

TRINITY PUBLIC UTILITIES DISTRICT
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

JUNE 30, 2012

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT1 - 2

MANAGEMENT'S DISCUSSION AND ANALYSIS.....4 - 9

BASIC FINANCIAL STATEMENTS:

Statement of Net Assets as of June 30, 2012.....11 - 12

Statement of Revenues, Expenses and Changes in
Net Assets for the Year Ended June 30, 2012.....13

Statement of Cash Flows for the Year Ended June 30, 2012.....14 - 15

Notes to Financial Statements.....16 - 30

SUPPLEMENTAL INFORMATION

Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance With *Governmental*
Auditing Standards.....32 - 33

Schedule of Revenues and Expenses -- Budget and
Actual for the Year Ended June 30, 2012.....34

Notes to Supplemental Information.....35



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Trinity Public Utilities District
Weaverville, California

I have audited the accompanying basic financial statements of the business-type activities of the Trinity Public Utilities District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Trinity Public Utilities District, as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 9 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurances.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Trinity Public Utilities District's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, other supplemental information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements, the combining and individual nonmajor fund financials statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or any assurance on them.

A handwritten signature in cursive script, reading "Steve L. Emmer". The signature is written in black ink and is positioned above the typed name and date.

Redding, California
November 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Trinity Public Utilities District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's Assets exceeded its liabilities at the close of the fiscal year by \$20.3 million (net assets). This amount may be used to meet the District's ongoing obligations to citizens and creditors.
- Total net assets increased \$0.299 million over the course of 2012. Total liabilities decreased \$0.611 million for a net increase to net assets of \$0.312 million.
- The District's retail sales increased \$0.073 million in 2012. This increase was offset by a \$0.603 million decrease to the Deregulation and Drought Relief Surcharges, for a net decrease to total operating revenues of \$0.535 million.
- The District's net operating expenses increased by \$0.290 million due to a combination of decreased and increased costs. Power acquisition decreased \$0.281 million; customer accounts decreased \$0.013 million. These decreases were offset by increases to operations & maintenance (\$0.386 million) and administrative and general expenses (\$0.198 million).
- The District's net non-operating expense increased by \$0.196 million due primarily to an increase in Interest Expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes management's discussion and analysis report, the independent auditors' report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP). Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about the District's activities.

The *Statement of Net Assets* includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Assets* accounts for all of the current year's revenues and expenses. This statement provides information on the District's operations over the past year and could be used to determine whether the District has recovered all its costs through its rates and other charges.

The *Statement of Cash Flows* reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. When used with related disclosures and information in the other financial statements, the statement of cash flows should provide insight into such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to fully understand the data provided in the required financial statements. The notes to the financial statements can be found on pages 16 through 30 of this report.

Supplementary information

In addition to the required financial statements and accompanying notes, this report also presents certain supplementary information, which can be found on pages 32 through 35 of this report.

In accordance with GASB Statement 34, the District is not required to restate financial information from prior periods for the purpose of providing comparative information for this analysis.

FINANCIAL ANALYSIS OF THE DISTRICT

Over time, increases or decreases in the District's net assets are one indicator of its financial health. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in state and national energy policy, and other new or changed government legislation. A summary of the District's Statement of Net Assets is presented in Table I below.

NET ASSETS

Table I
Condensed Statement of Net Assets

Current and other assets	\$ 12,585,188
Restricted assets	6,772,640
Non-current assets	2,543,329
Capital assets, net	<u>33,125,151</u>
Total assets	<u>\$ 55,026,308</u>
Current liabilities	\$ 1,393,394
Restricted liabilities	406,110
Long-term debt	31,994,699
Other liabilities	<u>886,144</u>
Total liabilities	<u>34,680,347</u>
Net assets:	
Invested in capital assets, net of related debt	424,118
Restricted assets	6,768,530
Unrestricted assets	<u>13,153,313</u>
Total net assets	<u>20,345,961</u>
Total liabilities and net assets	<u>\$ 55,026,308</u>

The District's total assets decreased \$0.312 million, and total liabilities decreased \$0.611 million for a net increase of \$0.299 million from June 30, 2011 to June 30, 2012.

Changes in Assets included:

- Current and Other Assets – decreased from \$23.2 million to \$21.9 million during the current fiscal year. This \$1.3 million decrease was primarily a combination of a reduction to restricted cash and an increase to unrestricted cash.
- Capital Assets, net of depreciation – increase of \$1.0 million in capital assets, due primarily to work performed on the Lewiston Hydro project during the current fiscal year. The District is also currently undertaking a System Improvement project and the expenditures are financed mainly through the 2010 bond proceeds.

Changes in Liabilities included:

- Current liabilities – a net decrease in overall current liabilities of \$0.106 million, due primarily to a decrease in Compensated Absences, Accounts Payable and Construction Advances.
- Long-term debt – a net decrease of \$0.695 million, due primarily to the annual debt payments.
- Other non-current liabilities – an increase of \$0.194 million primarily due to an increase of the Deferred Compensation and Other Post-Employment Benefits liabilities.

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets shows the nature and source of these changes. A summary of the District's changes in Net Assets is presented in Table II below.

Table II
Condensed Statement of Revenues, Expenses and
Changes in Net Assets

Operating revenues	\$ 9,825,051
Operating expenses	<u>(6,482,733)</u>
Gross operating revenues	3,342,318
Depreciation and amortization expense	<u>(1,669,066)</u>
Net operating income	1,673,252
Non-operating income	62,244
Non-operating expense	<u>(1,436,536)</u>
Total non-operating income (expense)	(1,374,292)
Change in net assets	298,960
Net assets, beginning of the year	<u>20,047,001</u>
Net assets, end of the year	<u>\$ 20,345,961</u>

The District's total net income of \$298,960 was the source of the increase in net assets in 2012. The District's operating revenues decreased \$0.535 million, due to a \$0.073 million increase in retail sales offset by a decrease of \$0.603 million in Other Revenue due to the removal of the Drought Surcharge in May 2011 and a decrease to the Deregulation Surcharge in December 2011. Total operating expenses increased \$0.290 million due primarily to an increase to Operations & Maintenance and General Expenses which is partially offset by a slight decrease to Power Acquisition and Customer Accounts.

CAPITAL ASSETS

As of June 30, 2012, the District had \$33.1 million invested in a variety of capital assets, net of accumulated depreciation, as shown in Table III below.

**Table III
Capital Assets**

Distribution system	\$ 37,763,539
Substations	5,772,270
Buildings and improvements	2,504,993
Vehicles, tools and other equipment	<u>3,716,027</u>
Total capital assets	49,756,829
Less accumulated depreciation	(20,715,594)
Land	1,191,736
Work in progress	<u>2,892,180</u>
Net capital assets	<u>\$ 33,125,151</u>

The District invested a net total of \$1.735 million in capital improvements before depreciation in 2012, as part of the District's 2010 Electric Revenue Bond financing. System improvements were primarily funded from bond proceeds.

BUDGETARY HIGHLIGHTS

The District adopts an annual Operating Budget that includes proposed expenses and the sources of revenue to finance them. The District's operating budget remains in effect the entire year, and may be amended by Board action. The District's budget is prepared on a modified cash basis for cash flow and monitoring purposes, and is used throughout the year to monitor the District's monthly activity on a comparative basis.

FY 11/12 ended with a decrease in total reserves of \$1,444,528, which was almost \$4.3 million dollars less than the decrease the Budget projected. The decrease is primarily due to the work on the Lewiston Hydro project progressing slower than predicted.

Additional information on the District's budget comparison for 2011/2012 can be found on page 34 of the Financial Statements, Supplemental Schedule of Revenues and Expenses – Budget and Actual.

LONG TERM DEBT

At the end of fiscal year 2012, the District had total long-term debt outstanding of \$32.6 million, including current maturities. \$19.850 million is comprised of 2010 Electric Revenue Bonds issued during the previous fiscal year and \$6.175 of certificates of participation issued in 2003. The balance is comprised of \$6.620 million from the 2003 installment sale agreement with the California Infrastructure and Economic Development Bank (CIEDB).

Additional information on the District's long-term debt can be found in Note 6 on pages 24 through 26 of the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic factors with the largest potential impact to the District remain the uncertainty of power acquisition costs. One of the largest determinants affecting power costs continues to be tied to the amount of rainfall, and could routinely swing between \$1 and \$3 million per year. Western Area Power Administration (Western) power charges are based on two components: 1) Power Revenue Requirements (PRR), or basically Western's net expenses, and 2) the District's First Preference Percentage (FPP), which is based on forecasts of the District's load as a percentage of forecasted Western generation. The District pays the result of multiplying these two components. During a dry year, the District's load is not affected, but Western's generation is greatly reduced. Thus, during a dry year the PRR does not change, but the FPP increases dramatically. Consecutive dry years compound the problem, but this is mostly ameliorated by the District's Drought Relief Surcharge.

The Five Year Financial Plan reflects the drought ended in 2010 and assumes that there will not be back-to-back dry years over the next five years. This implies that the Drought Relief Surcharge that ended in the spring of 2011 will not return during the projected time frame.

The Lewiston Hydroelectric Project is likely the most sensitive aspect of the Budget. The Financial Plan assumes the project costs include the entire contingency in the most recent Engineers estimate, and the value of the revenue is estimated to be the minimum amount provided for in the most recent draft of the Power Sales Agreement with the City of Redding. The third unknown is time of completion.

The Five-Year Financial Forecast projects a very positive financial outlook for the District. However it should be noted, that any number of events, particularly legislative or regulatory mandates, can drastically alter the financial outlook. Nevertheless, the District is in little danger of losing its favorable comparison of rates with other California utilities. Staff expects that the total price the District's customer/owners pay for their electric service will remain among the lowest, if not be the lowest, in California for many years into the future.

BASIC FINANCIAL STATEMENTS

TRINITY PUBLIC UTILITIES DISTRICT
STATEMENT OF NET ASSETS

AS OF
JUNE 30, 2012

ASSETS:

	<u>Business-Type Activities</u>
Current assets:	
Cash and cash equivalents	\$ 10,303,194
Accounts receivable, net	1,132,192
Interest receivables	4,023
Other receivables	25,136
Inventories	803,609
Prepaid expenses	167,034
Due from other governments, current portion	<u>150,000</u>
Total current assets	<u>12,585,188</u>
Restricted assets:	
Restricted cash and cash equivalents	6,768,530
Interest receivable	<u>4,110</u>
Total restricted assets	<u>6,772,640</u>
Noncurrent assets:	
Deferred charges, net	765,011
Investment in retirement annuity	400,151
Due from other governments, long-term portion	983,136
Interest receivable - due from other government	<u>395,031</u>
Total noncurrent assets	<u>2,543,329</u>
Capital assets:	
Depreciable capital assets	49,756,829
Less accumulated depreciation	(20,715,594)
Land	1,191,736
Construction in progress	<u>2,892,180</u>
Total capital assets, net	<u>33,125,151</u>
Total restricted, noncurrent and capital assets	<u>42,441,120</u>
Total assets	<u>\$ 55,026,308</u>

TRINITY PUBLIC UTILITIES DISTRICT
STATEMENT OF NET ASSETS

AS OF
JUNE 30, 2012

Current liabilities:	
Current portion of long-term debt	\$ 706,334
Accounts payable	274,487
Wages payable	64,297
Compensated absences payable	248,191
Retirement plan payable	3,082
Customer deposits	67,175
Construction advances	12,698
Other accrued liabilities	17,130
	<hr/>
Total current liabilities	1,393,394
Current liabilities payable from restricted assets:	
Accrued interest	406,110
	<hr/>
Total liabilities payable from restricted assets	406,110
Noncurrent liabilities:	
Long-term debt, net	31,994,699
Deferred compensation	400,151
Other postemployment benefits liability	485,993
	<hr/>
Total non current liabilities	32,880,843
	<hr/>
Total liabilities	34,680,347
Net assets:	
Invested in capital assets, net of related debt	424,118
Restricted	6,768,530
Unrestricted	13,153,313
	<hr/>
Total net assets	20,345,961
	<hr/>
Total liabilities and net assets	\$ 55,026,308

TRINITY PUBLIC UTILITIES DISTRICT
 STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED
 JUNE 30, 2012

	<u>Business-Type Activities</u>
Operating revenues:	
Retail sales	\$ 7,259,137
Fees and charges	80,068
Other revenue	<u>2,485,846</u>
Total operating revenues	<u>9,825,051</u>
Operating expenses:	
Power acquisition	2,239,334
Operations and maintenance	2,125,058
Customer accounts	792,832
Administrative and general	<u>1,325,509</u>
Total operating expenses	<u>6,482,733</u>
Operating income before depreciation and amortization	3,342,318
Depreciation and amortization	<u>(1,669,066)</u>
Operating income	1,673,252
Non-operating revenues (expense):	
Interest income	62,244
Interest expense	<u>(1,436,536)</u>
Total non-operating revenues (expense)	<u>(1,374,292)</u>
Change in net assets	298,960
Net assets, beginning of the year	<u>20,047,001</u>
Net assets, end of the year	<u>\$ 20,345,961</u>

TRINITY PUBLIC UTILITIES DISTRICT
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED
JUNE 30, 2012

	<u>Business-Type Activities</u>
Cash flows from operating activities:	
Cash received from customers	\$ 10,209,016
Cash paid to suppliers	(4,510,802)
Cash paid to employees fro services	<u>(2,352,873)</u>
Net cash provided by operating activities	<u>3,345,341</u>
Cash flows from capital and related financing activities:	
Purchases of utility plant and construction in progress	(2,654,423)
Principal payments on long-term debt	(662,851)
Interest paid	<u>(1,436,536)</u>
Net cash used in capital and related financing activities:	<u>(4,753,810)</u>
Cash flows from investing activities:	
Interest income	59,337
Repayments from other governments	<u>148,835</u>
Net cash provided by investing activities	<u>208,172</u>
Net decrease in cash and cash equivalents	(1,200,297)
Cash and cash equivalents, beginning of the year	<u>18,272,021</u>
Cash and cash equivalents, end of the year	<u>\$ 17,071,724</u>
Reconciliation of cash and cash equivalents to other statement of net assets:	
Cash and cash equivalents	\$ 10,303,194
Restricted cash and cash equivalents	<u>6,768,530</u>
Total cash and cash equivalents, end of the year	<u>\$ 17,071,724</u>

TRINITY PUBLIC UTILITIES DISTRICT
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED
JUNE 30, 2012

	<u>Business-Type Activities</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,673,252
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,669,066
Provision for bad debts	35,070
Decrease (increase) in assets:	
Accounts receivable and other	348,895
Inventory	(251,963)
Prepaid expenses	(154,121)
Increase (decrease) in liabilities:	
Accounts payable	(92,702)
Accrued wages and related costs	132,174
Other liabilities	(14,330)
Total adjustments	<u>1,672,089</u>
Net cash provided by operating activities	<u>\$ 3,345,341</u>

Note 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Trinity Public Utilities District (the District) are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The following is a summary of the more significant accounting policies of the Trinity Public Utilities District.

A. Reporting Entity

The District was established by general election in 1981 to provide electrical power to the Trinity County area. The District purchases its power from the Western Area Power Administration pursuant to a first preference right granted by Congress.

The Trinity Public Utilities District Financing Corporation (the Corporation) and Trinity Public Utilities District Financing Authority (the Authority) were formed for the sole purpose of providing financing assistance to the District for the construction and acquisition of major capital facilities. The Trinity Public Utilities District and the Corporation and the Authority have a financial and operational relationship, which meets the reporting entity definition criteria of GASB Statement No.14, *The Financial Reporting Entity*, for inclusion of the Corporation and the Authority as a component unit of the District. Accordingly, the financing activities of the Corporation and the Authority have been included in the basic financial statements of the District.

B. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. The District utilizes one proprietary fund type.

Proprietary fund

Enterprise Funds – Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise. The objective of the governing body is to have the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting and Measurement Focus

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

C. Basis of Accounting and Measurement Focus (continued)

Revenues, Expenditures and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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

Net assets are classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D. Use of Restricted/Unrestricted Net Assets

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through enabling legislation.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

F. Accounts Receivable

The District utilizes the allowance for doubtful accounts method with respect to its accounts receivable. The allowance was \$383,229 at June 30, 2012.

G. Inventories

Inventories consist of poles, transformers, wires, and other electrical utility supplies. They are valued at the lower of cost or market and the District used the first-in, first-out (FIFO) flow assumption in determining cost.

H. Capital Assets

All capital assets purchased by the District are capitalized at historical cost. Maintenance and repairs are expensed as incurred. Contributed assets are valued at their estimated fair market value on the date contributed. Depreciation is calculated over the estimated useful lives of assets using the straight-line method. The estimated useful lives are as follows.

Electric system assets	30 years
Buildings	30 years
Equipment	5 years

For the year ended June 30, 2012, depreciation was \$1,631,711.

I. Investment in Retirement Annuity and Deferred Compensation

The District's investment in the retirement annuity is for certain employees' deferred compensation plans subject to the Federal Insurance Contributions Act and is recorded at fair market value.

J. Long-Term Liabilities

Debt issuance costs were capitalized and amortized over 20 – 30 years. Amortization expense for the year ended June 30, 2012 is \$37,355.

K. Compensated Absences Payable

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. Vacation, which is based upon the employee's length of service, may be accumulated and carried over up to a maximum of 500 hours of accrued vacation leave.

Accumulated employee compensatory time benefits are recognized as liabilities of the District. In lieu of receiving overtime pay, hourly employees may elect to accrue compensatory time. Compensatory time accrues at the rate of overtime pay foregone – for example, one hour of overtime at the double time rate of pay would be exchanged for two hours of compensatory time at the regular rate of pay. An employee's compensatory time may be accumulated and carried up to a maximum of 160 hours.

Accumulated sick leave benefits are recognized as a liability for the general manager and the electric superintendent, whose sick leave benefits are 50% vested. All other employee sick leave benefits are not recognized as liabilities since benefits do not vest. Accrued vacation, compensatory time, and sick leave benefits were \$248,191 at June 30, 2012.

L. Contributions in Aid of Construction -- Utilities

Contributions in aid of construction for all services are included as other revenue in operating revenues.

M. Pension Plan

All full time District employees are members of a risk pool of the State of California Public Employees' Retirement System, a cost-sharing multiple-employer defined benefits pension plan. The District's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of July 1st by the System's actuary. However, the agreement with the Employee's Association sets the District's cost of funding pension costs at a floor of 23.5% and a cap of 35.25% of base wages. See Note 7 for a detailed explanation of the district's pension funding policy.

N. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 those estimates.

Note 2:

CASH AND INVESTMENTS

The cash and investments of the District as of June 30, 2012, are displayed on the balance sheet as follows:

Cash and cash equivalents	\$ 10,303,194
Restricted assets - cash and cash equivalents	<u>6,768,530</u>
Total	<u>\$ 17,071,724</u>

Deposits – At June 30, 2012, the carrying amount of the District's deposits was \$1,225,425. The bank balance was \$1,262,599. Additionally, \$450 was uninsured and uncollateralized. The uninsured and uncollateralized deposits are held by petty cash.

TRINITY PUBLIC UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Investments – The California Government Code authorizes the District to invest in obligations of the United States Treasury in the form of notes, bonds, bills or instruments for which the faith and credit of the United States are pledged for payment. The District may also invest in registered treasury notes, or bonds of the State of California and commercial paper of “prime” quality as defined by California Government Codes Section 53635 and as rated by Standard and Poors Corporation or Moody’s Commercial Paper Record.

Investments at June 30, 2012 are comprised of the following:

Local Agency Investment Fund (State Pool)	\$ 8,766,605
Government Cash Management Fund - Bank of New York	2,521,186
Umpqua Bank Local Agency Pool	<u>4,558,058</u>
 Total Investments	 15,845,849
 Deposits	 <u>1,225,875</u>
 Total deposits and investments	 <u>\$ 17,071,724</u>

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows so that maturities are distributed relatively evenly over time. Information about sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table of the District’s investments by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>More Than 5 Years</u>
Local Agency Investment Fund (State Pool)	\$ 8,766,605	\$ 8,766,605	\$ -	\$ -
Government Money Market	2,521,186	2,521,186	-	-
Umpqua Bank Local Agency Pool	<u>4,558,058</u>	<u>4,558,058</u>	<u>-</u>	<u>-</u>
 Total	 <u>\$ 15,845,849</u>	 <u>\$ 15,845,849</u>	 <u>\$ -</u>	 <u>\$ -</u>

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by ratings assigned by nationally-recognized rating organizations. The investments held by the District are not rated by nationally-recognized organizations. In the opinion of management, credit risk is nominal due to the credit worthiness of the institutions where investments are held.

Concentration of Credit Risk – Under the provisions of the District’s investment policy, the District’s reserves shall be maintained in the District’s local bank account’s LAIF, or in eligible securities in accordance with Government Code Section 53600-53609. With the exception of LAIF and bond reserve funds, the District may invest up to 25% of total reserves in any single security with a maximum maturity of five years.

Other than securities issued by public agencies, the United States Government or the United States Treasury, the District investment policy limits investments to a maximum position of 5% of any issuer’s holdings.

Custodial Credit Risk – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District’s policy requires that a third-party bank trust department hold all securities owned by the District in the District’s name.

Restricted Cash – Restricted cash is held as reserves for satisfaction of conditions related to the issuance of bonds in past years.

Investment in LAIF – The District participates in the Local Agency Investment Fund. (LAIF), a voluntary program created by statute (California Government Code Section 16429). The Local Investment Advisory Board provides oversight for LAIF. Market valuation is conducted monthly and fund policies, goals, and objectives are reviewed annually. All securities are purchased under Government Code Sections 16430 and 16480.4 and are held by a third party custodian. The District has the right to withdraw its deposited moneys from LAIF upon demand. The fair value of the statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio in relation to the amortized cost of that portfolio. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state agencies, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. As of June 30, 2012, less than 5% of LAIF’s investment portfolio was invested in structured notes and other asset-backed securities. Due to the portfolio’s characteristics, LAIF’s exposure and the District’s related exposure to credit, market, and legal risk is considered minimal.

Securitized Deposits – The District holds a portion of its investment funds in a local Agency Pool Account with Umpqua Bank. Local agency deposits in the account are collateralized with eligible securities pursuant to California Government Code Sections 53630-53686. The securities held as collateral must have a market value level of no less than 110% of the funds held in the Pool. The account funds and collateral are held by a third party custodian. The District has the right to withdraw its deposited monies from the Pool upon demand.

Pursuant to Government Code Sections 53658 and 53665, the District has an undivided security interest in the pooled securities equal to the percentage the Districts’ funds and accrued interest is to the total of the local agency funds on the deposit in the pool.

Note 3: DUE FROM OTHER GOVERNMENTS

Pursuant to an agreement (Project Agreements No.1 and No. 2) with Trinity County, the District provided financial support for the direction and control of Mountain Communities Healthcare District's (MCHD) operations and committed funds for operating expenses totaling \$2,789,000. As of June 30, 2012, the current outstanding principle balance due is \$1,133,136. Pursuant to project Agreement No. 2, amounts provided to MCHD accrue interest at a rate equal to the District's earnings rate on the Local Agency Investment Fund (LAIF). As of June 30, 2012, the LAIF's rate was 0.36% and accrued interest due was \$395,031. This amount is shown on the balance sheet as interest receivable -- due from other governments.

Pursuant to Project Agreement No. 2, beginning February 2006, the County commenced returning District reserves used to help MCMS carry out its obligations, by paying the District \$150,000 per year, by way of increased rates for its electric services. Such payments will continue until the District' reserves, including accrued interest, are restored. As of June 30, 2012 the District has recouped a total of \$964,207.

Due from other governments at June 30, 2012, are comprised of the following:

Trinity County, principal	\$ 1,133,136
Trinity County, interest	<u>395,031</u>
Total due from other governments	1,528,167
Less current portion	(150,000)
Less interest receivable - due from other governments	<u>(395,031)</u>
Total due from other governments, long term portion	<u>\$ 983,136</u>

Note 4: OTHER RECEIVABLES

Other receivables at June 30, 2012, are comprised of the following:

Cafeteria plan receivables	<u>\$ 25,136</u>
Total other receivables	<u>\$ 25,136</u>

Note 5:

CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Additions	Sales, Transfers & Retirements	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 1,191,736	\$ -	\$ -	\$ 1,191,736
Construction in progress	1,972,702	919,478	-	2,892,180
Total capital assets not depreciated	3,164,438	919,478	-	4,083,916
Capital assets being depreciated:				
Utility plant	42,020,204	1,515,605	-	43,535,809
Building & improvements	2,502,438	2,555	-	2,504,993
Equipment	3,499,242	216,785	-	3,716,027
Total capital assets depreciated	48,021,884	1,734,945	-	49,756,829
Less accumulated depreciation for:				
Utility plant	(14,761,601)	(1,324,079)	-	(16,085,680)
Building & improvements	(1,405,211)	(119,317)	-	(1,524,528)
Equipment	(2,917,071)	(188,315)	-	(3,105,386)
Total accumulated depreciation	(19,083,883)	(1,631,711)	-	(20,715,594)
Total capital assets being depreciated, net	28,938,001	103,234	-	29,041,235
Total capital assets, net	\$ 32,102,439	\$1,022,712	\$ -	\$ 33,125,151

Note 6:

LONG-TERM LIABILITIES

2010 Electric Revenue Bonds – The bonds were issued by the Trinity Public Utilities District Financing Authority under a resolution adopted by the Board of Directors of the Authority in the amount of \$19,940,000. The bonds were structured as serial bonds for maturities 2011 through 2030 and three term bonds maturing in 2032, 2035 and 2040. Yields on serial bonds range from 0.6% in 2011 to 4.37% in 2030. Interest rates range from 4.50% to 6.00%. The bonds maturing on or before April 1, 2020 are not subject to optional redemption prior to their respective stated maturity dates. The 2010 bonds maturing on April 1, 2032, April 1, 2034 and April 1, 2040 are subject to mandatory redemption in part by lot from sinking funds and payable from and secured by a pledge of net electric systems revenues.

The certificates were delivered pursuant to a trust agreement, dated as of October 1, 2010, among the Authority and the Bank of New York. As a condition of the 2010 Electric Revenue Bonds, the District was required to set up a reserve account. The reserve account balance at June 30, 2012 is \$1,302,917.

Accrued interest at June 30, 2012 of \$218,289 is related to these bonds.

2003 Refunding Certificates of Participation - The Refunding Certificates of Participation were issued by the District in the amount of \$9,580,000 consisting of \$6,355,000 in serial certificates and \$3,225,000 in term certificates, due April 1, 2023. Interest rates range from 2.0% to 5.5%. Proceeds were used to repay the 1993 Certificates of Participation Notes. The notes are payable from and secured by a pledge of net electric systems revenues. The term certificates are subject to mandatory prepayment in part beginning in April 2019.

The Certificates were executed and delivered pursuant to a Trust Agreement dated as of March 1, 2003, by and among the District, the Corporation and BNY Western Trust Company, as trustee. As a condition of the 2003 Refunding Certificates of Participation, the District was required to set up a reserve account. The reserve account balance at June 30, 2012, is \$763,144.

Accrued interest at June 30, 2012 of \$77,761 is related to these certificates.

2003 Enterprise Fund Installment Sale Agreement – The Agreement was executed April 1, 2003 by the District and the California Infrastructure and Economic Development Bank (the “CIEDB”). The Agreement is a 30-year agreement providing for a maximum purchase price of \$7,803,800. The Agreement is interest only until July 31, 2010. Commencing March 18, 2005, the CIEDB issued bonds, secured in whole, by the Agreement. Commencing on the date, interest only payments were based upon the total principal component of the purchase price, at a rate of 3.39%. The District will receive a credit against interest owed, based upon the actual interest earned by the CIEDB, at a rate of up to 3.39% on the undistributed project funds. Proceeds will be used to upgrade and expand the electric distribution and transmission grid. The notes are payable from and secured by a pledge of net electric systems revenue. The pledge is subordinate to the pledge securing 2003 Certificates of Participation Agreements. As a condition of the Agreement, the District was required to set up a reserve account upon CIEDB issuance of bonds. As of June 30, 2012, the reserve account balance is \$445,112.

Accrued interest at June 30, 2012 of \$110,060 is related to this Installment Sale Agreement (or Loan).

TRINITY PUBLIC UTILITIES DISTRICT
 NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2012:

	<u>June 30, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2012</u>
2003 Certificate of Participation Notes	\$ 6,590,000	\$ -	\$ (415,000)	\$ 6,175,000
2003 Enterprise Fund Installment Sale	6,834,212	-	(214,077)	6,620,135
2010 Electric Revenue Bonds	19,895,000	-	(45,000)	19,850,000
Unamortized premiums	392,892	(17,200)	-	375,692
Deferred loss on defeasance of debt	<u>(348,220)</u>	<u>28,426</u>	<u>-</u>	<u>(319,794)</u>
Totals	<u>33,363,884</u>	<u>11,226</u>	<u>(674,077)</u>	32,701,033
Less current portion				<u>(706,334)</u>
Long term debt, net				<u>\$ 31,994,699</u>

The annual principal and interest payments on long-term debts are as follows:

<u>Payable June 30:</u>	Business-Type Activities		Total
	Principal	Interest	
2013	\$ 706,344	\$ 1,408,624	\$ 2,114,968
2014	1,108,838	1,377,871	2,486,709
2015	1,166,595	1,323,838	2,490,433
2016	1,219,616	1,272,197	2,491,813
2017 - 2021	6,948,233	5,503,058	12,451,291
2022 - 2026	6,293,694	3,917,547	10,211,241
2027 - 2031	5,578,678	2,780,950	8,359,628
2032 - 2036	5,293,146	1,634,680	6,927,826
2037 - 2040	<u>4,329,991</u>	<u>497,925</u>	<u>4,827,916</u>
Total	32,645,135	<u>\$19,716,690</u>	<u>\$ 52,361,825</u>
Less unamortized discount	-		
Add unamortized premium	375,692		
Less unamortized deferred loss on defeasance of debt		<u>(319,794)</u>	
Total	<u>\$ 32,701,033</u>		

Note 7: RETIREMENT PLANS

Defined Benefit Plan

Plan Description – Effective July 4, 2004, the District elected to become a participant in the California Public Employees Retirement System (CalPERS) and began making contributions into a cost-sharing, multi-employer public employee defined benefit pension plan. CalPERS provides retirement and retirement 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 entities within the State of California. Benefit provisions and all other requirements are established by state statute. CalPERS funding progress information for the

District has been consolidated by CalPERS with other entities in the risk pool. Therefore, this information is not available solely for the District's funding progress and has not been presented in these financial statements. Copies of CalPERS' annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, California 95814.

Funding Policy – The District is required to contribute at an actuarially determined rate for their participants; the current rate is 20.044% of annual base salaries, with 14.153% for the annual normal cost portion, and 5.891% for the unfunded liability portion of the plan the unfunded liability payment is expected to end in 2017. The contribution rates for plan members and the District are established, and may be amended by CalPERS. The District also contributes the employee's contribution portion, which is 8%, for a total contribution rate of 28.044%. Per agreement with the Employee's Association, in the event the District's contribution rate falls below 23.5% of base wages, the employees would be entitled to a credit in the form of increased wages. Such increase would be discontinued if the contribution rate becomes higher than 23.5%. In addition, the District's total contribution is currently capped at 35.25% of base wages. Contribution rates in excess of that cap would be paid either by payroll deduction or by reduced wages, whichever is preferred by the Employees' Association.

Annual Pension Cost – The required contribution was determined as part of the June 30, 2010, actuarial valuation of the risk pool using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of services (ranging from 3.25% to 14.45%), and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3 %. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). For the years ending June 30, 2010, 2011, and 2012, the District's employer contributions were \$462,297, \$526,413, and \$544,046, respectively, equal to their required contribution for each year.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All plan assets are held in trust for the exclusive benefit of the participants.

In addition to the above plan, the District has agreements with one current and two retired employees to provide for deferred compensation equal to the amount of the District's tax liability under the Federal Insurance Contributions Act as such employees are not contributing to FICA. For the year ended June 30, 2012, the District made total contributions of \$9,166. The deferred compensation is not available to the employees until normal retirement age, or after termination, or death. Deferred compensation amounts under this plan, all property and rights purchased with those amounts, and all income attributed to those amounts are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the claims of the District's general creditors. Participant's rights under the plan are equal to those of the general creditors of the District, in an amount equal to the fair market value of the deferred account for each participant.

Note 8:

OTHER POSTEMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2010, the District recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability (benefit) from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years.

A. Plan Description - The District provides postemployment healthcare benefits, in accordance with union agreements, to all employees who retire from the District that meet the criteria listed below:

- Whenever the sum of an employee's age and number of years of full-time service equals 75 or more, upon retiring the employee may, with carrier approval, continue participation in the District medical insurance program for the employee and the employee's family.
- The retiree must agree to pay the District any amount of insurance premium that the District does not contribute.
- When a covered retiree reaches the age of eligibility for Medicare, or becomes eligible for any other group or employer medical program, or is covered under a spouse's medical insurance, the employee may elect, with the District's carrier's approval, to supplement this coverage from Medicare or other coverage with the District's medical insurance program.
- The District's contribution for that supplemental coverage will be reduced to one-third (1/3) of the amount then being provided. If either the retiree or the retiree's spouse reaches the age of eligibility for Medicare, but the other has not, then the District's contribution will be reduced to one-half (1/2) of the amount then being provided, until both have reached the age of eligibility of Medicare.

B. Funding Policy - The contribution requirements of the District are established and may be amended by the District's Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District. For fiscal year 2012, the District contributed \$23,419 to the plan through payment of benefits.

C. Annual OPEB Cost and Net OPEB Obligation - The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB

cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 196,100
Interest on net OPEB obligation	12,760
Adjustment to annual required contribution	<u>(18,448)</u>
Annual OPEB cost (expense)	<u>190,412</u>
Contributions made	<u>(23,419)</u>
Increase in net OPEB obligation	<u>166,993</u>
Net OPEB obligation - beginning of the year	<u>319,000</u>
Net OPEB obligation - end of the year	<u>\$ 485,993</u>

The District's net OPEB obligation is presented in the basic financial statements as follows:

Other post employment benefits liability	<u>\$ 485,993</u>
--	-------------------

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Asset
06/30/08	*	*	*
06/30/09	*	*	*
06/30/10	\$ 177,652	11.65%	\$ 156,953
06/30/11	\$ 183,930	11.90%	\$ 319,000
06/30/12	\$ 190,412	12.29%	\$ 485,993

* First year of implementation

- D. **Funded Status and Funding Progress** – As of June 30, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$1,354,605, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 1,354,605. The covered payroll (annual payroll of active employees covered by the plan) was \$1,830,186, and the ratio of the UAAL to the covered payroll was 74%.

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

E. Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the Projected Unit Credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% after ten years. Both rates included a 3.00% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level dollar amount over 30 years. The remaining amortization period at June 30, 2012, was twenty-seven years.

Note 9: RISK MANAGEMENT

The District manages its exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injures to employees; and natural disasters by participating in risk pools described below.

The District participates in risk pools with the Special District Risk Management Authority (SDRMA) which provides property, liability, and workers' compensation insurance to its member districts. The District pays premiums commensurate with the levels of coverage requested. The authority is governed by a board consisting of members elected from the participating districts, which control the operations of the authorities independent of any influence by the District beyond the District's representation on the governing board. The District's share of year-end assets, liabilities, or fund equity is not calculated by the Joint Powers Authority.

SUPPLEMENTAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS

To the Board of Directors
Trinity Public Utilities District
Weaverville, California

I have audited the financial statements of the Trinity Public Utilities District as of and for the year ended June 30, 2012, and have issued my report thereon dated November 6, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, 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.

Internal Control Over Financial Reporting.

In planning and performing my audit, I considered the Trinity Public Utilities District's internal control over financial reporting as a basis for designing of auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Trinity Public Utilities District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of 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 material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trinity Public Utilities District's financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

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

A handwritten signature in cursive script that reads "Teri L. Simmons". The signature is written in black ink and is positioned above the typed name and date.

Teri L. Simmons
Redding, California
November 6, 2012

TRINITY PUBLIC UTILITIES DISTRICT
 NOTES TO SUPPLEMENTAL INFORMATION

JUNE 30, 2012

	Actual on GAAP Basis	Adjustment to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Operating revenues:					
Retail sales	\$7,259,137	\$ (58,931)	\$ 7,318,068	\$ 7,178,218	\$ 139,850
Fees and charges	80,068	(90)	80,158	88,983	(8,825)
Other revenue	2,485,846	86,777	2,399,069	2,000,020	399,049
Total operating revenues	9,825,051	27,756	9,797,295	9,267,221	530,074
Operating expenses:					
Power acquisition	2,239,334	-	2,239,334	2,431,172	(191,838)
Operations and maintenance	2,125,058	74,071	2,050,987	1,825,241	225,746
Customer accounts	792,832	35,070	757,762	698,325	59,437
Administrative and general	1,325,509	140,190	1,185,319	857,451	327,868
Total operating expenses	6,482,733	249,331	6,233,402	5,812,189	421,213
Operating income (loss) before depreciation	3,342,318	(221,575)	3,563,893	3,455,032	108,861
Depreciation and amortization	1,669,066	1,669,066	-	-	-
Operating income (loss)	1,673,252	(1,890,641)	3,563,893	3,455,032	108,861
Non-operating income (expense)					
Interest income	62,244	2,907	59,337	141,096	(81,759)
Other income	35,280	(21,130)	56,410	176,843	(120,433)
Debt Service	(1,471,816)	671,894	(2,143,710)	(1,334,757)	(808,953)
Capital outlay	-	2,980,457	(2,980,457)	(8,225,459)	5,245,002
Total non-operating income (exp)	(1,374,292)	3,634,128	(5,008,420)	(9,242,277)	4,233,857
Net income (loss)	\$ 298,960	\$1,743,487	\$(1,444,527)	\$(5,787,245)	\$ 4,342,718

Note 1:

SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL

The District maintains its accounting records on a budgetary basis which differs from the basis used for financial statement purposes in the accompanying statement. The financial statements have been prepared using the accrual basis of accounting as prescribed by generally accepted accounting principles. The budget is prepared on a modified cash basis for cash flow and management's monitoring purposes. This budget is used throughout the year and compared with internal accounting reports prepared using the same method of accounting.

The differences relate primarily to the following:

Accrual items at year-end, such as interest receivable and payable

Depreciation and amortization expense are not budgeted

Capital outlay is reflected as additions to utility plant in the audited financial statements, but included as expenses for budgeting purposes.

Debt proceeds are reflected as an increase in the debt liability in the audited financial statements, but included as revenue for budgeting purposes.

Principal retirement of debt is reflected as a reduction in the debt liability in the audited financial statements, but included as expenses for budgeting purposes.