

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**AUDIT REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2012 and 2011**

Stroub & Company, CPAs  
1555 River Park Drive, Suite 201  
Sacramento, CA 95815

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

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FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Foresthill Public Utility District  
Foresthill, California

We have audited the accompanying financial statements of the the business-type activities, of Foresthill Public Utility District as of June 30, 2012 and 2011 and for the years then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Foresthill Public Utility District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Foresthill Public Utility District, as of June 30, 2012, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

For the year ended June 30, 2011, we issued our qualified opinion on the financial statements of Foresthill Public Utility District due to scope limitations that resulted from staff turnover and availability of management and essential staff who were responsible for the transactional activities of the District for the year. In addition, our report was qualified due the inability of the District to implement GASB 54. We have restated the financial information for the year ended June 30, 2011 based upon information that became available.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on page 5 through 9, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Foresthill Public Utility District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink that reads "Stroub and Company". The signature is written in a cursive, flowing style.

Stroub & Company, CPAs  
Certified Public Accountant

January 9, 2013

**Foresthill Public Utility District**  
***Management's Discussion and Analysis***  
**For the Fiscal Years Ended June 30, 2012 and 2011**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Foresthill Public Utility District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net assets decreased 2.2% or \$126,000 to \$5.5 million in fiscal year 2012. In 2011, the District's net assets decreased by 3.39% or \$196,000 to \$5.7 million. These decreases can be attributed to actual operation costs exceeding water charges.
- In 2012, the District's operating revenue decreased 6.5% or \$116,000 from the prior year. In 2011, the District's operating revenues had increased 18.24% due to the rate increase.
- In 2012, the District's operating expenses before depreciation decreased by 4.48% or \$60,000. While some expenditures increased significantly during the year, those costs and more were recovered through extreme reductions in staffing. In 2011, operating costs were essentially equal to the prior year.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps

**Foresthill Public Utility District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, new or changed government legislation or accounting standards, as well as changes in Federal and State water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements are on pages 13 through 32.

Condensed Statement of Net Assets

	2012	2011	Change	2010	Change
<b>Assets:</b>					
Current assets	361,128	311,931	49,197	345,575	(33,644)
Non-current assets	931,068	817,422	113,646	592,990	224,432
Capital and intangible assets, net	6,980,266	7,253,454	(273,188)	7,668,210	(414,756)
<b>Total assets</b>	<b>8,272,462</b>	<b>8,382,807</b>	<b>(110,345)</b>	<b>8,606,775</b>	<b>(223,968)</b>
<b>Liabilities:</b>					
Current liabilities	478,138	360,497	117,641	304,908	55,589
Non-current liabilities	2,311,478	2,413,811	(102,333)	2,523,520	(109,709)
<b>Total liabilities</b>	<b>2,789,616</b>	<b>2,774,308</b>	<b>15,308</b>	<b>2,828,428</b>	<b>(54,120)</b>
<b>Net assets:</b>					
Net investment in capital assets, net of retained debt	4,697,825	4,876,501	(178,676)	4,911,340	(34,839)
Nonspednable Inventory Funds	24,488	26,256	(1,768)		
Restricted	842,211	680,564	161,647	416,850	263,714
Unrestricted	(81,678)	25,178	(106,856)	450,157	(424,979)
<b>Total net assets</b>	<b>5,482,846</b>	<b>5,608,499</b>	<b>(125,653)</b>	<b>5,778,347</b>	<b>(196,104)</b>
<b>Total liabilities and net assets</b>	<b>8,272,462</b>	<b>8,382,807</b>	<b>(110,345)</b>	<b>8,606,775</b>	<b>(250,224)</b>

**Statements of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$5.483 million and \$5.608 million as of June 30, 2012 and 2011, respectively.

By far the largest portion of the District's net assets (84% and 86% as of June 30, 2012 and 2011 respectively) reflect the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

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The District has a deficit in unrestricted Net Asset balances. This is a result of operating expenditures exceeding revenues for a prolonged period of time and represents a serious danger to the District in that it is borrowing and expending "one time funds" for ongoing operations. Recent rate increases and cost savings efforts should begin to rebuild the Net Asset balances.

**Statements of Revenues, Expenses and Changes in Net Assets**

	2012	2011	Change	2010	Change
Revenues					
Operating Revenues	1,555,484	1,666,169	(110,685)	1,418,446	247,723
Non-operating revenues	98,169	103,343	(5,174)	78,038	25,305
<b>Total revenues</b>	<b>1,653,653</b>	<b>1,769,512</b>	<b>(115,859)</b>	<b>1,496,484</b>	<b>273,028</b>
Expenses:					
Operating expenses	1,277,797	1,337,690	(59,893)	1,329,122	8,568
Depreciation	273,188	291,817	(18,629)	313,839	(22,022)
Non-operating expenses	228,394	221,337	7,057	234,668	(13,331)
<b>Total expenses</b>	<b>1,779,379</b>	<b>1,850,844</b>	<b>(71,465)</b>	<b>1,877,629</b>	<b>(26,785)</b>
Net income(loss) before contributions	(125,726)	(81,332)	(44,394)	(381,145)	299,813
Capital contributions					
Change in net assets	(125,726)	(81,332)	(44,394)	(381,145)	299,813
Net assets, beginning of year	5,608,499	5,778,347	(169,848)	6,159,492	(381,145)
Prior period adjustment	-	(88,516)			
Net assets, end of year	<u>5,482,773</u>	<u>5,608,499</u>	<u>(125,726)</u>	<u>5,778,347</u>	<u>(169,848)</u>

The Statement of Revenues, Expenses and Changes of Net Assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets decreased by \$126,000 in the fiscal year ended June 30, 2012 and by \$81,000 for the fiscal year ended June 30, 2011.

**Total District Revenues**

	2012	2011	Change	2010	Change
Operating Revenues					
Sales of water	1,091,231	1,149,401	(58,170)	1,052,827	96,574
Service connection fees	46,616	52,307	(5,691)	25,024	27,283
Sugar Pine surcharge	226,123	228,576	(2,453)	180,362	48,214
Other income	191,590	235,885	(44,295)	145,812	90,073
<b>Total operating revenues</b>	<b>1,555,560</b>	<b>1,666,169</b>	<b>(110,609)</b>	<b>1,404,025</b>	<b>262,144</b>
Non-operating revenues					
Interest Income	5,777	2,671	3,106	4,229	(1,558)
Will Serve	30,682	36,858	(6,176)	14,421	22,437
Property Taxes	61,710	63,814	(2,104)	73,809	(9,995)
<b>Total non-operating revenues</b>	<b>98,169</b>	<b>103,343</b>	<b>(5,174)</b>	<b>92,459</b>	<b>10,884</b>
<b>Total revenues</b>	<b><u>1,653,729</u></b>	<b><u>1,769,512</u></b>	<b><u>(115,783)</u></b>	<b><u>1,496,484</u></b>	<b><u>273,028</u></b>

**Foresthill Public Utility District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

In 2012, as noted previously, total District operating revenue was somewhat lower than the prior year. This was a result of the flip-flopping rates caused by the ballot initiatives. With the rate increases approved by a public vote in the June 2012 election, operating revenues should increase in the coming year. Non-operating revenues continue to stagnate due to falling interest rates and property revaluations.

**Total District Expenses**

	2012	2011	Change	2010	Change
Operating expenses					
Source of supply	97,361	101,943	(4,582)	71,311	30,632
Pumping	9,755	10,748	(993)	8,796	1,952
Water treatment	153,310	169,436	(16,126)	163,680	5,756
Transmission and distribution	161,542	247,732	(86,190)	247,409	323
Customer accounts	1,134	9,030	(7,896)	8,487	543
Administrative and general	854,695	798,800	55,895	829,439	(30,639)
Depreciation	273,188	291,817	(18,629)	313,839	(22,022)
<b>Total operating expenses</b>	<b>1,550,985</b>	<b>1,629,506</b>	<b>(78,521)</b>	<b>1,642,961</b>	<b>(13,455)</b>
Non-operating expenses					
Interest expense	128,394	121,337	7,057	134,668	(13,331)
Assistance - Assessment District #2	100,000	100,000	-	100,000	-
<b>Total non-operating expenses</b>	<b>228,394</b>	<b>221,337</b>	<b>7,057</b>	<b>234,668</b>	<b>(13,331)</b>
<b>Total expenses</b>	<b>1,779,379</b>	<b>1,850,843</b>	<b>(71,464)</b>	<b>1,877,629</b>	<b>(26,786)</b>

In 2012, as noted previously, total District operating expenses, not including depreciation decreased 4.4% or \$60,000 primarily due to reduced staffing costs. Non-operating expenses remain about the same.

**Capital Asset Administration**

At the end of fiscal year 2012, the District's investment in capital assets amounted to \$6.98 million (net of accumulated depreciation). This investment in capital assets includes: land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-progress, etc.

Changes in capital asset amounts for the year were as follows:

	Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Capital assets				
Land	36,568			36,568
Source of supply	2,630,510			2,630,510
Pumping plant	20,962			20,962
Water treatment	1,179,256			1,179,256
Transmission & distribution	7,953,113			7,953,113
General Plant	692,948	-		692,948
Depreciation	(5,259,903)	(273,188)		(5,533,091)
	<b>7,253,454</b>	<b>(273,188)</b>	<b>-</b>	<b>6,980,266</b>

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**Intangible Assets**

Changes in long-term debt amounts for the year were as follows:

	Balance 2011	Additions	Payments/ Deletions	Balance 2012	Current Portion
2003 Series COPs	2,495,000		100,000	2,395,000	100,000
Total long-term debt	<u>2,495,000</u>	<u>-</u>	<u>100,000</u>	<u>2,395,000</u>	<u>100,000</u>

**Debt Administration**

(See Notes 4 and 5 for further debt service information)

**Going Forward**

The District recently stabilized its rate structure through a ballot measure passed during the June, 2012 general election. With this revenue stability, combined with the administration's frugality, the District sees good prospects for fiscal survival. Now, the District needs to address the need to replace aging pipelines and performing previously deferred maintenance projects.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 24540 Main Street, Foresthill, CA or call (530) 367-2511

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**STATEMENT OF NET ASSETS**

JUNE 30, 2012 and 2011

**ASSETS**

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 100,896	\$ 114,726
Accounts receivable	176,244	152,095
Prepaid Expenses	19,319	18,855
Inventory - materials and supplies	<u>24,488</u>	<u>26,255</u>
Total Current Assets	\$ <u>320,947</u>	\$ <u>311,931</u>
Noncurrent Assets:		
Capital assets, at cost (Notes 3)	\$ 12,513,357	\$ 12,513,357
Less accumulated depreciation	<u>(5,533,091)</u>	<u>(5,259,903)</u>
Net Capital Assets	\$ <u>6,980,266</u>	\$ <u>7,253,454</u>
Other Assets		
Debt issuance costs	\$ 129,038	\$ 136,858
Restricted cash and cash equivalent (Note 2)	<u>842,211</u>	<u>680,564</u>
Total Other Assets	\$ <u>971,249</u>	\$ <u>817,422</u>
Total Assets	\$ <u>8,272,462</u>	\$ <u>8,382,807</u>

The accompanying notes to financial statements are an integral part of this statement.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

## STATEMENT OF NET ASSETS

JUNE 30, 2012 and 2011

## LIABILITIES

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Accounts payable	\$ 65,635	\$ 13,628
Payroll taxes payable	8,534	613
Customer deposits	23,238	23,363
Interfund Payable	173,728	84,371
Accrued Liabilities	24,966	25,674
Compensated absences payable(Note 6)	31,739	55,174
Other post-employee benefits payable (Note 9)	50,298	50,298
Current portion of capital leases (Note 5)	-	7,376
Current portion of long-term debt (Note 4)	<u>100,000</u>	<u>100,000</u>
Total Current Liabilities	\$ <u>478,138</u>	\$ <u>360,497</u>
Noncurrent Liabilities:		
Long-term debt, net of current portion (Note 4)	\$ 2,295,000	\$ 2,395,000
Add - bond premium, net of amortization	<u>16,478</u>	<u>18,811</u>
Total noncurrent liabilities	\$ <u>2,311,478</u>	\$ <u>2,413,811</u>
Total liabilities	\$ <u>2,789,616</u>	\$ <u>2,774,308</u>
Net assets (Note 11)		
Invested in capital assets, net of related debt	\$ 4,697,825	\$ 4,876,501
Nonspendable Inventory Funds	24,488	26,256
Restricted	842,211	680,564
Unrestricted	<u>(81,678)</u>	<u>25,178</u>
Total Net Assets	\$ <u>5,482,846</u>	\$ <u>5,608,499</u>
Total Liabilities and Net Assets	\$ <u>8,272,462</u>	\$ <u>8,382,807</u>

The accompanying notes to financial statements are an integral part of this statement.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Sales of Water	\$ 1,091,230	\$ 1,149,401
Sugar Pine Surcharge	226,123	228,576
Rehab and System Surcharges	179,048	204,765
Water Service Related Fees	38,562	41,177
Other Income	<u>20,521</u>	<u>42,250</u>
Total Operating Revenues	<u>\$ 1,555,484</u>	<u>\$ 1,666,169</u>
Operating Expenses:		
Source of supply	\$ 97,361	\$ 101,943
Pumping	9,755	10,748
Water treatment	153,310	169,436
Transmission and distribution	161,542	247,733
Customer accounts	1,134	9,030
Administration and General	854,695	798,800
Depreciation	<u>273,188</u>	<u>291,817</u>
Total Operating Expenses	<u>\$ 1,550,985</u>	<u>\$ 1,629,507</u>
Operating Income (Loss)	<u>\$ 4,499</u>	<u>\$ 36,662</u>
Nonoperating revenues/expenses:		
Interest income	\$ 5,851	\$ 2,671
Property taxes	61,709	63,814
Will Serve	30,682	36,858
Interest expense	(128,394)	(121,337)
Assessment District Assistance	<u>(100,000)</u>	<u>(100,000)</u>
Total Nonoperating Revenues/Expenses	<u>\$ (130,152)</u>	<u>\$ (117,994)</u>
Change in Net Assets	\$ (125,653)	\$ (81,332)
Net Assets - Beginning of Year	<u>5,608,499</u>	<u>5,778,347</u>
Prior Period Adjustment (Note 13)	<u>-</u>	<u>(88,516)</u>
Net Assets - End of Year	<u>\$ 5,482,846</u>	<u>\$ 5,608,499</u>

The accompanying notes to financial statements are an integral part of this statement.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating income/(loss)	\$ 4,499	\$ 36,662
Adjustments in operating assets and liabilities		
Depreciation and Amortization	\$ 273,188	\$ 291,817
Increase in Receivables	24,149	34,239
Increase in Prepaid expense	464	14,982
Decrease in Inventory	(1,769)	(737)
Increase in Accounts Payable	52,008	(20,216)
Increase in Interfund Payable	89,357	84,371
Increase in Payroll Tax Payable	7,921	(3,601)
Increase in Customer Deposits	(125)	3,425
Increase in Compensated Absences	(23,435)	(19,750)
Decrease in Other Accrued Liabilities	<u>708</u>	<u>(647)</u>
Total Adjustments	<u>422,466</u>	<u>383,883</u>
Net cash provided by operating activities	\$ <u>426,965</u>	\$ <u>420,545</u>
Cash flows from noncapital financing activities:		
Receipts from Will Serve	\$ 30,682	\$ 36,858
Receipts of property taxes and other nonoperating income	<u>61,709</u>	<u>63,814</u>
Net Cash Provided by Noncapital Financing Activities	\$ <u>92,391</u>	\$ <u>100,672</u>
Cash flows from capital and related financing activities:		
Net Fund Transfers	\$ (139,287)	\$ (194,633)
Purchase of capital assets	-	(21,599)
Interest paid on capital debt	(128,394)	(121,337)
Principal payments on long-term debt	<u>(109,709)</u>	<u>(119,524)</u>
Net cash used by capital and related financing activities	\$ <u>(377,390)</u>	\$ <u>(457,093)</u>
Cash Flows from Investing Activities:		
Interest income	\$ <u>5,851</u>	\$ <u>2,671</u>
Net Cash provided by Investing Activities	\$ <u>5,851</u>	\$ <u>2,671</u>
Net Increase in Cash and Cash Equivalents	\$ <u>147,817</u>	\$ <u>66,795</u>
Balances - Beginning of Year (restated)	\$ <u>795,290</u>	\$ <u>728,495</u>
Balances - End of Year	\$ <u><u>943,107</u></u>	\$ <u><u>795,290</u></u>

The accompanying notes to financial statements are an integral part of this statement.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

### NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

The basic financial statements of Foresthill Public Utility District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body of establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989 where not in conflict with GASB pronouncements. The more significant of the District's accounting policies are described below.

#### A. The Reporting Entity

The Foresthill Public Utility District (the District) was formed and operates under The Public Utility District Act. The Act confers upon the District the rights and powers to fix rates and charges for commodities or services furnished, to incur indebtedness and issue bonds or other obligations and, under certain circumstances, to levy and collect ad valorem property taxes. The District is governed by a five member Board of Directors elected by the voters within the District.

The District has created the Foresthill Public Utility District Assessment District No. 2 to provide assistance to the District in the issuance of debt. The Assessment Districts make annual assessments against property owners who benefit from the improvements.

The Assessment District is legally separate from the District. The financial activities of the Assessment District have not been aggregated and merged with those of the District in the accompanying financial statements, as they do not meet the criteria for inclusion as set forth in the Governmental Accounting Standards Board (GASB) statement No. 14 as amended by GASB Statement No. 39.

The long term debt activities of the Assessment District is disclosed in supplemental information.

#### B. Basis of Presentation Fund Accounting

The Districts resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that 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, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represents the amount available for future operations.

#### C. Basis for Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Assets.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 and 2011

Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e. expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. When such funds are received they are recorded as deferred revenues until earned. Earned but unbilled water services are accrued as revenue. Water lines are constructed by private developers and then dedicated to the District, which is then responsible for their future maintenance. These lines are recorded as capital contributions when they pass inspection by the District and the estimated costs are capitalized as part of the distribution system.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for water service. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and results from nonexchange transactions or ancillary activities.

### D. Property Taxes

The District receives property taxes from Placer County. Property taxes receivable are recorded in the fiscal year for which the tax is levied based on the property's assessed value. They become a lien on the first day of the year they are levied. Secured property tax is levied on July 1 and due in two installments, on November 1 and March 1. They become delinquent on December 10 and April 10, respectively. Unsecured property taxes are due on July 1, and become delinquent on August 31. The District elected to receive the property taxes from the County under the Teeter Bill Program. Under this program, the District receives 100% of the levied property taxes in periodic payments, with the County assuming responsibility for delinquencies.

### E. Inventories

Inventories have been valued at the lower of cost (first-in, first-out) or market. Inventories consist of materials and supplies.

### F. Depreciation

Capital assets are recorded at historical cost. Assets acquired by contribution are recorded at estimated fair value on the date received.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets that range from five to forty years.

### G. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents, including restricted assets, along with all pooled deposits and investments in the Local Agency Investment Fund, which are available upon demand.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 and 2011

### H. Investments

Investments, including LAIF, are stated at fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on stated fair value as represented by the external pool. Investments are within the State statutes and the District's investment policy.

### I. Compensated Absences

Vested or accumulated vacation leave and comp time that is expected to be liquidated with expendable available resources is reported as a current liability. Accumulated sick leave is vested upon age sixty.

### J. Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis to match the operating statements.

### K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 may differ from those estimates.

### L. Bond Premium and Insurance Costs

Bond premium is deferred and amortized over the life of the Certificates of Participation using the effective interest method. Issuance costs are deferred and amortized over the life of the Certificates using the straight-line method.

### M. Implementation of New Governmental Accounting Standards Board (GASB) Statements

#### Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB) Statement no. 45. This statement established standards for the measurement, recognition and display of Other Post Employment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. The District adopted GASB Statement No. 45 in fiscal year ended June 30, 2010.

#### Governmental Accounting Standards Board Statement No. 54

In September 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of GASB 54 is to enhance the usefulness of fund balance information by 1) clarifying existing governmental fund type definitions, and 2) providing clearer fund balance classifications that can be more consistently applied. The District adopted implementation of GASB 54 for the fiscal year ending June 30, 2011 when the financial statements were restated..

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 and 2011

### NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2012 and 2011 are classified in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 100,896	\$ 114,726
Restricted cash and cash equivalents	<u>842,211</u>	<u>680,564</u>
Total cash and investments	<u>\$ 943,107</u>	<u>\$ 795,290</u>

Cash and investments at fair value at June 30, 2012 consist of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 250	\$ 250
Deposits with financial institutions	<u>110,145</u>	<u>84,818</u>
Total cash and deposits	\$ 110,395	\$ 85,068
Investments in Local Agency Investment Fund	574,876	452,386
Restricted with Fiscal Agent	<u>257,836</u>	<u>257,836</u>
Total Investments	<u>\$ 832,712</u>	<u>\$ 710,222</u>
Total cash and investments	<u>\$ 943,107</u>	<u>\$ 795,290</u>

#### Investments

California statutes authorizes the District to invest in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 - Financial Affairs. The Government Code allows investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's, bankers acceptance, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer's Local Agency Investment Fund (LAIF).

#### Local agency Investment Fund

The District maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

#### Concentration of Credit Risk

The investment policy of the District limits the amount that can be invested in any one issuer to the lesser of the amount stipulated by the California Government Code or 50% of total investments, with the exception of U.S. Treasury obligations, U.S. Agency Securities and LAIF. As of June 30, 2012, the District had no individual investment that exceeded 5% of its total investments.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 and 2011

### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or for amounts held with fiscal agents, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party such as a broker-dealer. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the local amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2012, the District's pooled investment funds deposited with governmental entities were \$574,876 and the balance of the District's deposits are held in financial institutions in the amount of \$367,981. All deposits in financial institutions were covered by federal depository insurance.

### Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are amounts required for debt service payments by the 2003 Certificates of Participation and funds set aside, at board discretion, for future plant improvement. At June 30, 2012, the District had set aside the following for special purposes:

	2012	2011
Capital reserve (Board designated)	\$ 184,266	\$ 153,584
Repair and replacement reserve (Board designated)	400,109	269,144
2003 Certificates of Participation Reserve Fund	257,836	257,836
Total Restricted Cash and Cash Equivalents	\$ 842,211	\$ 680,564

### NOTE 3 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2012 are as follows:

	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Land	\$ 36,568	\$	\$	\$ 36,568
Source of supply	2,630,510			2,630,510
Pumping plant	20,962			20,962
Water treatment	1,179,256			1,179,256
Transmission & distribution	7,974,712			7,974,712
General Plant	671,349	_____	_____	671,349
	\$12,513,357	\$ _____	\$ _____	\$12,513,357

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

NOTES TO FINANCIAL STATEMENTS  
(Continued)

JUNE 30, 2012 and 2011

NOTE 4 LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2012 is as follows:

	<u>Balance at</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portion</u>
2003 Certificates of Participation	\$ <u>2,495,000</u>	\$ <u>          </u>	\$ <u>100,000</u>	\$ <u>2,395,000</u>	\$ <u>100,000</u>

On October 1, 2003, the District issued Certificates of Participation - 2003 Series QQ (COP'S for \$3,195,000 to the CSDA Finance Corporation. Proceeds from these Certificates were used to purchase the Sugar Pine Dam and Reservoir (including associated water rights) from the United States Bureau of Reclamation. The Certificates are secured by a lien on the District's net revenues. Interest rates range from 1.05% to 3.75% on annual \$100,000 principal payments through 2014. Thereafter, through maturity interest rates range from 5% to 5.75%. The District maintains a Trustee reserve fund equal to the maximum annual installment payable. Interest is payable on May 1 and November 1 of each year.

The future annual maturities of long-term borrowings as of June 30, 2012 are as follows:

Due Oct 15 of:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 100,000	\$ 119,638	\$ 219,638
2013	100,000	116,213	216,213
2014	100,000	112,463	212,463
2015	100,000	107,463	207,463
2016	105,000	102,213	207,213
2017-2021	615,000	422,063	1,037,063
2022-2026	790,000	240,600	1,030,600
2027-2029	<u>485,000</u>	<u>31,763</u>	<u>516,763</u>
	\$ <u>2,395,000</u>	\$ <u>1,252,416</u>	\$ <u>3,647,416</u>

NOTE 5 CAPITAL LEASES

The District entered in a capital lease agreement to finance a District vehicle. The asset is recorded using the present value of the minimum lease payments and is depreciated over its estimated productive life. The capitalized value of the truck lease as of June 30, 2012 and June 30, 2011 was \$0. and \$7,376 respectfully.

NOTE 6 COMPENSATED ABSENCES

The District provides vacation time which accrues based upon years of service. Vacation is paid for accumulated time upon termination subject to a accumulated max of 2 years accrual.

	<u>0-4 years</u>	<u>5-14 years</u>	<u>15 plus</u>
Vacation Time	10 days	15	20

The District also provides sick time to employees which accrue at a rate of one day per month with a maximum accrual of 80 days. Sick time may be bought back upon retirement after age 60 based upon a years of service tier schedule.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## NOTES TO FINANCIAL STATEMENTS (Continued)

JUNE 30, 2012 and 2011

### NOTE 7 RETIREMENT PLAN

The District's policy is to fund retirement benefits with the State of California Public Employee's Retirement System (CALPERS). The amount of pension contributions by the District to CALPERS is actuarially determined under a program wherein contributions plus earnings of the retirement system are to provide the necessary funds to pay retirement benefits when due. The District relies on the State in determining the funding method, the adequacy of funding, and the spreading of the actuarial gains and losses.

#### A. Plan Description

Foresthill Public Utility District contributes to the California Public Employees Retirement System (CALPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities with the State of California. CALPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Foresthill Public Utility District. The financial report may be obtained by writing to CALPERS Actuarial Office, P. O. Box 942709, Sacramento, CA 94229-2709.

#### B. Summary of Significant Account Policies

**Basis of Accounting:** The financial statements of the plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The District's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Method Used to Value Investments:** Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an estimated market are reported at estimated fair value.

Under GASB 17, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period, July 1, 2011 to June 30, 2012, has been determined by an actuarial valuation of the plan as of June 30, 2010.

District employees' contribution is 8.0 percent of their annual salary to the system. The District pays the employees' contribution. The District is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS Actuaries and Actuarial Consultants and adopted by the Board of Administration. For the year ended June 30, 2012, the District paid total contributions of \$76,204, including employee's portion.

#### Pooled Report Format

Since the District's plan has less than 100 active members, it is required to participate in a risk pool.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

JUNE 30, 2012 and 2011

A summary of principal assumptions and methods used to determine the annual required contribution is shown below:

Valuation date	June 30, 2010
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll
Average remaining period	17 years as of the valuation date
Asset valuation method	15 year smooth market
Actuarial assumptions	
Investment rate of return	7.75% (net of administrative expenses)
Projected salary increases	3.55% to 14.45% depending on age, service and type of employment
Inflation	3.00%
Payroll growth	3.25%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

Initial plan unfunded liabilities are amortized over a closed period equal to the average amortization period at the plan's date of entry into the CALPERS Risk Pool. Subsequent plan amendments are amortized over a closed 20-year period. Gains and losses that occur in the operation of the risk pool are amortized over a rolling 30 era period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period. More complete information on assumptions and methods is provided in Appendix A of Section 2 of the report. Appendix B of Section 2 of the report contains a description of benefits included in the Risk Pool Actuarial Valuation.

The Schedule of Funding Progress below shows the recent history of the Risk Pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability (UL) to payroll

<u>Valuation Date</u>	<u>Accrued Liabilities</u>	<u>Actuarial Assets</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UL As a % of Payroll</u>
Jun 4019	\$620,492,183	\$501,707,110	\$118,785,073	80.9 %	\$126,049,770	94.2 %
Jun 4020	\$699,663,524	\$576,069,687	\$123,593,837	82.3 %	\$139,334,562	88.7 %
Jun 4021	\$776,166,719	\$641,167,624	\$134,999,095	82.6 %	\$155,115,302	87.0 %
Jun 4022	\$883,394,429	\$694,384,975	\$189,009,454	78.6 %	\$161,972,631	116.7 %
Jun 2010	\$945,221,095	\$754,858,961	\$190,362,134	79.9 %	\$159,156,834	119.6 %

**NOTE 8      SECTION 457 PLAN**

The District adopted a California PERS Section 457 Deferred Compensation Plan. The District does not contribute to this plan. All contributions and administrative fees are paid by the employees.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

NOTES TO FINANCIAL STATEMENTS  
(Continued)

JUNE 30, 2012 and 2011

NOTE 9 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

*Plan Description:* The District offers medical, dental or other health benefits to eligible retirees and their eligible dependents. The contribution requirements of the plan members and the District are established and may be amended by the District.

Under the current health plan, the District pays for coverage of the retiree and their eligible dependents. To be eligible, employees must retire with the District at age 60 or older or must be permanently disabled. For the year ended June 30, 2012, the District contributed for eight retirees that received benefits at a cost of approximately \$46,181.

*Annual OPEB Cost and Net OPEB Obligation:* The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. The District's ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 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 to the Retiree Healthcare Plan:

Annual OPEB Cost and Net OPEB Obligation:

Annual required contribution	\$ 62,787
Interest on net OPEB obligation	5,881
Adjustment of annual required contribution	<u>4,569</u>
Annual OPEB cost	\$ 73,237
Contribution made	<u>73,237</u>
Net OPEB obligation beginning of year	<u>50,298</u>
Net OPEB obligation end of year	\$ <u>50,298</u>

The District's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan (as described in the funding policy above as the amortized portion of the Unfunded Actuarial Accrued Liability), and the Net Required Amortized OPEB Obligation for June 30, 2012 is as follows:

	Valuation	Annual	Actual	Percentage	Unmet
	Date	OPEB Cost	Employer	of Annual	Annual Net
			Contribution	OPEB Cost	OPEB
				Contributed	Obligation
June 2010	Jan 5, 2011	\$ 75,888	\$ 25,590	33.7 %	\$ 50,298
June 2011	Jan 5, 2011	\$ 64,278	\$ 64,278	100.0 %	\$ 50,298
June 2012	Jan 5, 2011	\$ 73,237	\$ 73,237	100.0 %	\$ 50,298

In future years, three year trend information of the Annual OPEB Cost will be presented. June 30, 2010 was the first year of implementation of GASB Statement 45, and the District elected to implement prospectively; therefore complete prior year comparative date is not available.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

JUNE 30, 2012 and 2011

Funded Status and Funding Progress

The Schedule of Funding Status and Progress below is based on an actuarial valuation as of January 5, 2011 the plan's most recent actuarial valuation. The unfunded deficit since the prospective implementation of the GASB Statement 45 shows:

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll	(6) UAAL, as Percentage of Covered Payroll (4)/(5)
June 30, 2010	\$ -	\$613,762	- %	\$613,762	\$434,784	141.2 %
June 30, 2011	\$ -	\$774,364	- %	\$774,364	\$499,884	154.9 %

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.

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 perspective of calculations.

In the January 5, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return, an assumed inflation rate, and an increase in covered payroll at the rate of 3.25% per year. Medical premiums have been assumed to rise at a decreasing rate (from 9% in 2010 to 4.5% in 2017) and dental premiums by 3%.

The OPEB Plan's unfunded actuarial liability is being amortized by level percent of payroll contributions over 30 years. The remaining amortization period at June 30, 2012 was 29 years.

**NOTE 10 RISK OF LOSS**

Foresthill Public Utility District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2011 and 2012 fiscal years, the District purchased certain commercial insurance coverage to provide for these risks with liability limits of \$10,000,000.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

JUNE 30, 2012 and 2011

NOTE 11 NET ASSETS

Net assets are analyzed as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Unspendable</u>		
Investment in capital assets, net of related debt	\$ 4,697,825	\$ 4,876,501
Consumable Supply Inventory	\$ 24,488	\$ 26,256
 <u>Restricted</u>		
Capital improvement reserve	\$ 184,266	\$ 153,584
Repair and replacement reserve	400,109	269,144
Sugar Pine Reserve	<u>257,836</u>	<u>257,836</u>
	\$ 842,211	\$ 680,564
 <u>Unrestricted</u>		
Undesignated	\$ (81,678)	\$ 25,178
 Total net assets	 <u>\$ 5,482,846</u>	 <u>\$ 5,608,499</u>

NOTE 12 PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009/2010 budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the District was \$3,204.

NOTE 13 PRIOR PERIOD ADJUSTMENTS

There were significant restatements for the prior period as a result and discovery of documentation supporting reduced balances in the assets and liabilities of the District held at the beginning of the audit period. The net effect of these adjustments are reflected as a net adjustment to Fund Balance. The Board has not formed a conclusion on the underlying reason.

NOTE 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 9, 2013, the date these June 30, 2012 financial statements were available to be issued.

SUPPLEMENTAL DATA

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

PRINCIPAL OFFICIALS

AS OF JUNE 30, 2012

**Board of Directors**

Brett C. Grant	President
Brett Finning	Vice President
David Phillips	Treasurer
Tamra West	Director
Terry Holliman	Director

**Operations**

Leo Havener	Business Manager
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**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
BUDGET AND ACTUAL

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

	Original <u>Budget</u>	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variance</u>
Operating Revenues:				
Sales - Residential	\$ 938,535	\$ 938,535	\$ 838,523	\$ (100,012)
Sales - Multi-Family			125,743	125,743
Sales - Business	115,280	115,280	126,965	11,685
Other	<u>311,405</u>	<u>311,405</u>	<u>464,253</u>	<u>152,848</u>
Total Operating Revenues	\$ <u>1,365,220</u>	\$ <u>1,365,220</u>	\$ <u>1,555,484</u>	\$ <u>190,264</u>
Operating Expenses:				
Source of supply	\$ 92,050	\$ 92,050	\$ 97,361	\$ (5,311)
Pumping	10,900	10,900	9,755	1,145
Water treatment	165,600	165,600	153,310	12,290
Transmission and distribution	191,625	191,625	161,542	30,083
Customer accounts	7,750	7,750	1,134	6,616
Administration and General	751,395	751,395	854,695	(103,300)
Depreciation	<u>314,000</u>	<u>314,000</u>	<u>273,188</u>	<u>40,812</u>
Total Operating Expenses	\$ <u>1,533,320</u>	\$ <u>1,533,320</u>	\$ <u>1,550,985</u>	\$ <u>(17,665)</u>
Operating income (loss)	\$ <u>(168,100)</u>	\$ <u>(168,100)</u>	\$ <u>4,499</u>	\$ <u>172,599</u>
Nonoperating revenues/expenses:				
Interest income	\$ 300	\$ 300	\$ 5,851	\$ 5,551
Property taxes	67,415	67,415	61,709	(5,706)
Will Serve	-	-	30,682	30,682
Interest expense	(126,418)	(126,418)	(128,394)	(1,976)
Assessment District Assist	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	
Total Nonoperating Revenues/Expenses	\$ <u>(158,703)</u>	\$ <u>(158,703)</u>	\$ <u>(130,152)</u>	\$ <u>32,503</u>
Change in Net Assets	\$ <u>(326,803)</u>	\$ <u>(326,803)</u>	\$ <u>(125,653)</u>	\$ <u>205,102</u>

The accompanying notes to financial statements are an integral part of this statement.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## OPERATING EXPENSES

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
Source of supply		
Restoration payments	\$ 19,123	\$ 17,317
Supervision and labor	2,621	13,389
Maintenance	13,130	3,172
Instrumentation Report/Study	2,575	4,300
General Engineering Services	15,087	20,857
Vehicle expense	11,985	1,391
Power	676	2,949
Inspection and water rights	<u>32,164</u>	<u>38,568</u>
	97,361	\$ 101,943
Pumping		
Power	\$ 7,386	\$ 7,396
Vehicle expense	165	872
Maintenance	1,359	33
Propane		1,645
Supervision and labor	<u>845</u>	<u>802</u>
	9,755	10,748
Water treatment		
Supervision and labor	\$ 109,201	\$ 115,650
Maintenance	9,717	14,710
Chemical and analysis	30,179	30,343
Vehicle expense	255	1,955
Power	3,958	4,605
Propane	<u>          </u>	<u>2,173</u>
	153,310	169,436
Transmission and Distribution		
Supervision and labor	\$ 142,505	\$ 204,729
Maintenance	14,547	31,154
Vehicle expense	4,340	10,436
Propane	<u>150</u>	<u>1,414</u>
	161,542	247,733
Customer accounts		
Supervision and labor	\$ 769	\$ 7,296
Vehicle expense	<u>365</u>	<u>1,734</u>
	<u>1,134</u>	<u>9,030</u>
Balance forwarded	\$ 423,102	\$ 538,890

The accompanying notes to financial statements are an integral part of this statement.

# FORESTHILL PUBLIC UTILITY DISTRICT

Foresthill, California

## OPERATING EXPENSES

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Balance forwarded	\$ 423,102	\$ 538,890
Administrative and general		
Salaries	\$ 146,497	\$ 243,732
Legal services	195,882	104,394
Collection charges	2,347	2,065
Accounting	11,100	7,711
Vehicle expense	6	859
Liability insurance	42,655	55,697
Office expense	23,494	16,979
Employee benefits and payroll tax	210,068	236,090
Retiree benefits	46,181	28,911
OPEB Funding	27,056	27,056
Seminars and travel	1,712	2,237
Utilities	15,933	10,675
Consulting services	6,500	6,250
Maintenance	4,220	1,984
Dues and subscriptions	14,915	9,736
Computer services	9,779	10,039
Uniforms	6,358	4,860
Public information program	48,639	1,285
Educational expense	62	5,434
Safety	406	7,656
Election expense	32,395	5,045
Other Expenses	<u>8,490</u>	<u>10,105</u>
	<u>854,695</u>	<u>798,800</u>
	\$ 1,277,797	\$ 1,337,690
Depreciation	<u>273,188</u>	<u>291,817</u>
Total operating expense	<u>\$ 1,550,985</u>	<u>\$ 1,629,507</u>

The accompanying notes to financial statements are an integral part of this statement.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF NET ASSETS**

JUNE 30, 2012 and 2011

	ASSETS	
	<u>2012</u>	<u>2011</u>
Cash - held at County	\$ 330,595	\$ 425,429
Interfund Receivable	<u>173,728</u>	<u>84,371</u>
Total Current Assets	\$ 504,323	\$ 509,800
Future assessments receivable	\$ <u>2,246,663</u>	\$ <u>2,281,907</u>
Total Assets	\$ <u>2,750,986</u>	\$ <u>2,791,707</u>

LIABILITIES AND NET ASSETS

Current Portion of Bonds Payable	\$ 58,500	\$ 55,900
Accrued Interest	<u>33,920</u>	<u>34,591</u>
Total Current Liabilities	\$ 92,420	\$ 90,491
Assessment bond payable	<u>2,768,300</u>	<u>2,826,800</u>
Total Liabilities	\$ <u>2,860,720</u>	\$ <u>2,917,291</u>
Net assets	\$ <u>(109,734)</u>	\$ <u>(125,584)</u>
Total Liabilities and Net Assets	\$ <u>2,750,986</u>	\$ <u>2,791,707</u>

The accompanying notes to financial statements are an integral part of this statement.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

JUNE 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Property Tax Revenues	\$ 50,778	\$ 52,961
PUD Assistance	100,000	100,000
Interest Income	<u>1,422</u>	<u>7,626</u>
Total Revenues	\$ 152,200	\$ 160,587
Expenses		
Interest Expense	\$ <u>136,350</u>	\$ <u>139,002</u>
Change in Net Assets	\$ <u>15,850</u>	\$ <u>21,585</u>
Net Assets - Beginning of Year	\$ (125,584)	\$ (43,828)
Prior Period Adjustment (Note 12)	<u>                    </u>	<u>(103,341)</u>
Net Assets - End of Year	\$ <u>(109,734)</u>	\$ <u>(125,584)</u>

The accompanying notes to financial statements are an integral part of this statement.

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF CASH FLOWS**

JUNE 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Change in Net Assets	\$ 15,850	\$ 21,585
Adjustments in operating assets and liabilities		
Increase in Interfund Receivable	(89,357)	(84,371)
Decrease in Receivables	35,244	79,409
Decrease in Other Accrued Liabilities	<u>(671)</u>	<u>(640)</u>
 Total Adjustments	 \$ (54,784)	 \$ (5,602)
 Net cash provided by operating activities	 \$ <u>(38,934)</u>	 \$ <u>15,983</u>
 Cash flows from financing activities:		
Principal payments on long-term debt	\$ <u>(55,900)</u>	\$ <u>(53,300)</u>
 Net cash used by financing activities	 \$ <u>(55,900)</u>	 \$ <u>(53,300)</u>
 Net provided in Cash and Cash Equivalents	 \$ (94,834)	 \$ (37,317)
 Balances - Beginning of Year (restated)	 <u>425,429</u>	 <u>462,746</u>
 Balances - End of Year	 <u>\$ 330,595</u>	 <u>\$ 425,429</u>
 Supplementary information		
Cash paid for interest	\$ <u>128,394</u>	\$ <u>121,337</u>

**FORESTHILL PUBLIC UTILITY DISTRICT**

Foresthill, California

**FOOTHILL PUBLIC UTILITY DISTRICT ASSESSMENT DISTRICT NO. 2  
STATEMENT OF LONG TERM DEBT**

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2011

Long-term debt activities for the year ended June 30, 2012 for Assessment District No. 2 are as follows:

	<u>Balance</u> <u>7/2/2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/2012</u>	<u>Current</u> <u>Portion</u>
Loan 91-02	\$ 1,147,800	\$ -	\$ (22,900)	\$ 1,124,900	\$ 24,000
Loan 91-03	<u>1,734,900</u>	<u>-</u>	<u>(33,000)</u>	<u>1,701,900</u>	<u>34,500</u>
	<u>\$ 2,882,700</u>	<u>\$ -</u>	<u>\$ (55,900)</u>	<u>\$ 2,826,800</u>	<u>\$ 58,500</u>

On February 28, 1996 the District adopted a resolution authorizing the issuance of improvement bonds pursuant to the Improvement Bond Act of 1915. The proceeds of such bonds was used to finance the construction of public improvements under the Municipal Improvement Act of 1913.

The improvements consisted of two phases - Phase 1 Pipeline Relocation Project and Phase 2 Water System Rehabilitation Project.

The Improvement Bonds were financed by the U.S. Department of Agriculture, Rural Development.

On July 23, 1997 the District issued an improvement bond (Series 1997) for \$1,364,150 to United States of America Rural Development, United States Department of Agriculture. The bond bears interest at 4.875% per annum, payable on March 2 and September 2.

On June 2, 1998 the District issued and improvement bond (Series 1998) for \$2,031,318 to United States of America, Rural Development, United States Department of Agriculture. The bond bears interest at 4.75% per annum, payable on March 2 and September 2.

The future annual maturities of long-term borrowings for Assessment District No. 2 as of June 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 58,500	\$ 134,275	\$ 192,775
2014	61,300	131,399	192,699
2015	64,300	128,384	192,684
2016	68,700	125,222	193,922
2017	70,600	121,909	192,509
2018-2020	231,400	344,239	575,639
2021-2025	468,400	491,083	959,483
2026-2030	592,300	364,319	956,619
2031-2035	748,800	204,016	952,816
2037-2039	<u>462,500</u>	<u>30,195</u>	<u>492,695</u>
	<u>\$ 2,826,800</u>	<u>\$ 2,075,041</u>	<u>\$ 4,901,841</u>

## REPORT ON INTERNAL CONTROLS AND COMPLIANCE



1555 River Park Drive Suite 106 Sacramento, CA 95815

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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  
Foresthill Public Utility District  
Foresthill, California

We have audited the accompanying financial statements of the the business-type activities, of Foresthill Public Utility District as of June 30, 20122011 and for the years then ended, and have issued our reports thereon dated January 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control over Financial Reporting

In planning and performing our audit, we considered Foresthill Public Utility 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 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 entity's 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 was not designed to identify all deficiencies

Compliance and other Matters

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

We noted certain matters that we reported to management of the District, in a separate letter dated January 9, 2013.

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

A handwritten signature in blue ink that reads "Stroub and Company".

Stroub & Company, CPAs  
Certified Public Accountant

January 9, 2013