPERS Board of Administration lowered the long-term investment return from 7.75% to 7.5% which will directly impact pension contribution. The TCPUD Board of Directors will be considering a variety of additional potential steps including a higher level of employee contributions and the introduction of a second-tier plan with less generous benefits for new hires to mitigate the increased cost.

On September 12, 2012, Governor Brown signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA takes effect January 1, 2013. Basically, PEPRA affects **new** TCPUD employees hired on or after January 1, 2013 through provisions affecting benefit formulas, the definition of what comprises pensionable earnings, limits on pensionable earnings, and other matters. The new law also calls for new members to pay 50 percent of the normal cost of benefits by 2018. We are currently at full employment and do not anticipate any new employees at this time but recognize the challenges and uncertainty this new law imposes on our valued workforce.

Economic Factors and the 2013 Budget

Property taxes are a significant source of revenue for the TCPUD. In prior years this revenue source has grown relatively rapidly due to average annual growth in assessed values of approximately 6.4%. Due to decline in assessed valuation we saw property tax revenue drop beginning in 2009. 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 2013 budget projects a slight increase of 0.2%. This slight increase has us cautiously optimistic that property values are leveling out. The TCPUD's 2013 budget is flat (0.2%) in general property tax revenue for 2013 compared to 2012. Below are the last 10 years of property tax and the 2013 budget.



The State of California continues to experience large budget deficits and may take actions which adversely impact the TCPUD's revenues or expenses. In light of current economic conditions, the TCPUD continues to closely monitor all costs.

The TCPUD's 2013 budget was adopted by the Board of Directors on November 16, 2012. The 2013 TCPUD budgeted revenues are increasing 6% for water and 9% for sewer compared to the 2012 budget. The TCPUD regularly evaluates its user rates to ensure we are assessing appropriate fees for the services we provide. The 2013 Board approved water and sewer rates are set to cover operations and current and future water and sewer capital projects. During the Board meetings and budget workshop the Board was provided scenarios on water and sewer rates and their impacts to the 2013 budget. Through this thoughtful process the Board approved overall increases to the water and sewer rates while keeping the rates below the voter approved water and sewer Proposition 218 rates.

The residential water base rates are at the voter approved Proposition 218 rates, and the residential-tiered water rates on average are 30.7% below the voter approved Proposition 218 residential-tiered water rates. The commercial base rates on average are 5% below the Proposition 218 commercial water base rates and the commercial water tiered rates are on average 33.9% below the Proposition 218 rates.

The residential and commercial sewer rates are both 27.8% below the voter approved Proposition 218 rates.

Parks and Recreation revenue represents 6.6% of the TCPUD-wide revenue and is projected to increase by 3.4% from the 2012 budget largely due to increased maintenance grant revenue, increased WCB Lake Forest Boat Ramp usage, and golf course property fees. Also, for FY 2013, a 3% adjustment to some fees for recreation programs were applied to help recover the full cost of these services.

The adopted TCPUD 2013 budget operating expense totals are \$8.24 million, which represents a 2.7% decrease over the prior 2012 operating expense budget. The 2013 \$4.6 million TCPUD funded capital budget for FY 2013 represents a 2.1% decrease over the FY 2012 budget, while the 5-year capital improvement TCPUD funded program totals is \$36.9 million, a 2.3% increase over last year's 5-year capital program.

Summary

The TCPUD's overall financial health and flexibility have continued to improve during 2012. The TCPUD invested approximately \$9.5 million in parks, water and sewer infrastructure capital projects, with an emphasis on completing the Lakeside Trails, water supply and projects to improve firefighting support, and the Lake Forest Water Acquisition and Improvement. Based on a comprehensive rate study by HDR Engineering, Inc., the TCPUD has passed a 5-year rate increase, which will allow it to fund necessary water and sewer infrastructure projects, increase reserves, reduce the funding of sewer operating and maintenance costs from general property taxes, and cover normal increases in operations and maintenance expenses. The TCPUD implemented the fourth year of these increases starting April 1, 2012.

Requests for Information

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

Tahoe City Public Utility District
Statement of Net Position
December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 1,300	\$ 8,143,458	\$ 8,144,758
Restricted cash and investments	16,461	-	16,461
Receivables:			
Accounts	-	351,598	351,598
Interest	-	355	355
Taxes	565,209	-	565,209
Grants	897,389	1,401,012	2,298,401
Other	140,303	20,070	160,373
Short-term internal balances	1,236,354	(1,236,354)	-
Prepaid items and other assets	65,553	137,503	203,056
Total current assets	2,922,569	8,817,642	11,740,211
Noncurrent assets:			
Restricted cash and investments	-	65,000	65,000
Facility improvement receivables	-	46,326	46,326
Other postemployment benefits, net	-	318,212	318,212
Net Pension Asset	-	1,956,439	1,956,439
Capital assets:			
Non-depreciable	5,863,107	2,603,083	8,466,190
Depreciable, net	23,621,863	27,573,299	51,195,162
Total capital assets, net	29,484,970	30,176,382	59,661,352
Total noncurrent assets	29,484,970	32,562,359	62,047,329
Total assets	32,407,539	41,380,001	73,787,540
LIABILITIES			
Current liabilities:			
Accounts payable	273,134	199,418	472,552
Accrued payroll and benefits payable	72,423	108,465	180,888
Employee medical reimbursement payable	10,490	-	10,490
Interest payable	33,039	-	33,039
Deposits payable	17,241	77,389	94,630
Other liabilities	58,045	120,507	178,552
Unearned revenue	24,817	181,701	206,518
Compensated absences-due within one year	180,376	211,536	391,912
Long-term debt-due within one year	796,035	38,836	834,871
Total current liabilities	1,465,600	937,852	2,403,452
Noncurrent liabilities:			
Long-term debt-due in more than one year	4,478,820	293,685	4,772,505
Total liabilities	5,944,420	1,231,537	7,175,957
NET POSITION			
Invested in capital assets, net of related debt	26,113,468	29,843,861	55,957,329
Restricted for:			
Guarantee permit and payment performance	-	65,000	65,000
Total restricted	-	65,000	65,000
Unrestricted	349,651	10,239,603	10,589,254
Total net position	\$ 26,463,119	\$ 40,148,464	\$ 66,611,583

See accompanying notes to the basic financial statements.

Tahoe City Public Utility District
Statement of Activities and Changes in Net Position
For the year ended December 31, 2012

Functions / Programs	Program Revenues						Net (Expense) Revenue and Changes in Net Position		
	Direct Expenses	Indirect Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities	Business-Type Activities	Total
Primary Government:									
Governmental activities:									
Public works - Parks	\$ 2,890,323	\$ 536,800	\$ 326,429	\$ 287,005	\$ 4,346,031	\$ 4,959,465	\$ 1,532,342	\$ -	\$ 1,532,342
Recreation	655,346	238,726	275,449	80,179	-	355,628	(538,444)	-	(538,444)
Interest on long-term debt (unallocated)	192,398	-	-	-	-	-	(192,398)	-	(192,398)
Total governmental activities	<u>3,738,067</u>	<u>775,526</u>	<u>601,878</u>	<u>367,184</u>	<u>4,346,031</u>	<u>5,315,093</u>	<u>801,500</u>	<u>-</u>	<u>801,500</u>
Business-type activities:									
Water	2,624,423	803,160	4,062,675	239,547	2,035,785	6,338,007	-	2,910,424	2,910,424
Sewer	2,552,374	735,004	3,645,909	-	-	3,645,909	-	358,531	358,531
Total business-type activities	<u>5,176,797</u>	<u>1,538,164</u>	<u>7,708,584</u>	<u>239,547</u>	<u>2,035,785</u>	<u>9,983,916</u>	<u>-</u>	<u>3,268,955</u>	<u>3,268,955</u>
Total primary government	<u>\$ 8,914,864</u>	<u>\$ 2,313,690</u>	<u>\$ 8,310,462</u>	<u>\$ 606,731</u>	<u>\$ 6,381,816</u>	<u>\$ 15,299,009</u>	<u>801,500</u>	<u>3,268,955</u>	<u>4,070,455</u>
General Revenues:									
							5,249,163	19,951	5,269,114
							(268)	70,904	70,636
							<u>5,248,895</u>	<u>90,855</u>	<u>5,339,750</u>
							6,050,395	3,359,810	9,410,205
							20,412,724	36,788,654	57,201,378
							<u>\$ 26,463,119</u>	<u>\$ 40,148,464</u>	<u>\$ 66,611,583</u>

See accompanying notes to the basic financial statements.

Tahoe City Public Utility District
Balance Sheet
Governmental Funds
December 31, 2012

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash	\$ 1,300	\$ -	\$ 1,300
Restricted cash	16,461	-	16,461
Receivables:			
Taxes	565,209	-	565,209
Grants	897,389	-	897,389
Other	132,452	7,851	140,303
Short-term internal balances	1,089,629	378	1,090,007
Prepaid items and other assets	65,553	-	65,553
Total assets	\$ 2,767,993	\$ 8,229	\$ 2,776,222
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 273,134	\$ -	\$ 273,134
Accrued payroll and benefits payable	72,423	-	72,423
Employee medical reimbursement payable	10,490	-	10,490
Deposits payable	17,241	-	17,241
Other liabilities	58,045	-	58,045
Unearned revenue	16,588	8,229	24,817
Total liabilities	447,921	8,229	456,150
Fund Balances:			
Non-Spendable	65,553	-	65,553
Assigned			
Long-term capital replacement	450,000	-	450,000
Unassigned fund balance			
General Fund	1,804,519	-	1,804,519
Total fund balances	2,320,072	-	2,320,072
Total liabilities and fund balances	\$ 2,767,993	\$ 8,229	\$ 2,776,222

See accompanying notes to the basic financial statements.

Tahoe City Public Utility District
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position of Governmental Activities
For the year ended December 31, 2012

Total Fund Balances - Governmental Funds \$ 2,320,072

Amounts reported for governmental activities in the Statement of Net Position were different because:

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

Non-depreciable	5,863,107
Depreciable, net	23,621,863
	<u>29,484,970</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>(33,039)</u>
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Water charges from the Proprietary Fund to the Governmental Funds must be eliminated in the Government-Wide Statements resulting in a change to short-term internal balances	<u>146,347</u>
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Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.	
Compensated absences - due within one year	(180,376)
Long-term debt - due within one year	(796,035)
Long-term debt - due in more than one year	<u>(4,478,820)</u>
Total long-term liabilities	<u>(5,455,231)</u>

Total Net Position of Governmental Activities \$ 26,463,119

Tahoe City Public Utility District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2012

	General	Debt Service	Total Governmental Funds
REVENUES:			
Fees	\$ 546,600	\$ 13,033	\$ 559,633
Property taxes	4,157,073	1,092,090	5,249,163
Interest	(268)	-	(268)
Grants	4,713,215	-	4,713,215
Other	92,208	-	92,208
Total revenues	9,508,828	1,105,123	10,613,951
EXPENDITURES:			
Current:			
Public works - Parks	1,885,281	-	1,885,281
Recreation	844,912	-	844,912
Other operating	164,734	-	164,734
Capital outlay	6,092,228	-	6,092,228
Debt service:			
Principal	-	908,088	908,088
Interest	-	197,035	197,035
Total expenditures	8,987,155	1,105,123	10,092,278
REVENUES OVER EXPENDITURES	521,673	-	521,673
OTHER FINANCING SOURCES (USES):			
Proceeds from the sale of assets	300	-	300
Total other financing sources (uses)	300	-	300
Net change in fund balances	521,973	-	521,973
FUND BALANCES:			
Beginning of year	1,798,099	-	1,798,099
End of year	<u>\$ 2,320,072</u>	<u>\$ -</u>	<u>\$ 2,320,072</u>

See accompanying notes to the basic financial statements.

Tahoe City Public Utility District

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities and Changes in Net Position For the year ended December 31, 2012

Net Change in Fund Balances - Governmental Funds \$ 521,973

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

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, 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. \$ 6,092,332

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds. \$ (1,560,156)

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 \$ 96,920

Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position. \$ 908,088

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 \$ (13,399)

Change in compensated absences

Change in accrued interest \$ 4,637

Change in Net Position of Governmental Activities \$ 6,050,395

Tahoe City Public Utility District
Statement of Net Position
Proprietary Fund
December 31, 2012

ASSETS	Water and Sewer Fund
Current assets:	
Cash and cash equivalent	\$ 8,143,458
Receivables:	
Accounts	351,598
Grants	1,401,012
Interest	355
Other	20,070
Prepaid items and other assets	137,503
Total current assets	10,053,996
Noncurrent assets:	
Restricted cash and cash equivalent	65,000
Facility improvement receivables	46,326
Other postemployment benefits, net	318,212
Net pension asset	1,956,439
Capital assets:	
Non-depreciable assets	2,603,083
Depreciable assets, net	27,573,299
Total capital assets, net	30,176,382
Total noncurrent assets	32,562,359
Total assets	42,616,355
 LIABILITIES 	
Current liabilities:	
Accounts payable	199,418
Accrued payroll and benefits payable	108,465
Deposits payable	77,389
Other liabilities	120,507
Short-term internal balances	1,090,007
Unearned revenue	181,701
Compensated absences	211,536
Long-term debt - due within one year	38,836
Total current liabilities	2,027,859
Noncurrent liabilities:	
Long-term debt - due in more than one year	293,685
Total noncurrent liabilities	293,685
Total liabilities	2,321,544
 NET POSITION 	
Invested in capital assets, net of related debt	29,843,861
Restricted for:	
Guarantees of permit performance	65,000
Unrestricted (Note 9)	10,385,950
Total net position	40,294,811
Elimination of water services charged to the governmental funds	146,347
Net position of business-type activities	\$ 40,148,464

See accompanying notes to the basic financial statements.

Tahoe City Public Utility District
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2012

	Water and Sewer Fund
OPERATING REVENUES:	
Service and inspection fees	\$ 7,564,335
Connection fees	51,861
Penalties and discounts	44,841
Grant revenue	160,504
Other	198,660
Total operating revenues	8,020,201
OPERATING EXPENSES:	
Personnel	2,622,372
Operations	2,646,578
Depreciation	1,439,192
Total operating expenses	6,708,142
OPERATING INCOME	1,312,059
NONOPERATING REVENUES (EXPENSES):	
Property taxes	19,951
Interest income	70,904
Proceeds from sales of capital assets	24,849
Interest expense	(6,819)
Total nonoperating revenues (expenses)	108,885
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,420,944
Capital contributions	2,035,785
Change in net position	3,456,729
NET POSITION:	
Beginning of year	36,838,082
End of year	\$ 40,294,811
RECONCILIATION OF CHANGE IN NET POSITION:	
Change in net assets for propriety fund	\$ 3,456,729
Elimination of water services charged to the governmental funds	96,919
Change in net position for business-type activities	\$ 3,359,810

See accompanying notes to the basic financial statements.

Tahoe City Public Utility District
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2012

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 7,739,113
Payments to suppliers	(2,810,827)
Payments to employees	(2,434,965)
Internal activity - receipts from other funds	1,458,816
Other receipts	(237,913)
Net cash provided by operating activities	3,714,224
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	19,951
Transfers in	-
Net cash provided by noncapital financing activities	19,951
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(3,430,106)
Proceeds from sales of capital assets	31,650
Grants received	2,035,785
Principal payments on long-term debt	(34,797)
Interest paid on long-term debt	(6,819)
Net cash used by capital and related financing activities	(1,404,287)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	73,346
Net cash provided by investing activities	73,346
Net increase in cash and cash equivalents	2,403,234
CASH AND CASH EQUIVALENTS	
Beginning of year	5,805,224
End of year	<u>\$ 8,208,458</u>
CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	\$ 8,143,458
Restricted cash and cash equivalents	65,000
Total cash and cash equivalents	<u>\$ 8,208,458</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 1,312,059
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,439,192
Changes in assets and liabilities:	
(Increase) Decrease in:	
Accounts receivable	(37,587)
Grants receivable	(686,277)
Other receivable	54,345
Facilities improvement receivables	6,118
Due from/to other funds	377,177
Prepaid items and other assets	(58,528)
Other post employment benefits	197,594
Increase (Decrease) in:	
Accounts payable	(164,249)
Accrued payroll and benefits	(28,124)
Deposits payable	15,334
Other liabilities	103,825
Due from other funds (liab)	1,081,639
Unearned revenue	83,769
Compensated absences	17,937
Net cash provided by operating activities	<u>\$ 3,714,224</u>

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Tahoe City Public Utility District
Notes to Basic Financial Statements
For the year ended December 31, 2012

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, 2012.

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 Position and a Statement of Activities and Changes in Net Position.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

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 Position. The Statement of Activities presents changes in net position. 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 position as presented in these statements to the net position 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, 2012

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 Position, a Statement of Revenues, Expenses and Changes in Net Position, 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 Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. 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, 2012

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents and Investments, Continued

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

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

D. Restricted Cash and Investments

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

E. Capital Assets

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

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

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets, Continued

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

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

F. Interest Payable

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

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

G. Unearned Revenue

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

In the Fund Financial Statements, unearned revenue is recorded when revenue has not yet been earned or when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. At December 31, 2012, all deferred revenues in the Fund Financial Statements represent revenues that were not earned at year-end. Therefore, all of the deferred revenues in the Fund Financial Statements were reported as unearned revenue in the Government-Wide Financial Statements.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 Position.

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

I. Compensated Absences

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

J. Property Tax

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

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Net Position

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net position 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 Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net position” as defined above.

Fund Financial Statements

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

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

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

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

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

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

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

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.

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

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

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

In 2012, the District adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement standardizes the presentation of deferred balances and their effects on government's net position.

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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits

The carrying amounts of the District's operating cash balance \$683,180 at December 31, 2012. Bank balances were \$785,410, the total amount of which was insured and/or collateralized with securities held by the pledging financial institutions in the District's name as discussed below.

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

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

B. Investments

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

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

The District 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, 2012, 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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

2. CASH AND INVESTMENTS, Continued

As of December 31, 2012, the District had \$640,065 invested in LAIF and \$6,819,913 invested in Placer County Treasurer. LAIF had invested 1.87% of the pool investment funds in Structured Notes and Asset-Backed Securities. Fair value of LAIF was calculated by applying a factor of 1.001651997 to total investments held by LAIF. At December 31, 2012, the LAIF or Placer County Treasurer balance did not reflect an amortized cost of \$7,468 which approximates the fair market value.

C. Summary of Cash & Investments

The following is a summary of cash and investments at December 31, 2012:

	Government-Wide Statement of Net Assets		
	Governmental	Business-Type	Total
	Activities	Activities	
Operating cash deposits	\$ -	\$ 683,180	\$ 683,180
Imprest and other	1,300	300	1,600
Investments		7,459,978	7,459,978
Total cash and investments	1,300	8,143,458	8,144,758
Current - Restricted cash and investments	16,461		16,461
Noncurrent-Restricted cash and investments		65,000	65,000
Total All	\$ 17,761	\$ 8,208,458	\$ 8,226,219

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, 2012, the total amount of the District's investments and restricted investments was deposited with LAIF and Placer County Treasurer Investment Pool which is available to the District on demand or invested in bank certificates of deposit maturing in less than one year. As a result, the District was not significantly exposed to interest rate risk.

Credit Risk. At December 31, 2012, the District's investments which were invested in LAIF and Placer County Treasurer were not rated. The fair value of the District asset held in LAIF and Placer County Treasurer is materially equivalent to the value of the pool shares.

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

2. CASH AND INVESTMENTS, Continued

E. Restricted Cash and Investments

Restricted cash and investments for the District amounted to \$81,461. This amount breaks out as follows: \$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 \$16,461, 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, 2012 were as follows:

		Due to other funds		
		Water and Sewer	General Fund	Total
Due from other funds	General fund	\$ 1,089,629	\$ 1,089,629	
	Debt Service	378		378
		\$ 1,090,007	\$ -	\$ 1,090,007

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

B. Transfers In and Out

Transfers out to the Water and Sewer Enterprise fund are primarily to provide funding for current year capital projects and designate additional reserves for future capital projects. In 2012 there were no transfers to the Water and Sewer Enterprise fund.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

4. CAPITAL ASSETS

A. Government-Wide Financial Statements

At December 31, 2012, the District's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
Non-depreciable assets:			
Land	\$ 5,251,592	\$ -	\$ 5,251,592
Non-depreciable license	150,000		150,000
Construction in progress	461,515	2,603,083	3,064,598
	<u> </u>	<u> </u>	<u> </u>
Total non-depreciable assets	<u>5,863,107</u>	<u>2,603,083</u>	<u>8,466,190</u>
Depreciable assets:			
Water and sewer plant	-	60,938,440	60,938,440
Recreational facilities	36,558,879	-	36,558,879
Office building and equipment	3,923,938	4,688,142	8,612,080
Vehicles	411,442	1,477,151	1,888,593
	<u> </u>	<u> </u>	<u> </u>
Total depreciable assets	<u>40,894,259</u>	<u>67,103,733</u>	<u>107,997,992</u>
Less accumulated depreciation:			
Water and sewer plant	-	(36,604,606)	(36,604,606)
Recreational facilities	(15,255,228)	-	(15,255,228)
Office building and equipment	(1,771,642)	(2,147,967)	(3,919,609)
Vehicles	(245,526)	(777,861)	(1,023,387)
	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	<u>(17,272,396)</u>	<u>(39,530,434)</u>	<u>(56,802,830)</u>
Net depreciable assets	<u>23,621,863</u>	<u>27,573,299</u>	<u>51,195,162</u>
Total capital assets, net	<u><u>\$ 29,484,970</u></u>	<u><u>\$ 30,176,382</u></u>	<u><u>\$ 59,661,352</u></u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

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, 2012	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2012
Capital assets, not being depreciated:					
Land	\$ 1,817,381	\$ -	\$ -	\$ 3,434,211	\$ 5,251,592
Intangible license				150,000	150,000
Construction in progress	3,996,282	5,680,302		(9,215,069)	461,515
Total capital assets, not being depreciated	5,813,663	5,680,302	-	(5,630,858)	5,863,107
Capital assets, being depreciated:					
Recreational facilities	30,856,259	304,543		5,398,077	36,558,879
Office building and equipment	3,583,671	107,487		232,781	3,923,939
Vehicles	411,442	-			411,442
Total capital assets, being depreciated	34,851,372	412,030	-	5,630,858	40,894,260
Less accumulated depreciation for:					
Recreational facilities	(13,857,615)	(1,397,613)			(15,255,228)
Office building and equipment	(1,634,993)	(136,649)			(1,771,642)
Vehicles	(219,632)	(25,895)			(245,527)
Total accumulated depreciation	(15,712,240)	(1,560,157)	-	-	(17,272,397)
Net capital assets being depreciated	19,139,132	(1,148,127)	-	5,630,858	23,621,863
Governmental activities capital assets, net	\$ 24,952,795	\$ 4,532,175	\$ -	\$ -	\$ 29,484,970

Depreciation expense for capital assets during the year ended December 31, 2012 was charged to the different activities as follows:

Public works - parks	\$ 1,528,986
Recreation	31,170
Total	\$ 1,560,156

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

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, 2012	Additions	Retirements	Transfers/ Adjustments	Balance as of December 31, 2012
Capital assets, not being depreciated:					
Construction in progress	4,267,548	3,185,905		(4,850,370)	2,603,083
Total capital assets, not being depreciated	4,267,548	3,185,905	-	(4,850,370)	2,603,083
Capital assets, being depreciated:					
Water and sewer plant	56,088,070			4,850,370	60,938,440
Equipment	4,596,289	100,503	(8,650)		4,688,142
Vehicles	1,442,747	143,698	(109,294)		1,477,151
Total capital assets, being depreciated	62,127,106	244,201	(117,944)	4,850,370	67,103,733
Less accumulated depreciation for:					
Water and sewer plant	(35,430,471)	(1,174,135)			(36,604,606)
Equipment	(2,007,004)	(147,234)	6,271		(2,147,967)
Vehicles	(764,910)	(117,823)	104,872		(777,861)
Total accumulated depreciation	(38,202,385)	(1,439,192)	111,143	-	(39,530,434)
Net capital assets being depreciated	23,924,721	(1,194,991)	(6,801)	4,850,370	27,573,299
Business-type activities capital assets, net	28,192,269	1,990,914	(6,801)	-	30,176,382

Depreciation expense for capital assets for December 31, 2012 was charged to the different activities as follows:

Water	\$ 818,246
Sewer	620,946
Total	<u>\$ 1,439,192</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

5. UNEARNED REVENUE

Government-Wide Financial Statements

At December 31, 2012, 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 Activities		Total Governmental Activities	Business-Type Activities	Total
	Governmental Funds			Enterprise Fund	
	General Fund	Debt Service Fund	Water Sewer Fund		
Sidewalk maintenance revenue	\$ 940		\$ 940	\$ -	\$ 940
Golf minimum lease payment	15,648		15,648	-	15,648
Sidewalk principle and interest		8,229	8,229	-	8,229
Water system studies grant	-		-	97,932	97,932
Lake Forest Water Collection			-	83,769	83,769
Total	\$ 16,588	\$ 8,229	\$ 24,817	\$ 181,701	\$ 206,518

6. LONG TERM DEBT

The following is a summary of long-term debt transactions for the year ended December 31, 2012:

	Maturity Date	Interest Rate	Balance January 1, 2012	Additions	Retirements	Balance December 31, 2012	Current Portion	Due in More than One Year
Governmental Activities								
Sidewalk Improvement Bonds	2019	6.02%	\$ 100,105	\$ -	\$ (12,513)	\$ 87,592	\$ 12,513	\$ 75,079
Bank of America Loan - 2003	2013	3.58%	422,359	-	(279,068)	143,291	143,291	-
Bank of America Loan - 2004	2014	4.50%	175,879	-	(68,013)	107,866	71,108	36,758
Zions Bank Loan	2017	4.30%	1,300,296	-	(194,336)	1,105,961	202,782	903,179
State Water Resources Control Board	2028	1.80%	2,029,896	-	(103,104)	1,926,792	104,963	1,821,829
Taxable Pension Obligation Refunding Bonds	2019	4.05%	2,154,407		(251,054)	1,903,353	261,378	1,641,975
Total Governmental activities			\$ 6,182,942	\$ -	\$ (908,088)	\$ 5,274,855	\$ 796,035	\$ 4,478,820
Business-Type Activities								
2001 Refunding Bonds								
Series C	2021	6.05%	\$ 367,318	-	\$ (34,797)	\$ 332,521	\$ 38,836	\$ 293,685
Total Business-type activities			\$ 367,318	\$ -	\$ (34,797)	\$ 332,521	\$ 38,836	\$ 293,685

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

6. LONG TERM DEBT, Continued

Future principal and interest payments on all long-term debt were as follows at December 31, 2012:

For the Year Ending 12/31	Governmental Activities			
	Sidewalk Improvement Bonds		Bank of America Loans	
	Principal	Interest	Principal	Interest
2013	\$ 12,513	1,753	\$ 214,399	\$ 6,628
2014	12,513	1,502	36,758	827
2015	12,513	1,252	-	-
2016	12,513	1,002	-	-
2017	12,513	751	-	-
2018-2019	25,027	751	-	-
	<u>\$ 87,592</u>	<u>\$ 7,011</u>	<u>\$ 251,157</u>	<u>\$ 7,455</u>

For the Year Ending 12/31	Governmental Activities			
	Zions Bank Loan		State Water Resources Control Board	
	Principal	Interest	Principal	Interest
2013	\$ 202,783	\$ 45,399	\$ 104,963	\$ 34,740
2014	211,596	36,586	106,856	32,848
2015	220,792	27,390	108,783	30,921
2016	230,389	17,794	110,744	28,960
2017	240,401	7,780	112,741	26,963
2018-2020	-	-	350,565	68,545
2021-2025	-	-	627,700	70,817
2026-2028	-	-	404,440	14,671
	<u>\$ 1,105,961</u>	<u>\$ 134,949</u>	<u>\$ 1,926,792</u>	<u>\$ 308,465</u>

For the Year Ending 12/31	Governmental Activities		Business-Type Activities	
	Pension Refunding Bonds		2001 Refunding Bonds Series C	
	Principal	Interest	Principal	Interest
2013	\$ 261,378	\$ 73,149	\$ 38,836	\$ 6,121
2014	272,125	62,402	39,576	5,380
2015	283,315	51,212	40,331	4,626
2016	294,964	39,563	41,100	3,857
2017	307,093	27,434	71,883	3,073
2018-2021	484,478	17,313	100,795	4,368
	<u>\$ 1,903,353</u>	<u>\$ 271,073</u>	<u>\$ 332,521</u>	<u>\$ 27,425</u>

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

6. LONG TERM DEBT, Continued

Governmental Activities

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

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

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

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

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

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 2012 General Property Tax Pledged
Governmental Activities		
Bank of America Loan - 2003	\$ 145,856	2.8%
Bank of America Loan - 2004	75,171	1.5%
Bank of America Loan - 2011	334,526	6.5%
Zions Bank Loan	248,182	4.8%
State Water Resources Control Board	139,230	2.7%
2001 Refunding Bonds Series C	16,612	0.3%
Unpledged General Property Tax Revenues	4,216,548	81.5%
	<u>\$ 5,176,125</u>	<u>100.0%</u>
Total 2012 General Property Tax Revenues		

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

7. PLEDGES OF FUTURE REVENUES, Continued

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

The Series C 2001 Refunding Bonds are partially payable from supplemental user fees from water customers in a certain area. The series C 2001 Refunding Bonds constitute absolute and unconditional obligation 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, 2012 were as follows:

	Balance			Balance	Due within
	January 1, 2012	Additions	Retirements	December 31, 2012	One Year
Governmental Activities	\$ 166,981	\$ 183,415	\$ (170,020)	\$ 180,376	\$ 180,376
Business-Type Activities	193,599	172,796	(154,859)	211,536	211,536
Total	\$ 360,580	\$ 356,211	\$ (324,879)	\$ 391,912	\$ 391,912

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 POSITION

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

The following General Fund balance at December 31, 2012 is as follows. Non-spendable consists of prepaid items and inventory. The District has assigned \$450,000 in the General Fund for the long-term replacement of capital assets within the District Parks.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

9. FUND BALANCES / NET POSITION, Continued

General Fund Balance

Non-Spendable	\$ 65,553
Assigned	
Long-term capital replacement	450,000
Unassigned fund balance	1,804,519
Total Fund Balance General Fund	<u>\$ 2,320,072</u>

The District designated the unrestricted net position of the proprietary fund at December 31, 2012 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	<u>5,400,000</u>
Undesignated	<u>4,985,950</u>
Total	<u>\$ 10,385,950</u>

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.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

10. PENSION PLANS, Continued

Funding Policy. Participants are required to contribute 8% of their annual covered compensation to the Plan. Pursuant to labor contracts and policies, the District paid 7% through 12/31/2011 and beginning January 1, 2012, employees made a contribution of 3.4% of the required 8%. During the fiscal year the District paid \$158,036 and the employees paid \$102,623 of the required 8% contribution. The District is also required to contribute at an actuarially determined rate; the current rate is 15.178% 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 \$503,951 was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.55% to 14.45% depending upon age, service, and type of employment, and (c) 3.00% for inflation compounded annually. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payrolls on a closed basis. The average remaining amortization period at June 30, 2011 was 20 years for miscellaneous employees for prior and current service unfunded liability.

Four-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 673,081	100.0%	\$ -
2010	\$ 668,034	100.0%	\$ -
2011	\$ 589,521	100.0%	\$ -
2012	\$ 503,951	100.0%	\$ -

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

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

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

10. PENSION PLANS, Continued

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

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

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

A summary of the changes to the NPA for the year ended December 31, 2012 is as follows:

	Balance as of January 1, 2011	Additions	Deletions	Balance as of December 31, 2012
Business-Type Activities	\$ 2,154,033	\$ 166,938	(\$364,532)	\$ 1,956,439

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy - Contribution requirements are also negotiated among the District, the Union, and the informal bargaining group. The TCPUD currently contributes monthly maximums toward medical premiums of \$610.19 for a retiree with 2 or more dependents, \$477.54 for a retiree with 1 dependent, and \$238.77 for an individual retiree. The District pays the full cost of dental and vision benefits for eligible retirees and their dependents. Employees with less than 20 years of TCPUD service at retirement receive fractions of the monthly maximums for medical premiums described above based on years of service. During 2012, the District paid \$130,459 toward retiree medical premiums and \$28,574 for retiree dental and vision claims, which amounted to \$158,732, as contributions to OPEB. TCPUD also placed \$79,697 into the

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

California Employers' Retiree Benefit Trust, to be applied towards the OPEB obligation. This provided \$238,730 as total contributions in 2012.

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	\$ 234,968
Interest adjustment	3,762
Annual OPEB Expense	<u>238,730</u>
Contribution made	<u>238,730</u>
Increase in net OPEB asset	-
Net OPEB Asset - beginning of year	318,212
Net OPEB Asset - end of year	<u>\$ 318,212</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Retiree Health Plan, and the net OPEB asset for the fiscal year ended December 31, 2012 and the last three previous fiscal years are as follows:

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2009	\$ 236,552	222.0%	\$ 288,366
2010	\$ 215,902	108.0%	\$ 306,507
2011	\$ 235,854	105.0%	\$ 318,212
2012	\$ 238,730	100.0%	\$ 318,212

Funded Status and Funding Progress - As of December 31, 2012, the actuarial accrued liability for benefits was \$2,612,347, of which \$827,949 was funded in the California Employers' Retiree Benefit Trust. The covered payroll (annual payroll of active employees covered by the plan) was \$3,105,115, and the ratio of the unfunded actuarial liability to the covered payroll was 57.5%.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

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, 2012. The discount rate used is 7.61%. Salary increases are assumed to equal 3.25% per year. Mortality, turnover, and retirement rates are taken from CalPERS tables for employees in the District's retirement plan. Healthcare costs are projected based on the District's fixed contribution and dental and vision costs are projected to increase 4.5% per year. The unfunded actuarial liability is being amortized on a level dollar, closed basis over 30 years. The remaining amortization period at December 31, 2012 was 27 years.

12. RISK MANAGEMENT

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

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

	September 30, 2012
Total assets	\$ 188,033,750
Total liabilities	100,670,416
Total net assets	87,363,334
Total operating revenues	58,436,313
Total operating expenses	55,071,111

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

12. RISK MANAGEMENT, Continued

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 2012, the District did not significantly reduce its insurance coverage from the prior year. Furthermore, settlements have not exceeded insurance coverage for the past three fiscal years.

13. CONTINGENCIES AND LITIGATION

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

14. COMMITMENTS

The District has entered into contracts for construction with remaining commitments of approximately \$654,378 at December 31, 2012.

Tahoe City Public Utility District
Notes to Basic Financial Statements, Continued
For the year ended December 31, 2012

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 29 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 2012, the District has contracted with Auerbach Engineering Corporation for the following projects and provided payments in the amounts as follows:

Project Name	Amount
Chamberlands Water line replacement	34,102
Lake Forest Water Improvement District	130,755
Lake side Trail Design (all phases), Engineering, Construction	69,566
Lower McKinney Later Line Replacement	2,450
Lower Tahoe Tavern Heights	570
North Tahoe Fire Protection District Joint Wetland Project	50,508
Observation / Edgewater PRV Station	1,007
Old Dollar Point Pump Station	51,930
Sqaw Valley Bike Trail	30
Woodview-Woodhill Water Main	6,160
Woodview Four Season	36,173
	383,251

16. SUBSEQUENT EVENT - EMINENT DOMAIN PROCEEDING

On June 4, 2010, the TCPUD filed an action in the Superior Court of the State of California, County of Placer. The action sought 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 TCPUD was granted possession of the Lake Forest System and on October, 29 2012, through a final order of condemnation, acquired ownership. The TCPUD still awaits the California Public Utilities Commission approval of the transfer of the water facilities. The TCPUD fully expects the CPUC to approve the transfer mid-2013.

**REQUIRED
SUPPLEMENTARY INFORMATION**

**Tahoe City Public Utility District
Required Supplementary Information
For the year ended December 31, 2012**

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, 2012**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Fees	\$ 494,910	\$ 494,910	\$ 546,600	\$ 51,690
Property taxes	4,039,927	4,039,927	4,157,073	117,146
Interest	3,000	3,000	(268)	(3,268)
Grants	1,862,600	1,862,600	4,713,215	2,850,615
Other	72,650	72,650	92,208	19,558
Total revenues	6,473,087	6,473,087	9,508,828	3,035,741
EXPENDITURES:				
Current:				
Public works - Parks	2,069,267	2,069,267	1,885,281	183,986
Recreation	709,412	709,412	844,912	(135,500)
Other operating	93,000	93,000	164,734	(71,734)
Capital outlay	1,810,500	1,810,500	6,092,228	(4,281,728)
Total expenditures	4,682,179	4,682,179	8,987,155	(4,304,976)
REVENUES OVER (UNDER) EXPENDITURES	1,790,908	1,790,908	521,673	(1,269,235)
OTHER FINANCING SOURCES (USES):				
Proceeds from sales of asset	10,000	10,000	300	(9,700)
Transfers out to other funds	(2,000,000)	(2,000,000)	-	2,000,000
Total other financing sources (uses)	(1,990,000)	(1,990,000)	300	1,990,300
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (199,092)	\$ (199,092)	521,973	\$ 721,065
FUND BALANCES:				
Beginning of year			1,798,099	
End of year			\$ 2,320,072	

Tahoe City Public Utility District
Required Supplementary Information, Continued
For the year ended December 31, 2012

RETIREE HEALTH PLAN (OPEB) - SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress for the Retiree Health Plan is presented below. The District adopted and implemented GASB 45 on January 1, 2009. Four years of valuations are presented.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) - Entry Age Normal (B)	Unfunded (Overfunded) AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2009	\$ 407,672	\$ 2,205,084	\$ 1,797,412	18.5%	\$ 3,103,064	57.9%
12/31/2010	560,694	2,323,483	1,762,789	24.1%	3,203,913	55.0%
12/31/2011	647,508	2,405,829	1,758,321	26.9%	3,295,547	53.4%
12/31/2012	827,949	2,612,347	1,784,398	31.7%	3,105,115	57.5%