TRUCKEE TAHOE AIRPORT DISTRICT
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED

SEPTEMBER 30, 2012 AND 2011

TRUCKEE TAHOE AIRPORT DISTRICT

SEPTEMBER 30, 2012

BOARD OF DIRECTORS

J. Thomas Van Berkem - President

John Jones – Vice President

Mary Hetherington - Director

James W. Morrison - Director

Kathleen Eagan - Director

* * * *

General Manager
Kevin Smith

TRUCKEE TAHOE AIRPORT DISTRICT

SEPTEMBER 30, 2012

TABLE OF CONTENTS

James Marta & Company
Certified Public Accountants

Accounting Auditing Tax and Consulting

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Truckee Tahoe Airport District
Truckee, California

We have audited the accompanying Statement of Net Assets of Truckee Tahoe Airport District (District) as of September 30, 2012 and the related Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the year then ended. These financial statements are the responsibility of District's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Truckee Tahoe Airport District as of and for the year ended September 30, 2011 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated November 28, 2011.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Truckee Tahoe Airport District as of September 30, 2012, and the results of operations and cash flows 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 29, 2012, on our consideration of the Districts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or 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.

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Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 – 12 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally 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 an opinion on the financial statements that collectively comprise Truckee Tahoe Airport District's basic financial statements. The accompanying supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information is the responsibility of management and was derived from and relates 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 our opinion, the accompanying supplementary information as listed in the table of contents are fairly stated in all material respects in relation to the financial statements as a whole.

James Marta & Company

James Marta & Company
Certified Public Accountants
November 29, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Truckee Tahoe Airport District (the "District") provides an overview of the District's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Over the course of the current fiscal year, the District's investment in capital assets increased by over $4.5 million. Much of that increase is related to construction projects which occurred throughout the year: the new administration building was completed and occupied, five thousand feet of Runway 11-29 were rehabilitated, and various pavements on the airfield were reconstructed.
- Another source of the increase in capital assets is the District's participation with other local agencies to preserve open space in the community. Over $825,000 of funding from the District helped secure a conservation easement on a parcel adjacent to the airport and was instrumental in the purchase of the Tahoe City Golf Course property.
- The District received funding through Federal Aviation Administration (FAA) Airport Improvement Program (AIP) grants in the amount of $2.9 million to complete airfield infrastructure projects.
- Operating revenues decreased by slightly less than 1.5% from the prior year. The decrease was primarily in the operating division, which saw sales affected by the closure of the main runway for twelve weeks during the summer season for reconstruction.
- After two years of declining property tax revenues, the 2012 fiscal year had a slight (0.1%) increase over the prior year.
- Operating, general and administrative expenses were $455,000 greater than the prior fiscal year. The increase is primarily due to $222,000 in expenses related to the relocation to the new building, but other factors (with no comparable amount in the prior year) include: expenses related to the efforts to broadcast and stream the board meetings on the internet ($50,000), the sponsorship of the Air Fair and Family Festival ($72,000), and increased utilities related to the construction and occupancy of the new building ($72,000).
- Repair and maintenance expenses were approximately $258,000 greater than in the prior fiscal year; however, that amount can be directly related to the completion of pavement maintenance projects in the amount of $733,000 – an increase of $283,000 over what was expended in the prior year.
- Various factors, including the first cost of living adjustment for employees in three years, resulted in an increase of 8% in personnel and related expenses over the prior year. Late in fiscal year 2011, the District experienced increases in employee benefit insurance premiums and retirement plan contribution rates. The new rates were in effect for the majority of the current fiscal year, resulting in higher costs.
- Due to long term fiscal discipline, the Truckee Tahoe Airport District is in excellent financial condition. The District's net assets increased $3.3 million from the end of the prior fiscal year. The District has designated the unrestricted net assets for future capital projects, contingencies and an anticipated change to accounting standards.

OPERATIONAL HIGHLIGHTS

- The District occupied the new administration building in February of 2012. The new building, designed to LEED Silver equivalent standards, incorporates a café, lounges, meeting rooms, flight planning area and District offices. A modern UNICOM facility provides excellent views of the ramp and airfield, further enhancing operational safety at the airport. A large public area adjacent to the building serves as a community park for picnics and airplane watching.

- Three major pavement construction projects took place during the busy summer months, in addition to pavement maintenance prescribed by the District's pavement management program and ongoing crack sealing.
- The flight tracking system was issued final acceptance in February of 2012. The system is state of the art and has exceeded expectations in many areas.
- The District is in the process of updating the airport master plan. A consultant has been selected, and throughout the upcoming fiscal year, District staff, board members and the community will work to update this vital planning document.

USE OF FINANCIAL STATEMENTS TO ANALYZE THE DISTRICT'S CONDITION

When financial statements are presented the District is often asked, "Is the District better off or worse off as a result of this year's activities?" The financial statements report information about the District's activities in a way that helps answer this question. The statements are prepared on the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. An explanation of each of the statements and the information they report follows.

THE STATEMENTS OF NET ASSETS

The Statements of Net Assets detail the District's assets, liabilities and the difference between them, known as net assets, at the end of the fiscal years, September 30, 2012 and September 30, 2011. The level of net assets is one way to measure the District's financial health. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as changes in the District's property tax revenues and the condition of the airport's facilities, must also be considered to assess the overall health of the District.

THE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses and Changes in Net Assets present information which shows how the District's net assets changed during the fiscal year. These statements measure the success of the District's operations during the year and determine whether the District has recovered its costs through user fees and other revenue sources. The changes in net assets for the fiscal years shown in these reports agree with the differences in net assets shown at September 30, 2012 and 2011 in the above mentioned Statements of Net Assets.

THE STATEMENTS OF CASH FLOWS

The Statements of Cash Flows provide information regarding the District's cash receipts and disbursements during the fiscal years. Cash activity is grouped in the following four categories: operations, noncapital financing, capital and related financing, and investing. These statements differ from the Statements of Revenues, Expenses and Changes in Net Assets, because they only account for transactions that result in cash receipts or disbursements. For example, the amount shown as receipts from customers on the first line of the statements represents cash received during the fiscal year, rather than revenue earned.

THE NOTES TO FINANCIAL STATEMENTS

The Notes to Financial Statements provide a description of accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles of the United States that are not otherwise present in the financial statements.

FINANCIAL ANALYSIS

NET ASSETS

The District's net assets at September 30, 2012 totaled $47,411,737 compared with $44,121,032 at September 30, 2011. The increase represents capital project grant proceeds, property tax revenues, and interest income from investments which were not used to fund operations. A summary of the District's asset, liability and net asset balances at the end of the current and prior two fiscal years appears on the following chart.

	September 30, 2012	September 30, 2011	September 30, 2010
Assets:			
Cash and Equivalents	$ 7,375,325	$ 9,797,523	$ 12,680,084
Other Current Assets	2,831,402	2,426,300	1,325,098
Total Current Assets	10,206,727	12,223,823	14,005,182
Investments	750,000	250,000	750,000
Noncurrent Receivable	25,000	0	500,000
Net Property, Plant and Equipment	38,687,710	33,765,334	27,777,329
Total Assets	$ 49,669,437	$ 46,239,157	$ 43,302,511
Liabilities:			
Current liabilities	$ 2,160,761	$ 2,044,797	$ 1,117,060
Long-term liabilities	96,939	73,328	69,712
Total Liabilities	$ 2,257,700	$ 2,118,125	$ 1,186,772
Net Assets:			
Invested in capital assets, net of related debt	$ 38,687,710	$ 33,765,334	$ 27,777,329
Restricted	16,468	16,468	16,468
Unrestricted	8,707,559	10,339,230	14,051,942
Total Net Assets	$ 47,411,737	$ 44,121,032	$ 41,845,739

The September 30, 2012 cash and cash equivalents balance decreased $2,422,198 from the balance at the end of the prior year as funds that had been set aside for the construction of the administration building were expended. The District invests surplus cash in the Local Agency Investment Fund; a governmental investment pool managed and directed by the California State Treasurer, and also holds some certificates of deposit. The increase in Other Current Assets is a result of the District having a substantial increase in grant funds receivable at the end of the current fiscal year related to the AIP grant-funded projects which took place over the summer of 2012. The Investment line shows the Certificates of Deposit held by the District with a maturity beyond one year.

The increase in net property, plant and equipment is primarily related to the construction of the new administration building, various pavement reconstruction projects, the acquisition of the conservation easement on the property formerly known as "the Jones property," and an easement for purposes of constructing an emergency services helipad on the Tahoe City Golf Course property. Additional details are found in the Capital Asset section later in this narrative.

The unrestricted portion of net assets has been designated by the Board of Directors based on current capital projects, potential contingencies and policy-based priorities. Of the $8.7 million of unrestricted net assets, approximately $1.5 million have been designated to pay for future capital asset projects. In addition, $2 million have been designated for land acquisition and $500,000 exclusively for pavement maintenance. The Government Accounting Standards Board issued Statement No. 68 in June of 2012; the statement deals with accounting and financial reporting issues related to pensions. When the District adopts the standard, the net pension liability will have to be shown on the District's Statement of Net Assets. Although the District is not currently adopting the new standard, the Board of Directors has opted to designate an approximated amount ($1.75 million) of unrestricted net assets to prepare users of the financial statements for the effect the adoption of the accounting standard will have on the District's financial position. Additional information on the designation of unrestricted net assets can be found in the notes to the financial statements.

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The District reported an increase in net assets of $3,290,705 for the year ended September 30, 2012. Net operating revenues were slightly lower than the prior year, due to both decreased airside operating revenues related to the closure of Runway 11-29 and the lack of a tenant in one of the District's aviation real estate locations. In the current fiscal year there was a 17% decrease in the number of gallons of fuel sold and a 10% decrease in the number of transient use fees charged. The main runway was closed from July 9th through September 27th, 2012 – typically the busiest time of year for the airport. Hangar and warehouse revenues increased as a result of consumer price index adjustments; however, other business leasing revenues were down from the prior fiscal year. The tenant in the larger of the two commercial hangars vacated in May of 2012, and the District made the decision not to seek a new tenant immediately. The facility filled a vital role in the Air Fair and Family festival in early July and was used for various community events.

The following table summarizes the District's Statement of Revenues, Expenses and Changes in Net Assets for the current and prior two fiscal years:

	Year Ended September 30, 2012	Year Ended September 30, 2011	Year Ended September 30, 2010
Net Operating Revenues	$ 2,261,985	$ 2,294,932	$ 2,247,697
Operating Expenses, Net of Depreciation	(4,513,028)	(3,655,627)	(3,024,291)
Operating Loss Before Depreciation	(2,251,043)	(1,360,695)	(776,594)
Depreciation Expense	(1,595,551)	(1,389,905)	(1,352,785)
Net Operating Loss	(3,846,594)	(2,750,600)	(2,129,379)
Nonoperating Income:			
Property Tax Revenue	4,312,620	4,305,487	4,463,454
Gain (Loss) on Disposal of Assets	(234,912)	2	(18,405)
Grant Revenues – Capital/Operating	2,978,582	656,940	292,469
Interest and Other Nonoperating Income	81,009	63,464	77,448
Total Nonoperating Income	7,137,299	5,025,893	4,814,966
Change in Net Assets	3,290,705	2,275,293	2,685,587
Net Assets at Beginning of Year	44,121,032	41,845,739	39,160,152
Net Assets at End of Year	$ 47,411,737	$ 44,121,032	$ 41,845,739

Operating expenses, net of depreciation, increased $857,401 or 23%, from the prior fiscal year. This category includes all costs related to payroll and employee benefits, general and administrative expenses, as well as the cost to maintain the District's high value infrastructure. The largest single line item increase ($283,000) represents increased pavement maintenance expenses as the District adopted the guidelines set forth in its new pavement management program. In the prior fiscal year the District incurred $450,000 in pavement maintenance expenses – including the consulting costs related to the creation of the new pavement management program. This year, the District spent $733,000 resurfacing pavements, repairing cracks and restriping. Additionally, there were $222,000 in one-time expenses the District incurred related to the relocation to the new administration building. This includes the cost of supplies, furniture, fixtures and equipment which were below the capitalization threshold. A portion of the increase (approximately $145,000) is related to personnel costs; at the beginning of fiscal 2012 the District granted their employees the first cost of living increase since October of 2008. In addition to increases in salaries and wages, there were increases in employee benefit insurance and retirement contributions. Public outreach efforts accounted for a portion of the increased operating expenses as the District sponsored an Air Fair and Family Festival ($72,000) and made strides toward having the Board of Director meetings broadcast on the local cable channel as well as streamed over the internet ($50,000). Utility costs were up over the prior year by $72,000 related to the construction and occupation of the new administration building.

Property tax revenues were relatively constant, increasing $7,000 from the prior fiscal year. This is related to a stabilization of the assessed value of the properties within the District's boundaries.

The grant revenues recognized in the current fiscal year relate to Airport Improvement Program grants (AIP 26 through AIP 28) from the FAA and operating grant revenues from the Nevada County Transportation Commission, and the California Department of Transportation. The FAA grant reimbursements received during the current year were for expenditures considered capital contributions in the financial statements. The operating grants received are to offset specific expenses related to pavement maintenance and the District's airport master plan project.

The interest and other nonoperating income line includes $56,000 in interest income, a slight decrease from the prior year, reflective of lower cash balances and $25,000 in outside donations specifically designated for the new community park.

CAPITAL ASSETS

At September 30, 2012, the District had over $38.5 million invested in a broad range of capital assets. The amounts invested in capital assets, net of related accumulated depreciation, are shown in the table below.

Capital Assets – Net of Depreciation

	September 30, 2012	September 30, 2011	September 30, 2010
Land and Easements	$ 14,753,927	$ 13,924,292	12,110,017
Building and Building Improvements	10,782,545	4,578,301	7,420,323
Land Improvements	7,643,838	7,063,814	4,957,295
Equipment	2,672,440	1,660,311	1,028,721
Construction in Progress	2,834,960	6,538,616	2,260,973
	$ 38,687,710	$ 33,765,334	27,777,329

The net capital asset balance increased $4,922,376 during the 2011-2012 fiscal year. That amount includes net capital additions of $6,517,927 offset by $1,595,551 in depreciation expense for the year. The capital additions are detailed in the table on the following page. The District was the beneficiary of funding from three different AIP grants during the fiscal year, and they are noted in the table as well; the amounts shown include the federal contributions to the projects. The most substantial non-grant eligible capital project was the new administration building, which also had expenditures in the prior two fiscal years.

Summary of Additions to Capital Assets

		For the year ended September 30, 2012
Runway 11-29 Reconstruction – AIP #27	$	2,548,364
New District Administration Building		1,671,467
Reconstruction of Hangar Row J/K Pavement – AIP #26		793,163
Reconstruction of Hangar Row D/E/F Pavement		512,828
Tahoe City Golf Course Easement		501,013
Jones Property Easement		328,623
Reconstruction of Chandelle Way		109,593
Community Park		98,580
New Density Altitude Signs		50,408
Maintenance Equipment / Other		44,994
Geographic Information System		43,968
Emergency Crew Space – Modular Remodel		35,876
Tahoe City Helipad Design		10,080
Ramp Lighting/Segmented Circle Project – AIP # 28		3,882
Less: Dispositions of Capital Assets, Net of Accumulated Depreciation		(234,912)
Total Additions	$	6,517,927

ECONOMIC FACTORS AND BUDGET

Over the last decade the District has transformed in many ways. The new administration building is an outward sign of the changes that have taken place, but a review of the Truckee Tahoe Airport budget for fiscal year 2012-2013 clearly shows the priorities the District has established. Based on the strategic plan adopted by the Board of Directors, the budget is an example of local agency government using its funding in a fiscally responsible way to satisfy the needs of its customers, constituents, employees and the greater community.

The closure of the Airport's main runway during the summer of 2012 caused a decrease in sales of JetA fuel and the number of transient use fee events. The District has made some changes to the schedule of rates and fees, adjusting margins and, in some cases, waiving use fees with a minimum fuel purchase, to try to maximize the airside operating revenues. With activity expected to increase during fiscal 2012-2013, the District is hoping to see the results of these policy changes. The gross margin for the District's fuel sales is based on a standard mark-up per gallon. This mark-up is designed to cover the costs associated with providing fueling services. A decrease in fuel prices during the upcoming year will result in a decrease in revenues and related cost of sales, and variances to the budgeted amounts.

The consumer price index adjustment clause in the District's hangar rental contract resulted in a slight increase to the rental rate per square foot for the t-hangars and executive hangars beginning in September of 2012. T-hangar tenant turnover was higher than usual during the past twelve months, and the waitlist for those hangars is being closed out, with deposits on hand being returned to the potential tenants. However, there is a waitlist for executive hangars. The vacancy factor used to estimate hangar revenues in the budget was increased from 2% to 4% to account for the higher turnover and vacancy rates. Other business leases and warehouse revenues are budgeted to change to reflect the consumer price index rate adjustment that is contained in each tenant's current contract. The largest commercial aviation real estate building on the Airport has been vacant since May of 2012. The District made the decision not to seek a new tenant, but to hold the space open for use on a short term basis. The site was highly utilized during the Air Fair and Family Festival, has been used for events by various community groups, and will become a part of the overnight hangar pool – with the advantage of being slightly larger than a typical executive hangar and offering a heated location.

Among the objectives in the District's strategic plan are safe operations, financial stability, and community enhancement. The operating revenue budget works toward all those objectives by providing a heated hangar space to allow a segment of the fleet mix to avoid possible dangerous flight conditions, putting an emphasis on airside operations becoming more self-sustaining, and allowing District facilities to be used for events to benefit the community.

The issue before the District that involves the most strategic plan objectives is the new airport master plan project. Time has been invested up front by Staff, Board and ad-hoc committee members to ensure the process reaches its full potential: the creation of a master plan in which District resources, community input, and high-level consultant expertise combine to create a document that will assist and benefit decision making at the District for years to come. The budget for fiscal 2013 includes $265,000 in funding for the master plan, including grant funds from the Nevada County Transportation Commission. The project is likely to extend beyond fiscal year 2013, and additional funding may be required in the following fiscal year.

The importance of public outreach is not limited to the District's master planning process. The 2012-2013 budget reinforces the District's commitment to focus on community outreach and communication. Over the years, many in the community have requested that the Airport provide an air show, as it did in the past. Annually, the Board of Directors budgeted funds to be used as sponsorship for an event if an organization was willing to step up and manage an air show. In fiscal 2012 a committee was formed, and with the cooperation of various local non-profits, the Air Fair and Family Festival was held in July of 2012. The event was an unqualified success, and the fiscal 2013 budget contains funding to take it to a higher level next summer.

While the Air Fair and Family Festival was considered a success for its role in bringing many people to the Airport who otherwise would not be familiar with the District and its place in the community, other District endeavors have worked to increase public outreach as well. A community park was completed on the site of the old terminal building, which attracts constituents and families to the facility that would not commonly interact with the District. The Airport Community Advisory Team (ACAT) presented their mountain flying safety information to various general aviation airports in Northern California and was instrumental in getting the community outreach van, which is outfitted with a flight simulator, to public venues. The District is working towards updating its website and having the Board of Director meetings broadcast over the local cable channel and the internet.

The funding of the above mentioned programs, along with continuing efforts included in the fiscal 2012-2013 budget such as the Fly Quiet incentive program, annoyance monitoring and ACAT working to have a lower-impact approach pattern approved by the FAA, are all examples of the District striving not only to be an outstanding general aviation airport, but also a good neighbor.

Many strategic plan objectives relate to the District's investment in facilities and infrastructure. The District takes these elements of the plan very seriously and devotes a great deal of funding, both monetary and in terms of man-hours, to seeing these objectives are met. An example of this is the pavement management program adopted in November of 2011. The document was created to focus the District's resources on the most efficient and effective way to maintain this high-value asset. Once the program was in place, the District began planning projects for the summer of 2012. In fiscal 2012, the District expended over $4.5 million, including close to $3 million in grant funds, on pavement maintenance and reconstruction projects. The priority on maintaining the District's pavements continues in the fiscal 2013 budget where over $850,000 has been earmarked for pavement maintenance projects.

The amount budgeted for Repairs and Maintenance, net of the pavement maintenance and land management expenses, is $500,850. The District has budgeted to have a facilities maintenance program in place by next fiscal year which will direct the District's repair and maintenance efforts, similar to the pavement management program.

The fiscal year 2012-2013 budget includes a variety of both grant-eligible and other capital projects. The proposed grant-eligible additions total $920,400 and include replacement of the segmented circle, upgrades to ramp lighting and the replacement of a plow truck. Grant-eligible projects are included in the District's budget and then netted with the anticipated grant proceeds. A grant has already been offered for the segmented circle/ramp lighting project, and construction is underway. An additional $1,304,500 in other capital projects is budgeted, including $750,000 for land purchase and development. Other capital projects include the construction of a helipad for use by emergency services on the Tahoe City Golf Course property, the replacement of the District's automated weather observing system, and the purchase of a ground power unit, which would expand the District's service capabilities to transient aircraft. The Board of Directors reviews significant capital projects before allowing them to proceed, and the availability of grant funds would be considered before a commitment was made to begin a project. One aspect of the Board's review of any new capital project is an analysis of the effect that the expenditure will have on user rates and fees. The Board has determined that the cost to provide a service and a return on the District's investment, when appropriate, should be considered when rate schedules are set. They believe all capital investments should be reviewed based on the potential effect the expenditure would have on rate-payers and the overall financial stability of the District in the future.

In 2012-2013 Property Tax Revenues are budgeted to decrease by 3.5% from the 2011-2012 actual amounts. The amount budgeted is based on information received from Placer and Nevada Counties regarding the valuation of property within the District's boundaries. The Board takes the task of managing the monies received from the District taxpayers seriously. The budgeting process includes analysis of expenditures based on parameters established by the Board of Directors. The parameters are stated as percentages of property tax revenues. Any decrease in the level of funding from property taxes thus flows through the budgeting process.

The District policy relating to the designation of unrestricted net assets was reviewed and revised in September of 2012; the policy can be viewed as a tool for communicating the Board's plans for the accumulated net assets of the District. The most significant change to the policy was to set up a designation related to the pension benefit the District provides for its employees, as discussed previously. The amount of the liability is currently not known, as the District is a member of a pension pool with other agencies; however, an estimate was made and a designation recorded as the District recognizes the upcoming change and strives to act in a responsible manner. The District understands that personnel costs are a large percentage of annual expenditures, and works to keep those costs under control. The District recently made fiscally responsible changes relating to personnel matters on two issues: the adoption of a second tier of pension benefits for employees hired after July 1, 2012 and the reorganization of the health insurance benefits of the District's employees. The new tier of pension benefits will not have an immediate effect on the District's pension costs, but over time, will reduce this expense, while still offering this important employee benefit. The District's efforts to lower health insurance premiums while still offering its employees a satisfactory level of coverage resulted in a wrap-around plan whereby the District contracted for a plan with lower monthly premiums, and will self insure to cover the gap between that policy and the level of coverage the District wishes to offer its employees. Effects of this change are anticipated to be seen in the upcoming year.

The Truckee Tahoe Airport District is constantly striving to be an excellent example of local agency government – and those efforts were recently recognized publically. The Truckee Donner Chamber of Commerce honored the District with the *Excellence in Government* award. In their presentation they commented that the District "has established a commitment to be responsive and work toward the betterment of the community, increased outreach effort, and shown transparency in its activities," and they noted the District's honesty, integrity and fiduciary responsibility with taxpayer funds. The District is proud to accept this recognition and, with the continued contributions from staff, Directors, and community members, it will remain a valuable community asset long into the future.

BASIC FINANCIAL STATEMENTS

TRUCKEE TAHOE AIRPORT DISTRICT

STATEMENT OF NET ASSETS

AS OF SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 7,375,325	$ 9,797,523
Investments	250,000	500,000
Accounts receivable	68,075	63,562
Notes receivable	500,000	500,000
Property taxes receivable	1,055,415	1,047,110
Grants receivable	659,659	43,478
Interest receivable	22,151	11,626
Inventory	110,807	109,176
Prepaid expenses and deposits	165,295	151,348
Total current assets	10,206,727	12,223,823
Non-current Assets		
Investments	750,000	250,000
Non-current receivable	25,000	-
Capital assets, net	38,687,710	33,765,334
Total non-current assets	39,462,710	34,015,334
Total assets	49,669,437	46,239,157
LIABILITIES		
Current Liabilities		
Accounts payable	1,452,819	1,309,779
Accrued expenses	164,790	233,028
Deferred revenue	289,077	258,658
Deposits	138,031	132,675
Compensated absences	116,044	110,657
Total current liabilities	2,160,761	2,044,797
Non-current Liabilities		
Compensated absences	96,939	73,328
Total liabilities	2,257,700	2,118,125
NET ASSETS		
Invested in capital assets	38,687,710	33,765,334
Restricted	16,468	16,468
Unrestricted	8,707,559	10,339,230
Total net assets	$ 47,411,737	$ 44,121,032

The accompanying notes are an integral part of these financial statements.

TRUCKEE TAHOE AIRPORT DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Hangar rentals, net of sales discounts of $214,913 and $219,668 for 2012 and 2011	$ 1,072,184	$ 1,059,908
Airside operating revenues, net of cost of sales of $957,596 and $1,098,674 for 2012 and 2011	728,794	759,718
Warehouse	305,644	299,906
Other rentals	155,363	175,400
Total operating revenues	2,261,985	2,294,932
OPERATING EXPENSES		
Salaries and wages	1,237,501	1,170,389
Employee benefits	736,820	659,341
General and administrative	1,438,913	983,805
Repairs and maintenance	1,099,794	842,092
Depreciation	1,595,551	1,389,905
Total operating expenses	6,108,579	5,045,532
Operating income (loss)	(3,846,594)	(2,750,600)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	4,312,620	4,305,487
Interest income	56,009	63,464
California operating grant	34,703	20,000
Other income (expense)	25,000	-
Gain (loss) on disposal of assets	(234,912)	2
Total nonoperating revenue (expense)	4,193,420	4,388,953
Income (loss) before capital contributions	346,826	1,638,353
Capital contributions	2,943,879	636,940
Change in net assets	3,290,705	2,275,293
Net assets, Beginning of year	44,121,032	41,845,739
Net assets, End of year	$ 47,411,737	$ 44,121,032

TRUCKEE TAHOE AIRPORT DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Cash receipts from customers	$ 3,198,626	$ 3,286,631
Payments to suppliers	(3,187,250)	(2,801,665)
Payments on behalf of employees	(1,914,002)	(1,844,656)
Net cash provided (used) by operating activities	(1,902,626)	(1,359,690)
Cash flows from noncapital financing activities:		
Receipt of property taxes	4,304,316	4,327,165
Receipt of operating grants	54,703	20,000
Receipt of restricted donations	25,000	-
Net cash provided by noncapital financing activities	4,384,019	4,347,165
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(7,006,772)	(6,557,590)
Receipt of FAA and State of California grants	2,307,698	617,103
Net cash provided (used) by capital and related financing activities	(4,699,074)	(5,940,487)
Cash flows from investing activities:		
Purchase of investments	(250,000)	-
Interest income received	45,483	70,451
Net cash provided (used) by investing activities	(204,517)	70,451
Increase (decrease) in cash	(2,422,198)	(2,882,561)
Beginning cash and cash equivalents	9,797,523	12,680,084
Ending cash and cash equivalents	$ 7,375,325	$ 9,797,523
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (3,846,594)	$ (2,750,600)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,595,551	1,389,905
Decrease (increase) in:		
Accounts receivable	(29,513)	(28,474)
Inventory	(1,631)	(33,751)
Prepaid expenses and deposits	(13,947)	(47,805)
Increase (decrease) in:		
Accounts payable	389,373	15,142
Accrued expenses	(60,638)	91,526
Deferred revenue	30,419	(3,460)
Deposits	5,356	(2,206)
Compensated absences	28,998	10,033
Net cash provided (used) by operating activities	$ (1,902,626)	$ (1,359,690)

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Truckee Tahoe Airport District (the "District") was established by vote of the District electorate on May 12, 1958, in accordance with the California Airport District Act. The District operates under an elected Board of Directors and provides aviation services for the Truckee and North Lake Tahoe areas.

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

The Board of Directors is the level of government which has governance responsibilities over all activities related to operations of the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board, since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

B. BASIS OF PRESENTATION

Enterprise Fund

The financial statements of the District consist only of an enterprise fund. The District has no oversight responsibility for any other government entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

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, all Financial Accounting Standards Board statements issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict the guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent guidance from the Financial Accounting Standards Board for their business-type activities and enterprise funds, subject to the same limitation. The District has elected not to follow subsequent Financial Accounting Standards Board guidance.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

B. BASIS OF PRESENTATION (continued)

Operating Revenues

For financial statement presentation purposes, transactions deemed by management to be ongoing, major, or central to the operation of the airport are reported as operating revenues and expenses. Peripheral or incidental transactions, including tax revenues, investment income, certain grant revenue and interest expenses are reported as nonoperating revenues and expenses.

Capital Assets

Capital assets are those assets purchased or acquired with an original cost of $5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using the straight-line method over 3 – 40 years depending on asset types.

Net Assets

Net Assets represent the District's financial and capital resources, and are calculated as the difference between assets and liabilities. Net assets are represented in three components:

Invested in capital assets, net of related debt: Capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances on any debt that is attributable to acquisition, construction and improvement of capital assets.

Restricted: Assets whose use is subject to constraints imposed externally by creditors, grantors, contributors, or laws and regulations of other governments, or are imposed externally by law through constitutional provisions or enabling legislation.

Unrestricted: Net assets that do not meet the definition of "restricted" or "invested" in capital assets, net of related debt."

C. USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on management's informed estimates and judgments, with consideration given to materiality. Actual results could differ from those amounts.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Economic Resources Measurement Focus

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows. The accounting objective of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with the District's activities are reported.

E. CASH AND CASH EQUIVALENTS

For purposes of the Statement of Net Assets, the District considers all short-term, highly liquid investments, including restricted assets, cash in banks and cash in the Local Agency Investment Fund to be cash and cash equivalents. Investments with a maturity of three months or less when purchased are considered to be cash equivalents.

F. INVESTMENTS

The Certificates of Deposit held are classified as held-to-maturity investments as the District's management has no intention to sell the investments before their maturity date. The investments are valued at their amortized cost basis, which approximates their fair value.

G. PROPERTY TAX

The District receives property taxes to support its operations. The property tax year runs from July 1 through June 30 of the following year. Secured property taxes are levied as an enforceable lien on property as of the first Monday in March. Taxes are payable in two installments, on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The counties of Placer and Nevada bill and collect the taxes for the District. The District accrues property tax revenues throughout its fiscal year based on estimated allocations received from the counties. At the end of each property tax year the actual receipts are reconciled to amounts accrued and adjustments made to the revenue accounts. Property tax revenues for the years ended September 30, 2012 and 2011 were as follows:

	2012	2011
Placer County	$ 2,855,705	$ 2,767,978
Nevada County	1,456,915	1,537,509
Total	$ 4,312,620	$ 4,305,487

2. CASH AND INVESTMENTS

CASH

A summary of cash and investments held by the District at September 30, 2012 and 2011 is as follows:

	2012	2011
Cash and Cash Equivalents:		
Cash on Hand	$ 700	$ 700
Cash on Deposit at Banks	51,926	257,503
Local Agency Investment Fund	7,306,231	9,522,852
Cash - Restricted for Construction Surety	16,468	16,468
	$ 7,375,325	$ 9,797,523

Deposits - Custodial Credit Risk

The carrying amount of the District's bank accounts was $51,926 and the bank balance was $173,089 at September 30, 2012. Deposits held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. This collateral must be in the form of government-backed securities. All cash held by financial institutions at September 30, 2012 was fully insured or collateralized.

Pooled Funds:

The District is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The District's investment in this pool is reported in the accompanying financial statements at cost, which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the District with twenty-four hours notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized.

Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

2. CASH AND INVESTMENTS (continued)

Pooled Funds:

LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

INVESTMENTS

Pursuant to the District's investment policy, and in accordance with California Government Code, the following investments are authorized:

- United States Treasury Bills, Bonds and Notes
- Obligations issued by Agencies of the United States Government
- Federal Deposit Insurance Corporation insured or fully collateralized Certificates of Deposit
- California Local Agency Investment Fund

The District's Investments are recorded at fair value at September 30, 2012 and September 30, 2011 as follows:

	2012	2011
Investments:		
Certificates of Deposits	$ 1,000,000	$ 750,000

Interest Rate Risk

The District has a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At September 30, 2012 and 2011, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District has a formal investment policy that limits its investment choices within the limitations of State law.

Concentration of Credit Risk

The District places limits on the amount it may invest in anyone issuer. At September 30, 2012 and 2011, the District had no concentration of credit risk.

3. PROPERTY AND EQUIPMENT

Property, plant and equipment is stated at cost for those items that were purchased and at appraised values as of the date of receipt for those items that were received as gifts.

Capital assets activity for the year ended September 30, 2012 and 2011, are as follows:

	Balance September 30, 2011	Additions	Deletions	Balance September 30, 2012
Property not depreciated:				
Land and Easements	$ 13,924,292	$ 829,635	$ -	$ 14,753,927
Construction In Progress	6,538,616	5,786,160	(9,489,816)	2,834,960
Total Property not Depreciated	20,462,908	6,615,795	(9,489,816)	17,588,887
Subject to depreciation:				
Land Improvements	19,208,591	$ 1,488,220	(2,833,659)	17,863,152
Buildings and Improvements	12,180,042	6,791,004	(549,037)	18,422,009
Equipment	4,869,874	1,347,636	(304,568)	5,912,942
Master Plan and Surveys	209,974		(209,974)	-
Total Property Being Depreciated	36,468,481	9,626,860	(3,897,238)	42,198,103
Less accumulated depreciation:				
Land Improvements	(12,144,777)	(746,943)	2,672,406	(10,219,314)
Buildings and Improvements	(7,601,741)	(522,766)	485,043	(7,639,464)
Equipment	(3,209,563)	(325,842)	294,903	(3,240,502)
Master Plan and Surveys	(209,974)		209,974	-
Total Property Being Depreciated	(23,166,055)	(1,595,551)	3,662,326	(21,099,280)
Total Property and Equipment Being Depreciated, net	13,302,426	8,031,309	(234,912)	21,098,823
Property and Equipment, net	$ 33,765,334	$ 14,647,104	$ (9,724,728)	$ 38,687,710

3. PROPERTY AND EQUIPMENT (continued)

	Balance September 30, 2010	Additions	Deletions	Balance September 30, 2011
Property not depreciated:				
Land and Easements	$ 12,110,017	$ 1,814,275	$ -	$ 13,924,292
Construction In Progress	2,260,973	4,823,615	(545,972)	6,538,616
Total Property not Depreciated	14,370,990	6,637,890	(545,972)	20,462,908
Subject to depreciation:				
Land Improvements	18,809,817	$ 188,494	210,280	19,208,591
Buildings and Improvements	12,144,442	35,600	-	12,180,042
Equipment	4,145,207	515,926	208,741	4,869,874
Master Plan and Surveys	209,974	-	-	209,974
Total Property Being Depreciated	35,309,440	740,020	419,021	36,468,481
Less accumulated depreciation:				
Land Improvements	(11,389,494)	(755,283)	-	(12,144,777)
Buildings and Improvements	(7,187,147)	(414,594)	-	(7,601,741)
Equipment	(3,116,486)	(220,028)	126,951	(3,209,563)
Master Plan and Surveys	(209,974)	-	-	(209,974)
Total Property Being Depreciated	(21,903,101)	(1,389,905)	126,951	(23,166,055)
Total Property and Equipment Being Depreciated, net	13,406,339	(649,885)	545,972	13,302,426
Property and Equipment, net	$ 27,777,329	$ 5,988,005	$ -	$ 33,765,334

4. EMPLOYEE RETIREMENT PLAN

A. PLAN DESCRIPTION

Truckee Tahoe Airport District participates in the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814. The District offers two levels of retirement benefits: Tier 1, a 2.7% at 55 benefit covers employees hired on or before July 1, 2012, and Tier 2, a 2.0% at 60 benefit covers employees hired after July 1, 2012.

B. FUNDING POLICY

Tier 1

The District makes the contributions required of active plan members, which is 8% of their salary, and Truckee Tahoe Airport District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the period July 1, 2011 – June 30, 2012 was 14.762% and the rate effective July 1, 2012 was 15.178% of annual payroll for applicable employees. The contribution requirements of the plan members are established by the state statute. Employees pay the required employer contribution, up to a maximum of 8%. The District pays the required employer contributions that exceed 8%.

Tier 2

As of September 30, 2012, there had not been any payroll expense related to employees in Tier 2. When required, the District will make the contributions of active plan members, which is 7% of their salary, and Truckee Tahoe Airport District will contribute the actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate effective July 1, 2012 (when Tier 2 was formed) was 7.846% of payroll for applicable employees. The contribution requirements of the plan members are established by the state statute. Employees pay the required employer contribution, up to a maximum of 7%. The District pays the required employer contribution that exceeds 7%.

C. ANNUAL PENSION COST

The required contribution for the year ended September 30, 2012 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for members; (c) payroll growth rate of 3.25%; and (d) 3% for inflation. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of investment gain and/or losses. The plan's unfunded actuarial liability is being amortized using the level percent of payroll method over the remaining period of 19 years.

Three year trend information for the plan is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2010	$ 125,012	100%	$0
9/30/2011	$ 146,693	100%	$0
9/30/2012	$ 182,158	100%	$0

D. DEFERRED COMPENSATION PLAN

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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

5. COMPENSATED ABSENCES

The District offers certain qualifying employees paid vacation, sick and holiday leave. Changes in obligations for vacation, sick and holiday leave at September 30, 2012 and 2011, are as follows:

	September 30, 2011	Additions	Reductions	September 30, 2012	Due Within One Year
Accrued Vacation	$ 71,155	$ 17,408	$ -	$ 88,563	$ 72,149
Accrued Sick Leave	98,194	10,170	-	108,364	27,839
Accrued Holiday Leave	14,636	1,420	-	16,056	16,056
Total	$ 183,985	$ 28,998	$ -	$ 212,983	$ 116,044

	September 30, 2010	Additions	Reductions	September 30, 2011	Due Within One Year
Accrued Vacation	$ 67,280	$ 3,875	$ -	$ 71,155	$ 71,155
Accrued Sick Leave	88,836	9,358	-	98,194	24,866
Accrued Holiday Leave	17,836	-	(3,200)	14,636	14,636
Total	$ 173,952	$ 13,233	$ (3,200)	$ 183,985	$ 110,657

6. NET ASSETS

INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets, net of related debt is increased upon acquisition of property and equipment financed by Federal Aviation Administration ("FAA") and State of California grants and District resources and is decreased by depreciation expense and disposition of assets. Net assets invested in capital assets, net of related debt for the years ended September 30, 2012 and 2011 is summarized as follows:

	2012	2011
Invested in Capital Assets:		
Beginning of Year	$ 33,765,334	$ 27,777,329
Capital FAA Grants	2,943,879	636,940
District Investment in		
Property and Equipment	3,808,960	6,740,970
Dispositions and Transfers	(234,912)	-
Depreciation Expense	(1,595,551)	(1,389,905)
Invested in Capital Assets End of Year	$ 38,687,710	$ 33,765,334

RESTRICTED NET ASSETS

The District has restricted net assets as follows for the years ended September 30, 2012 and 2011:

	2012	2011
Restricted	$ 16,468	$ 16,468

UNRESTRICTED NET ASSETS

The District has designated unrestricted net assets as follows for the years ended September 30, 2012 and 2011:

	2012	2011
Future Capital Projects	$ 1,427,559	$ 2,551,278
Prior Year Projects	-	1,957,952
Net Pension Liability	1,750,000	-
Operating Funds	2,000,000	2,050,000
Land Acquisition	2,000,000	2,250,000
Contingencies	1,530,000	1,530,000
Total	$ 8,707,559	$ 10,339,230

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For workers' compensation insurance, the District has joined together with other special districts within the State of California to for a Joint Powers Authority, the Special District Risk Management Authority (SDRMA).

SDRMA is governed by a Board consisting of representatives from member agencies. The Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the Board. Each member agency pays a contribution commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the joint powers authority. Full financial statements are available from SDRMA. Condensed information for SDRMA is as follows:

	SDRMA June 30, 2012
Total Assets	$ 102,675,963
Total Liabilities	$ 43,880,783
Total Net Assets	58,795,180
Total Liabilities & Net Assets	$ 102,675,963
Total Revenues	$ 46,647,444
Total Expenses	38,734,846
Change in Net Assets	$ 7,912,598

As of August 1, 2012, the District is self-insured for a portion of the medical insurance coverage offered to employees. The District contracts with Anthem Blue Cross for a policy with high deductibles and high yearly out-of-pocket maximums for its employees. The deductibles and annual out-of-pocket maximum amounts the employees are responsible for are lower, with the District self-insuring for the gap between what the employees pay and where the Anthem Blue Cross policy begins coverage. An accrual of $11,000 was included in the financial statements to cover the District's estimated exposure. The District carries commercial insurance for all other risks of loss, excluding natural disasters.

8. COMMITMENTS AND CONTINGENCIES

The District has entered into contractual agreements for the various capital projects currently under construction: segmented circle/ramp lighting, pavement maintenance, and construction. The remaining commitments on these contracts are approximately $641,745 at September 30, 2012.

As of September 30, 2012, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

9. LAND USAGE AGREEMENT

In June 2008, the District purchased the Ponderosa Golf Course, an operating golf course located in the airport's flight path, for approximately $3,180,000. The land and facilities were immediately leased to the Truckee Donner Recreation and Park District ("TDRPD") and accompanying operational equipment was sold to TDRPD for a nominal fee. As long as TRRPD operates the property for recreational purposes and in compliance with the associated conservation easement, annual rent will be waived by the District. As of September 30, 2012 and 2011, TDRPD operated the property as a golf course and is in compliance with the lease agreement.

10. NOTE RECEIVABLE

The District holds a $500,000 receivable from the Joerger Family as part of a 2002 property acquisition agreement. The amount, which was due to the District July 1, 2012, has not been paid; interest is accruing on the unpaid balance in accordance with California State Government Code. The Joerger Family and the District are negotiating settlement terms and a timeline, whereby the District will either receive cash for the amount due, including interest, or property of an equivalent value.

11. DISPOSAL OF ASSETS

The loss on disposal of assets for the year ended September 30, 2012 includes $161,253 related to the failure of pavements before the end of their useful life and $73,569 related to the disposal of assets associated with the old terminal building that had not been fully depreciated at the time of disposition.

12. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended September 30, 2012 through November 29, 2012, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

TRUCKEE TAHOE AIRPORT DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S Department of Transportation		3-06-0262-26	$ 680,904
Airport Improvement Program	20.106	3-06-0262-27	2,548,364
		3-06-0262-28	3,882
			$ 3,233,150

Note to Schedule of Expenditures of Federal Awards

Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes federal grant activity of Truckee Tahoe Airport District and is presented under the modified accrual basis of accounting. OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with Circular A-133 and state requirements. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements.

Reconciliation of Grant Expenditures to Grant Revenues

	Expenditures	Federal Share	Revenues
AIP 26 Grant	$ 680,904	95%	$ 646,858
AIP 27 Grant	2,548,364	90%	2,293,527
AIP 28 Grant	3,882	90%	3,494
Totals	$ 3,233,150		$ 2,943,879

James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

Board of Directors
Truckee Tahoe Airport District
Truckee, California

We have audited the financial statements of Truckee Tahoe Airport District (the "District"), as of and for the year ended September 30, 2012, and have issued our report thereon dated November 29, 2012. We conducted our 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our 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 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

James Marta & Company

James Marta & Company
Certified Public Accountants
November 29, 2012

James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Truckee Tahoe Airport District
Truckee, California

Compliance

We have audited Truckee Tahoe Airport District's (the "District") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 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; 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. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year September 30, 2012.

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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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 in internal control over compliance* is a deficiency, or 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 over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

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

James Marta & Company
Certified Public Accountants
November 29, 2012

TRUCKEE TAHOE AIRPORT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Section I – Summary of Audit Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	__X__ No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	__X__ None reported
Noncompliance material to financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	__X__ No
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	__X__ None reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	_____ Yes	__X__ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ Yes	_____ No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

TRUCKEE TAHOE AIRPORT DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

No matters were reported.