



Financial Statements and Report of Independent
Certified Public Accountants

South Tahoe Public Utility District

June 30, 2012

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Audit • Tax • Advisory

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

Report of Independent Certified Public Accountants

Board of Directors
South Tahoe Public Utility District
South Lake Tahoe, California

We have audited the accompanying basic financial statements of South Tahoe Public Utility District ("the District"), as of and for the year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the District's 2011 financial statements, and in our opinion dated November 18, 2011, we expressed an unqualified opinion on the respective basic financial statements.

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

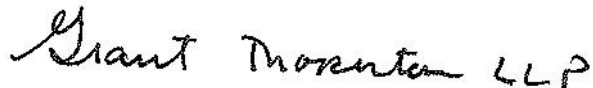
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America and the State Controller's Minimum Audit Requirements and Reporting Guidelines governing special districts.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2012 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 effectiveness of the District's 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards for the year ended June 30 2012 required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The financial statements include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2011 from which summarized information was derived.



Reno, Nevada
November 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2012

Financial Highlights

The District has long been addressing the aging water system infrastructure, including undersized waterlines. A major water infrastructure replacement program was started in the early 90's, and since then more than \$66 million of infrastructure has been placed into service. With advances in asset management tools, the District now utilizes a strategic set of criteria to determine construction priorities. In fiscal year 2011-12, the District continued the replacement program, and a total of \$4.8 million was spent on waterline replacement and upsizing, booster station improvements, and water storage facilities. The following waterline projects are expected to be complete by fall 2012:

Project Area	Total Lineal Feet	Spent as of June 30, 2012	Estimate to Complete
Wildwood Waterline	6,200	\$1,072,971	\$1,550,000
Bal Bijou Waterline	864	234,830	340,000

The waterline, pumping and storage replacement program improves water quality and quantity, and fire suppression capabilities. As a public service, each waterline project also includes installation of fire hydrants at 500-foot intervals.

The District is continuing to install water meters on all service connections to meet the California state mandate, which requires all water providers with greater than 3,000 service connections be completely metered by 2025. During fiscal year 2010-11, the District completed installation of approximately 2,500 meters funded with a \$4.4 million grant. During fiscal year 2011/12, approximately 250 meters were installed at the District's expense. This meter installation phase increased the portion of the water system metered to approximately 35%. The current District policy is to install meters on all waterlines replaced and make additional installations when grant funds are received.

The District continues to expend funds for work related to Methyl Tertiary Butyl Ether (MTBE) contamination. To receive these funds the District went to trial against the manufacturers, refiners, and distributors of MTBE beginning in September 2001. The defendants settled with the District for \$69.1 million after the jury found them liable for the contamination, and further, that two of the defendants acted with malice. Settlement occurred in August 2002 before the jury's determination of compensatory and punitive damages. The District only settled when it believed the amount offered, less the litigation costs of \$28 million, was adequate to fully restore the water system. A District ordinance restricts the settlement money uses. Per the ordinance, the money must be used for MTBE-related costs such as well treatment, securing alternate potable water sources, and improving the distribution system. The remaining settlement funds of \$.5 million appear in the balance sheet shown as restricted cash and cash equivalents in the Water Enterprise Fund and are budgeted to be fully expended in 2012/13.

The Sewer Enterprise Fund also continues investing in its infrastructure. In fiscal year 2011-12 \$9.3 million was invested in sewer infrastructure improvements. The District invested \$1.4 million to replace a 20-year-old liner in the Emergency Retention Basin which is adjacent to the treatment plant. Scheduled for completion in the fall, the District continued working on the three-year project to replace the sewer treatment headworks at an estimated cost of \$14 million. The District is funding this project with reserves, a low-interest loan through the California State Water Resources Control Board State Revolving Fund program, and an additional installment agreement.

- Net assets of the District increased \$.5 million or .2%.
- During the year more than \$14 million was invested in sewer and water infrastructure.

South Tahoe Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

For the year ended June 30, 2012

Financial Highlights - Continued

- The Sewer and Water Enterprise Funds' income (loss) is (\$693,716) and (\$370,611), respectively.
- Operating revenue is up 0.4% due to a 3.0% rate increase in sewer rates.
- Operating expenses are down 2.6% and came in 9.4% under budget.
- In fiscal year 2011-12, the District was awarded competitive grants totaling more than \$1 million, following more than \$2.5 million awarded in 2010-11. These grants will fund, among other things, waterline replacements, water pumping facilities, and water conservation programs.

Overview of the Basic Financial Statements

The District's basic financial statements are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. An important part of the basic financial statements is the accompanying notes, which provide the users additional information required by generally accepted accounting principles (GAAP). Preceding the basic financial statements is Management's Discussion and Analysis, which is required supplementary information to the basic financial statements.

The Balance Sheet includes the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. The Statement of Revenues, Expenses and Changes in Net Assets account for revenue, expenses, and capital contributions and calculates the change in net assets. Over time, increases or decreases in net assets serve as a key indicator of the District's financial position. The Statement of Cash Flows provides the details on the changes in cash and cash equivalents during the year. By contrast the Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets are prepared on an accrual basis, meaning revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts and payments.

Net Assets

The condensed Statement of Net Assets below shows the District is investing in capital assets while keeping its debt at manageable levels. Overall, the District's financial health is improving year-over-year as indicated by the increase in net assets.

	<u>Net Assets</u>			
	<i>(in thousands)</i>			
	<u>June 30</u>			
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
Current and other	\$ 43,211	\$ 42,446	\$ 765	1.8%
Restricted MTBE settlement funds	473	2,790	(2,317)	(83.0%)
Capital assets	204,408	196,167	8,241	4.2%
Total assets	<u>\$248,092</u>	<u>\$241,403</u>	<u>\$6,689</u>	<u>2.8%</u>
Debt outstanding	\$ 33,687	\$ 27,780	\$5,907	21.3%
Other liabilities	14,680	14,381	299	2.1%
Total liabilities	<u>\$ 48,367</u>	<u>\$ 42,161</u>	<u>\$6,206</u>	<u>14.7%</u>
Invested in capital assets, net of related debt	\$171,744	\$168,387	\$3,357	2.0%
Restricted for MTBE costs	473	2,790	(2,317)	(83.0%)
Restricted for security deposits	275	275	-	-
Unrestricted	27,233	27,790	(557)	(2.0%)
Total net assets	<u>\$199,725</u>	<u>\$199,242</u>	<u>\$ 483</u>	<u>0.2%</u>

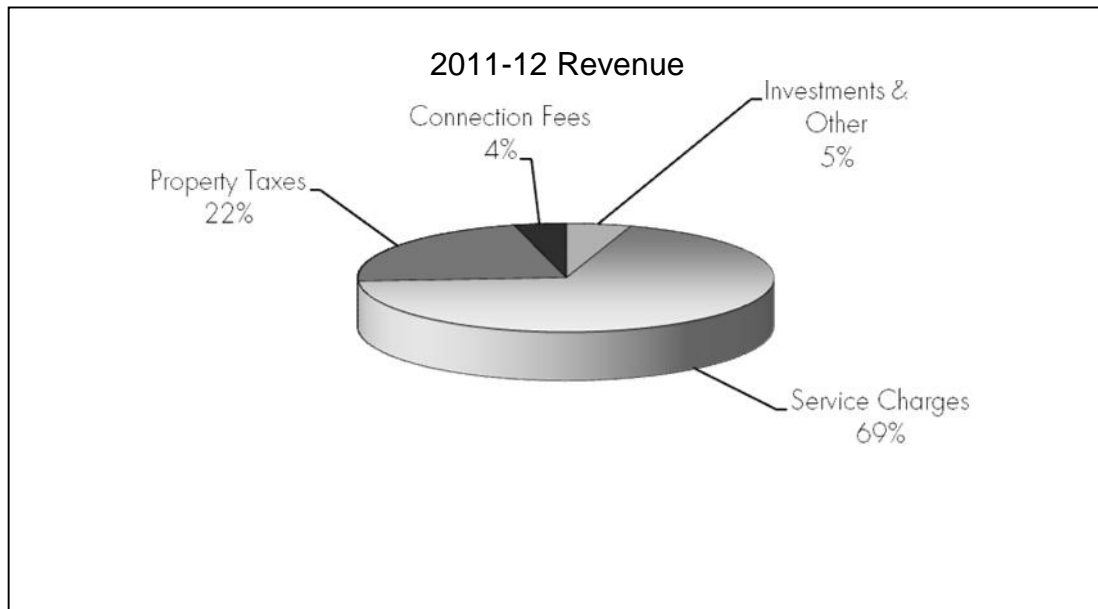
South Tahoe Public Utility District

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

For the year ended June 30, 2012

Revenue and Expenses

The District finances sewer and water operations through user charges, property tax receipts, and other income. Total revenue for fiscal year 2011-12 is \$27.5 million, a \$.1 million or .4% increase from the prior year. The 2012 service charge revenue increase is \$153,000 or .8% more than the prior year, reflecting an increase of 3.0% in sewer rates, no change in water rates and a slight decrease in water consumption. Property tax revenue is down \$77,000, or 1.2%, compared to the prior year. El Dorado County estimates that property tax collections will be down approximately 1.9% for 2012-13 due to a further decline in assessed values. Investment income is nearly flat compared to the prior year, while other non-operating revenue is up due to an increase in contributions from Federal and State sources for water conservation programs and required utility relocations.



Revenues
(in thousands)

	June 30		Change	Change
	2012	2011		
Service charges	\$18,997	\$18,844	\$153	0.8%
Connection fees	986	991	(5)	0.5%
Other	342	401	(59)	(14.7%)
Total operating revenue	20,325	20,236	89	0.4%
Property taxes	6,121	6,198	(77)	(1.2%)
Investments	300	306	(6)	(2.0%)
Other	734	677	57	8.4%
Total nonoperating revenue	7,155	7,181	(26)	(0.3%)
Total revenue	\$27,480	\$27,417	\$ 63	0.2%

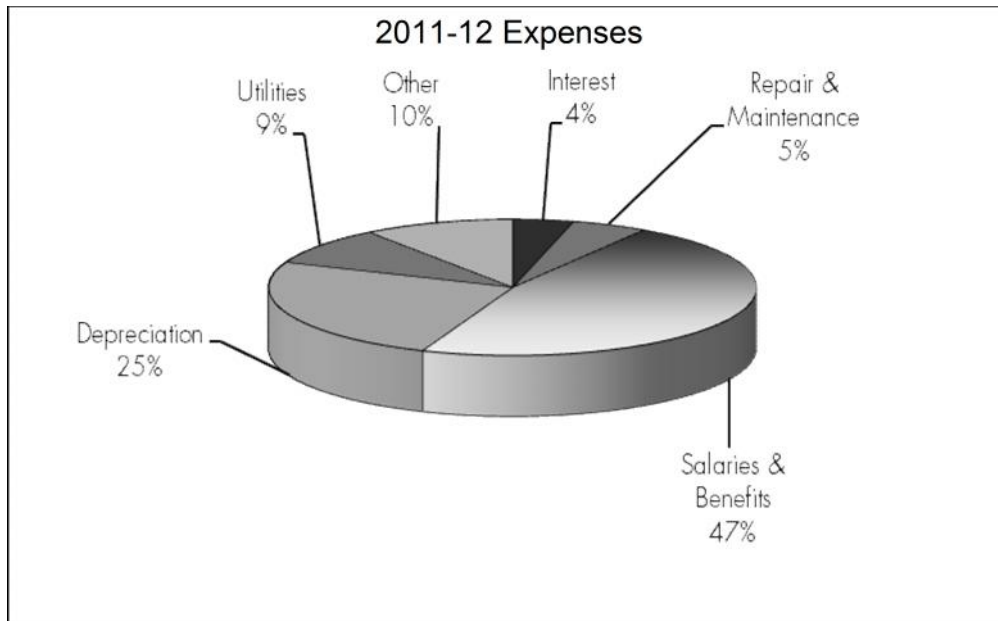
South Tahoe Public Utility District

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

For the year ended June 30, 2012

Revenue and Expenses - Continued

Total operating expenses for the current year are \$27.2 million, down \$.7 million from the prior year. Salaries and benefits are down \$.2 million, or 1.7%. The District's policy is to capitalize labor associated with capital projects. The capitalized portion of salaries and benefits is not accounted for in operating expenses, as it is included in capital assets on the Balance Sheet. The amount of capitalized labor for fiscal year 2012 was \$981,774 compared to \$994,685 in the prior year. When comparing salary and benefit totals year-to-year including the capitalized amounts, the 2012 decrease from the prior year was \$244,000 or 1.7%. Depreciation and interest expense are up reflecting the continued investment in capital infrastructure. Reductions in other expense categories reduced overall expenses by \$.5 million or 1.7% from the prior year.



	Expenses (in thousands)		Change	Change
	June 30 2012	2011		
<u>Operating expenses</u>				
Salaries and benefits	\$13,389	\$13,620	\$(231)	(1.7%)
Depreciation	7,067	6,920	147	2.1%
Utilities	2,494	2,741	(247)	(9.0%)
Repair and maintenance	1,409	1,381	28	2.0%
Loss on disposal of assets	9	68	(59)	(86.8%)
Other	2,858	3,234	(376)	(11.6%)
Total operating expenses	27,226	27,964	(738)	(2.6%)
<u>Non-operating expenses</u>				
Interest expense	1,098	848	250	29.5%
Other	221	217	4	(1.8%)
Total non-operating expenses	1,319	1,065	254	23.8%
Total expenses	\$28,545	\$29,029	\$(484)	(1.7%)

South Tahoe Public Utility District

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

For the year ended June 30, 2012

Revenue and Expenses - Continued

The fiscal year 2011-12 loss before capital contributions is (\$1.1) million as compared to the budgeted loss of (\$3.4) million and the actual prior year loss of (\$1.6) million. Although income before contributions was a loss, capital contributions remained strong resulting in a positive change in net assets of \$.5 million.

Changes in Net Assets (in thousands)

	June 30		Change	Change
	2012	2011		
Beginning net assets	\$199,242	\$195,311	\$3,931	2.0%
Loss before contributions	(1,064)	(1,612)	548	34.0%
Capital contributions	1,547	5,543	(3,996)	(72.1%)
Changes in net assets	483	3,931	(3,448)	(87.7%)
Ending net assets	\$199,725	\$199,242	\$ 483	0.2%

Capital Assets

The District's investment in its sewer and water systems is \$204 million at the end of the fiscal year net of depreciation. During the year, more than \$14 million was spent on new infrastructure, equipment, and land acquisition. \$4.8 million was spent on water system improvements. As noted in the highlights, new waterlines improve system reliability, water pressure, and fire flow capability. \$9.3 was invested in a new emergency retention basin liner and to continue the replacement of the sewer treatment headworks which is scheduled for completion this Fall 2012.

Capital Assets
(net of depreciation, in thousands)

	Sewer		Water		Total	
	2012	2011	2012	2011	2012	2011
Land and easements	\$ 22,843	\$ 22,843	\$ 1,305	\$ 1,125	\$ 24,148	\$ 23,968
Water rights	-	-	1,668	1,668	1,668	1,668
Plant and equipment	80,194	79,461	77,636	74,103	157,829	153,564
Construction in progress	17,333	12,336	3,430	4,631	20,763	16,967
Total	\$120,370	\$114,640	\$84,039	\$81,527	\$204,408	\$196,167

For additional information on Capital Assets, see Note C in the Notes to Financial Statements.

South Tahoe Public Utility District

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

For the year ended June 30, 2012

Debt Administration

The District prefers to avoid funding capital improvement projects with debt, but will do so when necessary to keep service rates at reasonable levels. Fitch Ratings affirmed the District's ratings of AA+ for both Water and Sewer Funds, while Standard and Poor's increased its rating for the Sewer Fund to AA from AA- and affirmed the Water Fund rating of AA-. These excellent ratings demonstrate the sound financial management of the District. At year-end, the District had \$33.7 million in bonds and notes outstanding as detailed below. The District refunded \$10.3 million of Sewer Certificates of Participation in fiscal year 2012-13 at a rate of 2.3% resulting in more than \$1 million in savings. Also in 2012-13, the District anticipates borrowing approximately \$5 million for various water projects while interest rates remain at record lows. As always, grant opportunities and low-interest subsidized loans are pursued by the District.

Outstanding Debt at Year End
(in thousands)

	June 30,	
	2012	2011
<u>Sewer Enterprise Fund</u>		
Certificates of Participation (secured by sewer revenue)	\$10,275	\$10,925
Installment Sale Agreement (secured by sewer revenue)	8,400	8,779
California State Revolving Loan Fund (secured by sewer revenue)	2,486	2,514
California State Revolving Loan Fund (secured by sewer revenue)	902	876
California State Revolving Loan Fund (secured by sewer revenue)	1,345	-
Installment Sale Agreement (secured by sewer revenue)	6,413	-
Total sewer enterprise fund	29,821	23,094
<u>Water Enterprise Fund</u>		
Revenue Bonds and Notes Payable (secured by water revenue)	2,076	2,693
Installment Sale Agreement (secured by water revenue)	1,790	1,993
Total water enterprise fund	3,866	4,686
Total debt	\$33,687	\$27,780

For additional information on Outstanding Debt, see Note F in the Notes to the Financial Statements.

Contacting the District's Financial Management

This financial report is designed to provide the District's elected officials, customers, investors, and creditors with an assessment of the District's financial condition and an accounting of the public's money. If you have questions about this report or need more financial information, contact the Chief Financial Officer, South Tahoe Public Utility District, 1275 Meadow Crest Drive, South Lake Tahoe, CA 96150.

BASIC FINANCIAL STATEMENTS

South Tahoe Public Utility District
BALANCE SHEET
Proprietary Funds
June 30, 2012
(With comparative totals for June 30, 2011)

ASSETS	Business-type Activities		Total	
	Enterprise Funds			
	Sewer	Water	2012	2011
Current assets:				
Cash and cash equivalents	\$ 5,908,721	\$ 321,958	\$ 6,230,679	\$ 9,747,909
Investments	975,120	379,213	1,354,333	1,665,533
Accounts receivable, net of allowance for doubtful accounts	987,925	1,108,037	2,095,962	2,048,494
Due from governmental agencies	1,425,307	1,597,032	3,022,339	2,114,236
Property tax receivable	5,840,719	-	5,840,719	5,894,294
Other current assets	378,610	637,527	1,016,137	1,100,795
Total current assets	<u>15,516,402</u>	<u>4,043,767</u>	<u>19,560,169</u>	<u>22,571,261</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	473,264	473,264	410,935
Certificate of deposit	100,000	175,000	275,000	275,000
Investments	-	-	-	2,378,956
Total restricted assets	<u>100,000</u>	<u>648,264</u>	<u>748,264</u>	<u>3,064,891</u>
Long-term accounts receivable	803,556	-	803,556	651,835
Due from governmental agencies, net of allowance for doubtful accounts	76,824	76,824	153,648	106,400
Investments	15,940,772	6,199,189	22,139,961	18,604,018
Other deferred expenses	267,613	10,516	278,129	237,029
Capital assets	207,908,317	112,497,709	320,406,026	306,378,970
Less accumulated depreciation	(87,538,772)	(28,458,864)	(115,997,636)	(110,211,588)
Total capital assets	<u>120,369,545</u>	<u>84,038,845</u>	<u>204,408,390</u>	<u>196,167,382</u>
Total noncurrent assets	<u>137,558,310</u>	<u>90,973,638</u>	<u>228,531,948</u>	<u>218,831,555</u>
Total assets	<u><u>\$ 153,074,712</u></u>	<u><u>\$ 95,017,405</u></u>	<u><u>\$ 248,092,117</u></u>	<u><u>\$ 241,402,816</u></u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 1,514,972	\$ 787,862	\$ 2,302,834	\$ 2,479,988
Unearned revenue	6,509,986	1,276,470	7,786,456	7,355,579
Accrued expenses	594,396	595,014	1,189,410	1,189,784
Accrued interest payable	352,384	50,194	402,578	329,126
Compensated absences - current	609,345	415,302	1,024,647	1,045,517
Long-term debt - current	1,480,759	862,403	2,343,162	1,953,338
Total current liabilities	<u>11,061,842</u>	<u>3,987,245</u>	<u>15,049,087</u>	<u>14,353,332</u>
Noncurrent liabilities:				
Compensated absences	1,185,064	788,332	1,973,396	1,980,706
Long-term debt	28,340,801	3,003,361	31,344,162	25,826,724
Total noncurrent liabilities	<u>29,525,865</u>	<u>3,791,693</u>	<u>33,317,558</u>	<u>27,807,430</u>
Total liabilities	<u>40,587,707</u>	<u>7,778,938</u>	<u>48,366,645</u>	<u>42,160,762</u>
Net assets:				
Invested in capital assets, net of related debt	91,570,578	80,173,082	171,743,660	168,387,320
Restricted for MTBE costs	-	473,264	473,264	2,789,890
Restricted for security deposits	100,000	175,000	275,000	275,000
Unrestricted	20,816,427	6,417,121	27,233,548	27,789,844
Total net assets	<u>112,487,005</u>	<u>87,238,467</u>	<u>199,725,472</u>	<u>199,242,054</u>
Total liabilities and net assets	<u><u>\$ 153,074,712</u></u>	<u><u>\$ 95,017,405</u></u>	<u><u>\$ 248,092,117</u></u>	<u><u>\$ 241,402,816</u></u>

The accompanying notes are an integral part of this statement.

South Tahoe Public Utility District

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Proprietary Funds**

**For the year ended June 30, 2012
(With comparative totals for the year ended June 30, 2011)**

	Business-type Activities		Total	
	Enterprise Funds		2012	2011
	Sewer	Water		
Operating revenues:				
Charges for sales and services:				
Service charges	\$ 10,183,438	\$ 8,813,331	\$ 18,996,769	\$ 18,843,974
Connection and service fees	568,817	417,118	985,935	991,440
Other operating income	166,430	176,178	342,608	400,643
Total operating revenues	<u>10,918,685</u>	<u>9,406,627</u>	<u>20,325,312</u>	<u>20,236,057</u>
Operating expenses:				
Salaries, wages and employee benefits	8,313,997	5,074,833	13,388,830	13,619,980
Depreciation and amortization	4,361,899	2,705,329	7,067,228	6,919,963
Utilities	1,822,341	671,845	2,494,186	2,740,754
Repairs and maintenance	664,432	744,478	1,408,910	1,381,239
Other operating expenses	1,664,683	1,202,365	2,867,048	3,302,622
Total operating expenses	<u>16,827,352</u>	<u>10,398,850</u>	<u>27,226,202</u>	<u>27,964,558</u>
Operating loss	<u>(5,908,667)</u>	<u>(992,223)</u>	<u>(6,900,890)</u>	<u>(7,728,501)</u>
Nonoperating revenues (expenses):				
Tax revenue	6,094,081	26,746	6,120,827	6,198,253
Investment earnings	233,162	66,980	300,142	306,131
Aid from (refund to) governmental agencies	(13,361)	496,908	483,547	360,360
Other nonoperating income	66,942	184,025	250,967	317,025
Interest expense	(978,072)	(119,464)	(1,097,536)	(848,177)
Other expense	(187,801)	(33,583)	(221,384)	(216,855)
Total nonoperating revenues	<u>5,214,951</u>	<u>621,612</u>	<u>5,836,563</u>	<u>6,116,737</u>
Loss before contributions	(693,716)	(370,611)	(1,064,327)	(1,611,764)
Capital contributions	<u>101,795</u>	<u>1,445,950</u>	<u>1,547,745</u>	<u>5,543,204</u>
INCREASE (DECREASE) IN NET ASSETS	(591,921)	1,075,339	483,418	3,931,440
Total net assets - beginning	<u>113,078,926</u>	<u>86,163,128</u>	<u>199,242,054</u>	<u>195,310,614</u>
Total net assets - ending	<u>\$ 112,487,005</u>	<u>\$ 87,238,467</u>	<u>\$ 199,725,472</u>	<u>\$ 199,242,054</u>

The accompanying notes are an integral part of this statement.

South Tahoe Public Utility District

**STATEMENT OF CASH FLOWS
Proprietary Funds**

**For the year ended June 30, 2012
(With comparative totals for the year ended June 30, 2011)**

	Business-type Activities		Total	
	Enterprise Funds		2012	2011
	Sewer	Water		
Cash flows from operating activities:				
Cash received from customers	\$ 9,898,900	\$ 10,315,492	\$ 20,214,392	\$ 19,030,843
Other income	166,430	176,178	342,608	400,643
Cash paid to employees for services	(8,329,884)	(5,087,126)	(13,417,010)	(13,631,477)
Cash paid to suppliers	<u>(4,656,959)</u>	<u>(2,326,288)</u>	<u>(6,983,247)</u>	<u>(8,668,127)</u>
Cash provided by (used in) operating activities	<u>(2,921,513)</u>	<u>3,078,256</u>	<u>156,743</u>	<u>(2,868,118)</u>
Cash flows from non-capital financing activities:				
Tax revenue	6,147,656	26,746	6,174,402	6,280,379
Payments (to) from governmental agencies	<u>(710,292)</u>	<u>647,350</u>	<u>(62,942)</u>	<u>511,824</u>
Cash provided by non-capital financing activities	<u>5,437,364</u>	<u>674,096</u>	<u>6,111,460</u>	<u>6,792,203</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(9,688,107)	(5,499,896)	(15,188,003)	(16,135,455)
Repayment of debt	(1,266,371)	(868,357)	(2,134,728)	(1,830,103)
Proceeds from issuance of debt	7,994,384	-	7,994,384	2,570,459
Interest (paid) credited on notes payable	(935,205)	(129,979)	(1,065,184)	(778,377)
Contributed capital	<u>101,795</u>	<u>1,066,671</u>	<u>1,168,466</u>	<u>7,595,609</u>
Cash used in capital and related financing activities	<u>(3,793,504)</u>	<u>(5,431,561)</u>	<u>(9,225,065)</u>	<u>(8,577,867)</u>
Cash flows from investing activities:				
Interest and dividends on investments	343,814	157,617	501,431	507,935
Purchase of investments	(17,764,517)	(6,908,423)	(24,672,940)	(22,530,000)
Proceeds from sale of investments	<u>15,275,005</u>	<u>8,398,465</u>	<u>23,673,470</u>	<u>16,614,597</u>
Cash provided by (used in) investing activities	<u>(2,145,698)</u>	<u>1,647,659</u>	<u>(498,039)</u>	<u>(5,407,468)</u>
(DECREASE) IN CASH AND CASH EQUIVALENTS	(3,423,351)	(31,550)	(3,454,901)	(10,061,250)
Cash and cash equivalents, beginning (including \$410,935 reported in restricted assets for water)	<u>9,332,072</u>	<u>826,772</u>	<u>10,158,844</u>	<u>20,220,094</u>
Cash and cash equivalents, ending (including \$473,264 reported in restricted assets for water)	<u>\$ 5,908,721</u>	<u>\$ 795,222</u>	<u>\$ 6,703,943</u>	<u>\$ 10,158,844</u>

South Tahoe Public Utility District

STATEMENT OF CASH FLOWS - CONTINUED
Proprietary Funds

For the year ended June 30, 2012
(With comparative totals for the year ended June 30, 2011)

	Business-type Activities		Total	
	Enterprise Funds		2012	2011
	Sewer	Water		
Reconciliation of operating loss to cash provided by (used in) operating activities:				
Operating loss	\$ (5,908,667)	\$ (992,223)	\$ (6,900,890)	\$ (7,728,501)
Adjustments to reconcile operating loss to cash provided by (used in) operating activities:				
Depreciation and amortization	4,361,899	2,705,329	7,067,228	6,919,963
Loss on disposal	9,418	-	9,418	68,397
(Increase) decrease in accounts receivable	(814,614)	615,425	(199,189)	(523,150)
(Increase) decrease in other assets	17,536	67,122	84,658	(206,751)
Increase (decrease) in accounts payable	(233,826)	(72,979)	(306,805)	(1,103,107)
Increase (decrease) in unearned revenue	(38,741)	469,618	430,877	(281,421)
Increase (decrease) in other payables	(314,518)	285,964	(28,554)	(13,548)
Cash provided by (used in) operating activities	<u>\$ (2,921,513)</u>	<u>\$ 3,078,256</u>	<u>\$ 156,743</u>	<u>\$ (2,868,118)</u>
Non-cash capital and related financing activities:				
Capital assets included in accounts payable	<u>\$ 1,153,947</u>	<u>\$ 627,618</u>	<u>\$ 1,781,565</u>	<u>\$ 1,651,914</u>
Disposal of capital assets	<u>\$ 495,187</u>	<u>\$ 444,382</u>	<u>\$ 939,569</u>	<u>\$ 521,110</u>
Non-cash investing activities:				
Decrease in fair value of investments	<u>\$ 110,652</u>	<u>\$ 43,031</u>	<u>\$ 153,683</u>	<u>\$ 154,199</u>

The accompanying notes are an integral part of this statement.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles of South Tahoe Public Utility District (the "District") conform to generally accepted accounting principles applicable to governmental-type organizations. The following is a summary of the District's significant accounting policies:

1. Reporting Entity

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's Board of Directors. Management has determined the District to be a single reporting entity for financial reporting purposes by applying the criteria set forth in Statement of Governmental Accounting Standards No. 14, *The Financial Reporting Entity*. This criteria requires the reporting entity to have a separate elected governing body, that it be a legal separate entity and fiscally independent.

Based on the foregoing criteria, the following funds are included in the District's annual report and are combined for financial reporting purposes:

- Sewer Enterprise Fund
- Water Enterprise Fund

2. Basis of Accounting

The financial records of the District are maintained on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

In compliance with Statement of Governmental Accounting Standards No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District has opted not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles, Board Opinions, and Accounting Research Bulletins issued after November 30, 1989.

3. Budget

The District develops and adopts an annual budget; however, this budget is a management tool and is not a legal requirement.

4. Cash and Cash Equivalents

The District considers cash and all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The District's cash and cash equivalents consist of cash, deposits in financial institutions, money market accounts, certificates of deposit and pooled investments. Cash and cash equivalents, invested for specific requirements such as deposits for construction projects, are segregated as restricted cash and cash equivalents.

Deposits of cash and cash equivalents must comply with the District's Investment Policy which complies with the California Government Code. The policy requires deposits in financial institutions to be FDIC insured or fully collateralized.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Investments

Investments consist of unrestricted and restricted federal agency notes, corporate notes and commercial paper. The District records its investments at fair value. Changes in fair value are reported as investment income in the statement of revenues, expenses and changes in net assets.

Restricted investments consist of Methyl Tertiary Butyl Ether (MTBE) legal settlements and judgments restricted by District ordinance since May 2002.

The Chief Financial Officer invests monies not required for the immediate operations of the District, in accordance with the District's Investment Policy.

6. Reserves

The District uses the term "reserves" to refer to all cash and investments belonging to the District at any given time. The District's policy is to have reserves to adequately provide for infrastructure replacement, economic uncertainties, loss of revenue sources, local disasters and catastrophic events, cash flow requirements and unfunded mandates (i.e. new regulatory requirements). In addition, adequate reserves are an essential part of sound financial management and reflect positively on the District's credit standing. Reserves are based on management's estimates for the cash needs of the District and estimates may vary from actual.

The Reserve Policy adopted by the Board of Directors establishes the minimum and maximum amount of reserves for operations, capital, self-insurance and rate stabilization and when to use reserves.

7. Capital Assets

Capital assets are recorded at cost except in those cases where facilities are donated by private developers or special assessment districts. In the latter cases, assets are recorded at fair market value. Assets are capitalized when they are expected to have useful lives three years or greater and the original cost is more than \$5,000. All depreciation is computed on the straight-line method over the following useful lives:

	<u>Years</u>
<u>Sewer Enterprise</u>	
Subsurface lines	10-70
Sewage collection facilities	5-40
Sewage treatment	3-40
Sewage disposal	5-100
General plant and administration	3-50
<u>Water Enterprise</u>	
Source of supply	10-40
Pumping plant	12-30
Water treatment plant	4-35
Transmission and distribution	20-74
General plant	3-20

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave, which will be paid to employees upon separation from the District's service. The cost of vacation and sick leave is recorded in the period accrued.

9. Pension Plan

The California Public Employees Retirement System (PERS) values assets using a smoothing technique. PERS determines the expected value of assets (using the assumed actuarial rate of return) and adds one-fifteenth of the difference between the actual market value of assets and the expected value of assets to equal the asset valuation. In addition, the value of assets will not be less than 80% or greater than 120% of the actual market value of assets. The PERS actuarial methodology serves to diminish short-term market value fluctuations on employer contribution rates. In June 2009, the CalPERS Board adopted changes to the asset smoothing method in order to phase in over a three year period the impact of the -24% investment loss experienced by CalPERS in the fiscal year 2008-2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80%-120% of market value to 60%-140% of market value on June 30, 2009
- Reduce the corridor limits for the actuarial value of assets to 70%-130% of market value on June 30, 2010
- Return to the 80%-120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter

10. Self-Insurance

Health self-insurance liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on complex factors, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, other significant allocated or unallocated claim adjustment expenses, the frequency of claims, and other economic and social factors. The unpaid claims and claim adjustment expenses liability is included in accrued expenses.

11. Capital Contributions

Capital contributions are grant monies received from the federal and state government in aid of construction, and assets contributed by Special Assessment Districts or real estate developers.

12. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Operating and Non-operating Revenues

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations of sewer and water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

14. Restricted Resources

The District's policy is to first apply restricted resources when an expense is incurred for purposes which both restricted and unrestricted net assets are available.

15. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. This data reflects certain reclassifications that conform to classifications in the current year and have no effect on net assets.

NOTE B - CASH AND INVESTMENTS

Cash and investments as of June 30, 2012 consist of the following:

Cash and cash equivalents:

Unrestricted:

Cash on hand	\$ 2,250
Unrestricted deposits in financial institutions	946,102
Deposits in El Dorado County Treasury	307,405
Deposits in California Asset Management Program (CAMP)	1,035,846
Deposits in Local Agency Investment Fund (LAIF)	3,939,076
	<u>6,230,679</u>

Restricted:

Deposits in LAIF	<u>473,264</u>
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Investments:

Unrestricted:

Agency notes	17,363,480
Corporate notes	5,555,789
Certificates of deposit	575,025
	<u>23,494,294</u>

Restricted:

Certificates of deposit	<u>275,000</u>
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Total cash and investments	<u>\$30,473,237</u>
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South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B - CASH AND INVESTMENTS - Continued

1. Investments Authorized by the District’s Investment Policy

The table below identifies investment types authorized by the District’s Investment Policy. The table also identifies certain provisions of the District’s Investment Policy that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum in One Issue
U.S. Treasury obligations	5 years	None	None
Federal agency and instrumentalities			
Callable	5 years	25%	None
Mortgage-backed pass-through and collateralized mortgage obligations	5 years	20%	None
Other	5 years	None	None
U.S. corporate debt	3 years	30%	10%
Negotiable certificates of deposit	5 years	30%	10%
Commercial paper	270 days	25%	10%
Bank deposits	N/A	20%	10%
Bankers’ acceptances	180 days	40%	10%
LAIF	N/A	None	None
CAMP	N/A	None	None
Money market funds	N/A	20%	10%
El Dorado County pool	N/A	None	None

2. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One way the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities. A portion of the portfolio is always maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for the District’s operations and capital improvement program.

In addition, the Investment Policy limits purchase of securities to those with maturities of five years or less. Longer investments require prior authorization of the Board of Directors. Certain investments that are highly sensitive to interest rate fluctuations are prohibited by the Investment Policy.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B - CASH AND INVESTMENTS - Continued

2. Interest Rate Risk - Continued

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Investment Maturities (in years)			
	Fair Value	Less than 1	1-2	3-5
Cash and deposits	\$ 1,798,378	\$1,628,378	\$ 170,000	\$ -
Pooled investment funds	5,755,590	5,755,590	-	-
Agency notes	17,363,480	-	12,123,405	5,240,075
Corporate notes	5,555,789	779,309	2,765,608	2,010,872
	<u>\$30,473,237</u>	<u>\$8,163,278</u>	<u>\$15,059,013</u>	<u>\$7,250,947</u>

As provided in the Investment Policy, the District should target a maximum allocation of 25% to callable Federal agency securities.

3. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year end for each investment type.

Investment Type	Rating as of Year End						
	AA+	A-1+	AA	AA-	A+	A	Not Rated
Cash and deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,798,378
Pooled investment funds	-	-	-	-	-	-	5,755,590
Agency notes	17,363,480	-	-	-	-	-	-
Corporate notes	772,808	-	208,908	644,563	1,558,885	2,370,625	-
	<u>\$18,136,288</u>	<u>\$ -</u>	<u>\$208,908</u>	<u>\$644,563</u>	<u>\$1,558,885</u>	<u>\$2,370,625</u>	<u>\$7,553,968</u>

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE B - CASH AND INVESTMENTS - Continued

4. Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of an investor's investment in a single issuer. To limit concentration risk, the District places a 10% limit on investments in any one non-governmental issuer. Investments exceeding 5% of the total investments, excluding external investment pools, are Federal National Mortgage Association notes, 19%; Federal Home Loan Mortgage Corporation, 9%, Federal Home Loan Bank 10%, and U.S. Treasury 7%.

5. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the depositor will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District's Investment Policy requires the financial institution to either collateralize the deposits or cover them with Federal deposit insurance. The District's cash and deposits, totaling \$1,023,506 as of June 30, 2012, in financial institutions are secured by federal depository insurance for \$525,000 with the remainder covered by collateral held by an agent of the pledging bank in the District's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the investor will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. To eliminate investment custodial credit risk, the District's Investment Policy requires that all cash and securities in the District's portfolio be held in safekeeping in the District's name by a third party bank trust department, acting as agent for the District, under the terms of a custody agreement.

6. Pooled Investment Funds

Pooled investment funds consist of cash deposited in the interest-bearing El Dorado County Treasurer's Pooled Surplus Investment Fund, LAIF, and CAMP.

The fair value of the pooled investments deposited in the El Dorado County Treasurer's Pooled Surplus Investment Fund and CAMP are equal to the value of the pool shares, and the fair value of the pooled investments deposited in the California state pool is greater than the fair value of the pool shares.

The District's deposits are maintained in recognized pooled investment funds under the care of oversight agencies. The El Dorado County Treasurer's Investment Fund has a Treasury Policy Oversight Committee in addition to annual audits. The LAIF in addition to being part of a Pooled Money Investment Account with oversight provided by the Pooled Money Investment Board and an in-house Investment Committee also has oversight by the Local Agency Investment Advisory Board. The CAMP is a trust under the oversight of the CAMP Board of Trustees.

Because the District's deposits are maintained in recognized pooled investment funds under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits is required. The District's deposits in the Funds are considered to be highly liquid. The El Dorado County Treasurer, LAIF, and CAMP representatives have indicated there are no derivatives in the pools as of June 2012. LAIF does invest in structured notes and asset-based securities.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE C - CAPITAL ASSETS

The summary of the changes in capital assets is as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012
<u>Capital assets not being depreciated:</u>				
Land and easement	\$ 23,968,362	\$ 179,467	\$ -	\$ 24,147,829
Water rights	1,668,308	-	-	1,668,308
Construction in progress	16,966,779	10,692,263	(6,896,285)	20,762,757
Total capital assets not being depreciated	<u>42,603,449</u>	<u>10,871,730</u>	<u>(6,896,285)</u>	<u>46,578,894</u>
<u>Capital assets being depreciated:</u>				
Plant and equipment	263,775,521	11,342,209	(1,290,598)	273,827,132
Less: Accumulated depreciation	<u>(110,211,588)</u>	<u>(7,067,228)</u>	<u>1,281,180</u>	<u>(115,997,636)</u>
Total capital assets being depreciated, net	<u>153,563,933</u>	<u>4,274,981</u>	<u>(9,418)</u>	<u>157,829,496</u>
Capital assets, net	<u>\$196,167,382</u>	<u>\$15,146,711</u>	<u>\$(6,905,703)</u>	<u>\$204,408,390</u>

Depreciation expense for the year ended June 30, 2012 totaled \$7,067,228.

Construction in progress as of June 30, 2012 consisted of the following:

Alpine County Master Plan	\$ 1,295,525
BMP Projects, Sewer	182,483
BMP Projects, Water	251,398
Cathodic Protection	494,524
C-Line Evaluation	125,312
C-Line Re-route	236,334
Collection Sys Master Plan	788,756
Cold Creek Filter Plant	550,731
DVR Emergency Storage Basin	146,188
DVR Irrigation Improvements	703,903
DVR Environmental Impact Report	769,991
DVR Monitoring Wells	191,655
DVR Nutrient Management	84,867
Erosion Control, Trout Creek-Stateline	405,199
Filter Building Rehab	1,394,201
Headworks Improvement Project	10,495,568
LIMS Software	88,084
Tank Coatings	459,086
Waterline, Wildwood	1,379,913
Wildwood Interceptor	294,168
Other	424,871
	<u>\$20,762,757</u>

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE D - ACCOUNTS RECEIVABLE AND AMOUNT DUE FROM GOVERNMENTAL AGENCIES

Short-term receivable at June 30, 2012 consists of the following:

	Sewer	Water
Customer receivables	\$ 637,283	\$ 769,118
Due from Federal Government	1,372,277	807,543
Due from State Government	53,030	789,489
Due from El Dorado County	-	177,742
Other receivables	376,609	186,904
	2,439,199	2,730,796
Allowance for doubtful accounts	(25,967)	(25,727)
Accounts receivable, net of allowance	\$2,413,232	\$2,705,069

Long-term receivable at June 30, 2012 consists of the following:

	Sewer	Water
Other receivables	\$803,556	\$ -
Due from State Government	96,824	96,824
	900,380	96,824
Allowance for doubtful accounts	(20,000)	(20,000)
Accounts receivable, net of allowance	\$880,380	\$76,824

Other receivables are submitted to the County of El Dorado for collection through a special property tax assessment or if unpaid, ultimately through foreclosure on the property.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE E - CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	July 1, 2011	Additions	(Deletions)	June 30, 2012
<u>Long-term liabilities:</u>				
Installment agreement	\$ 1,993,298	\$ -	\$ (203,357)	\$ 1,789,941
Water revenue bonds	2,693,216	-	(617,394)	2,075,822
SRF LPPS	2,513,439	98,556	(126,027)	2,485,968
Sewer COP's	10,925,000	-	(650,000)	10,275,000
Sewer Installment Agreement	8,778,756	-	(378,160)	8,400,596
SRF headworks	876,353	26,131	-	902,484
SRF Emergency Retention Basin	-	1,344,698	-	1,344,698
11 Sewer Installment Agreement	-	6,412,815	-	6,412,815
Total debt	\$27,780,062	\$7,882,200	(\$1,974,938)	\$33,687,324
Current debt	\$ 1,953,338			\$ 2,343,162
Long-term debt	\$25,826,724			\$31,344,162
Compensated absences	\$ 3,026,223	\$1,361,020	(\$1,389,200)	\$ 2,998,043
Current portion	\$ 1,045,517			\$ 1,024,647
Long-term portion	\$ 1,980,706			\$ 1,973,396

At June 30, 2012, the long-term liabilities are as follows:

	June 30, 2012	Due Within One Year	Long-Term
<u>Long-term liabilities:</u>			
07 Sewer installment agreement	\$ 8,400,596	\$ 394,206	\$ 8,006,390
Water installment agreements	1,789,942	215,008	1,574,934
Water revenue bonds	2,075,821	647,394	1,428,427
SRF LPPS	2,485,968	101,934	2,384,034
SRF Headworks	902,484	-	902,484
SFR Emergency Retention Basin	1,344,698	79,070	1,265,628
11 Sewer installment agreement	6,412,815	230,550	6,182,265
Sewer revenue bonds	10,275,000	675,000	9,600,000
Total long-term liabilities	\$33,687,324	\$2,343,162	\$31,344,162
Compensated absences	\$ 2,998,043	\$1,024,647	\$ 1,973,396

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE F - LONG-TERM DEBT

Long-term debt at June 30, 2012 consists of the following:

1999 Installment Sale Agreement with Banc of America (formerly LaSalle Bank) secured by a first lien against all water revenues, due May 20, 2019, payable \$156,573 semi-annually, including interest at 5.65%. The original amount of the debt was \$4,965,000 and was used for water infrastructure improvements.	\$ 1,789,941
Water Revenue Refunding Bonds, secured by a first lien against all water revenues. Maturity dates range between August 1, 2007 and 2014, interest payments are made semi-annually at interest rates ranging from 4%-4.4% with principal paid annually. The balance is recorded net of unamortized cost of \$99,179 at June 30, 2012. The refunding was done for \$7,850,000 and was used to repay the 1994 Installment Sale Agreement with LaSalle Bank National Association, which funded water infrastructure improvements.	2,075,822
Sewer Revenue Certificates of Participation, secured by a first lien against all sewer revenues. Maturity dates range between June 1, 2009 and 2024, interest payments are made semi-annually at interest rates ranging from 3.25%-4.875% with principal paid annually. The original amount of the debt was \$15,000,000 and is being used for sewer infrastructure improvements.	10,275,000
2007 Sewer Installment Sale Agreement with Union Bank of California, secured by a first lien against all sewer revenues. Due August 1, 2027, payable \$371,425 semi-annually, including interest at 4.199%. The original amount of the debt was \$10,000,000 and is being used for sewer infrastructure improvements.	8,400,596
2011 California State Water Resources Control Board Revolving Fund loan secured by a first lien against all sewer revenues, due October 15, 2030, payable \$168,973 annually, including interest at 2.7%. The original amount of the debt was \$2,485,968 and was used for construction of the Luther Pass Pump Station Generator Replacement project.	2,485,968
2011 California State Water Resources Control Board Revolving Fund loan secured by a first lien against all sewer revenues, due October 15, 2032, payable \$58,991 annually, including interest at 2.7%. The original amount of the debt was \$902,484 and was used for construction of the Headworks Replacement project.	902,484
2011 California State Water Resources Control Board Revolving Fund loan secured by a first lien against all sewer revenues, due October 15, 2031, payable \$86,029 annually, including interest at 2.7%. The original amount of the debt was \$1,344,698 and was used for construction of the Emergency Retention Basin Liner project.	1,344,698
2011 Sewer Installment Sale Agreement with BBVA Compass Bank, secured by a first lien against all sewer revenues, due August 1, 2031, payable \$231,267 semi-annually, including interest at 3.65%. The original amount of the debt was \$6,525,000 and was used for construction of sewer infrastructure improvements.	6,412,815
	<u>33,687,324</u>
Less: Current principal maturities	<u>(2,343,162)</u>
Total long-term notes payable	<u>\$31,344,162</u>

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE F - LONG-TERM DEBT - Continued

Principal and interest maturities of long-term debt are as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,343,162	\$ 1,302,931	\$ 3,646,094
2014	2,493,387	1,257,381	3,750,768
2015	2,597,813	1,152,058	3,749,871
2016	1,919,188	1,058,048	2,977,236
2017	1,997,603	976,382	2,973,985
2018-2022	10,344,146	3,565,287	13,909,433
2023-2027	8,424,222	1,438,180	9,862,402
2028-2032	3,619,376	292,714	3,912,089
	<u>33,738,897</u>	<u>11,042,981</u>	<u>44,781,878</u>
Unamortized refunding gain	<u>(51,573)</u>	<u>-</u>	<u>(51,573)</u>
	<u>\$33,687,324</u>	<u>\$11,042,981</u>	<u>\$44,730,305</u>

Interest charged on debt, net of amounts capitalized totaling \$299,970 for the year ended June 30, 2012 was \$1,033,291.

Debt covenants for the installment sale agreement to Banc of America, Union Bank of California, BBVA Compass Bank, the Water Revenue Refunding Bonds, the Sewer Revenue Certificates of Participation and the California State Water Resource Control Board Revolving Fund include thresholds for minimum net water and sewer revenue and maximum outstanding debt obligations. The District is in compliance with the requirements as of June 30, 2012.

NOTE G - PENSION PLAN

In 2003, the District joined the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan on a prospective basis. Employees were not given service credit for prior years of service with the District. All contributions to PERS are governed by Memorandums of Understanding (MOUs) between the employees and the District.

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, California 95814.

State statute establishes CalPERS member and employer contribution rate requirements. The CalPERS member contribution requirement is 8% of annual covered salary for the 2.7% at age 55 benefit formula. The District MOU's require the District to fund 1.41% of the member contributions on behalf of its CalPERS members, with members funding the remaining 6.59% of their annual covered salary for the year ended June 30, 2012. The District funds the actuarially determined remaining amount necessary to fund member

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE G - PENSION PLAN - Continued

benefits. The required employer contribution rate for the year ended June 30, 2012 was 15.180%. The District MOU's require that future employer contribution rate increases be shared equally by the District and employees. For the year ended June 30, 2012, the amount contributed by the District on behalf of the employees was \$118,903. CalPERS members vest immediately in the member contribution and vest in the employer contribution after five years of CalPERS membership.

For the fiscal years ended June 30, 2012, 2011 and 2010, the District's actual annual CalPERS cost of \$1,399,012, \$1,316,604 and \$1,313,791, respectively, was equal to the District's required contributions. The required contributions were determined in a 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses); (b) salary increase projections of 3.55% to 14.45% depending on entry age, and duration of service; (c) 3.25% payroll growth (d) annual inflation 3% and (e) 2% postretirement benefit increases. The PERS unfunded liabilities are being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2009 was 19 years. As of June 30, 2012, the District is participating in the 2.7% at age 55 risk pool and the disclosure below is for that risk pool.

PERS Funding Status:

Valuation Date June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability	Unfunded Liabilities	Funding Ratio	Annual Covered Payroll	Unfunded Liabilities as a % of Payroll
2010	\$1,815,671,616	\$2,297,871,345	\$482,199,729	79.0%	\$434,023,381	111.1%
2009	1,674,260,302	2,140,438,884	466,178,582	78.2%	440,071,499	105.9%
2008	1,529,548,799	1,823,366,479	293,817,678	83.9%	414,589,514	70.9%

NOTE H - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code Section 457. The 457 Plan permits the employees to defer a portion of their salary until future years. A third party administrator maintains deferrals in a trust capacity. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Participants can elect to contribute up to 100% of their annual compensation, generally not to exceed \$16,500.

The 457 Plan assets, totaling \$10,785,939 at June 30, 2012, consist of investments in mutual funds. The assets under the District's 457 Plan are held in trust and are considered protected from the general creditors of the District.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. To protect the District from these risks, it is a member of a risk management program as discussed in Note L. The District carries commercial insurance to protect against the risk of errors and omissions. For each of the three most recent years, settlement of claims has not exceeded insurance coverage.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE J - SELF-INSURANCE

The District's self-insurance program commenced January 1, 1997 and covers medical, dental, and prescription drug benefits. All activity related to the self-insurance program is included in the Sewer and Water Enterprise Funds. Under the program, the District is obligated for claim payments up to \$85,000 per individual in 2012. The District purchased a commercial excess insurance policy to cover claims that exceed \$85,000 per individual in 2012. The policy also covers aggregate claims which exceed \$3,212,011 for the calendar year ending December 31, 2012. For the years ended June 30, 2012 and 2011, approximately \$712,000 and \$329,000, respectively, was received for stop loss reimbursements. No settlements exceeded the excess insurance coverage for any of the past three years. This self-insurance program is for active employees and their dependents. The District has no financial or legal obligation to provide coverage to retired employees. The following represents changes in aggregate liabilities for the program during the years ended June 30:

	2012	2011
Unpaid claims and claim adjustment expenses at beginning of year:	\$ 220,796	\$ 401,366
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	2,588,506	2,771,888
Increase in provision for insured events of prior years	101,607	28,798
Total incurred claims and claim adjustment expenses	2,690,113	2,800,686
Payments:		
Claims and claim adjustment expenses attributable to insured events of:		
Current year	3,105,509	2,880,132
Prior years	322,405	430,164
Total payments	3,427,914	3,310,296
Claims reimbursed by excess insurance	712,282	329,040
Total unpaid claims and claim adjustment expenses at end of year	\$ 195,277	\$ 220,796

The components of the unpaid claims liability was as follows as of June 30:

	2012	2011
Claims reserves	\$ 109,781	\$ 138,934
Incurred but not reported claims	85,496	81,862
	\$ 195,277	\$ 220,796

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE K - COMMITMENTS AND CONTINGENCIES

1. Operating Leases

The District leases a reservoir right of way from the Bureau of Land Management. This lease has no termination date. Annual lease expense is \$4,700.

The District leases waterline and wastewater disposal rights of way from the U.S. Forest Service. These leases have no termination date. Annual lease expense is \$20,466. This lease amount is calculated annually by the U.S. Forest Service.

2. Contractual Obligations

At June 30, 2012, the District's significant contractual commitments with outside firms for engineering, construction, consulting, and various other services totaled approximately \$5.2 million.

At June 30, 2012, the District's management was in negotiations with various contractors regarding change orders for work performed prior to year-end. Management has made estimates for amounts due at year end and has recorded them in accrued liabilities at year end.

3. Contingencies

Under the terms of federal and state grants, and under the provisions of the Single Audit Act of 1996, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Management believes disallowances, if any, will be immaterial.

The District is also subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the District.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE L - JOINT POWERS AUTHORITY

The District is a member of a joint powers authority, California Sanitation Risk Management Authority (CSRMA), for the operation of a common risk management and insurance program. The program covers workers' compensation, property and liability insurance. The membership includes public wastewater agencies within California. A Board of Directors consisting of representatives from member agencies governs the Authority. The Authority's Board of Directors controls the operations of the CSRMA, including selection of management and approval of operating budgets.

The following is a summary of the most current unaudited financial information for California Sanitation Risk Management Authority as of June 30, 2012 (the most recent information available):

Total assets	\$32,150,923
Total liabilities	17,794,052
Net assets	14,356,871
Total revenues	9,801,456
Total expenses	11,369,148

If the District's deposits are not adequate to meet costs of claims and expenses, a retrospective adjustment to make up the difference, subject to minimum and maximum amounts, can take place. Coverage provided under the program has not changed and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

The District is also a member of a joint powers authority CAMP. CAMP provides professional investment services to California public agencies. Members of the authority can participate in the CAMP Cash Reserve Portfolio. The Authority is governed by a Board of Trustees, which is made up of experienced local government finance directors, treasurers, and school business officials. The Authority's Trustees control the operation of CAMP, including formation and implementation of its investment and operating policies.

The following is a summary of the most current audited financial information for CAMP Trust as of December 31, 2011 (the most recent information available):

Total assets	\$2,192,723,000
Total liabilities	13,516,000
Net assets	2,179,207,000
Net asset value per share	1
Total income	5,851,000
Total expenses	2,992,000
Net realized gain on investments	54,000
Net increase in net assets resulting from operations	2,913,000

Complete financial statements for CAMP can be obtained from the PFM Asset Management LLC at 50 California Street, Suite 2300, San Francisco, California 94111.

The relationships between South Tahoe Public Utility District and the joint powers authorities are such that CSRMA and CAMP are not component units of the District for financial reporting purposes.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE M - PROPERTY TAX REVENUE

Secured property taxes are attached as an enforceable lien and levied on property as of January 1st. Taxes are due in two installments, on or before December 10th and April 10th. The District recognizes property tax receivables on January 1st and defers revenue recognition until the period for which the property taxes are levied (July 1st through June 30th). Property tax revenue is derived from property tax assessments levied within the entire District. The Board of Directors is using these funds to subsidize the Sewer Enterprise Fund operations. The District relies upon the competency of the County of El Dorado for assessing the property tax and establishing a lien date, and for billing, collecting and distributing its share of the property tax revenue.

NOTE N - INVESTMENT EARNINGS

Investment earnings consist of the following for the year ended June 30, 2012:

Interest income	\$203,321
Realized and unrealized losses	<u>96,821</u>
	<u>\$300,142</u>

NOTE O - OTHER OPERATING EXPENSES

Other operating expenses are as follows for the year ended June 30, 2012:

Professional services	\$ 789,790
Insurance and unreimbursed claims	229,227
Chemical supplies	272,844
Operating permits	310,999
Office expense	141,429
Travel, meetings and education	152,792
Petroleum products	210,282
Research and monitoring	45,351
Miscellaneous expense	<u>714,334</u>
Total other operating expenses	<u>\$2,867,048</u>

NOTE P - SUBSEQUENT EVENT

In September 2012, the District executed an installment sale agreement with Public Property Financing Corporation in the amount of \$10,605,000 for the purpose of refunding the 2004 Sewer Certificates of Participation. The funding was achieved at a 2.3% interest rate and matures on September 1, 2024.

OTHER REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Independent Auditors' Comments on Status of Prior Year Recommendations

None

Current Year Recommendations

None

**Report of Independent Certified Public Accountants on Internal Control
over Financial Reporting and on Compliance and Other Matters**

Board of Directors
South Tahoe Public Utility District
South Lake Tahoe, California

We have audited the financial statements of the South Tahoe Public Utility District ("the District") as of and for the year ended June 30, 2012, and have issued our report thereon dated November 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion.

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

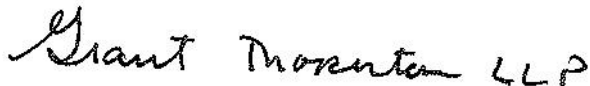
Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the District's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1, which is required to be reported under Government Auditing Standards.

We did not audit the District's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, the State of California, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Reno, Nevada
November 26, 2012

**Report of Independent Certified Public Accountants on Compliance Related to
Major Programs (OMB Circular A-133) and Internal Control over Compliance**

Board of Directors
South Tahoe Public Utility District
South Lake Tahoe, California

Compliance

We have audited the compliance of South Tahoe Public Utility District (“the District”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District’s compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our audit procedures disclosed an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1, which is required to be reported in accordance with OMB Circular A-133.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District’s internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the District’s internal control over compliance. Accordingly, we express no such opinion.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the District's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

We did not audit the District's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Giant Morante LLP

Reno, Nevada
November 26, 2012

South Tahoe Public Utility District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Pass-through: State of California Water Resources Control Board			
LPPS Emergency Generators	66.468	C-06-7445-110	\$ 98,555
ERB Pond Liner Replacement	66.468	C-06-5606-110	1,344,698
<u>Department of Agriculture</u>			
Lake Tahoe Erosion Control Grants	10.690	09-DG-11051900-026	391,195
Lake Tahoe Erosion Control Grants	10.690	10-DG-11051900-024	91,370
Lake Tahoe Erosion Control Grants	10.690	08-DG-11051900-028	133,164
Lake Tahoe Erosion Control Grants	10.690	09-DG-11052900-026	1,556
Lake Tahoe Erosion Control Grants	10.690	10-DG-11051900-025	628
Lake Tahoe Erosion Control Grants	10.690	11-DG-11051900-025	2,839
Cooperative Fire Program	10.664 *	09-DG-11052012-258	190,423
Cooperative Fire Program	10.664 *	10-DG-11052012-090	1,367,939
Cooperative Fire Program	10.664 *	11-DG-11052012-038	<u>544,991</u>
Total expenditures of federal awards			<u>\$ 4,167,358</u>

* Major program, as defined by OMB Circular A-133.

The accompanying notes are an integral part of this statement.

South Tahoe Public Utility District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2012

NOTE A - REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards includes the activity of federal financial assistance to the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.664	Cooperative Fire Program	<u><u>\$1,255,890</u></u>

South Tahoe Public Utility District

SCHEDULE OF FINDINGS

June 30, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor report issued unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor report issued on compliance for major programs. unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.664	Department of Agriculture

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

South Tahoe Public Utility District
SCHEDULE OF FINDINGS - CONTINUED
June 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2012-01 – Reporting
Department of Agriculture
CFDA 10.664 (award 11-DG-11052012-038)

Criteria

As outlined in the Office of Management and Budgets ("OMB") guidance issued August 27, 2010. The prime awardee is required to file under the Federal Funding Accountability and Transparency Act (FFATA) a sub-award report by the end of the month following the month in which the prime recipient awards any sub-grant greater than or equal to \$25,000.

Condition

We noted that the District did not file the sub-award reports timely.

Context

All FFATA reports were filed late. Good faith efforts were attempted to meet the reporting requirements but were unsuccessful. Good faith efforts documentation was not maintained.

Questioned Costs

\$0

Effect

Failure to submit required reports timely fails to honor the intent of the federal agency to provide transparency for the sub-awards on USA\$pending.gov. the website where report information is available for public viewing.

Cause

The responsible party did not submit the reports prior to deadline or document their efforts to report the sub-award contract.

Recommendation

We recommend that the District develop additional procedures to ensure reporting is completed timely and that copies of submitted reports are maintained in the District's files.

Views of Responsible Officials and Planned Corrective Actions

The District will continue to make all known good faith efforts to meet the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements. The District will develop procedures to ensure that documentation of the good faith efforts is maintained.