

**DONNER SUMMIT PUBLIC UTILITY DISTRICT**

**Financial Statements**

**June 30, 2006**

**(With Independent Auditor's Report Thereon)**

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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June 30, 2006

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**GIBSON & COMPANY, INC.**  
**CERTIFIED PUBLIC ACCOUNTANT**

4600 NORTHGATE BLVD., SUITE 115 • SACRAMENTO, CALIFORNIA 95834-1121  
(916) 484-1252 FAX (916) 484-1123  
WEBSITE WWW.GIBSONCOCPA.COM

MICHAEL V. GIBSON, C.P.A.

PATRICIA A. FAITH, C.P.A.

CATHERINE E. GIBSON, C.P.A.

JOSEPH A. JULIO, C.P.A.

THERESA McLENDON, ADMIN.

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Donner Summit Public Utility District

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Donner Summit Public Utility District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As more fully described in Note 12 to the financial statements, the District is currently seeking recovery of \$62,400 for services provided where the funds were directed to another governmental agency. This amount is recognized in these statements. The ultimate disposition of this recovery is unknown at this time.

As more fully described in Note 13 to the financial statements, the California Regional Water Quality Control Board has sent a preliminary notice to the District proposing a penalty of \$216,000. This amount is not recognized in these statements. The ultimate disposition of the preliminary notice of penalty is unknown at this time.

In our opinion, except for the effects of such adjustments, if any, as might be determined to be necessary in the future, as discussed in the preceding paragraph and in Notes 12 and 13, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the business-type activities of Donner Summit Public Utility District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the governmental activities and the business-type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

GIBSON & COMPANY, INC.  
CERTIFIED PUBLIC ACCOUNTANT  
*Gibson & Company, Inc.*  
*Certified Public Accountant*

May 2, 2007  
Sacramento, California

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2006

This section of the District's annual financial report is provided as supplementary information to the audited financial statements. It is Management's intention that this information provides the financial statement reader with a brief and concise overview and analysis of the District's financial activities for the fiscal year ended June 30, 2006.

**REQUIRED FINANCIAL STATEMENTS**

The District's annual report consists of: Management's Discussion and Analysis, Financial Statements, and Notes to the Financial Statements.

The basic financial statements following this discussion are: Statement of Net Assets, Statement of Activities and Changes in Net Assets, and Statement of Cash Flows. The District's basic statements report "Governmental Activities" of the Fire and Rescue operations, and "Business-Type Activities" of the Water and Sewer operations. Following the basic financial statements are Notes to the Financial Statement that provide accounting methodology and other disclosures related to specifically identified financial statement reporting. The basic financial statements include Fund Financial Statements that consist of Balance Sheets, Statements of Activity – Budget and Actual, and various reconciling statements.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2006

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Our analysis below focuses on the net assets and changes in net assets of the District's governmental and business-type activities.

Net Assets (In Thousands)

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Current and other assets	\$ 217	1,901	2,118
Capital assets	489	3,671	4,160
Total Assets	706	5,572	6,278
Long-term debt outstanding	-0-	3,180	3,180
Other liabilities	131	959	1,090
Total Liabilities	131	4,139	4,270
 Net Assets			
Invested in property and equipment, net of related debt	489	1,730	2,219
Restricted for debt payment	-0-	137	137
Unrestricted	86	(434)	(348)
Total Net Assets	\$ 575	1,433	2,008

Changes in Net Assets (In Thousands)

Program revenue	\$ 580	1,350	1,930
General revenues			
Property tax	116	81	197
Grants	12	-0-	12
Interest and other	18	32	50
Contributed capital	-0-	695	695
Total revenues	726	2,158	2,884
Expenses	1,063	1,656	2,719
Increase (Decrease) in net assets	\$ (337)	502	165

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2006

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2005/06**

- The District's assets exceeded liabilities at the close of the fiscal year by \$2,008,345. This represents the net assets (value) of the District as of June 30, 2006.
- The District budgets and funds current year capital outlays, rather than accrued depreciation. Therefore, to the degree that the District meets its obligations through current operating revenues, the fund balance is expected to decrease by the amount of depreciation expense. Although total depreciation expense for the current fiscal year was \$610,623, total revenues exceeded expenses by \$164,920, indicating that the District exceeded expectations by approximately \$775,543 for the current fiscal year. As the District's financial position continues to strengthen over the next several years, Management anticipates that it will begin budgeting and funding future reserves so as to maintain constant growth of the fund balance.
- The District paid off long-term debt of \$195,954 during the current fiscal year.
- The District borrowed long-term debt of \$2,340,470 during the current fiscal year..
- The District's total revenues increased by \$59,447 from June 30, 2005 to June 30, 2006.
- The District's total expenses increased by \$171,275 from June 30, 2005 to June 30, 2006.
- The District's utility service revenues exceeded the prior year by approximately \$155,455.
- The District received \$695,317 of capital contributions during the current fiscal year.
- The District purchased \$1,399,429 of capital improvements during the current fiscal year.

(Continued)

# DONNER SUMMIT PUBLIC UTILITY DISTRICT

## Management's Discussion and Analysis

For the Year Ended June 30, 2006

### **FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2005/06 (CONTINUED)**

- The District earned grant revenues from FEMA of \$12,182 during the current fiscal year for the purchase of firefighting equipment and personal protective equipment.
- The District retained a plant manger on a consulting basis during the current fiscal year, thereby reducing Salary expense and increasing Professional Fees nearly proportionately.
- Due to the implementation of GASB#34, the District no longer expenses Capital Outlay in the District's proprietary fund. Rather, all capital acquisitions are recorded as Assets on the District's Statement of Net Assets, and appropriate depreciation of those assets is recorded as Depreciation Expense. Accordingly, Capital Outlay Expense is zero in the current fiscal year, and Depreciation expense increased \$18,065 between June 30, 2005 and June 30, 2006.
- Effective July 1, 2006 Truckee Fire Protection District (TFPD) will annex the fire service area of Donner Summit Public Service District (DSPUD). DSPUD will also transfer to TFPD all fire service resources, revenues (earned after July 1, 2006), and responsibilities to TFPD. The Governmental Fund reported on in this financial statement is the fire service area

### **NEXT YEAR BUDGET AND RATES**

The Board of Directors adopted the Districts 2006/07 budget on June 20, 2006. The District's rates were reviewed by the Board of Directors and will be adjusted during 2006/07 to provide for continued growth and financial stability of the District.

### **ADDITIONAL FINANCIAL INFORMATION**

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations for the year ended June 30, 2006 and the District's financial condition as of June 30, 2006. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Donner Summit Public Utility District General Manager, Tom Skjelstad, at P.O. Box 610, Soda Springs, California 95728 or call 530-426-3456.



DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Assets

June 30, 2006

Assets

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Current Assets</b>			
Cash (Note 2)	\$ 60,315	140,438	200,753
Restricted cash (Note 2)	-0-	1,253,261	1,253,261
Investments (Note 2)	-0-	2,698	2,698
Accounts receivable	119,557	198,648	318,205
Allowance for doubtful accounts	(51,622)	(14,514)	(66,136)
Net accounts receivable	67,935	184,134	252,069
Taxes receivable	8,561	5,358	13,919
Other receivable	76,076	-0-	76,076
Capital improvements reimbursement receivable	-0-	258,836	258,836
Prepaid expenses	4,307	56,714	61,021
Total Current Assets	217,194	1,901,439	2,118,633
<b>Noncurrent Assets</b>			
Property and equipment, net (Note 3)	489,072	3,670,987	4,160,059
Total Noncurrent Assets	489,072	3,670,987	4,160,059
Total Assets	\$ 706,266	5,572,426	6,278,692

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Assets

June 30, 2006

Liabilities and Net Assets

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 35,147	131,643	166,790
Accrued expenses	96,279	71,337	167,616
Interest payable	-0-	55,104	55,104
Deferred income	-0-	701,050	701,050
Current portion of long-term debt (Note 4)	-0-	124,841	124,841
Total Current Liabilities	131,426	1,083,975	1,215,401
<b>Noncurrent Liabilities</b>			
Long-term debt (Note 4)	-0-	3,054,946	3,054,946
Total Noncurrent Liabilities	-0-	3,054,946	3,054,946
Total Liabilities	131,426	4,138,921	4,270,347
<b>Net Assets</b>			
Invested in property and equipment, net of related debt	489,072	1,729,652	2,218,724
Restricted for debt payment (Note 10)	-0-	137,480	137,480
Unrestricted	85,768	(433,627)	(347,859)
Total Net Assets	574,840	1,433,505	2,008,345
Total Liabilities and Net Assets	\$ 706,266	5,572,426	6,278,692

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Program Revenue			
County service area fee	\$ 226,510	-0-	226,510
Ambulance service	353,433	-0-	353,433
Water fees	-0-	240,824	240,824
Sewer fees	-0-	1,108,786	1,108,786
	<hr/>	<hr/>	<hr/>
Total Program Revenue	579,943	1,349,610	1,929,553
Expenses			
Salaries	350,613	179,750	530,363
Employee benefits	185,182	50,691	235,873
Board expense	-0-	10,100	10,100
Professional fees	97,426	356,854	454,280
Equipment maintenance and repair	2,414	110,362	112,776
Operating supplies	13,204	19,845	33,049
Vehicle maintenance and repair	28,631	18,876	47,507
Facility maintenance and repair	829	25,647	26,476
Other maintenance and operations	5,496	-0-	5,496
Dues and subscriptions	-0-	2,590	2,590
Fees, permits and certifications	4,177	22,612	26,789
Training and education	5,514	1,888	7,402
Insurance	38,585	20,370	58,955
Office supplies	3,151	14,185	17,336
Utilities, communications and telemetry	7,108	160,513	167,621
Bad debt	87,693	-0-	87,693
Other expenses	8,093	1,039	9,132
Chemicals and lab supplies	-0-	115,340	115,340
Small tools and rental	-0-	6,858	6,858

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Expenses (Continued)			
Sludge removal	\$ -0-	5,626	5,626
Depreciation	91,351	519,272	610,623
Interest	-0-	143,134	143,134
Amortization land lease	-0-	4,375	4,375
Administrative support fee	134,124	(134,124)	-0-
	1,063,591	1,655,803	2,719,394
 Net Program Revenue (Expense)	 (483,648)	 (306,193)	 (789,841)
General Revenues			
Property tax	115,862	80,673	196,535
Grants	12,182	-0-	12,182
Interest	911	14,866	15,777
Other	18,130	16,820	34,950
	147,085	112,359	259,444
Contributed capital	-0-	695,317	695,317
 Increase (Decrease) in Net Assets	 (336,563)	 501,483	 164,920
Net Assets – Beginning of Year	911,403	932,022	1,843,425
Net Assets – End of Year	\$ 574,840	1,433,505	2,008,345

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Cash Flows from Operating Activities:			
Cash receipts from customers	\$ 427,061	1,275,682	1,702,743
Cash payments to suppliers for goods and services	(538,595)	(902,738)	(1,441,333)
Cash payments to employees for services	(370,626)	(163,157)	(533,783)
Other receipts	18,130	16,820	34,950
Net Cash Provided (Used) by Operating Activities	(464,030)	226,607	(237,423)
Cash Flows From Non-Capital Financing Activities:			
Receipt of property taxes	114,238	79,050	193,288
Net Cash Provided By Non-Capital Financing Activities	114,238	79,050	193,288
Cash Flows From Capital and Related Financing Activities:			
Contributed capital	-0-	436,481	436,481
Proceeds from long-term debt	-0-	2,340,470	2,340,470
Repayment of long-term debt	-0-	(195,954)	(195,954)
Interest paid on long-term debt	-0-	(112,375)	(112,375)
Net Cash Provided By Capital and Related Financing Activities	-0-	2,468,622	2,468,622
Cash Flows From Investing Activities:			
Purchase of capital assets	(3,514)	(1,395,915)	(1,399,429)
Interest received on cash and investments	911	14,866	15,777
Net Cash Used By Investing Activities	(2,603)	(1,381,049)	(1,383,652)
Net Increase (Decrease) In Cash	(352,395)	1,393,230	1,040,835
Cash and Cash Equivalents - Beginning of Year	412,710	3,167	415,877
Cash and Cash Equivalents - End of Year	\$ 60,315	1,396,397	1,456,712

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Reconciliation of Increase (Decrease) in Net Assets to Net Cash Provided (Used) by operating activities:			
Increase (decrease) in net assets	\$ (336,563)	501,483	164,920
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	91,351	519,272	610,623
Non-operating revenue	(128,955)	(790,856)	(919,811)
Non-operating expenses	-0-	145,348	145,348
(Increase) decrease in:			
Accounts receivable, net	10,887	(73,928)	(63,041)
Other receivable	(76,076)	-0-	(76,076)
Prepaid expenses	17	(47,187)	(47,170)
Increase (decrease) in:			
Accounts payable	(972)	29,381	28,409
Accrued expenses	(23,719)	(56,906)	(80,625)
Total adjustments	(127,467)	(274,876)	(402,343)
Net Cash Provided (Used) By Operating Activities	\$ (464,030)	226,607	(237,423)

See the accompanying notes to the financial statements

# DONNER SUMMIT PUBLIC UTILITY DISTRICT

## Notes to the Financial Statements

June 30, 2006

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Donner Summit Public Utility District (the "District") operates under a state charter adopted March 24, 1950. The District operates under a board-manager form of government and provides water, sewer, fire, ambulance, and rescue services.

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

#### Basis of Accounting/Measurement Focus

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

#### Government-Wide Financial Statements

The District Financial Statements include a Statement of Net Assets, a Statement of Activities and Changes in Net Assets and a Statement of Cash Flows. These statements present summaries of governmental and business-type activities for the District accompanied by a total column.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred.

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

(Continued)

# DONNER SUMMIT PUBLIC UTILITY DISTRICT

## Notes to the Financial Statements

June 30, 2006

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Government-Wide Financial Statements (Continued)

The District applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinion, and Accounting Research Bulletins of the committee on Accounting Procedure. The District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

#### Governmental Fund

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

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

#### Proprietary Fund

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

(Continued)



DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund (Continued)

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues.

Budgets and Budgetary Accounting

By state law, the District's governing board must adopt a budget prior to the beginning of each fiscal year. The budget must be adopted in a properly noticed meeting.

Actual revenues and expenditures/expenses are compared to budgeted amounts monthly as a management control device for all budgeted funds. The District monitors capital expenditures by comparison to specific project appropriation accounts.

The District prepares its budgets on the cash basis of accounting. The nature and amount of adjustments necessary to reconcile the budget to GAAP are immaterial other than depreciation expense. A budget is prepared for the governmental and business-type activities.

Reserved Net Assets

The District records reserves to indicate that a portion of the net asset balance is legally segregated for a specific future use. Designated net asset balances represent tentative plans for future use of financial resources.

Deferred Financing Charges

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

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property & Equipment

Property and equipment having an extended useful life are capitalized as property and equipment at cost.

All property and equipment is valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Maintenance and repair costs are charged to expenses as incurred. Replacements and capital improvements over \$2,500 are charged to property and equipment accounts.

Fixed assets are recorded in their respective fund. Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Facilities	5-50 years
Vehicles, furniture and equipment	3-25 years

Deferred Income

Deferred income consists of cash deposits made by customers in exchange for the right to future sewer connections for Equivalent Dwelling Units (EDUs), as well as unearned Grant awards and other unearned revenues.

Revenue Recognition – Property Taxes

Placer and Nevada Counties bill property taxes which attach as an enforceable lien on property. Property tax revenues are recognized when they become available. Available revenues include those property tax receivables expected to be collected within sixty days after year end. The Counties allocate property taxes to the District following the alternate method of property tax distribution as stated in California Revenue & Taxation Code Section 4701. Using this method, the Counties allocate to the District their portion of total billed property taxes less an estimated delinquency factor. The Counties then assume all responsibility for collections.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

It is the District's policy to permit employees to accumulate general leave benefits of up to 392 hours, which will be paid to the employee upon separation from District service. This accrual represents the estimated probable future payments attributable to employees' service for all periods prior to June 30, 2006 at their current rate of pay.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Statement of Cash Flows

For the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2006, all cash and investments held by the District are considered to be cash equivalents.

(2) CASH AND INVESTMENTS

A summary of cash and investments held by the District at June 30, 2006 is as follows:

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Cash on hand	\$ -0-	200	200
Cash on deposit at banks	60,315	140,238	200,553
Cash on deposit at banks - restricted	-0-	121,676	121,676
Cash in money market funds-restricted	-0-	1,131,585	1,131,585
Investments	-0-	2,698	2,698
	\$ 60,315	1,396,397	1,456,712

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(2) CASH AND INVESTMENTS (CONTINUED)

All cash balances on deposit at banks are entirely insured or collateralized. The California Government Code requires California banks and savings and loans to secure a District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. Such collateral, as permitted by the State of California, is held in each respective bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged against all of the public deposits it holds.

With the exception of deposit insurance provided by the Federal Deposit Insurance Corporation, this collateralizing process is categorized by GASB Statement No. 3 as being collateralized with securities held by the pledging financial institution or its agent but not in the District's name.

The District has not adopted policies related to credit risk, custodial credit risk, concentration of credit risk, and interest rate risk.

The District's investment in the State investment pool is categorized by GASB Statement No. 3 as Category A investments since these investments are fully insured by the related entity. The investment pool does not release a credit quality.

Investments of the District are summarized as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
State of California Local Agency Investment Fund	\$ 2,698	2,693

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(3) PROPERTY AND EQUIPMENT

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

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Fire equipment	\$ 931,152	3,514	1,710	932,956
Ambulance equipment	203,924	-0-	-0-	203,924
Construction in progress	<u>47,271</u>	<u>-0-</u>	<u>-0-</u>	<u>47,271</u>
Total Property and Equipment	1,182,347	<u>3,514</u>	<u>1,710</u>	1,184,151
Accumulated Depreciation	<u>605,438</u>	<u>91,351</u>	<u>1,710</u>	<u>695,079</u>
Net Book Value	<u>\$ 576,909</u>			<u>489,072</u>

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

	Balance June 30, 2005	Additions	Deletions	Transfers	Balance June 30, 2006
Land	\$ 72,623	-0-	-0-	-0-	72,623
Sewage collection, treatment and disposal facilities	9,717,272	8,435	4,305	-0-	9,721,402
Sewage equipment	2,099	-0-	-0-	-0-	2,099
Water treatment and distribution facilities	2,155,432	17,847	-0-	9,388	2,182,667
Water equipment	291,320	-0-	2,360	-0-	288,960
Water and sewage equipment	240,389	-0-	-0-	-0-	240,389
Vehicles	64,835	-0-	15,045	-0-	49,790
Office furniture and equipment	51,474	-0-	3,453	-0-	48,021
Construction in process	<u>839,566</u>	<u>1,369,633</u>	<u>-0-</u>	<u>(9,388)</u>	<u>2,199,811</u>
Total Property and Equipment	13,435,010	<u>1,395,915</u>	<u>25,163</u>	<u>-0-</u>	14,805,762
Accumulated Depreciation	<u>10,640,666</u>	<u>519,272</u>	<u>25,163</u>	<u>-0-</u>	<u>11,134,775</u>
Net Book Value	<u>\$ 2,794,344</u>				<u>3,670,987</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

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

Long-term debt as of June 30, 2006, is summarized as follows:

1971 General Obligation Bonds; interest at 5.75% payable on December 1 and June 1; principal payable in annual redemptions from \$16,000 to \$20,000; final payment due June 1, 2011.	\$ 92,000
1971 General Obligation Bonds; interest at 5.75% payable on December 1 and June 1; principal payable in annual redemptions from \$15,000 to \$18,000; final payment due June 1, 2011.	86,000
State of California Department of Water Resources loan; collateralized by property and revenues of the District; interest at 4.14%; interest and principal payable in semi-annual installments of \$9,133 on October 1 and April 1; final payment due October 1, 2018.	176,885
Loan payable to Municipal Service Group, Inc., collateralized by sewer and water revenues; interest at 5.62%; interest and principal payable in semi-annual installments of \$52,570 on September 23 and March 23; final payment due September 23, 2025.	1,236,005
Loan payable to Municipal Service Group, Inc., collateralized by sewer and water revenues; interest at 5.62%; interest and principal payable in semi-annual installments of \$66,644 on August 15 and February 15; final payment due February 15, 2026.	<u>1,588,897</u>
Total Long-Term Debt	3,179,787
Less Current Portion of Long-Term Debt	<u>124,841</u>
Long-Term Debt Net of Current Portion	<u>\$ 3,054,946</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

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

Changes to the District's Long-Term Debt is as follows:

Net Long-Term Debt - Beginning of Year	\$ 1,033,057
New Long-Term Debt	2,340,470
Repayment of Long-Term Debt	(195,954)
Amortization of defeased 1985 Sewer Revenue Bonds	<u>2,214</u>
 Net Long-Term Debt - End of Year	 <u>\$ 3,179,787</u>

The annual requirements to amortize District long-term debt as of June 30, 2006 is as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 124,841	175,088	299,929
2008	131,908	168,124	300,032
2009	137,257	160,763	298,020
2010	144,903	153,104	298,007
2011	151,863	145,016	296,879
2012 through 2016	671,005	612,468	1,283,473
2017 through 2021	830,999	406,892	1,237,891
2022 through 2026	987,011	152,565	1,139,576
	<u>\$ 3,179,787</u>	<u>1,974,020</u>	<u>5,153,807</u>

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

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

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(5) PROCEEDS OF TAX LIMITATION

Article XIIB of the California Constitution, as implemented by SB 1352 of 1980, specifies that proceeds of taxes of governmental entities may increase by an amount not to exceed the change in population, and the change in the United States Consumer Price Index or California per capita personal income, whichever is less.

The proceeds of taxes limit for the fiscal year ended June 30, 2006 was \$1,995,469.

The proceeds of taxes limitation adopted by the District for the year ended June 30, 2007 is \$2,085,464.

The District is allowed to assess a property tax rate sufficient to cover its debt service requirements for the general obligation bonds for the business-type activities. These funds are restricted for debt service exclusively.

(6) RETIREMENT PLANS

The District funds a Money Purchase Pension Plan for its employees who have attained age 18, been employed for 12 months and have worked a minimum of 1,000 hours in order to be eligible to participate in the plan. The contribution ranges from 4% to 6% of the annual compensation for all qualified employees. Covered payroll for the year ended June 30, 2006, was \$559,334 and total payroll was \$604,230. The plan expense for the year ended June 30, 2006 was \$41,400, of which \$26,498 relates to current year benefits and \$14,902 related to a recalculation of prior year benefits.

A 457 Deferred Compensation Plan has also been established by the District with Nationwide Retirement Solutions. Employees who completed ninety days of continuous service may elect to defer compensation up to 100% of their salary or \$15,000 (\$20,000 if employee will have obtained age 50 by the end of the calendar year), whichever is less. This Plan is fully funded with Nationwide Retirement Solutions.

It is the District's position that it has a fiduciary obligation for the due care required of a prudent investor in the management of the plan's resources but is not responsible for any loss due to the investment or failure of investment funds and assets of the plan, nor shall the District be required to replace any loss which may result from such investments.



DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(7) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of two Joint Powers Authorities for the operation of common risk management and insurance programs. The programs cover workers' compensation, property, liability and employees dishonesty insurance. The Authorities are governed by Executive Boards consisting of representatives from member districts. The Executive Boards control the operations of the Authorities, including selection of management and approval of operating budgets.

The relationship between the District and the Joint Powers Authorities is such that the Authorities are not a component unit of the District for financial reporting purposes.

For workers' compensation insurance, the District has joined together with other special districts within the state to form the Special Districts Workers' Compensation Authority ("SDWCA"). The District pays estimated annual premiums to the SDWCA based upon estimated payroll classified into rate categories pursuant to the rules published by the California Workers' Compensation Insurance Rating Bureau. Actual premium due is determined after the fiscal year end and is based upon actual payroll. The SDWCA is entitled to assess additional premiums or to refund premiums based upon a pro rata allocation of the District's premium paid to total premiums paid. The District is not assessed additional premiums or refunded premiums on an individual basis based upon claims or loss experience. The SDWCA agrees to pay all amounts legally required by California workers' compensation laws. The amounts of settlements have not exceeded coverage provided by SDWCA for the last three fiscal years.

For property, liability and employees dishonesty insurance, the District has joined together with other special districts within the state to form the Special Districts Risk Management Authority ("SDRMA"). The District pays an annual premium to SDRMA for its property, liability and employees dishonesty coverage. The SDRMA is entitled to assess additional premiums or to refund premiums based upon a pro rata allocation of the District's premium paid to total premiums paid. The District is not assessed additional premiums or refunded premiums on an individual basis based upon claims or loss experience. The amounts of settlements have not exceeded coverage provided by SDRMA for the last three fiscal years.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2006

(8) LEASE AND RENTAL COMMITMENTS

The District leases office equipment under operating leases. Future minimum lease payments at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	
2007	\$ 5,573
2008	5,573
2009	5,431
2010	3,869
2011	<u>3,224</u>
	<u>\$ 23,670</u>

Total rent expense was \$5,260 for the year ended June 30, 2006.

(9) COMMITMENTS

The District has been ordered to meet certain waste discharge requirements mandated by the California Regional Water Quality Control Board by April 2007. Total cost of compliance with these regulations is estimated to be at least \$2.2 million.

Compliance with these regulations will be met through a multi-phase project schedule. Phases one and two of the project have been completed for \$2,080,704 and the project is currently in the preliminary operational stage.

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

(10) RESTRICTED NET ASSETS

A portion of the net asset balance has been restricted in accordance with provisions of the debts due to the State of California Department of Water Resources and Municipal Services Group, Inc. The Department of Water Resources provision requires the District to maintain an amount equal to two semi-annual loan payments in a reserve account. Each of the Municipal Services Group, Inc. provisions requires the District to maintain an amount equal to one semi-annual loan payment in a reserve account.

# DONNER SUMMIT PUBLIC UTILITY DISTRICT

## Notes to the Financial Statements

June 30, 2006

### (11) SUBSEQUENT EVENTS

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

### (12) DISPUTED REVENUE PAYMENT – NEVADA COUNTY SERVICE AREA NO. 31

During the fiscal year, the District became aware that certain payments totaling \$62,400 due from the County of Nevada related to fire services provided by the District to County Service Area No. 31 were instead paid to another governmental agency. The District is currently working with the other governmental agency and the County of Nevada to recover those funds. These payments are due the District's fire service, which as indicated in Note 11 is being annexed by Truckee Fire Protection District. Although the status of the recovery of these funds is currently undeterminable, the revenue related to this item is included in the District's financial statements.

### (13) CALIFORNIA REGIONAL WATER QUALITY CONTROL BOARD – PROPOSED PENALTY

The California Regional Water Quality Control Board sent a preliminary notice to the District in October 2006 of a proposed penalty in the amount of \$216,000 related to alleged effluent limitation violations of waste discharge requirements that occurred from 2000 through June 2006. The District believes that several of the alleged violations are false. In addition, the District believes that it will be exempted from payment for the remaining penalty related to the remaining violations based on a designation by the State Water Resources Control Board in October 2006 that the District serves a "Small Community with a Financial Hardship." However, the California Regional Water Quality Control Board has not yet responded to the District's position. Accordingly, no liability for this notice is included in the District's financial statements.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2006

Assets

	Primary Government	
	Governmental Fund	Proprietary Fund
<b>Current Assets</b>		
Cash	\$ 60,315	140,438
Restricted cash	-0-	1,253,261
Investments	-0-	2,698
Accounts receivable	29,958	198,648
Allowance for doubtful accounts	-0-	(14,514)
Net accounts receivable	29,958	184,134
Taxes receivable	8,561	5,358
Other receivable	13,676	-0-
Capital improvements reimbursement receivable	-0-	258,836
Prepaid expenses	4,307	56,714
Total Current Assets	116,817	1,901,439
<b>Noncurrent Assets</b>		
Property and equipment, net	-0-	3,670,987
Total Noncurrent Assets	-0-	3,670,987
Total Assets	\$ 116,817	5,572,426

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2006

Liabilities and Fund Balances

	Primary Government	
	Governmental Fund	Proprietary Fund
Liabilities		
Current Liabilities		
Accounts payable	\$ 35,147	131,643
Accrued expenses	96,279	71,337
Interest payable	-0-	55,104
Deferred income	-0-	701,050
Current portion of long-term debt	-0-	124,841
Total Current Liabilities	131,426	1,083,975
Noncurrent Liabilities		
Long-term debt	-0-	3,054,946
Total Noncurrent Liabilities	-0-	3,054,946
Total Liabilities	131,426	4,138,921
Fund Balances		
Invested in property and equipment, net of related debt	-0-	1,729,652
Restricted for debt payment	-0-	137,480
Unrestricted	(14,609)	(433,627)
Total Fund Balances	(14,609)	1,433,505
Total Liabilities and Fund Balances	\$ 116,817	5,572,426

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

June 30, 2006

Fund balance of governmental fund	\$	(14,609)
Amounts reported for governmental activities in the statement of net assets are different because:		
Accounts receivable that the District does not expect to collect within 60 days of the end of the fiscal year are not available as current financial resources and are therefore not reported in the Governmental Fund Balance Sheet		
		37,977
Other receivable that the District does not expect to collect within 60 days of the end of the fiscal year are not available as current financial resources and are therefore not reported in the Governmental Fund Balance Sheet		
		62,400
Property and Equipment used in governmental activities are not financial resources and therefore are not reported in governmental funds:		
Fire equipment	\$	932,956
Ambulance equipment		203,924
Construction in progress		47,271
Less accumulation depreciation		<u>(695,079)</u>
Net Book Value		<u>489,072</u>
Net assets of governmental activities	\$	<u><u>574,840</u></u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Budget Variance (Over) Under
<b>Program Revenue</b>			
County service area fee	\$ 200,000	164,110	35,890
Fire and rescue service	10,000	-0-	10,000
Ambulance service	420,000	263,233	156,767
Total Program Revenue	630,000	427,343	202,657
<b>Expenditures</b>			
Salaries	397,000	350,613	46,387
Employee benefits	120,500	185,182	(64,682)
Professional fees	198,000	97,426	100,574
<b>Maintenance and operations:</b>			
Equipment maintenance and repair		2,414	
Operating supplies		13,204	
Vehicle maintenance and repair		28,631	
Facility maintenance and repair		829	
Other		5,496	
Total maintenance and operations	94,500	50,574	43,926
<b>Other Operating Expenses:</b>			
Dues and subscriptions		-0-	
Fees, permits and certifications		4,177	
Training and education		5,514	
Insurance		38,585	
Office supplies		3,151	
Utilities, communications and telemetry		7,108	

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Budget Variance (Over) Under
Expenses (Continued)			
Other Operating Expenses: (Continued)			
Other	\$	8,093	
Total other operating expenses	45,600	66,628	(21,028)
Administrative Support Fee	88,652	134,124	(45,472)
Capital Outlays	-0-	3,514	(3,514)
Total Expenditures	944,252	888,061	56,191
Net Program Revenue (Expenditures)	(314,252)	(460,718)	146,466
General Revenues			
Property tax	103,000	115,862	(12,862)
Grants	-0-	12,182	(12,182)
Interest	-0-	911	(911)
Other	2,000	18,130	(16,130)
Total General Revenues	105,000	147,085	(42,085)
Increase (Decrease) in Fund Balance	\$ (209,252)	(313,633)	104,381
Fund Balance -- Beginning of Year		299,024	
Fund Balance -- End of Year		\$ (14,609)	

See the accompanying notes to the financial statements



DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

For the Year Ended June 30, 2006

Increase (Decrease) in fund balance – governmental fund	\$	(313,633)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental fund reports capital outlay for property and equipment as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Plus – Capital Outlays		3,514
Less – current year depreciation expense		(91,351)
Revenue timing differences result in less revenue in government-wide statements		<u>64,907</u>
Increase (Decrease) in net assets of governmental activities	\$	<u>(336,563)</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Budget and Actual  
Proprietary Fund

For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Budget Variance (Over) Under
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Program Revenue			
Water fees	\$ 211,545	240,824	(29,279)
Sewer fees	940,731	1,108,786	(168,055)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Program Revenue	1,152,276	1,349,610	(197,334)
Expenses			
Salaries	193,788	179,750	14,038
Employee benefits	87,975	50,691	37,284
Board expense	17,205	10,100	7,105
Professional fees	447,076	356,854	90,222
Equipment maintenance and repair	16,000	110,362	(94,362)
Operating supplies	1,600	19,845	(18,245)
Vehicle maintenance and repair	14,028	18,876	(4,848)
Facility maintenance and repair	10,000	25,647	(15,647)
Dues and subscriptions	2,764	2,590	174
Fees, permits and certifications	48,162	22,612	25,550
Training and education	3,000	1,888	1,112
Insurance	51,500	20,370	31,130
Office supplies	4,500	14,185	(9,685)
Utilities, communications and telemetry	160,742	160,513	229
Bad debt	-0-	-0-	-0-
Other expenses	-0-	1,039	(1,039)
Chemicals and lab supplies	46,500	115,340	(68,840)
Small tools and rental	2,300	6,858	(4,558)
Inflow and infiltration	15,000	-0-	15,000
Sludge removal	4,000	5,626	(1,626)

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Budget and Actual  
Proprietary Fund

For the Year Ended June 30, 2006

	Original and Final Budget	Actual	Budget Variance (Over) Under
Expenses (Continued)			
Depreciation	\$ -0-	519,272	(519,272)
Interest	62,916	143,134	(80,218)
Amortization Land Lease	-0-	4,375	(4,375)
Fixed Asset Acquisition	26,097	-0-	26,097
Administrative Support Fee	(35,000)	(134,124)	99,124
Total Expenses	1,180,153	1,655,803	(475,650)
Operating Income (Loss)	(27,877)	(306,193)	278,316
General Revenues			
Property tax	193,634	80,673	112,961
Interest	1,600	14,866	(13,266)
Other	11,000	16,820	(5,820)
Total General Revenues	206,234	112,359	93,875
Contributed capital	-0-	695,317	(695,317)
Increase (Decrease) in Fund Balance	\$ 178,357	501,483	(323,126)
Fund Balance – Beginning of Year		932,022	
Fund Balance – End of Year		\$ 1,433,505	

See the accompanying notes to the financial statements

**GIBSON & COMPANY, INC.**  
**CERTIFIED PUBLIC ACCOUNTANT**

4600 NORTHGATE BLVD., SUITE 115 • SACRAMENTO, CALIFORNIA 95834-1121  
(916) 484-1252 FAX (916) 484-1123  
WEBSITE WWW.GIBSONCOCPA.COM

MICHAEL V. GIBSON, C.P.A.

PATRICIA A. FAITH, C.P.A.  
CATHERINE E. GIBSON, C.P.A.  
JOSEPH A. JULIO, C.P.A.

THERESA McLENDON, ADMIN.

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

Board of Directors  
Donner Summit Public Utility District

We have audited the financial statements of the governmental activities and the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Donner Summit Public Utility District, in a separate letter dated May 2, 2007.

This report is intended solely for the information and use of the management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

GIBSON & COMPANY, INC.  
CERTIFIED PUBLIC ACCOUNTANT  
*Gibson & Company, Inc.*  
*Certified Public Accountant*

May 2, 2007  
Sacramento, California