

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Financial Statements

June 30, 2017

(With Independent Auditor's Report Thereon)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Table of Contents

June 30, 2017

	<u>Page</u>
Independent Auditor's Report	3 - 5
Management's Discussion and Analysis	6 - 9
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	10 - 11
Statement of Activities and Changes in Net Position	12 - 13
Statement of Cash Flows	14 - 15
Notes to the Financial Statements	16 - 27
Fund Financial Statements	
Balance Sheet	28 - 29
Statement of Revenues, Expenses, and Changes in Fund Net Position - Budget and Actual - Proprietary Fund	30 - 31
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	32 - 33

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.

CATHERINE E. GIBSON, C.P.A.

JOSEPH A. JULIO, C.P.A.

FORREST M. GIBSON, ADMIN.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Donner Summit Public Utility District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2017, 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 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 evaluating the appropriateness of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Donner Summit Public Utility District as of June 30, 2017, and the respective changes in the financial position and cash flows thereof for the year then ended in accordance 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 6-9 and 31-32 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

Gibson + Company, Inc.
Certified Public Accountant

December 31, 2017
Sacramento, California

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2017

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, 2017.

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 Position, Statement of Activities and Changes in Net Position, and Statement of Cash Flows. The District's basic statements report "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 and Statements of Activity – Budget and Actual.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Net Position (In Thousands)

	Primary Government	
	Business-Type	
	Activities	
	June 30, 2017	June 30, 2016
Current and other assets	\$ 3,671	4,391
Capital assets	27,549	26,118
Total Assets	<u>31,220</u>	<u>30,509</u>
Deferred Outflows of Resources	<u>109</u>	<u>113</u>
Long-term debt outstanding	17,867	16,688
Other liabilities	1,212	1,234
Total Liabilities	<u>19,079</u>	<u>17,922</u>
Net Position		
Net investment in capital assets	9,080	8,612
Restricted for debt payment	862	857
Unrestricted	2,308	3,231
Total Net Position	<u>\$ 12,250</u>	<u>12,700</u>

Changes in Net Position (In Thousands)

Program revenue	\$ 2,573	2,586
General revenues		
Property tax	462	425
Grants	-0-	(37)
Gain (loss) on disposal of capital assets	1	1
Interest and other	25	20
Contributed capital	69	-0-
Total revenues	<u>3,130</u>	<u>2,995</u>
Expenses	<u>3,580</u>	<u>3,358</u>
Increase (Decrease) in net position	<u>\$ (450)</u>	<u>(363)</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2017

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016/17

- The District's assets exceeded liabilities at the close of the fiscal year by \$12,249,616. This represents the net position (value) of the District as of June 30, 2017.
- 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 net position is expected to decrease by the amount of depreciation expense. Total depreciation expense for the current fiscal year was \$768,175, and total expenses exceeded revenues by \$450,817, indicating that the District exceeded expectations by approximately \$317,358 for the current fiscal year. The District anticipates it will continue to make significant investments in facilities in the coming year, followed by several years of significant loan payments. Accordingly, management anticipates that it will be unable to fund future reserves in the foreseeable future.
- The District received \$1,733,332 under loan programs from the State of California Water Resource Control Board.
- The District paid off long-term debt and capital leases of \$842,272 during the current fiscal year.
- The District's utility service revenues were level from the prior year. This was as expected since the District had no significant changes in factors affecting revenues.
- The District's utility service expenses increased by \$260,125 from June 30, 2016 to June 30, 2017. Some of this increase is attributable to the District's new waste water treatment facility normalizing service, resulting in higher operating costs. In addition, the District has increased costs associated with its water treatment operations.
- The District's salary and employee benefits increased over the prior year. This was attributable to some additional staffing, COLA increases and overtime in the operations department.
- The District's professional fees exceeded budget by 95%. During the year, the District was exploring opportunities to decrease costs related to borrowing and used professionals to do so and overlooked budgeting for these services.
- Several of the District's operating and repair expenses exceeded budget in several categories. This expense item is effected by the waste water treatment facility challenges of implementation and ongoing issues with the District's water treatment operations.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2017

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016/17 (Continued)

- Expenses for inflow and infiltration were well below budget. Environment conditions and low system flows prevented the District from performing work in this area.
- Interest expense significantly exceeded the amount budgeted. This was the result of the District budgeting based on scheduled payments as opposed to the actual expense that includes accrued interest not yet paid.
- The District does not budget for depreciation; accordingly, there is a variance for this item.
- The District purchased \$2,199,121 of capital improvements during the current fiscal year.
- The District is currently in the implementation stage of significant improvements to the water treatment facilities.

NEXT YEAR BUDGET AND RATES

The Board of Directors adopted the District's 2017/18 budget on June 20, 2017. The District's rates were reviewed by the Board of Directors and may be adjusted during 2017/18 to enable the District to continue to meet the required repayment of the District's various loan obligations

FUTURE PROJECTS

The District mid-way in completing improvements to its water treatment plant. The District expects significant costs related to the project. The District accepted a bid of \$2,371,020 for these improvements. Completion of the project is expected by December 31, 2017.

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, 2017 and the District's financial condition as of June 30, 2017. 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 Position

June 30, 2017

Assets

	<u>Primary Government Business-Type Activities</u>
Current Assets	
Cash (Note 2)	\$ 3,244,970
Investments (Note 2)	3,144
Total Cash and Cash Equivalents	3,248,114
Accounts receivable	261,082
Allowance for doubtful accounts	(1,000)
Net accounts receivable	260,082
Other receivable	40,349
Prepaid expenses	122,767
Total Current Assets	3,671,312
Noncurrent Assets	
Capital assets, net (Note 3)	27,548,996
Total Noncurrent Assets	27,548,996
Total Assets	\$ 31,220,308
Deferred Outflows of Resources	
Advance community finance district costs	\$ 108,684

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Net Position

June 30, 2017

Liabilities and Net Position

	Primary Government
	Business-Type Activities
Liabilities	
Current Liabilities	
Accounts payable	\$ 157,910
Retainage payable	103,109
Accrued expenses	160,936
Interest payable	188,747
Current portion of capital lease (Note 5)	23,758
Current portion of long-term debt (Note 4)	577,506
Total Current Liabilities	1,211,966
 Noncurrent Liabilities	
Capital lease (Note 5)	27,294
Long-term debt (Note 4)	17,840,116
Total Noncurrent Liabilities	17,867,410
Total Liabilities	19,079,376
 Net Position	
Net investment in capital assets	9,080,322
Restricted:	
Restricted for debt payment (Note 10)	862,049
Unrestricted	2,307,245
Total Net Position	12,249,616
Total Liabilities and Net Position	\$ 31,328,992

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Primary Government</u>
			<u>Business-Type Activities</u>
Program Revenue			
Service fees	\$ 417,181	2,155,897	2,573,078
Total Program Revenue	417,181	2,155,897	2,573,078
Expenses			
Salaries	202,944	684,659	887,603
Employee benefits	65,453	222,743	288,196
Board expense	6,809	21,560	28,369
Professional fees	24,156	236,295	260,451
Equipment maintenance and repair	12,438	56,920	69,358
Operating supplies	7,894	18,504	26,398
Vehicle maintenance and repair	5,109	32,801	37,910
Facility maintenance and repair	29,708	35,213	64,921
Dues and subscriptions	2,037	11,391	13,428
Fees, permits and certifications	15,430	23,269	38,699
Training and education	712	3,330	4,042
Travel	1,061	630	1,691
Insurance	13,431	46,233	59,664
Office supplies	2,913	12,129	15,042
Utilities, communications and telemetry	49,346	317,380	366,726
Chemicals and lab supplies	15,291	146,949	162,240
Laboratory testing	273	44,151	44,424
Small tools and rental	6,434	17,822	24,256
Sludge removal	-0-	16,625	16,625
Depreciation	64,641	703,534	768,175
Interest	-0-	381,159	381,159
Land lease	-0-	20,891	20,891
Total Expenses	<u>526,080</u>	<u>3,054,188</u>	<u>3,580,268</u>
Net Program Revenue (Expense)	(108,899)	(898,291)	(1,007,190)

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Activities and Changes in Net Position

For the Year Ended June 30, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Primary Government</u>
			<u>Business-Type Activities</u>
Net Program Revenue (Expense)	\$ (108,899)	(898,291)	(1,007,190)
General Revenues			
Property tax	39,612	422,451	462,063
Interest	303	960	1,263
Gain on disposal of capital assets	240	760	1,000
Other	<u>6,588</u>	<u>17,694</u>	<u>24,282</u>
Total General Revenues	46,743	441,865	488,608
Contributed Capital	<u>-0-</u>	<u>67,765</u>	<u>67,765</u>
Increase (Decrease) in Net Position	<u>\$ (62,156)</u>	<u>(388,661)</u>	(450,817)
Net Position – Beginning of Year			<u>12,700,433</u>
Net Position – End of Year			<u>\$ 12,249,616</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2017

	Primary Government Business-Type Activities
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 2,388,106
Cash payments to suppliers for goods and services	(1,556,687)
Cash payments to employees for services	(888,627)
Other receipts	24,282
Net Cash Used by Operating Activities	(32,926)
Cash Flows From Non-Capital Financing Activities:	
Receipt of property taxes	462,063
Net Cash Provided By Non-Capital Financing Activities	462,063
Cash Flows From Capital and Related Financing Activities:	
Proceeds from long-term debt	1,733,332
Contributed capital	67,765
Repayment of long-term debt	(842,272)
Interest paid on long-term debt	(373,058)
Net Cash Provided By Capital and Related Financing Activities	585,767
Cash Flows From Investing Activities:	
Purchase of capital assets	(1,963,447)
Proceeds from disposal of capital assets	1,000
Interest received on cash and investments	1,263
Net Cash Used By Investing Activities	(1,961,184)
Net Decrease In Cash	(946,280)
Cash and Cash Equivalents - Beginning of Year	4,194,394
Cash and Cash Equivalents - End of Year	\$ 3,248,114

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2017

		<u>Primary Government Business-Type Activities</u>
Reconciliation of Increase in Net Position to Net Cash Provided by operating activities:		
Increase (Decrease) in net position	\$	(450,817)
Adjustments to reconcile increase in net position to net cash provided by operating activities:		
Depreciation		768,175
Gain on disposal of capital assets		(1,000)
Non-operating revenue		(531,091)
Non-operating expenses		381,159
(Increase) decrease in:		
Accounts receivable, net		(184,972)
Other receivable		(21,026)
Prepaid expenses		(20,904)
Increase (decrease) in:		
Accounts payable		18,984
Accrued expenses		8,566
		<hr/>
Total adjustments		417,891
		<hr/>
Net Cash Used By Operating Activities	\$	<u>(32,926)</u>

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

(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 and sewer services.

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

Government-Wide Financial Statements

The District Financial Statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position and a Statement of Cash Flows. These statements present summaries of business-type activities for the District.

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 Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred.

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.

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund

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

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 Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents 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 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 Position

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

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets having an extended useful life are capitalized as capital assets at cost.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital 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 capital asset accounts.

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

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

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, 2017

(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, 2017 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, 2017, all cash and investments held by the District are considered to be cash equivalents.

Subsequent Events

The effect of subsequent events have been evaluated through December 31, 2017, which is the date the financial statements were available to be issued.

(2) CASH AND INVESTMENTS

A summary of cash and investments held by the District at June 30, 2017 is as follows:

Cash on hand	\$	300
Cash on deposit at banks		3,244,670
Investments		3,144
	\$	<u>3,248,114</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

(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>
State of California Local Agency Investment Fund	\$ <u>3,144</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

(3) CAPITAL ASSETS

A summary of business-type activities capital assets is presented below:

	Balance June 30, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Land	\$ 72,623	-0-	-0-	-0-	72,623
Sewage collection, treatment and disposal facilities	35,896,203	163,876	-0-	-0-	36,060,079
Sewage equipment	2,099	-0-	-0-	-0-	2,099
Water treatment and distribution facilities	3,213,039	-0-	-0-	-0-	3,213,039
Water equipment	288,960	4,730	-0-	-0-	293,690
Water and sewage equipment	291,909	-0-	-0-	-0-	291,909
Vehicles	240,415	6,858	18,648	-0-	228,625
Vehicles under capital lease	-0-	72,021	-0-	-0-	72,021
Office furniture and equipment	24,717	11,589	3,432	-0-	32,874
Construction in process	321,823	1,940,047	-0-	-0-	2,261,870
Total Capital Assets	<u>40,351,788</u>	<u>2,199,121</u>	<u>22,080</u>	<u>-0-</u>	<u>42,528,829</u>
Accumulated Depreciation	14,233,738	768,175	22,080	-0-	14,979,833
Net Book Value	<u>\$ 26,118,050</u>				<u>27,548,996</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

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

Long-term debt as of June 30, 2017, is summarized as follows:

State of California Water Resources Control Board loan; collateralized by net revenues of the District; interest at 2.2%; interest and principal payable in annual installments of \$856,675 on December 31; final payment due December 31, 2041.	\$ 16,339,125
State of California Water Resources Control Board loan; collateralized by District revenue; interest of 0%; principle payable in semi-annual installments of \$3,458 on July 1 and January 1; final payment due January 1, 2020.	17,290
Sierra Lakes County Water Districts loan; uncollateralized; interest at 2.75%; principal payable in annual installments of \$65,575 (plus accrued interest) on July 1; final payment due July 1, 2021.	327,874
State of California Water Resources Control Board loan; collateralized by net revenues of the District; interest at 0%; principal payable in semi-annual installments of \$9,151; final payment due July 1, 2047. Note once the related project is completed, a portion of the loan will be forgiven leaving a remaining balance of \$543,400 payable.	1,727,448
State of California Water Resources Control Board loan; collateralized by District revenue; interest of 0%; principle payable in semi-annual installments of \$5,885 based on June 30, 2017 balance (but will be \$7,709 if loan is fully funded) on July 1 and January 1; final payment due January 1, 2018.	<u>5,885</u>
Total Long-Term Debt	18,417,622
Less Current Portion of Long-Term Debt	<u>577,506</u>
Long-Term Debt Net of Current Portion	<u>\$ 17,840,116</u>

(Continued)

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

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

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

Long-Term Debt - Beginning of Year	\$ 17,505,593
New Long-Term Debt	1,733,332
Repayment of Long-Term Debt	<u>(821,303)</u>
 Long-Term Debt - End of Year	 <u>\$ 18,417,622</u>

The annual requirements to amortize District long-term debt as of June 30, 2017 is as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 577,506	368,477	945,983
2019	617,499	355,735	973,234
2020	650,954	342,753	993,707
2021	655,463	329,524	984,987
2022	667,140	316,044	983,184
2023 through 2027	3,192,168	1,386,862	4,579,030
2028 through 2032	3,525,115	1,053,914	4,579,029
2033 through 2037	3,896,335	682,695	4,579,030
2038 through 2042	4,310,225	268,805	4,579,030
2043 through 2047	295,653	-0-	295,653
2048	29,564	-0-	29,564
	<u>\$ 18,417,622</u>	<u>5,104,809</u>	<u>23,522,431</u>

Terms of the above indebtedness provide for, among other things, restrictions on future borrowings and maintenance of certain reserves and financial ratios. Also see note above regarding provisions of loan forgiveness.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

(5) CAPITAL LEASE-BUSINESS-TYPE ACTIVITIES

Lease payable to Ford Credit, collateralized by vehicles; interest at 5.65%; payable in monthly installments of \$2,169; final payment due July 2019	\$ <u>51,052</u>
Total Capital Lease	51,052
Less Current Portion of Capital Lease	<u>23,758</u>
Capital Lease Net of Current Portion	\$ <u><u>27,294</u></u>

Changes to the District's Capital Lease is as follows:

Capital Lease – Beginning of Year	\$ -0-
New Capital Leases	72,021
Repayment of Capital Lease	<u>(20,969)</u>
Capital Lease – End of Year	\$ <u><u>51,052</u></u>

Future minimum payments under the capital lease are as follows:

Year Ending June 30	Amount
2018	\$ 23,758
2019	25,135
2020	<u>2,159</u>
	<u><u>\$ 51,052</u></u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Notes to the Financial Statements

June 30, 2017

(6) 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, 2017 was \$2,901,977.

The proceeds of taxes limitation adopted by the District for the year ended June 30, 2018 is \$3,026,182.

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.

(7) RETIREMENT PLANS

The District self administers the Donner Summit Public Utility District Money Purchase Pension Plan (defined contribution) 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 District can amend the plan at any time. The contribution ranges from 4% to 6% of the annual compensation for all qualified employees. Participants begin to vest at 20% after 2 years of service and are fully vested after 6 years of service. Forfeitures from non-vested participants are used to offset employer contribution requirements.

The required contribution for the year ended June 30, 2017 was \$44,119. This amount was paid after June 30, 2017 and is included in Accrued Expenses.

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 \$18,000 (\$24,000 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, 2017

(8) 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, 2017

(9) OPERATING LEASE AND RENTAL COMMITMENTS

The District leases office equipment and land for its facilities under operating leases. Future minimum lease payments at June 30, 2017, are as follows:

<u>Year Ending June 30</u>	
2018	\$ 4,392
2019	4,392
2020	4,392
2021	<u>4,210</u>
	<u>\$ 17,386</u>

Total rent expense was \$4,238 for the year ended June 30, 2017.

(10) RESTRICTED NET POSITION - DEBT PAYMENT

A portion of the net position balance has been restricted in accordance with provisions of the debt due to the State of California. The loan provisions require the District to maintain an amount equal to loan payments due in the next 12 months in a reserve account.

(11) LEASE COMMITMENT

The District has a lease agreement with the Truckee Fire Protection District (TFPD) for the District's fire station facility. The lease expires June 30, 2027. TFPD has the option to renew the lease for two 25 year periods. The District receives \$1 per year under the terms of the lease.

(12) CASH FLOWS

Noncash investing and capital financing transactions during the year:

Lease payable obligation incurred for equipment	\$72,021
---	----------

(13) UNUSED CREDIT FACILITIES

The District has secured two finance agreements with the State Water Resources Control Board totaling \$2,761,000. As of June 30, 2017, \$1,733,333 has been drawn on these agreements, leaving \$1,027,667 available for future needs. Funds can be drawn under these agreements through various dates ending November 1, 2018, Interest accrues at an interest rate of 0.0% per annum. One of the loan agreements has a forgiveness provision of \$2,173,600 of the loan amount. Repayment will be made in semi-annual payments, with the final payment due July 2047.

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2017

Assets

	<u>Primary Government Proprietary Fund</u>
Current Assets	
Cash	\$ 3,244,970
Investments	3,144
Total Cash and Cash Equivalents	3,248,114
Accounts receivable	261,082
Allowance for doubtful accounts	(1,000)
Net accounts receivable	260,082
Other receivable	40,349
Prepaid expenses	122,767
Total Current Assets	3,671,312
Noncurrent Assets	
Capital assets, net	27,548,996
Total Noncurrent Assets	27,548,996
Total Assets	\$ 31,220,308
Deferred Outflows of Resources	
Advance community finance district costs	\$ 108,684

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

Fund Financial Statements

Balance Sheet

June 30, 2017

Liabilities and Fund Balances

	<u>Primary Government</u> <u>Proprietary</u> <u>Fund</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 157,910
Retainage payable	103,109
Accrued expenses	160,936
Interest payable	188,747
Current portion of long-term debt	<u>601,264</u>
Total Current Liabilities	1,211,966
Noncurrent Liabilities	
Long-term debt	<u>17,867,410</u>
Total Noncurrent Liabilities	<u>17,867,410</u>
Total Liabilities	19,079,376
Fund Balances	
Net investment in capital assets	9,080,322
Restricted:	
Restricted for debt payment	862,049
Unrestricted	<u>2,307,245</u>
Total Fund Balances	<u>12,249,616</u>
Total Liabilities and Fund Balances	<u>\$ 31,328,992</u>

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

For the Year Ended June 30, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Program Revenue			
Service fees	\$ 2,245,078	2,573,078	(328,000)
Total Program Revenue	2,245,078	2,573,078	(328,000)
Expenses			
Salaries	819,952	887,603	(67,651)
Employee benefits	272,611	288,196	(15,585)
Board expense	21,392	28,369	(6,977)
Professional fees	133,447	260,451	(127,004)
Equipment maintenance and repair	75,541	69,358	6,183
Operating supplies	7,338	26,398	(19,060)
Vehicle maintenance and repair	43,426	37,910	5,516
Facility maintenance and repair	28,586	64,921	(36,335)
Dues and subscriptions	6,457	13,428	(6,971)
Fees, permits and certifications	43,530	38,699	4,831
Training and education	6,809	4,042	2,767
Travel	-0-	1,691	(1,691)
Insurance	60,000	59,664	336
Office supplies	3,904	15,042	(11,138)
Utilities, communications and telemetry	327,594	366,726	(39,132)
Chemicals and lab supplies	138,225	162,240	(24,015)
Laboratory testing	54,140	44,424	9,716
Small tools and rental	8,927	24,256	(15,329)
Inflow and infiltration	25,000	-0-	25,000
Sludge removal	14,000	16,625	(2,625)
Depreciation	-0-	768,175	(768,175)
Interest	283,373	381,159	(97,786)
Amortization Land Lease	20,250	20,891	(641)
Total Expenses	<u>2,394,502</u>	<u>3,580,268</u>	<u>(1,185,766)</u>
Operating Income (Loss)	(149,424)	(1,007,190)	857,766

(Continued)

See the accompanying notes to the financial statements

DONNER SUMMIT PUBLIC UTILITY DISTRICT

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

For the Year Ended June 30, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance (Over) Under</u>
Operating Income (Loss)	\$ (149,424)	(1,007,190)	857,766
General Revenues			
Property tax	127,500	462,063	(334,563)
Interest	-0-	1,263	(1,263)
Gain on disposal of capital assets	-0-	1,000	(1,000)
Other	<u>32,416</u>	<u>24,282</u>	<u>8,134</u>
Total General Revenues	159,916	488,608	(328,692)
Contributed Capital	<u>-0-</u>	<u>67,765</u>	<u>(67,765)</u>
Increase (Decrease) in Fund Balance	\$ <u>10,492</u>	(450,817)	<u>461,309</u>
Fund Balance – Beginning of Year		<u>12,700,433</u>	
Fund Balance – End of Year		<u>\$ 12,249,616</u>	

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.

CATHERINE E. GIBSON, C.P.A.

JOSEPH A. JULIO, C.P.A.

FORREST M. GIBSON, 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, in accordance with the 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, the financial statements of the business-type activities of Donner Summit Public Utility District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Member Private Companies Practice Section,
A.I.C.P.A. Division for C.P.A. Firms

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

GIBSON & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANT

Gibson + Company, Inc.
Certified Public Accountant

December 31, 2017
Sacramento, California